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THE ECONOMIC WEEKLY

JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

INDIAN ECONOMIC GROWTH RECONSIDERED

SHASTRI'S DOUBTFUL TRIUMPHS

COMMONWEALTH'S ECONOMIC LINKS

PROGRESS OF LITERACY AND EDUCATION

VOLUME XVII NO 27

JULY 3, 1965

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THE ECONOMIC WEEKLY

Vol XVII No 27 July 3, 1965

EDITORIALS

Panic Measures 1047
In Lieu of Foreign Policy 1048

WEEKLY NOTES

Resisting the Funeral — Lesson
of Jowar Procurement —
Action against Capitation Fees
— Insurance Kick-back —
Extending Deposit Insurance
State Bank's Ten Years —
Census Publications 1049

CAPITAL VIEW

Shastri's Doubtful Triumphs
— Romesh Thapar 1052

FROM THE LONDON END

Commonwealth's Economic Links 1054

LETTER FROM AMERICA

The Illusion of the Student
Revolution
— Philip G Altbach 1055

OFFICIAL PAPER

Gaps in Co-operative Movement 1058

BOOK REVIEW

National Integration, et al
— S K Nath 1059

SPECIAL ARTICLES

Changes in Literacy and Educa-
tion: Study of Villages in U P
and Punjab
— P C Joshi
M R Rao 1061

"Indian Economic Growth: Per-
formance and Prospects":
Some Comments
— Ashok Rudra 1069

Foodgrains Storage Will Con-
tinue in the Fourth Plan
— M J K Thavaraj
A Vasudevan 1072

FROM THE CHAIR

The Metal Box Company of India
Ltd 1076

The Oriental Fire and General
Insurance Co Ltd 1079

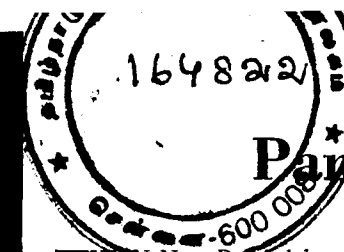
BUSINESS NOTES 1080

CURRENT STATISTICS 1082

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Panic Measures N 49.17

When New Delhi delayed its import policy announcement by three months with the barely-concealed intention of enforcing a reduction in imports, the least one would have expected was that the time gained would be used to formulate a well thought out policy which would rationalise import control and check abuse of the export incentive schemes. These schemes have, if press reports are to be given credence, now been made to appear the villains of the piece; the lag in export receipts, the over-invoicing of exports to obtain larger import entitlements and the failure of the much-publicised increase in exports to yield correspondingly higher foreign exchange receipts have all been ascribed to them. But evidently the breathing space offered by what has been graphically, though not accurately, described as an 'import holiday' has not been used to set things right. Instead, official concern on a weekly or perhaps daily basis with the state of exchange reserves has led to a series of piecemeal measures of which the notification requiring importers to deposit 25 per cent of the value of imports in advance and the announcement of a further cut in established importers' licenses are typical examples.

What the real intention of the authorities was in requiring advance deposits against imports it is difficult to make out. The usefulness of this device either as a measure to regulate import demand or as a tool of monetary control in any system is open to question, not to mention in a planned economy. Several Latin American countries have tried it with varying degrees of ineffectiveness. In any event, it made more sense in their case as they rarely had severe physical controls on imports and advance deposits were politically more acceptable than import taxes. In these countries advance deposits have formed part of stabilisation measures *a la* IMF which aim at reducing pressure of domestic expenditure along with a liberalisation of direct restrictions on trade and payments. In our economy where imports are severely rationed in accordance — isn't it taken for granted? — with Plan priorities the use of the advance deposit device makes little sense unless it is suggested that we are going to simultaneously loosen the physical controls. This, one hopes, is not the intention!

What advance import deposits would do is to raise the cost to importers of importing goods. It is not clear whether the authorities intend the regulation to apply also to imports on deferred payment terms, imports for the private sector under aid agreements and imports by the private sector of PL 480 goods like cotton and soya beans. The increase in costs of imports would in our economy only increase the overall price index, without any effect to the level of actual imports, for, given the gap between import demand and supply it would be fairly simple for the importer to pass the added burden on to the consumer. If the intention of the advance deposit is to tax the element of windfall profit accruing to importers, it is not certain that this is a device preferable to fiscal levies or monopoly imports by the State Trading Corporation of those commodities where there is profiteering. Nor can the device be regarded as an effective monetary instrument. The amount of funds likely to be drawn out of the system has been variously estimated but in no case is it likely to exceed Rs 35 to Rs 40 crores which is not large enough to make any significant difference to the level of money supply.

If the purpose of the advance deposit requirement is obscure, the net effect of the cut in import quotas of established importers and the total ban on imports of a number of commodities by this category of importers will be so small as to be of practically no relevance to the foreign exchange crisis. Established importers account for less than 2 per cent of the country's total import bill and impressive as the act of banning imports of 60-odd items may seem, its actual impact on import payments will be negligible though it will be a windfall to those who have stocks of these goods and to the manufacturers of Indian substitutes.

It has been repeatedly stressed in these columns that what is necessary to face our balance of payments problem is a careful and thorough review

of the possibilities of import substitution and an objective assessment of export promotion schemes. The tax credit certificates scheme for exporters proposed in the Budget has, after four months, yet to be spelt out and implemented; the case for other incentive devices which may be more effective

and less easy to abuse has to be examined; and, at the same time, the present regulatory import surcharge needs to be reviewed with the objective of assessing the justification for a selective stepping up of the rate of surcharge. In short, what is needed is a policy, not a series of panic measures.

Swaran Singh decided not to go to Algiers because Bhutto was keeping him company in London. This was a negative response in tune with the rest of Indian activities. When, at the last moment, the Pakistani Foreign Minister flew out by a chartered plane to Algiers, we felt cheated; it is as if an act of perfidy has been committed by the Pakistanis. Petulant immaturity has obviously taken over our external policy-making.

The Government of India has set up a committee to review the working of the country's foreign service under the chairmanship of N R Pillai, who was Secretary-General of the Ministry of External Affairs for a number of years. But it is unlikely that the Committee's deliberations will lead to any fundamental revolution in the working of the foreign service. A committee of ex-civil servants and civil servants is bound to miss out the political element which should in fact be at the centre of the review. Given the composition of the committee, its conclusions would largely pertain to the mode of recruitment, the working conditions, the salary scales and such relative trivialities. The committee is most unlikely to deal with political issues because that would be going outside its frame of reference. But the crucial question in Indian external policy-making is the political question; the mode of recruitment and the types of people that are recruited are heavily influenced by this element.

In the reorientation of India's foreign policy, the first task naturally is to lay out a firmly-based framework of policy. This is a matter for the politicians. It is only when the guidelines of policy have been determined that it will be possible to discuss the quality of the permanent civil servants who will conduct the day-to-day operations of external policy. In the matter of recruitment, a careful judgment indeed needs to be exercised. The Indian foreign service has been Indianised, but it cannot be said that it has been nationalised. By and large, given the social background of the recruits, the foreign service consists of persons whose political orientation is towards the Western countries.

So long as Pandit Nehru was at the helm of affairs and Krishna Menon had a say, while the permanent civil servants grumbled at some of the decisions reached at the top, they did not dare to sabotage the broad frame of policy. Since the Chinese imbroglio, and especially since Nehru's death

In Lieu of Foreign Policy

THINGS continue to be in a state of flux in Algeria. It is yet not quite clear whether the new regime is on top of the situation; stray reports of demonstrations and disturbances in Algiers are filtering through. Even the political character of the regime is in doubt. One would have assumed that, given the agrarian roots of the Army of National Liberation which master-minded the coup, at least Fidel Castro would have acquiesced in the change-over: after all, in many respects, the assumption of power by Boumedienne has been in the nature of a supplanting of a bourgeois set-up by people who have sprung from the rural soil. But Castro has proclaimed himself against the coup; to him, the coup is an opportunistic manoeuvre which no 'true Marxist-Leninist' can support. At the same time, the correspondent of the French Communist newspaper, *L'Humanite*, has been expelled from Algiers for sending out allegedly scurrilous reports, and the organ of the Italian Communist Party has published some despatches which will be legitimately considered to be defamatory of the new regime. Even the Chinese, after their hasty move to recognise Boumedienne — presumably because they were anxious to salvage the Afro-Asian Conference — have been lying low. Those who rush in with snap judgments regarding the allegedly 'revisionist' or allegedly 'sectarian' character of the new Government are therefore more likely to come to grief than not.

Since sporadic disturbances are still continuing in Algiers, it was but inevitable that the Afro-Asian Conference should be postponed. There is scarcely any cause for expressing jubilation over the postponement; rather, it is a setback for the whole of Afro-Asia, and particularly for those who were anxious that the forum of the Conference could provide the opportunity for evolving a formula for resolving the Vietnam tangle. Thus the antics of a number of Indian diplomats and

journalists over the postponement of the Conference seem bizarre. It is an index of how much we worry about relatively inconsequential matters and tend to overlook the substantial issues of foreign policy that our representatives have attempted to turn the question of postponement into a major point of diplomacy. Early in the week it was trumpeted that the decision to postpone the Conference was a great victory for India and, therefore, a major defeat for China and Pakistan. Soon, however, a change of note occurred, and the tenor of the assessments during the past few days is as if victory has been snatched away from us at the last moment. The reason for this reassessment of the position was the co-sponsorship by China, Pakistan and Indonesia of the resolution postponing the Conference, which India was not asked to sign. Apparently the Indian diplomats did not even know that such a resolution was being drafted in the preparatory committee of the Conference, or even that the committee was meeting somewhere in Algiers.

Let us repeat, the postponement of the Conference can hardly be a major Indian conquest. Nor does the fact that India missed being one of the sponsors of the actual resolution deferring the date of the Conference have to be considered a loss of face. In either instance the Indian responses have been expressions of hasty, snappy and ill-considered judgment.

True, in Algiers Indian diplomats have been out-manoeuvred by the smart Pakistanis. This has been a continuing story for some years, and cannot be reversed unless and until our basic deficiencies are analysed and cured. The first deficiency is that we cannot see beyond our noses, and our decisions are heavily coloured by our short-period emotions. Doing the reverse of whatever China and Pakistan do might be exciting cocktail talk, but it cannot constitute foreign policy.

a complete transformation of the situation has taken place. The civil servants are now aware that the calibre of political thinking is a great deal lower and the Minister for External Affairs is more or less innocent of ideology so much so that they can

openly assert their personal predilections. Much of the reason why of late we have grown distant from the Afro-Asian countries is the lack of empathy on the part of our permanent civil servants. Beyond the United States of America and Western Europe, the rest

of the world has ceased to exist for them. Whether we are able to re-gain the initiative in our dealings with the rest of the world will depend on our ability to reverse this trend, and not on what our snoopers can tell on China or Pakistan.

Weekly Notes

Resisting the Funeral

SEMINARS, like drain-pipe troubles, are in fashion. One was held recently by the Federation of Chambers of Commerce and Industry. The subject was managing agency, the purpose to mobilise opinion and present a united business front in favour of continuation of the system. About 150 representatives of leading business houses, including Tatas who resigned from FICCI two years back, graced the occasion. Past glories and benefits were recalled and the tremendous potential which the system has for future growth was emphasised. The participants deplored administrative rejection of a large number of applications for renewal of managing agency agreements and the renewal of some for short leases only in well-established industries like cotton and tea.

Managing agents are understandably nervous. Between April 1964 and February 1965, renewal of such traditional management leases was granted in 33 cases and refused in 40. Quite a few renewals during that period and since have been approved for 2 years or less, pending submission of the report of the I G Patel Committee appointed in January to enquire into the abolition of managing agency in five industries: cotton, jute, sugar, cement and paper, and in any other industry or business. The report is expected soon. Packed as the Committee is wholly with officials, it is unlikely to recommend the indefinite continuation of the system since the Finance Minister himself suggested its abolition two months before the appointment of the Committee.

Beginning with the Industrial Commission 1916-18, every high-power body appointed to look into industrial finance and management has expressed its dissatisfaction with the working of the managing agency system and, yet, every time a plea is made for tolerating it a little longer. The financing functions of managing agents withered away long ago; only

a pale shadow of them is left in the shape of guarantees of bank loans, a soothing balm discovered by the Imperial Bank in Bombay and applied by other banks too to relieve themselves of necessary home work. Foreign collaborators, whose tribe has multiplied many times over, provide the technical and other know-how which managing agents were alleged to be supplying or procuring, for which the collaborators are paid handsomely and separately. Management functions are being increasingly performed (as they have to be in an increasingly complex situation) by professional managers. What managing agents provide is the pedigree and prestige.

In the twenties and thirties, protection and the entry of technicians and managers, not the munificence of managing agents as a body, saved the cotton mill industry. The most eloquent testimonial to the performance of managing agents in that period was the fact that in 1928, managing agents of 73 cotton mills in Bombay surrendered about Rs 2 lakhs of Commission and Rs 7 lakhs of interest on loans but received nevertheless more than Rs 18 lakhs of commission and allowances when the mills under their management made a loss of Rs 1.26 crores before depreciation and Rs 2.99 crores after depreciation. In 1927, the benign managing agents, in pursuit of charity no doubt, received Rs 31 lakhs as commission and allowances when the managed mills incurred a loss of Rs 7 lakhs (see Lokanathan: *Industrial Organisation in India*, p 345, footnote).

All that managing agents deserve now is a state funeral.

Lesson of Jowar Procurement

WHY Food Minister Subramaniam should have been invited to preside over the meeting organised in Bombay by the Maharashtra State Co-operative Marketing Society to review the progress of the State's jowar procurement scheme is rather difficult to understand. The scheme was launched without consulting the

Food Ministry and, it was well known, the Food Minister had not forgiven the State Government for this. To make matters worse, only the other day Chief Minister Naik had passed some unkindly-worded, though not entirely unjustified, strictures on the Central Government's handling of the food situation. It was hardly to be expected, then, that Subramaniam would be impressed by the speeches of the Chief Minister and others at the meeting praising the jowar procurement scheme as embodying the important elements of a rational food policy. He was not. His glee at the failure of the scheme was barely concealed; it prevented him from realising that the failure, from which he was so eager to dissociate himself, may hold some lesson for him.

In a sense the jowar procurement scheme has failed. Out of a total crop of 3.3 million tonnes what has been procured so far is a mere 2.6 lakh tonnes. If one-third of the produce is normally marketed, this is just about one-fourth of the marketable surplus of jowar in the State. And this in spite of the fact that only co-operative societies operating under the scheme are allowed to buy jowar from the farmers. Other conditions too are particularly favourable to the success of the scheme. The highly developed state of the co-operative movement in Maharashtra is well known. In addition, the co-operative system, under the State Co-operative Marketing Society, had made elaborate arrangements to implement the scheme. For instance, as Professor D R Gadgil pointed out, the work of purchase of jowar was carried out at some 800 centres which is far more than the number of regulated markets in the State, and which ensured that every farmer was within ten miles of a purchasing centre. Finally, the co-operatives began their operations right from harvest time so that no part of the crop could pass into other hands.

Considering all these circumstances, the inability of the co-operatives to

collect more jowar than they actually have can be explained only in terms of the procurement price. This price was fixed at Rs 43 to 45 per quintal, which was considered reasonable in view of the fact that the prevailing prices in the producers' markets at harvest time in the previous season were about Rs 30 per quintal. Farmers, therefore, should have found the procurement price attractive enough to have sold their surpluses to the co-operatives. And yet they didn't. Evidently, whatever the price at which the smaller farmers had been forced to sell their produce last year, the bigger farmers with the bulk of the marketable surplus expect a price higher than Rs 45 per quintal.

Here is the significance of Maharashtra's experience for Subramaniam. The procurement price fixed by Maharashtra is higher than the all-India support price for jowar of about Rs 38 per quintal announced by the Food Ministry some time back on the advice of the Agricultural Prices Commission. With arrangements for buying grain from farmers which other States, and certainly the Food Corporation, will find difficult to better or even match, Maharashtra's experience indicates that at the price announced by the Food Ministry very little grain is likely to pass into the Government's hands anywhere. Along with the price of jowar, the Ministry had also announced prices for paddy, bajra and maize. It is not unlikely that the farmer's idea of a reasonable price for these foodgrains as well may vary from that of the Food Ministry and the Agricultural Prices Commission.

Action against Capitation Fees

THE meeting of the Indian Medical Council at Bangalore last week has focussed attention on some of the crucial problems of medical education in this country. While the reports in the Press have highlighted the Council's concern at and opposition to the increase in the number of medical colleges, the Council was actually preoccupied with the problem of ensuring a satisfactory qualitative standard in medical education. To this end it suggested an amendment to the Indian Medical Council Act which would make it obligatory for new medical colleges to get the approval of the Council in regard to staff, equipment, accommodation, laboratory and library, before admitting students. Also, the Council warned the Universities of Mysore and Nagpur that if they did not set right certain irregularities in admitting

students to their MBBS courses, the recognition given to their examinations would be withdrawn.

The proposed amendment and the warning are placed in their proper perspective by the reports that at least the warning to the University of Mysore is a sequel to the Council's apparently ineffective protests against the levy of capitation fees in medical colleges in that State, a subject commented on in these columns in the issue of May 15, 1965. A new medical college in Davangere, Mysore, organised by a certain "Bapuji's Association" (the word 'Bapuji' apparently refers to Gandhiji) formed by leading members of the Lingayat community in the town, has filled in all its 100 seats by charging capitation fees ranging from Rs 7,000 to Rs 11,000 (the figures are thus actually higher than those mentioned in our earlier comment!). A majority of the students have come from States other than Mysore and it has been alleged that considerations of academic merit were thrown to the winds.

The Union Health Minister has reportedly opposed this venture and the Indian Medical Council has refused to recognise the college. But the promoters of the college have the staunch support of most of the State's top Congress leaders and the State Chief Minister is reported to have himself personally encouraged them. According to some reports, the purse to be presented to the Chief Minister on his 63rd birthday will be gifted to the college which, in turn, will be named after him. The University of Mysore is too weak to resist the political pressures and has apparently agreed to recognise the college in spite of the opposition of the Union Health Ministry and the Indian Medical Council.

It is thus evident that only the intervention of the University Grants Commission and the Union Government will succeed in persuading the University of Mysore to regularise medical education in areas under its jurisdiction. In the ultimate analysis, the way to root out the shameful practice of levying capitation fees is to rid education of opportunist entrepreneurs and politicians. Simultaneously the appropriate professional bodies need to be given a greater role. Against this background, the suggested amendment to the Indian Medical Council Act deserves wide public support as well as emulation in other branches of education.

Insurance Kick-back

THE pace of growth of general insurance is none too satisfactory. Adjusted for changes in wholesale

prices and premium rates, the growth rate has been steadily declining since 1959, according to data released by the Controller of Insurance. Added to this is the exchange drain on account of the operations of non-Indian insurers, re-insurance abroad and the losses of Indian insurers on their business outside India. The drain came to Rs 175 lakhs in 1963. How this drain could be reduced and eliminated is being looked into by India Reinsurance and Indian Guarantee, the two specialised re-insurers. The magnitude of loss sustained by Indian insurers on their direct business of Rs 17 crores written overseas is surprisingly large, especially under that all-embracing head 'Miscellaneous'. If these losses are to be sustained year after year (formerly they took place mainly under Fire), the situation becomes serious indeed.

The total gross premium income of Indian and non-Indian insurers in India amounted to Rs 38 crores and Rs 10 crores, respectively, in 1963, making a total of Rs 48 crores. By convention, that is, in terms of common business practice, about 15 per cent of this amount is given by way of commission to so-called agents who are, in practice, the nominees of clients seeking insurance cover. These nominees do not generally procure business, rather the other way about. The 15 per cent cut, amounting in absolute terms to Rs 6 crores, is a concealed (though legal) rebate which goes to sweeten the lives of those who control the offering of business. Even LIC and its subsidiaries observe this unwritten but universal rule. Under-the-counter rebates and commission are, of course, extra. A common device now being used by leading insurance companies is to make underwriting of capital issues and granting of loans or guarantees of loans conditional upon the placement of the clients' entire insurance business with them. All these are clearly practices in restraint of trade, but who is bothered?

Complaints of cut-throat competition and fears of LIC spoiling the market have become less frequent and much less noisy of late. A large number of weak units have been eliminated which probably accounts for the restoration of normal blood pressure. For the time being, LIC is adhering to the standard rates though it is not bound by them and the other companies in their turn are careful not to annoy Big Brother. In fact, one hears some company chairmen welcoming the measures which LIC is taking to improve the tone of the insurance market. Times do change!

Extending Deposit Insurance

URBAN co-operative credit banks have shown considerable progress during the last few years after a long period of stagnation. According to the Reserve Bank these banks had built up deposits of Rs 66 crores with capital reserves of Rs 21 crores by June 1962. About 67 per cent of the deposits of urban co-operative banks were received from non-members. That they could attract deposits from non-members to this extent is certainly a tribute to their strength and vitality.

Competition from the commercial banks is, however, getting more and more acute. In their drive for branch expansion, commercial banks have been penetrating deeper into residential areas of cities which were till recently regarded as the domain of the urban co-operative banks. With the expansion of education and employment among women, there has been a considerable increase in the number of women depositors. Deposits may now be tapped not only in the areas where income originates, in the industrial and commercial centres, but also in areas where the income is spent, in the residential areas.

Branches of commercial banks carry the prestige of their names and their more impressive capital structure. This may wean non-member depositors away from urban co-operative banks. An additional factor in favour of the commercial banks is that the coverage offered by the Deposit Insurance Corporation is now restricted to their deposits. Depositors of urban co-operative banks are not protected by deposit insurance. On both these counts urban banks suffer a serious handicap.

The proposal has been mooted, therefore, that insurance coverage should be extended to depositors of urban co-operative banks. This will involve inspection of these banks by the Reserve Bank since, to quote from a recent speech by the Governor of the Reserve Bank, "eventualities like liquidation and amalgamation of any bank covered by the scheme of the Deposit Insurance Corporation will entail liability on the Corporation and the latter depends on the Reserve Bank to safeguard its interest in such eventualities". In this connection the Governor sought to allay the apprehension of the co-operative banks that they would be subject to the dual control of the Registrar of Co-operatives and the Reserve Bank. He held out the assurance that co-ordination would be achieved between the two agencies in regard to inspection.

The Reserve Bank's periodical inspection

of banks gives depositors a sort of assurance that the security of their funds has the attention of the monetary authorities. The extension of deposit insurance to the urban co-operative banks will thus not only guarantee depositors safety of deposits upto Rs 1,500, it will also assure the larger depositors that their interests are being looked after.

State Bank's Ten Years

THE State Bank has reason to be pleased with its performance over what it describes as "a decade of service". The bare facts are impressive enough. On July 1, 1955 the bank had only 477 offices; today it has 1206. Along with its subsidiaries it now accounts for 30 per cent of all bank offices in the country. This tremendous branch expansion has opened up many new areas to banking. The SBI's experience in its new branches, especially those in unbanked centres, has been revealing; it has proved that there is enough banking business in these areas which can be tapped.

The SBI's task is not just that of opening new offices — it has to serve as a banking overhead. The fact that there is a branch of the State Bank at an outlying centre means also the existence of remittance, safe custody and banking facilities for other banks. It would be interesting to know how many banks have followed the SBI to the less banked centres.

The vast organisational changes that the branch expansion programme has entailed, the large increase in staff and the decentralisation of central control through opening more local offices have all been undertaken at a time when the bank's business has been expanding very rapidly. Some years ago the Bank was a favourite target of criticism for being the recipient of PL 480 funds, but now most of these funds have been transferred (Chairman Dehejia has mentioned that only Rs 21 crores of PL 480 funds are still with the bank.) The transfer of these funds notwithstanding, the State Bank's present deposit level shows a striking increase over the decade as does the level of its advances. In fact with PL 480 funds out of its system the bank has reverted to its commercial character with a high advances-deposits ratio. (The experience of the last busy season is only added confirmation of this.) Alongside its usual business, the bank has stepped up its advances to small industries and co-operatives and these are forming an

increasingly sizeable part of its total business.

All in all, the SBI would be justified in taking pride in its performance. It has had a distinguished line of Chairmen. The terms of John Matthai and H V R Iengar were taken up with problems of transition; and P C Bhat-tacharyya's period saw the bank being launched on its expanding developmental role. One cannot also fail to mention the transformation of the bank in the next three years when B Venkatappiah was at its helm. This was the period when the vast internal organisational changes were carried out without disruption of the bank's normal business and its expanding developmental role.

Census Publications

THE extraordinarily wide and ambitious nature of the 1961 Census of India is clearly evident in the "Guide to the 1961 Census Publication Programme", published by the Office of the Registrar-General. Besides a census of population, the 1961 Census programme included a census of housing and industrial establishments, of land holdings, land rights and household industry, and of scientific and technical personnel in the country. In addition, the various States and Union Territories were encouraged to undertake special surveys of a total of 580 villages, 166 handicrafts, and fairs and festivals. Several other special studies have also been planned and the scope of the tabulation programme is unusually broad.

Thanks to this extensive programme, the total number of Census publications is estimated at 1,476, of which 86 will relate to all India. Since these figures may frighten prospective users of census data, it may be mentioned that a total of 746 publications will pertain to special surveys, 48 reports not for sale will refer to administrative matters and 369 will be district census handbooks which will bring together the census data as well as the available non-census statistics for each district in a single volume. Of the remaining 313 publications, 170 volumes will contain the Census tables for States and Union Territories or the country as a whole and 22 will contain an atlas presenting the highlights of the census data in attractive maps and illustrations.

The unique nature of this programme has won encomiums for its highly competent and imaginative architect, the Registrar-General and

ex-officio Census Commissioner, who is now additional secretary in the Planning Commission. But there has been increasing concern at the slow pace of publication of Census data. Nearly four years after the 1961 Census was taken, i.e. at the end of 1964, only 222 of the 1,474 Census publications were "likely to be published" and the actual achievement was inevitably short of this estimate. Admittedly, India has a large population and the compilation of the Census tables is done through hand-sorting and, not infrequently, hand-operated calculators. Also, the data on the size of the population, by sex, literacy, work status and the industrial category of workers in rural and urban areas of every district were published some time near the middle of 1962. It also needs to be said that the Registrar-General has always adopted an enlightened approach towards scholars interested in using the Census data for analysis and research. Yet not all

interested students would care or dare to approach the "high authorities" in Delhi. So dissatisfaction with the delay in publication becomes inevitable.

In fact, however, the Census authorities are not entirely responsible for the delay. Very often, the suitable printing presses are not available to take up the onerous task of printing a mass of numbers. But there is reason to think that the vast scope of the Census programme has led at least some State officers to take a distorted view of the priorities in publication. Village surveys have sometimes received preference over the main Census data. And it is time to take a hard look at the practice of writing an official report on the Census data for each State or Union Territory, a task for which administrative officers are not always fitted. We should probably switch over to the pattern in USA where the Census Bureau is mainly a collector and publisher of data and undertakes, by and

large, only evaluative studies. While the 1971 Census of India will inevitably use more of sampling procedures and mechanical aids in tabulation of the data, a proper phasing of all the operations and a stricter enforcement of priorities will be most essential.

Finally, a word about the distribution of Census publications. The Manager of Publications in Delhi has proved to be not up to the task of ensuring easy availability of Census reports at least in the major cities. At the moment there are delays of a minimum of about four to six months between the formal publication of Census reports and their availability in libraries which have placed standing orders. Purchase orders with agents of Government publications in a city like Bombay remain unexecuted for more than four months. It is time something is done to streamline the machinery for distributing Census reports as well as other official publications.

CAPITAL VIEW

Shastri's Doubtful Triumphs

Ramesh Thapar

1954 Geneva Conference (principles which, when applied, compromise the US presence in South Viet Nam) and his involvement, however peripheral, in the moves initiated in London by Prime Minister Wilson (himself an open supporter of US policy in Viet Nam) has made India appear as if she is frightened to cause offence to anyone. A most unfortunate impression!

Then again, on the holding of the Algiers conference, bad staff work and lack of co-ordination between the Foreign Minister and his Secretary have sparked the story that India was only too willing to 'sabotage' the conference. And, now, even the credit for the postponement is claimed by those who were denouncing India's sabotage. We did not have to stick our fingers into this mess as we did. Sometimes it is better to mobilise others for the dirty work. Whatever persuaded our bureaucrats to become so active? A holiday abroad?

Indeed, already there is talk that the build-up we have been giving ourselves may well represent an attempt to provide an antidote for what is to follow — the implementation of the British-sponsored formula on the Rann of Kutch, the formula which it is presumed will open the way for a peaceful demarcation of a border which Pakistan has challenged. Delhi, it is said, expects sharp criticism about a so-

called 'betrayal' and is attempting to muffle it with stories of Lal Bahadur's triumphs in the West.

Certainly, there are advantages which a military dictatorship has over a democratic state where it is difficult to doctor embarrassing news. For example, Pakistan expended a great deal of energy publicising her 'victory' in the Rann of Kutch. But when a similar attack in the Kargil area in Kashmir was thrown back and two strategic pickets were seized by the Indian army on the Pakistan side of the cease-fire line, there was silence. The local commander had proved an important point: a military dictatorship is fearful of accepting a military defeat. The punishment administered at Kargil to the Pakistani army has had a sobering effect on Rawalpindi. It could have been administered in Kutch, too. Do our political and military big-wigs appreciate this?

If, as we are told, Ayub of Pakistan is now genuinely concerned about a final solution of border disputes, and is at the same time prepared to treat the Kashmir issue separately, there is no reason why we should not respond warmly. We do not need Harold Wilson to hold our hands. There would be overwhelming support in both countries for an initiative which would deactivate the disputed sectors of our borders as a first step to their exact

demarcation by a mutually acceptable arbitration. But the present piecemeal approach, which very often puts a premium on aggressive enemy attacks (as in the Rann of Kutch!), has serious political repercussions on a democratic, federal State like India. We are left wondering where the next blow will be struck, for each blow is aimed ultimately at the unity and viability of this country. This applies to Pakistani tactics as it does to China's. We always seem to forget this stubborn fact.

However, we are now neatly caught in the Kutch trap. The promised arbitration, the talks, despite formulas, are bound to drag on, to complicate our relations with Pakistan and to offer the British Government the chance it has been long waiting for, the chance to play mediator. Harold Wilson will rise, again and again, in the House of Commons to report on the progress of his noble efforts. And we gullibles in the Capital had assumed that having sampled western meddling on Kashmir, we would refuse to be tampered with again. The faith of the ruling elite in Whitehall's justice obviously remains undimmed. Or is it the persuasion of the entrenched bureaucracy which muddles a perspective-less political leadership?

Deep Discontent

The sections in the Congress leadership which would call a halt to this meandering, which would rather that we learned to live with border problems until the possibility of a real and lasting solution offers itself, and which would do much more to reduce our reliance on foreign economic and military supports, seems to be unable to act collectively. There is deep discontent, discontent over policies and discontent over the failure to evolve remedial sanctions. And the financial crisis, described by some as 'bankruptcy', only robs these sections of the little initiative that they still possess.

The rumblings that can be heard have little to do with policies and programmes. There is talk in the Capital that T T Krishnamachari is feeling terribly isolated, that he has fallen out with Lal Bahadur and Gulzarilal Nanda, that only Kamaraj has to be persuaded to agree to his removal from the Cabinet. Kamaraj himself is an enigma. He speaks the language of a radical, even attempts to contact those who will provide him with more radical economic argumentation, but he makes

no effort to gather around him a secretariat to work out his ideas. He is booked for another crucial two-year term as Congress President, because no one really wants Atulya Ghosh hovering over election tickets in 1966, but he is unprepared to commit. Morarji Desai dabbles here and there — even in dangerous Uttar Pradesh — hoping to revive his sagging fortunes. Meanwhile, Lal Bahadur encourages gossip about a Cabinet re-shuffle. Perhaps, what he plans is the introduction of some deputy ministers!

When Chief Minister Naik of Maharashtra marshals a mass of rather opportunist criticism against the Centre, and is promptly supported by Chief Minister Sen of Bengal, there is excited comment and speculation about Lal Bahadur's reactions and the effect of these snarls on the forthcoming AICC session at Bangalore. Is this

a new attack being mounted by the provincial chieftains to compel the Centre to respond to their demands? After all, the discussions on the Fourth Plan are in their final stage — and we may witness more of this kind of lobbying.

Whatever the perambulations of the Lal Bahadur Government there is no denying that we are slowly entering a potentially political phase. It is linked to the growing consciousness that within a year the ruling party will be preparing to face the crucial elections of 1967. Inevitably, alignments will now be conditioned by this perspective.

Maybe, in this context, Lal Bahadur might also see the need to revamp his Cabinet in the interest of consolidating his hold on the party. Let us hope that he will. Certain Ministries of the GOI need a good shaking.

DELHI SCHOOL OF ECONOMICS

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Applications on plain paper addressed to the Director, Delhi School of Economics, University of Delhi, Delhi-7 should reach the office of the School by July 7, 1965 or by July 19, 1965 in special circumstances.

The Commonwealth's Economic Links

IN the event, the major items dominating the fourteenth Commonwealth Prime Ministers' Conference were the Commonwealth Peace Mission to Vietnam, the repercussions of the *coup d'état* in Algeria on the Afro-Asian Conference, and, as had always been expected, the explosive situation in Rhodesia. Against these issues, it is not surprising that Commonwealth trade and aid took a very minor place in the general discussions, and the announcements made during the debate on this question came as rather a damp squib after the great build-up that had been given to this question and the general belief that Wilson was going to produce some new dramatic initiative in this respect.

Co-ordination of Planning

Barbara Castle, who addressed one of the sessions, explained the balance of payments difficulties faced by Britain which inhibited the Government from providing aid in as large a measure as it would have wished. She pointed out that as she herself had a seat on the Cabinet, she would work vigorously to be as generous as possible in the face of the arguments of the Treasury. She made three main points. The first was that the UK Government was now following a policy of planning in real earnest, and that there was, therefore, a great possibility of co-ordinating planning in the UK with planning in recipient countries. There was now an Economic Planning Unit in her Ministry, and they were able to undertake forward planning or perspective planning. While Britain was developing special industries in the special areas in Great Britain which needed assistance, she would also take into consideration the needs of recipient countries.

The second point Barbara Castle made was that the British authorities had a unit in the Middle East to provide advice on the preparation of economic plans for countries such as Iraq, Jordan, etc. She thought it would be a good idea to extend this experiment, and set up a similar body for East Africa and other developing areas in the Commonwealth which might require such assistance.

The next point she made was that while financial assistance was of cru-

cial importance, so was the whole question of technical aid. She wished to see the establishment of overseas aid services which would assist such developing countries as required the services of high-powered British experts, but could not afford British rates of pay. Under this scheme they would receive assistance from the British Government which would pay the difference in the salary. This would mean that developing countries could now afford the services of top-notch experts.

Interest-Free Loans

However, Mrs Castle's main proposal was that interest charges on loans to selected developing countries should be waived. At the moment, in the case of selected countries a waiver is given when the repayment of a loan should start. It was now proposed to abolish all interest. She made it very clear that this new concession could only apply to new loans. She also mentioned that Canada was already giving interest-free loans charging only a very nominal sum, about one-quarter of one per cent for service charges. This was of great help to developing countries, but Britain was now proposing to go one step further — to not only abolish interest, but service charges as well. Under the present system, the Commonwealth Development Corporation gives loans where, during the fructifying period, a nominal rate of interest is charged. This interest is now to be waived. While most of the developing members of the Commonwealth welcomed these moves, there was a general feeling that they did not really go far enough. President Nkrumah, for example, felt that more emphasis should be paid to trade rather than aid as such, and he himself was perfectly prepared to pay interest on his loans so long as this was nominal. In his view, the real problem lay in the instability of prices of primary commodities, and he quoted with great effect the example of cocoa.

Both the Australian and Canadian Prime Ministers explained what they had done about aid to the developing members of the Commonwealth, and Menzies made a special mention of the recent steps taken by Australia to

grant preferential treatment to imports from developing countries.

Commercial Credit is Not Aid

It is understood that Shastri's speech was very well received. He pointed out that, in a sense, economic problems related to the whole world situation, since many of the tensions were due to economic causes, and the split between the 'haves' and 'have-nots'. He made a very telling point about the bulk of so-called aid being no more than commercial credit on which the recipient countries had to pay the commercial rates of interest. Credit for export promotion could not really be equated to aid. He also made the point that Western European countries which had gained so much from Marshall aid, seemed reluctant to give similar aid to developing countries. The net result was that while monumental projects like the building of large dams and irrigation schemes in developing countries went ahead, they sometimes tended to distort the economy, because, for example, money could not be provided to dig the necessary irrigation channels!

Another point he emphasized was that what was important, as far as aid was concerned, was not so much the quantity of the aid, as the quality of the aid, and here he put great emphasis on the provision of soft untied aid. He also pointed out that if aid was given on the present terms, after six years or so, India would start paying more to the country from which she had borrowed than the amount she would receive. He made particular reference to the grants which Canada provided, and commented favourably on the fact that the UK's terms of supplying aid were also improving.

Wilson's statement which had been awaited with great interest, amounted in the end to very little. He pointed out that there had been a clear understanding that aid by itself was not enough and that aid and trade were inextricably linked. This applied to the UK as well because the UK could only help other countries when her own trade position improved. He explained the background to Britain's import surcharges, and the measures that Britain was taking both externally

and internally. The Income Policy to deal with the internal situation and the external policies to reduce overseas expenditure which would take into account a reduction in the Rhine Army, and the recent steps taken to reduce overseas investment, particularly the Corporation Tax were all dealt with. He said that many people had been misled by the outcry against the Corporation Tax and pointed out that if overseas companies ploughed back their money they would not be seriously affected. He also pointed out that in the course of the Budget debate concessions had been made by the Government with which the President of the Federation of British Industries was now very satisfied. (It should be mentioned, however, that both Ghana and Pakistan said that they believed that the Finance Bill would discourage investment in developing countries.) He would like to see that the Commonwealth did not suffer as a result of these measures, and that perhaps companies in these areas would plough back their profits, but the British Government would certainly like to get back some of their dollar holdings.

Britain's Trade with the Commonwealth

He then went on to point out that if Britain did more trade with the Commonwealth, he would be able to do more to help them. He admitted that much of the fault lay with British exporters, and suggested that the Commonwealth should collaborate in the Kennedy Round. He also pointed out that there was considerable scope for Commonwealth collaboration. There might perhaps be collaboration in state purchasing arrangements.

In essence, however, the main burden of his plea seemed to be not so much increase in imports from other Commonwealth developing countries into Britain to aid their balance of payments, but increase in British exports to Commonwealth countries!

The latest figures on Commonwealth trade, published by the Board of Trade Journal, show that there was a 13 per cent rise in British imports from the Commonwealth in 1964 — the biggest in 10 years. Imports came mainly from Canada, Australia and New Zealand. Exports to the UK from India, Pakistan and Singapore, showed a slight decline. It is interesting that during the debate, one of the points most Prime Ministers stressed was the damage done to some sectors of Commonwealth trade in manufactures by the British import surcharge. British

exports to the Commonwealth, on the other hand, showed a decline. Compared with 31 per cent of total exports in 1962, they amounted to only 29 per cent in 1964.

One of Wilson's main proposals was to revive the Commonwealth Air Transport Council which had been allowed to lapse by the Tories, and had met last in 1956. He also dealt with the question of commodity prices, and admitted that one of the most urgent needs was for the streamlining of commodity agreements. He said that he himself had always been in favour of such agreements, and that he might almost be described as the father of the International Wheat Agreement. He had also played an important role in setting up the Commonwealth Sugar Agreement.

Wilson's Proposals

To sum up his proposals:

- (1) No Commonwealth trade programme can be decided upon straight away. There should be a Conference of Commonwealth Trade Ministers which should be convened when the Commonwealth Finance Ministers met in Jamaica at the end of September. They could then work out the lines on which Commonwealth trade could be developed.
- (2) Concrete suggestions should be made for collaboration on Commonwealth problems. Perhaps a Commonwealth Planning Conference could be set up, since the UK now had its own five-year national economic development plan, and many of the Commonwealth countries had long-term plans, and these could, perhaps, be inter-locked. There is, for instance, scope for collaboration in the field of fertilisers. Uganda

had phosphates. Britain could supply the machinery to develop these phosphates, and India could then make fertilisers from these phosphates.

- (3) The machinery for civil aviation liaison should be reactivated. For example, even though at present people regard the vertical take-off plane as having merely military uses, might it not be possible that such a plane would be useful for civil purposes for countries who cannot afford to build big runways?

India's Problems

As far as India is concerned, with the exception of the announcement of the abolition of interest on loans in specific cases, there is little of fundamental importance in the economic proposals made at the Conference. Perhaps there will be more scope to deal with the specific difficulties from which India suffers in her trade with the Commonwealth in general, and Britain in particular, at the Commonwealth Trade Ministers' meeting. However, some Prime Ministers have already expressed scepticism about the results of the Trade Minister's Conference, and it is, therefore, quite possible that there will be a preliminary meeting of officials before the Trade Ministers meet.

Shastri made constructive contributions to the discussion on disarmament and the Vietnam Peace Mission; it was he who originally suggested that guidelines should be set down for the Mission. The final communique reflects much of his thinking on these two subjects. Shastri has seemed this time positively to enjoy his contacts with new people, and in his own way has won the affection and respect of his fellow Commonwealth Prime Ministers.

INDIAN ECONOMIC GROWTH

Performance and Prospects

by

K N RAJ

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The Illusion of the Student Revolution

THIS will be known as the year of the student revolution on American college campuses. The amount of publicity devoted to the student movement during the past academic year has been unprecedented, and to judge by its scope, the American campus has been shaken by student unrest on a variety of issues, from Vietnam to university administration and academic policies. While it is true that the amount of student protest has been substantial in the recent past, particularly in comparison to the sterile decade of the 1950's the student revolution is really a creature of the mass media. It is doubtful that the recent rash of demonstrations will have any on-going politicizing effect on the student community, and it is entirely possible that next year might see a total lull in student social-action.

Too Much Attention

The fact that the mass media, as well as more serious journals and commentators, have paid so much attention to the student movement during the past year may, however, have some lasting effect. Even if the situation on the campus remains essentially unchanged, educators and the general public may be more aware of the problems of higher education at a time of transition. For the first time in decades, college administrators have to justify their policies to concerned faculty members and interested trustees. Although it is clear that Clark Kerr's "multiversity" is here to stay, it is possible that these new educational monoliths may come under careful public scrutiny. Even if this is the only result of the "revolution" of 1965, it will be of vital importance.

As for the student rebellion itself, it is unlikely that this year's outbursts of discontent have been much greater in intensity than those of the past few years. Student demonstrations which last year would have received only local coverage have now been reported in *The New York Times*, and analysed in such august publications as *Life* and *The Saturday Evening Post* not to mention the *Nation* and *The New Leader*. The recent Free Speech Movement, which rocked the University of California, received massive publicity, while similar sit-ins at the University of Chicago several

years ago received scant attention from the press.

The Students for Democratic Society, probably the largest campus social protest movement at the present time, has also been the subject of much analysis and publicity. Yet, two years ago the Student Peace Union, a group with similar aims and programmes, a larger membership, and more campus affiliates than the SDS now has, was largely ignored by the press. This year's student Vietnam demonstration in Washington, organized by the SDS, with the support of the rest of the campus "left" groups, received far more press coverage than a student disarmament demonstration several years ago, which attracted almost as large a participation.

The student civil rights movement, which has been active on the campus for several years, has actually lost ground this year. Campus CORE and NAACP groups have lost much of their strength, and even SNCC, the most activist-oriented of the civil rights organizations, probably has fewer supporters this year than last. The fact that many white middle class students have ceased to participate in the civil rights movement removes one of the few remaining bridges between the Negro mass movement and white liberals and moderates.

Change in Character

What is more important, perhaps, is that the nature of the student movement has substantially changed in the past year. In a sense, the middle has fallen out of the movement. Groups like the Student Peace Union which fostered discussions concerning peace and disarmament, as well as militant demonstrations, have lost their popularity. Moreover, the SPU emphasised a rational evaluation of Cold War issues, thereby encouraging independent thought and discussion critical of the American government as well as of the Soviet Union and China. The Young Peoples Socialist League, another organisation which placed emphasis on critical discussion, has also lost much of its popularity. YPSL's fairly moderate democratic socialist approach to politics seemingly has been eclipsed on the campus.

The causes of a radicalisation of the

student movement are not too difficult to find. The policies of the American government in both Vietnam and in the Dominican Republic have been quite unpopular on the campus. It is fair to say that, in spite of its relatively good record on domestic issues, the Johnson Administration has almost totally antagonised the college campus. Not since the leadership vacuum of the Eisenhower years have liberal-minded American students been so disenchanted with the administration. A feeling of frustration, of failure to create a "dialogue" with the Establishment, has pushed the students into the streets.

Small Splinter Groups Active

Moreover, the present student left is much misunderstood by the mass media. As has been pointed out, numerically, the left on the campus is not larger than in the past few years. Student radical organisations today probably have fewer campus chapters than a year ago, even though some of these chapters have been particularly active. The two largest movements, the Students for a Democratic Society, and the Student Non-violent Co-ordinating Committee, are more amorphous groupings than organisations. Unlike previous student organisations, these groups have very broad policy statements and a wide range of concerns, thus enabling small factions to use these groups for their own purposes. In their reaction to loyalty oaths and "red baiting", the mainstream of the student movement has gone to the other extreme, and permits any elements, regardless of views or motives, to use the banner of the student movement for their own purposes. Thus, it has been possible for a small faction such as the "May 2nd" committee, a creature of the pro-Chinese Progressive Labour Movement, to set the tone for many anti-government Vietnam demonstrations. While it is clear that the leadership of SDS is clearly left-liberal in its orientation, it has simply been unable to maintain adequate control over its organisation.

The small left wing splinter groups have been successful in achieving publicity, though, in little else. Such organisations, as the DuBois Clubs and May 2nd Committee, have a very limited membership, and what members they do have are highly concentrated in

such centres as New York City and San Francisco. The influence of these groups is non-existent on most of America's campuses. The press, attracted by their "ultra" political and social views, and their non-conformist behaviour, has given these splinter groups publicity far out of proportion with their influence on the campus. If the past is any indication, these groups will disappear from the campus within a semester or two, and will have achieved very little in the way of attracting members from the student community or of building any kind of movement.

No Ideology

The student movement finds itself without ideology, and virtually without intellectual roots at a time when serious thinking must be done on educational issues and on problems of international politics. The "activists" alienated by increasingly bureaucratized colleges and universities, and by seemingly irrational governmental policies, have dominated over the more thoughtful elements in the student movement. These elements certainly make for interesting newspaper copy, though they do not necessarily build a meaningful student movement. It is interesting that much of the impetus for the present rash of student demonstrations has come from the two groups most maltrated on the campus—the undergraduates, who hardly ever see a full professor and are merely numbers on IBM machines, and the first and second year graduate students, who are often under the not-too-benevolent thumb of a senior professor more interested in cheap labour than in education. They were mainly responsible for the renowned Free Speech Movement at the University of California, which in turn sparked many of the other student revolts this year.

The student movement in America does not really deserve the name of a movement. While the student communities in other countries have toppled governments by their actions, America has no tradition of student political activism. The present movement provides no exception to this rule. Student activity has been sporadic, it has lacked co-ordination, and has been diffused over a wide range of issues. It has lacked both organizational and ideological cohesiveness. *Indeed, much of the activity which has made headlines is more of an emotional response to outside stimuli than a conscious programme for protest and social reform.

The leaders of the student movement have not sought to provide the kind of programmatic outlines so necessary, and have certainly not given any ideological basis to the movement. Even the leftist groups which are wedded to one brand of Marxism or another, have been almost totally pragmatic in their approach, merely taking advantage of whatever discontent cropped up on this or that campus. The leadership of the Students for a Democratic Society is a good example of this: These people, for the most part younger graduate students, intellectually fairly serious and free from outside political control, have encouraged the student movement to wander from issue to issue, feeling, with some justification, that what was "swinging" on one campus, might be dead on another. As a result, the energies of the students have been dissipated in many small struggles, and no cohesive movement has been formed. The probability that the momentum which has been built up during the present academic year will be carried over to the next is slight under these circumstances.

Eclipse of Right-Wing Groups

The right wing student movement offers an interesting comparison with the present predominantly left-oriented student movement. In 1960, the right wing students under the leadership of the Young Americans for Freedom, with substantial financial support, made an attempt to take over the liberal-dominated National Student Association. Although they were unsuccessful in their attempt, many commentators on student affairs saw the YAF and the button-down young reactionaries as the wave of the future on the student front. To everyone's surprise, the whole conservative student movement disappeared from view the very next semester, and not a word has been heard from it since. It is entirely likely that this year's crop of leftist organizations will suffer the same fate.

One can say that the American student movement is almost always faced with the inevitability of failure. In the developing nations the student community is part of the elite group and is small enough to muster and mobilize a mass following. In the United States, the student community, being 5,000,000 strong, does not constitute an incipient elite, and is much too large to be co-ordinated into any meaningful movement. Furthermore, America has

no tradition of student political activity. Student politics, whether on the right or on the left, has always been confined to a fairly small minority. Finally, there is no mass of educated unemployed in the United States which in other countries has been a potent cause of student unrest.

The 'Multiversity' Issue

The only new issue which has been injected into American higher education in the past decade is the transformation of the college into a 'multiversity'. This issue has, in turn, engendered a good deal of concern among educators, and more recently among students as well. The roots of the Free Speech Movement at California and the less publicized, but equally crucial, campaign at Yale to retain a popular professor who was fired for failing to publish sufficient scholarly articles lie in this new innovation. The students' contribution to the discussion on the future of education, dramatised through sit-ins, has been substantial and will doubtless help to make educational planners and administrators aware that many students are increasingly alienated from the educational process and that a substantial amount of discontent does exist on the campus. Whether the students will be able to alter the basic direction in which higher education seems to be headed is another question.

It seems clear that the student revolution of 1965 is largely a creation of over-eager publicists. Much of the attention which has been given to the student movement in the recent past is unjustified in the light of the actual role of the student movement on the campus, and in comparison to its former activity and size. The left wing of the student movement has in particular received undue attention whereas the strong and active Christian groups, among others, have been almost totally ignored, even though these student groups provide indispensable personnel for student civil rights work.

If history is any indication, the current rash of student activity does not necessarily mean that there has been any lasting change in the campus. The spotlight on the student movement may, however, be to the good; it will not have been in vain if some of the important questions facing higher education, raised during the agitations and demonstrations, can give the impetus for realistic discussion.

— Philip G Altbach

OFFICIAL PAPER

Gaps in Co-operative Movement

Review of the Co-operative Movement in India, Reserve Bank of India, 1965; pp 167, price Rs 3.

THE Reserve Bank's "Review of the Co-operative Movement" is a very useful adjunct to its "Statistical Statements Relating to the Co-operative Movement" published every year, inasmuch as it summarises in a convenient form the accounting details of the latter and, therefore, lends itself better to interpretation. The Review for 1960-62 highlights some of the glaring deficiencies in the movement. By and large, it concerns itself with the purely quantitative aspects — the number and kinds of societies, membership, the financial resources available, the size of loan disbursements, etc — and one does not get much help here if one is interested in assessing the impact of the co-operative movement on the rival sector. To questions like why co-operatives lag in some States and how they have made spectacular progress in others, there is no answer. What is it that has attracted the Maharashtrian peasant or trader to the co-operatives? Is it state initiative? Is it the lead gained by the earlier Bombay State? Are there special social and psychological factors? Or, is it simply a question of greater resources?

Maharashtra's Achievement

Indeed, the record of the co-operative movement in Maharashtra, even as gleaned from the brief description here related to only two years, is a striking example of how, when something has caught on once, the people respond to it with imagination and zeal. Maharashtra has the largest number of all types of co-operative societies; it has 100 per cent coverage of its villages; and co-operative credit contributes relatively more to the total credit requirements of the peasant and trader here than elsewhere. The co-operative principle has been tried out in a wide range of activities. The State has the largest volume of operation in co-operative marketing; it has been the most successful in mobilising deposits from individuals in both the rural and urban areas. The amount of loan grew fastest in the State during 1960-62. In carrying out improvements and reforms, it has been usually energetic and imaginative. When refinance facilities were first introduced the State was the first to avail of it. It has also brought in suitable legislation to expedite the procedure for grant of loans by the

land mortgage banks. Crop loans have been tried on a larger scale than elsewhere in the country. The industrial estates scheme was implemented enthusiastically by opening 23 such industrial estates in the State — the highest number for any State in the country. The co-operatives were utilised for promoting education, medical aid and other "better living aims" and every conceivable social activity. If co-operation has indeed been so successful in Maharashtra, why have not the Co-operation Departments of other States and the Central Government thought it fit to study and analyse this phenomenon? We have copious diagnoses of failures, rarely ever of successes.

There are chapters in the Review, like the one on "Policy Decisions" which give very useful information, though one wishes more light were thrown on the rationale behind the sudden shifts in official policy. It is interesting to find that while official policy favoured the one-village-one-society principle and discouraged the creation of large-sized societies, the latter continue to hold a dominant position. They were just three per cent of the total number of primary agricultural credit societies and had no more than 20 per cent of the total membership in 1962, yet they accounted for as much as one-third of the resources and loans of all primary agricultural credit societies put together. The obvious question seems to have escaped the authorities — which is important, viability or coverage?

Excessive Reliance on State

While undeniably there has been "substantial progress" (to put it in officialese) in terms of the increase in number of societies, in size of operations and in resources, it is clear that much of this has taken place only in a few States: Madras, Gujarat, Uttar Pradesh, Andhra Pradesh, Mysore and Punjab apart from Maharashtra of course. The record of the other States makes dismal reading. The report notes what has become the common pattern: slow accretion of deposits and heavy reliance on governmental agencies (in Bihar 89 per cent of the share capital of the State Co-operative Bank is contributed by the State Government) and large overdues, ranging from 25 to 30 per cent.

Whether governmental backing does not discourage initiative is a question that should receive more thought from the following finding of the Reserve Bank: The State Co-operative Banks, now used to the concessional finance offered by the Reserve Bank, have learnt not to treat it as a supplementary source as it should be treated, but try to procure the maximum limit possible and then charge differential rates of interest on their funds according to their source, thus defeating the purpose of assistance, namely, subsidized credit to the poor borrower! This practice has, of course, been discontinued in some States. How much faith can one put in de-officialisation claims when, as the report notes, increased state participation in share capital has implied more government nominees on boards of directors of State and Central Co-operative Banks.

Faulty Policies

The working of co-operative credit continues to be hampered by irrational loan policies. This, the report feels, is largely responsible for the increasing percentage of overdues at the primary level. Loan disbursal and recovery are not properly adjusted to seasonal demands and conditions. Among the State and Central Co-operative Banks, since credit disbursal is confined mostly to agricultural requirements, often idle surpluses accumulate due to the lack of diversification. In accommodating the primary societies, absolute limits are fixed unduly low, mortgage security is insisted on and if a society is a defaulter requests from even those of its members who have no loans overdue are turned down. In Assam, the State Co-operative Bank undertakes to finance individual tea gardens directly and in U P short-term funds are diverted to long-term needs like housing — practises which the Review does not consider conducive to the healthy growth of co-operatives.

The distribution of agricultural credit and non-agricultural credit societies according to the audit classification awarded to them between 1958-59 and 1960-61 reproduced on page 63 of the report gives a clue to the quality of the co-operative societies. Of the total of 2,11,369 agricultural credit societies in 1960-61 only

THE ECONOMIC WEEKLY

15.57 per cent could qualify as "satisfactory"; 57.27 per cent were mediocre; and the remaining 27.16 per cent were in a very bad way and deserved to be liquidated. The contribution of co-operative credit to rural needs has been very neatly summarised in two tables on pages 69 and 71 of the Review. In some States, like Kerala for instance, about half of the total borrowing is accounted for by sources other than the co-operatives.

If we consider non-credit functions, while the number of the various types of societies has expanded rapidly, the next great push needed is in marketing. The institutional structure with respect to co-operative marketing has

been well-nigh completed, but the proportion of marketable surplus handled by co-operations is as yet not significant. One heartening feature is the increase in the volume of agricultural requisites like seeds and fertilisers, handled by co-operatives.

That co-operation can seek varied expression is illustrated by enterprising Punjab and literary Kerala. Punjab boasts of 911 women's co-operatives, exclusively run by women, headed by a lady assistant registrar. These engage in a number of activities like knitting, sewing, embroidery, preparation of articles for domestic consumption like pickles, *papad*, squashes and

providing school supplies for children. But Kerala's Literary Co-operatives are unique. They buy books and copyrights of the works of its members and undertake book-publication and sale. During 1961-62, the Sahithyapravarthaka Co-operative Society at Kottayam purchased or produced books of the value of Rs 4.98 lakhs and took several measures to promote literary activity among Malayalam writers. Thus while the debt-ridden Indian peasant has still to find the answer to his problems in the co-operatives, one can derive some consolation from the co-operatives' role in encouraging self-reliance among our women and in promoting regional literature.

BOOK REVIEW

National Integration, et al

S K Nath

Three Basic Problems of India by Jaya Prakash Narayan; Asia Publishing House, Bombay, 1964; pp ; price Rs 6.

THERE are some thought-provoking suggestions—largely about India's relations with her immediate neighbours — in this little collection of lectures by Jaya Prakash Narayan, but its general effect is disappointing. The lectures (delivered in 1962 on the invitation of the trustees of the Dada-bhai Naoroji Memorial Prize Fund) seem to have been under the title of 'national integration': however, they do not provide an informative analysis of the relevant problems.

In the first lecture, entitled "The Concept of Nationhood", J P makes an enlightened effort to make us feel thoroughly reconciled to the partition of India. But one of his arguments is curious. If the British had not imposed unity on India, he says, "undivided India would have been perhaps one of the lesser possibilities." If this argument were to be accepted, we should not regret too much any further bifurcation of the country. Surely, the only correct attitude to Pakistan is that it was a mistake ever to partition India but that it would be an infinitely bigger mistake for the sub-continent to be re-united through anything except mutual goodwill.

JP's conclusions in this first lecture seem to be that nationalist feeling is not necessarily good, that it might lead to strife between nations, that civilization is more important than nationalism. Each one of these conclusions is unquestionable, yet one feels that J P needed to emphasize that in a country with as intricate and deep a labyrinth

of divisions in its social structure as India, there might be an urgent need to foster nationalism which would yet be outward-looking and magnanimous rather than inward-looking and mean.

The second lecture on "Building the National Community", is a big disappointment, none of the particularist problems of the Indian society gets mentioned. There is no discussion of the little things Indians habitually blow up to separate one group from another; reading this lecture one might get the impression that Indians are not especially unfortunate as compared to many other nations in having strong prejudices against one another on account of such things as religion, region, caste, language food habits, complexion and economic status. No doubt J P holds up a noble ideal for Indians (and mankind in general). "... the identification of the individual with other human beings, an ever-expanding area of human beings, till we identify ourselves with the entire human community—the world community of beings—and we become world citizens". But this ideal is recommended in the name of dharma and "spirituality". In a country where such untold mischief has been perpetrated for centuries by populist conceptions of spirituality, *dharma*, *muzhab* and similar things—and where religion and spirituality (at least in the hands of their customary custodians) still continue to support inhuman practices and attitudes—it is tragic irony for a national leader to try to propagate fellow-feeling in the name of spirituality. No matter what

refined and humane kind of spirituality an educated and progressive leader recommends, for the majority of Indians it remains true that so long as they are bound by spiritual values they are likely to be anti-national.

Our hope lies in educating the masses about what the progress of science, social sciences and psychology has taught us about human beings, about their weaknesses and potentialities, and not in romanticizing our past way of life and old scriptures. Untouchability, a vision largely restricted to the immediate locality, low status of women, a vague or active contempt for different people (different in race or religion)—all these are as much a part of our ancient heritage as some of the nobler things which are often paraded about. To extol our past way of life and then expect our masses, who are still clearly permeated with many of the regressive old values, to choose from it only that part which meets the modern humane standards is not only a circuitous but also a self-defeating way of propagating reforms.

In this second lecture J P also recommends local self-rule in small communities in the name of spirituality—"As you know, this process is going on all the time in London which is a city made of many cities, boroughs with their municipalities"! Another curious refrain is a misguided understanding of the welfare state: "In a welfare State, nobody is responsible for anybody"; further, "In a Welfare State, of course, there may be government schemes for employees, but nothing for the man

on the street". Perhaps this misunderstanding results from our ruling politicians' habit of describing India as a welfare state; but in India really nobody is responsible for anybody; and the truth is that our politicians are either dishonest or confused, because India is anything but a welfare state yet.

The last lecture is called "India in the World Community". JP is at his best here. Though spirituality crops up here too, his comments on some specific problems and incidents of India's foreign policy are enlivened. These is a just criticism of India's hesitations in making a fair comment on the developments in Hungary and Tibet, and of our action in Goa. He

rightly argues that though by the standards observed by most other nations our action in Goa was justified, it did not match up to our proclamations, and that it cost us heavily in terms of international prestige and influence. Moreover, as he says, "If nations do not even at this stage agree among themselves to eschew violence for the settlement of any dispute that might arise between them, what is the sense of forming the United Nations?"

We have come to associate a refreshing and rare honesty with J P regarding our disputes with other countries. There is ample evidence of that here. Surely most thinking Indians ought to agree with him when he says: "... India's foreign policy, our

professions of peace and goodwill, our professions of one world community, are all an trial in this sphere of Indo-Pakistan conflict". Regarding Kashmir he aptly remarks: "I do not think that any kind of international settlement can be arrived at which will favour only our viewpoint. We must be mature enough to settle our differences on a give-and-take basis". His comment on our dispute with China is equally enlightened. He argues that since both India and China claim certain border areas as theirs, the obvious thing to do is to go for arbitration. As he points out, other countries before us (e g, the U S A and Canada) have solved their border disputes by just that method.

Changes in Literacy and Education

Study of Villages in UP and Punjab

P C Joshi
M R Rao

There is now a growing realisation among planners in India that the creation of opportunities is not by itself a sufficient condition for development. The effective utilisation of these opportunities is impeded by several economic and non-economic factors.

A study of changes in literacy and education in selected villages of UP and Punjab confirms that in the field of rural education as well, the creation of educational opportunities has not been followed up by their effective utilisation. The unsatisfactory pace of educational progress in rural areas resulting from the insufficient use of educational opportunities should be a cause for great concern.

THIS paper attempts to analyse changes in literacy and education in selected villages of UP and Punjab on the basis of data collected by the Agricultural Economics Centre of the University of Delhi in the course of resurveys of these villages. The resurveys were undertaken by and large after an interval of five years. For the present study, nine such villages have been selected, five from Punjab and four from UP.¹ They are not representative of the region as a whole but do provide certain insights into those aspects and processes of change which are often not available from large-scale, estimational surveys. Similar case studies for other regions may provide a better understanding of the educational situation in rural India as a whole and may act as a necessary corrective to generalisations derived from aggregative data.

One of the important insights gained from these case studies is that, though the rate of progress of literacy and education in the selected villages is very slow, the picture of concentration of literacy and education among the upper and the dominant intermediate castes, so very characteristic of traditional rural society, is changing. The number and percentage of literates and the educated specially among the lower and scheduled castes, is on the increase and an educated elite is in the process of formation among these hitherto illiterate castes. This process, however, is characterised by great unevenness in different villages. In the educational ladder the distance between high castes on the one hand and the lower castes on the other is still very wide.

Secondly, in spite of the initial advantage which the upper castes enjoy

because of their superior social and economic position, progress in education is taking place at an uneven pace among persons within the upper and dominant intermediate castes on account of economic disparities among them.

Thirdly, as a corollary to what has been stated above, the economic factor appears to be of increasing importance in determining educational progress among persons within the same caste as well as among those belonging to different castes. Consequently, for further progress of education in breadth and depth, acceleration of the tempo of economic progress embracing the majority of persons within each caste group has to accompany efforts at expanding educational opportunities. In the absence of this, education may only promote the elite-mass hiatus in different degrees within each caste group.

II

Number and Proportion of Literates

The percentages of male and female literates for nine villages of UP and Punjab for the first and second points of survey are presented in Table 1. The table shows that there is no marked progress of literacy in any of the selected villages. The change of literacy percentage ranges between +5 per cent and -1 per cent. Further, the literacy rate in these villages presents a mixed pattern, showing some increase in two villages (Rattakhera and Ratol Rohi), minor increase in another two villages (Bahutwas and Muhammadpur-Gajmalpur), stagnation in four villages (Bhatian, Sanoli, Kalinjar and Gati) and decline in one village (Saran).

However, in contrast to variation in literacy percentage, the number of literates has increased in all the villages during a period of five years. It is the faster increase in the population which obviously depresses the literacy rate. A close scrutiny of the data

relating to individual villages (see Table 2) also shows that the number of literates among females has remained by and large stagnant. This further contributes to keeping the literacy percentages low.

Changes in literacy in different caste groups can be seen from Tables 3 and 4. Considering all the villages together, the percentage of literates has shown some increase only among two caste-groups, viz, 'cultivating castes' and 'backward and scheduled castes'. In the remaining caste and community groups, viz, 'Brahmins and other high caste Hindus', 'artisan castes' and Christians, the percentage of literates has registered a decline. Viewing the villages separately, it is seen that the percentage of literates has increased: among the backward and scheduled castes in seven out of nine villages; among cultivating castes in four villages; among artisan castes in two villages; among Brahmins and other high caste Hindus in two villages; and finally, among Christians in only one village. In the remaining villages the percentage of literates for all the caste groups has either remained unchanged or declined.

In spite of the differential rates of change in literacy in various caste groups one notices that the number of literates has increased in all the caste groups. Thus, the decline in percentage of literates among certain caste groups has been caused by a relatively greater increase of population in these groups. The contribution of each caste group to the total literates in the villages at both the points of study are presented in Table 5. It can be seen that taking all the villages together, while the cultivating castes were at the top of the literacy ladder, the backward and scheduled castes improved their relative position while Brahmins and other high castes Hindus showed a certain decline from their previous position. Considering individual villages: the relative position of Brahmins and other high caste Hindus

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¹ A list of the selected villages along with details of their economic and social characteristics and the period of their first-point survey and resurvey has been given in the Appendix.

declined in six villages and improved in one village; that of cultivating castes had improved in six villages and declined in three villages; and that of backward and scheduled castes had improved in seven villages and declined in two villages. It can be seen that the shifts in relative positions were most significantly in favour of backward and scheduled castes.

III

Literacy among Age-Groups

A crucial indicator of change is the proportion of literates in different age groups, especially the age group 5-14 (see Table 6). It can be seen that in the age group 5-14, the overall literacy rate has increased for all villages except Saran, Sanoli and Gati. In villages Saran and Gati the percentage of literates has declined for both males and females in the age group 5-14. In the case of Sanoli, though the male literacy rate has gone up slightly, the female literacy rate has remained nil and as a result the overall literacy rate has remained stagnant.

It is noteworthy that the male literacy rate in the 5-14 age group has increased in six villages. The female literacy rate has increased in only three villages, while it has declined in four villages and remained unchanged in the remaining villages.

A more sensitive index of educational progress is the change in the number of school-going children between the two points of time. The figures in Table 7 give the number of children in the village going to school both inside or outside the village. Data relating to school-going children have been collected at the household level and not from enrolment in school registers. It can be seen that the percentage of school going children in the 5-14 age group has declined in four villages, viz, Saran, Bahutwas, Rattakhera and Ratol Rohi. In three of these four villages in Punjab, the decline in percentage of school-going children has occurred for both males and females. It is, however, significant that the number of school-going children increased in all the villages except Bahutwas; the number of school-going male children has gone up in all the villages except Bahutwas; and the number of school-going female children has gone up in four villages while it has declined in the remaining five villages. Thus, in this case also, greater increase in the number of children in the school-going age-group has resulted in a decline in the percentage of school-going children in

some villages at the second point of time.

Castewise distribution of school-going children at the two points of time (Table 8) shows certain interesting features. It is worthy of note that for all the nine villages together, in spite of an increase in the number of school-going children from 421 to 500, the percentage of school going children had by and large remained unchanged at about 30 per cent. Further, it is seen that in the nine villages as a whole: the percentage of school going population had increased among Brahmins and high caste

Hindus, among Christians and among backward and scheduled castes; it had declined in all the remaining caste and community groups.

IV

Level of Education among Caste-Groups

The distribution of educated persons according to their level of education and caste or community status is presented in Table 9. It can be seen that considering all villages together, the number of persons educated upto the primary level had increased from 217 to 284, upto the middle level from

Table 1: Percentage of Literates in Selected Villages

Villages	Males		Females		Total	
	I Pt	II Pt	I Pt	II Pt	I Pt	II P
Punjab						
(1) Saran	42.6	39.7	1.2	1.0	22.9	21.6
(2) Bahautwas	44.3	51.7	10.8	10.3	26.7	29.9
(3) Bhatian	37.6	39.0	15.6	16.6	27.3	28.0
(4) Ratta Khera	37.9	44.0	18.1	20.2	28.6	33.6
(5) Ratol Rohi	27.2	31.0	3.3	10.1	15.6	21.1
Uttar Pradesh						
(6) Sanoli	14.9	17.9	0.0	0.0	8.9	10.4
(7) Mohammedpur Gazamalpur	41.0	47.4	7.7	8.3	26.1	29.6
(8) Kalinjar	35.9	39.0	4.8	6.0	20.9	22.7
(9) Gati	29.4	30.8	6.4	4.5	17.9	18.2

Note: A literate person has been defined as one who can read and write. The percentages presented in the table are computed for the population of age-group of 5 and above.

Table 2: Population and Number of Literates in Selected Villages

Villages	Males		Females		Total	
	Popula- tion	No of Literates	Popula- tion	No of Literates	Popula- tion	No of Literates
Punjab						
(1) Saran	1st point	277	118	251	3	528
	2nd point	355	141	313	3	668
(2) Bahautwas	1st point	291	129	324	35	615
	2nd point	321	166	359	37	680
(3) Bhatian	1st point	210	79	186	29	396
	2nd point	231	90	223	37	454
(4) Ratta Khera	1st point	174	66	155	28	329
	2nd point	216	95	168	34	384
(5) Ratol Rohi	1st point	224	61	212	7	436
	2nd point	242	75	218	22	460
Uttar Pradesh						
(6) Sanoli	1st point	281	42	189	0	470
	2nd point	291	52	210	0	501
(7) Mohammadpur Gazamalpur	1st point	210	86	169	13	379
	2nd point	306	145	254	21	560
(8) Kalinjar	1st point	337	121	313	15	650
	2nd point	341	133	334	20	675
(9) Gati	1st point	252	74	250	16	502
	2nd point	289	89	267	12	556

18 to 28, and upto university level from 4 to 13. The number of persons educated upto intermediate level was unchanged. Thus, there was progress only at the primary, middle and university levels of education during the intervening years.

The number of persons educated upto the primary level had increased in seven villages, upto the middle level in six villages, upto the matric level in five villages and upto the intermediate level in only two villages. The number of graduates and professional degree holders had increased in only two villages. It is evident from Table 9 that progress at all other levels except the primary and middle level in most of the villages has been by and large not very significant.

Considering the caste-wise distribution at different levels of education it can be seen that at the primary level,

caste groups showing marked progress were "cultivating castes" and "backward and scheduled castes"; at the middle level "Brahmins and other high caste Hindus," "cultivating castes" and "backward and scheduled castes"; at the matriculation level "cultivating castes" and "backward and scheduled castes"; and finally, the number of graduates and professional degree holders had shown some increase only among "cultivating castes."

V

Changes among Different Size-Groups of Operated Land Holdings

It can be seen from Tables 10 and 11 that the number of literates and educated persons had increased in all the size groups of operated land holdings. Considering the percentage of literates and of the educated to

the total population it is noteworthy that the percentage increase was by and large greater in the higher size-groups than in the lower size-groups. It is also noteworthy that the proportion of educated to the literates registered a greater increase than that of educated to the total population in most of the size groups.

It may also be noted that at both the points of time, the percentage of literates and the educated to the total population, steadily increased with an increase in the size of the operated land holding. However, the percentage of educated to the total number of literates, appears to be generally high irrespective of the size of the operated land holding.

Considering the changes in the number and percentage of school-going population according to land-size groups it can be seen that: the number

Table 3: Number of Literates and Educated and Total Population in Different Caste-Groups

Villages		Caste Groups												All Castes	
		Brahmins and Other High Castes		Cultivating Castes		Artisan Castes		Backward & Scheduled Castes		Muslims		Christians			
		I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
Saran	Literates	55	63	34	42	8	10	24	29	...	...	...	...	121	144
	Educated	33	51	20	32	4	3	13	21	...	...	...	...	70	107
	Total	176	229	191	235	34	41	127	163	...	...	...	...	528	668
Bahautwas	Literates	33	33	118	152	...	1	13	17	...	...	...	...	164	203
	Educated	29	29	90	134	...	1	9	15	...	...	...	...	128	179
	Total	57	62	459	520	11	14	88	84	...	...	...	...	615	680
Bhatian	Literates	25	14	49	66	2	1	32	46	...	...	...	...	108	127
	Educated	14	12	37	60	...	1	12	40	...	...	...	...	63	113
	Total	34	22	80	114	9	10	273	308	...	...	...	...	396	454
Ratta Khera	Literates	21	33	51	53	2	4	18	33	...	...	2	6	94	129
	Educated	18	31	39	48	2	4	12	27	...	...	1	5	72	115
	Total	48	60	99	97	5	6	171	206	...	...	6	15	329	384
Ratol Rohi	Literates	...	2	54	82	6	4	8	9	...	...	...	...	68	97
	Educated	...	...	39	47	1	2	4	3	...	...	...	...	44	52
	Total	2	8	294	303	17	17	123	132	...	...	...	...	436	460
Sanoli	Literates	5	4	17	18	3	4	17	26	...	...	...	...	42	52
	Educated	3	1	5	12	3	2	11	13	...	...	...	...	22	28
	Total	30	24	247	275	35	52	151	142	7	8	...	...	470	501
Mohammadpur Gazamalpur	Literates	...	...	3	2	...	...	94	164	...	...	2	...	99	166
	Educated	...	...	1	...	...	...	80	98	...	...	2	...	83	98
	Total	...	...	25	28	...	...	351	532	...	...	3	...	379	560
Kalinjar	Literates	63	65	64	79	1	...	8	9	...	...	...	...	136	153
	Educated	56	60	59	76	1	...	8	9	...	...	...	...	124	145
	Total	152	142	424	452	5	6	69	75	...	...	...	...	650	675
Gati	Literates	55	56	3	4	5	7	27	34	...	...	...	...	90	101
	Educated	36	49	2	4	2	6	17	28	...	...	...	...	57	87
	Total	155	156	25	24	26	29	296	347	...	...	...	...	502	556
All villages	Literates	257	270	393	498	27	31	241	367	...	...	4	6	922	1172
	Educated	189	233	292	413	13	19	166	254	...	...	3	5	663	924
	Total	654	703	1844	2048	142	175	1649	1989	7	8	9	15	4305	4938

Table 4: Percentage of Literates to the Total in Different Caste-groups

Villages	Brahmins and Other High Castes		Cultivating Castes		Artisan Castes		Backward & Scheduled Castes		Muslims		Christians		All Castes	
	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
Saran	31.1	27.5	17.7	17.9	23.5	24.4	18.9	17.8	...	...	...	...	22.9	21.6
Bahautwas	57.9	53.2	25.7	29.2	0.0	7.1	14.8	20.2	...	...	...	...	26.7	29.9
Bhatian	73.5	63.6	61.3	57.9	22.2	10.0	11.7	14.9	...	...	...	...	27.3	28.0
Ratta Khera	43.8	55.0	51.5	54.6	40.0	66.7	10.5	16.0	...	...	33.3	40.0	28.6	33.5
Ratol Rohi	0.0	25.0	18.4	27.1	35.3	23.5	6.5	6.8	...	...	...	...	15.6	21.1
Sanoli	16.7	16.7	6.9	6.5	8.8	7.7	11.3	18.3	0.0	0.0	...	...	8.9	10.4
Mohamadpur	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Gazamalpur	...	...	12.0	7.1	...	...	26.8	30.8	...	...	66.7	...	26.1	29.6
Kalinjar	41.4	45.8	15.1	17.5	20.0	0.0	11.6	12.0	...	...	...	...	20.9	22.7
Gati	35.5	35.9	12.0	16.7	19.2	24.1	9.1	9.8	...	...	...	...	17.9	18.2
Total,	39.3	38.4	21.3	24.3	19.0	17.7	14.6	18.5	0.0	0.0	44.4	40.0	21.4	23.7

Table 5: Percentage of Literates in Different Caste-Groups to the Total Number of Literates

Villages	Caste Groups													
	Brahmins and Other High Castes		Cultivating Castes		Artisan Castes		Backward and Scheduled Castes		Muslims		Christians		All Castes	
	I		II		III		IV		V		VI			
	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
(1) Saran	45.4	43.8	28.1	29.2	6.6	6.9	19.8	21.0	...	...	...	...	100.0	100.0
(2) Bahautwas	20.1	16.3	72.0	74.9	0.0	0.5	7.9	8.4	...	...	...	...	100.0	100.0
(3) Bhatian	23.1	11.0	45.4	52.0	1.9	0.8	29.6	36.2	...	...	...	...	100.0	100.0
(4) Ratta Khera	22.3	25.6	54.3	41.1	2.1	3.1	19.1	25.6	...	...	2.1	4.7	100.0	100.0
(5) Ratol Rohi	...	...	79.4	84.5	8.8	4.1	11.8	9.3	...	...	...	...	100.0	100.0
(6) Sanoli	11.9	7.7	40.5	34.6	7.1	7.7	40.5	50.0	0.0	0.0	...	...	100.0	100.0
(7) Mohammadpur	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Gazamalpur	...	...	3.0	1.2	...	...	94.9	98.8	...	...	...	...	100.0	100.0
(8) Kalinjar	46.3	42.5	47.1	51.6	...	...	5.9	5.9	...	...	...	...	100.0	100.0
(9) Gati	61.1	55.4	3.3	4.0	5.6	7.0	30.0	33.7	...	...	...	...	100.0	100.0
(10) All villages	27.9	23.0	42.6	42.5	2.9	2.6	26.1	31.3	0.0	0.0	0.4	0.5	100.0	100.0

Table 6: Changes in Percentages of Literates in Different Age-Groups

Villages		5-14			15-24			25-64			65 & over		
		Males	Fe- males	Total	Males	Fe males	Total	Males	Fe- males	Total	Males	Fe- males	Total
Punjab													
(1) Saran	1st pt.	52.9	1.3	28.5	46.7	1.9	25.4	35.0	0.9	18.5	20.0	0.0	11.8
	2nd ppt.	32.8	0.0	18.0	72.3	2.3	38.8	34.6	0.8	18.1	15.0	0.0	10.0
(2) Bahautwas	1st pt.	62.4	17.1	41.8	54.2	16.4	33.0	19.8	4.4	10.5	10.5	0.0	5.9
	2nd pt.	63.6	17.1	42.4	91.7	13.6	46.8	20.8	4.1	11.0	5.0	0.0	2.8
(3) Bhatian	1st pt.	31.3	12.9	22.5	40.0	28.3	38.9	34.8	11.3	24.4	50.0	0.0	29.4
	2nd pt.	46.1	23.3	34.0	46.8	25.6	36.7	31.8	7.0	19.5	25.0	0.0	17.9
(4) Katta Khera	1st pt.	47.7	36.2	42.9	29.4	3.3	17.2	34.3	12.3	22.9	25.0	20.0	23.1
	2nd pt.	54.4	36.1	47.1	46.2	17.4	35.5	32.0	10.3	29.0	33.3	0.0	22.2
Uttar Pradesh													
(6) Sanoli	1st pt.	21.6	0.0	11.7	26.6	0.0	16.8	6.9	0.0	4.3	0.0	0.0	0.0
	2nd pt.	22.6	0.0	11.8	28.4	0.0	15.2	12.0	0.1	7.4	10.0	0.0	7.4
(7) Mohammadpur	1st pt.	42.6	18.6	32.0	55.3	5.7	34.1	36.4	3.5	21.2	10.0	0.0	6.3
	2nd pt.	55.3	16.2	38.9	49.4	8.8	33.3	41.4	3.6	24.1	0.0	0.0	0.0
(8) Kalinjar	1st pt.	50.9	7.6	32.8	48.5	3.7	24.2	21.3	4.1	12.8	0.0	0.0	0.0
	2nd pt.	54.1	11.0	35.6	60.6	3.8	29.5	22.5	5.2	13.8	0.0	0.0	0.0
(9) Gati	1st pt.	37.6	7.6	22.0	45.6	9.4	26.3	17.5	3.1	19.0	14.3	12.5	13.3
	2nd pt.	32.0	5.4	19.2	58.2	9.3	36.7	20.0	2.5	11.3	0.0	0.0	0.0

78 to 115, upto the matric level from of school-going children has increased in all the size groups (except 20-50 acres size group); the percentage increase in the school-going population is not very marked in any of the size groups; the percentage of school-going children to total population in the group steadily increases with an increase in the size of operated land holding at both the points of time.

VI

Size of Land-Holding as a Factor

The distribution of educated persons according to their level of education in different caste and land-size groups in all the nine villages is presented in Table 12. It can be seen that the lower land-size groups were significantly represented among the beneficiaries of primary education at both the points and particularly at the second point of study; in respect of education beyond the primary level, size of holding appears to be an important factor determining the number of recipients. Size of holding appears to be particularly significant in respect of the graduate and post-graduate levels of education.

The changes in the number of recipients of different types of education according to size-groups of operated land holding within each of the important caste-groups has been presented in Table 12. It is important to clarify that the category of non-cultivators is an omnibus category, including those who derive their income primarily from sources other than cultivation and belonging to a wide range of income levels. This is one of the reasons why quite important increases in the number of recipients of different types of education have occurred among the group of non-cultivators. It can be seen from the table that there were significant differences among the group of 'Brahmins and other high caste Hindus' in respect of changes in the number of recipients of different types of education and these changes were, to a certain extent, associated with the intra-group economic differences as denoted by the size distribution of operated land holdings. The same trend is observed in the case of two other caste groups viz, 'the cultivating castes' and the 'backward and scheduled castes'.

In a nutshell, there were important intra-group variations within each of the important caste-groups in respect of educational progress and these variations were to some extent linked with economic differences as denoted by size

of land holding. Further, the economic differences appear to gain in importance in higher (ie, graduate and post-graduate) as compared to lower (ie, primary) levels of education.

VII

This paper has been devoted mainly to an analysis of changes in the pattern of literacy and education at two points of time. A more crucial aspect of the study viz, the analysis of causes responsible for these changes, has not been attempted here because of the lack of adequate qualitative data in these village surveys.

It may be pointed out, however, that seven out of the nine villages had primary schools at both the points of time. Villages Sanoli and Mohammadpur-Gajmalpur, however, had no primary schools within the village though facilities for primary education were available in close proximity of these villages. The facilities for education beyond the primary level were available in all cases outside these villages. Thus, the variations in educational performance of different villages were evidently not due to the absence of

facilities in the sense of existence of schools. To what extent these variations were due to other factors including differential rates of economic growth in these villages requires a deeper probe of the resurvey data. This aspect of the study has, therefore, been kept pending until the detailed tabulation of resurvey data.

Summary of Conclusions

To sum up, the data relating to changes in literacy in nine villages of Uttar Pradesh and Punjab show that:

- (1) The overall literacy rate has shown a certain increase during a period of five years in four villages, it shows stagnation in another four villages while it has declined in one village.
- (2) Important variations are discernible in the proportion of literates as between males and females. The increase in the proportion of literates is much more marked among males than among females. The literacy rate among males has increased in a larger number of villages than that among females.

Table 7: Number and Percentage of School-Going Population to Total Population

Villages		Male		Females		Total	
		I Pt	II Pt	I Pt	II Pt	I Pt	II p
Punjab							
(1) Saran	S P	49	61	1	4	50	65
	T P	87	134	78	111	165	245
	Percent	56.3	45.5	1.3	3.6	30.3	26.1
(2) Bahautwas	S P	97	90	21	17	118	107
	T P	133	140	111	117	244	257
	Percent	72.9	64.3	18.9	14.5	48.4	41.1
(3) Bhatian	S P	21	35	6	17	27	52
	T P	67	76	62	86	129	162
	Percent	31.3	46.1	9.7	19.8	20.9	32.1
(4) Ratta Khera	S P	43	47	17	19	60	66
	T P	65	90	47	61	112	151
	Percent	66.2	52.2	36.2	31.1	53.6	43.1
(5) Ratol Rohi	S P	29	30	15	9	44	39
	T P	59	67	64	69	123	136
	Percent	49.2	48.8	23.4	13.0	35.8	28.1
Uttar Pradesh							
(6) Sanoji	S P	7	11	...	...	7	11
	T P	74	62	63	57	137	119
	Percent	9.5	17.7	0.0	0.0	5.1	9.1
(7) Mohammedpur Gazmalpur	S P	20	46	5	8	25	54
	T P	54	94	43	68	97	162
	Percent	37.0	48.9	11.6	11.8	25.8	33.1
(8) Kalinjar	S P	46	55	5	5	51	60
	T P	110	109	79	82	189	191
	Percent	41.8	50.5	6.3	6.1	27.0	31.1
(9) Gati	S P	27	45	12	1	39	46
	T P	85	103	92	93	177	196
	Percent	31.8	43.7	13.0	1.1	22.0	23.1

S P : School going population
T P : Total population in the age group 5-14.
Percentage : Percentage of school going children in the age group 5-14.

Table 8: Number and Percentage of School-Going Children

Villages		Caste Groups													
		Brahmins and Other High Castes		Cultivating Castes		Artisan Scheduled Castes		Backward & Castes		Muslims		Christians		All Castes	
		I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
Saran	S P	18	31	18	21	4	2	10	11	...	...	...	...	50	65
	T P	49	86	65	80	12	18	19	61	...	...	...	...	165	245
	Percent	36.7	36.0	27.7	26.2	33.3	11.1	25.6	18.0	...	...	...	...	30.3	26.5
Bahautwas	S P	15	13	89	86	1	1	13	7	...	...	...	...	118	107
	T P	23	24	187	201	2	5	32	27	...	...	...	...	244	257
	Percent	65.2	54.2	47.6	42.8	50.0	20.0	40.6	25.9	...	...	...	...	48.4	41.6
Bhatian	S P	...	5	13	21	1	...	13	26	...	...	...	...	27	52
	T P	5	9	18	30	4	4	102	119	...	...	...	...	129	162
	Percent	0.0	55.6	72.2	70.0	52.0	0.0	12.7	21.8	...	...	...	...	20.9	32.1
Ratta Khera	S P	13	20	22	18	3	3	22	21	...	...	...	4	60	66
	T P	20	28	30	30	3	4	58	81	...	...	1	8	112	151
	Percent	65.0	71.4	73.3	60.0	100.0	75.0	37.9	25.9	...	...	0.0	50.0	53.6	43.7
Ratol Rohi	S P	...	...	37	30	1	1	6	8	...	...	...	...	44	39
	T P	...	...	82	89	1	4	40	43	...	...	...	...	123	136
	Percent	...	...	45.1	33.7	100.0	25.0	15.0	18.6	...	...	...	...	35.8	28.7
Sanoli	S P	...	1	5	3	...	...	2	7	...	...	...	...	7	11
	T P	9	5	67	62	12	11	47	38	2	3	...	...	137	119
	Percent	0.0	20.0	7.5	4.8	0.0	0.0	4.2	18.4	0.0	0.0	...	...	5.1	9.2
Mohammadpur	S P	...	...	...	...	...	...	25	54	...	...	...	...	25	54
Gazamalpur	T P	...	...	9	8	...	...	87	154	...	...	1	...	97	162
	Percent	...	...	0.0	0.0	...	...	28.7	35.1	...	...	0.0	...	25.8	33.3
Kalinjar	S P	17	20	30	36	1	...	3	4	...	...	...	...	51	60
	T P	44	37	129	132	1	3	15	19	...	...	...	...	189	191
	Per cent	38.6	54.1	23.3	27.3	100.0	0.0	20.0	21.1	..	...	...	...	27.0	30.1
Gati	S p	25	22	3	2	3	4	8	18	...	...	...	...	38	46
	T P	54	52	13	9	9	11	101	124	...	...	...	...	177	196
	Per cent	46.3	42.3	23.1	22.2	33.3	36.4	7.9	14.5	...	...	...	...	22.0	23.5
All villages	S P	88	112	217	217	14	11	102	156	...	...	...	4	421	500
	T P	204	241	60	641	44	60	521	666	2	3	2	8	1373	1619
	Per cent	43.1	46.5	36.2	33.9	31.8	18.3	19.6	23.4	0.0	0.0	0.0	50.0	30.7	30.9
	Per cent	0.0	20.0	7.5	4.8	0.0	0.0	4.2	18.4	0.0	0.0	...	...	5.1	9.2

S P—School going population
T P—Total population in the age-group 5-14
Per cent—Per cent of school going children in the age-group 5-14.

Table 9: Distribution of Educated Persons According to their Level of Education and Caste-Groups

Level of Education	Caste-Groups	Saran Bahaut- Bhatian Ratta Rotal Sanoli M. Gaza Kalin- Gati All Villages																			
		Saran		Bahaut- was		Bhatian		Ratta Khera		Rotal Rohi		Sanoli		M. Gaza malpur		Kalin- jar		Gati		All Villages	
		I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
Primary	I	10	14	10	5	5	2	12	10	...	...	3	1	...	...	10	15	22	18	72	65
	II	7	13	28	37	8	22	16	15	17	11	2	7	...	...	18	24	2	1	98	130
	III	1	...	...	...	1	...	1	1	1	...	...	...	...	...	...	...	2	2	4	6
	IV	6	9	3	7	4	14	...	6	1	...	2	6	16	32	1	1	8	8	41	3
	V	...	...	...	...	...	...	1	...	...	...	...	...	...	...	...	...	...	...	...	...
Middle	All groups	24	36	41	49	17	39	29	32	19	12	7	15	17	32	29	40	34	29	217	284
	I	8	12	9	9	4	4	...	2	...	...	...	...	...	...	4	3	1	4	26	34
	II	3	4	11	27	8	7	8	11	9	3	2	1	...	...	1	2	...	...	42	55
	III	...	1	...	...	...	...	...	...	...	...	1	1	...	...	...	...	...	...	1	2
	IV	...	2	1	3	2	1	...	3	...	...	1	...	3	12	...	1	2	1	9	23
Matric	All groups	11	19	21	39	14	12	8	17	9	3	4	2	3	12	5	6	3	5	78	115
	I	2	1	2	2	...	...	1	1	...	...	...	...	...	...	1	1	1	1	6	6
	II	...	...	3	3	1	5	3	4	2	...	...	...	...	...	...	...	...	...	9	14
	IV	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	2	8
	V	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1	...
Intermediate	All groups	2	1	5	5	1	6	4	5	2	...	...	...	1	...	...	...	...	...	1	...
	I	...	...	...	...	4	...	4	5	2	...	...	...	...	...	...	...	...	...	10	28
	II	...	...	...	...	2	2	2	3	...	...	...	...	...	...	...	...	...	...	4	5
	IV	...	...	...	...	1	...	...	...	...	...	...	...	...	...	...	...	...	...	2	3
	V	...	...	...	...	3	3	2	3	...	...	1	...	1	2	...	...	...	...	8	9
Graduate and other Professional Degrees	All groups	1	1	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1	1	3	12
	I	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1	1
	II	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	3	12

Caste Groups:
I Brahmin and other high caste Hindus.
II Cultivating castes.
III Artisan castes.
IV Backward and scheduled castes.
V Christians.

Table 10: Distribution of Literates and Educated According to Size-Groups of Operated Land Holding

	Nil		Less than 1 Acre		1-10 Acres		10-20 Acres		20-50 Acres		50 Acres and Above		Total	
	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt
Literates	244	378	133	149	289	349	119	156	110	106	27	34	922	1172
Educated	163	249	101	125	215	300	78	132	84	86	22	32	663	924
Total	1246	1694	780	774	1357	1520	515	625	371	276	36	49	4305	4938
Literates as per cent of total	19.6	22.3	17.1	19.3	21.3	23.0	23.1	25.0	29.6	38.4	75.0	69.4	21.4	23.7
Educated as per cent of total	13.1	14.7	12.9	16.1	15.8	19.7	15.1	21.1	22.6	31.2	61.1	65.3	15.4	18.7
Educated as per cent of literates	66.8	65.9	75.9	83.9	74.4	86.0	65.5	84.6	76.4	81.1	81.5	94.1	71.9	78.8

Table 11: Distribution of School-Going Children in Different Land-Size Groups—All Villages

Size of Operated Land-Holding	School-Going Children in the Age-Group 5-14		Total Children in the Age-Group 5-14		Percentage of School-Going Children	
	I pt	II pt	I pt	II pt	I pt	II pt
Nil	110	153	366	573	30.1	26.7
Less tha 1 acre	53	60	257	244	20.6	24.6
1-10 acres	131	160	439	501	29.8	31.9
10-20 acres	58	73	173	201	33.5	36.3
20-50 acres	61	41	129	85	47.3	48.2
50 acres and above	8	13	9	15	88.9	86.7
All	421	500	1373	1619	30.7	30.9

Table 12 : Distribution of Educated Persons According to Their Level of Education in Different Castes and Land-Size Groups

Level of Education	Caste Groups	Land Cultivated														Total
		Nil		Less than 1 acre		1-10 acres		10-20 acres		20-50 acres		50 acres and over				
		I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt	I pt	II pt			
Primary	I	21	13	10	5	26	25	9	16	6	4	...	2	72	6	
	II	9	12	8	15	37	49	12	24	27	23	5	7	98	13	
	III	2	4	...	1	2	...	...	1	...	...	...	...	4	...	
	IV	22	52	8	14	10	16	...	...	1	1	...	...	41	8	
	VI	2	...	...	...	...	...	...	...	...	...	...	2	...	...	
Middle	All Groups	56	81	26	35	75	90	21	41	34	28	5	9	217	28	
	I	7	12	5	5	9	5	4	9	1	3	...	...	26	3	
	II	...	5	2	4	13	18	7	14	15	9	5	5	42	5	
	III	...	1	...	...	...	1	1	...	...	...	...	...	1	...	
	IV	3	14	1	3	5	6	...	...	...	...	...	...	9	2	
Matric	VI	...	1	...	...	...	...	...	...	...	...	...	...	...	...	
	All Groups	10	33	8	12	27	30	12	23	16	12	5	5	78	11	
	I	2	3	2	...	1	1	1	2	...	...	...	...	6	...	
	II	1	1	...	1	1	4	2	2	2	2	3	4	9	1	
	IV	1	4	...	...	1	4	...	...	...	...	...	...	2	...	
Intermediate	VI	1	...	...	...	...	...	...	...	...	...	...	...	1	...	
	All Groups	5	8	2	1	3	9	3	4	2	2	3	4	18	2	
	I	1	...	...	...	...	...	1	1	...	...	...	...	2	...	
	II	...	...	...	...	...	1	...	...	1	1	3	3	4	...	
	IV	2	1	...	1	...	1	...	...	...	...	...	...	2	...	
Graduate and other professional degrees	° All groups	3	1	...	1	...	2	1	1	1	1	3	3	8	...	
	I	...	...	...	...	1	...	...	1	...	...	...	...	1	...	
	II	...	3	...	...	...	2	...	1	...	4	3	2	3	...	
	All Groups	...	3	...	...	1	2	...	2	...	4	3	2	4	...	

“Indian Economic Growth: Performance and Prospects”

Some Comments

Ashok Rudra

- (3) The number of male literates has increased in all the villages while the number of female literates has increased in six villages. The number of all literates, both males and females, has increased in all the villages. It is the greater increases in population whether due to natural factors or immigration which is responsible for the lack of marked progress in literacy in the selected villages. The virtual stagnation in female literacy has also contributed to keeping the literacy percentages low.

(4) Considering all the villages together, the percentage of literates has shown a certain increase only among the 'cultivating castes' and 'backward and scheduled castes'. This trend is broadly applicable to individual villages as well. The relative position of different castes in respect of their literacy
- status has shown significant shifts in favour of backward and scheduled castes.

(5) It is significant to note that the proportion of literates in the age-group 5-14 where one would expect the maximum increase to occur has increased in only six villages. The female literacy in this age group has increased in only three villages.

(6) The total number of school-going children has increased in eight out of the nine villages. Still the proportion of school going children in the age group 5-14 has increased only in five villages and declined in the remaining villages. This decline is caused because of the relatively greater increase in the population of this age-group.

(7) Considering the percentage of literates and of the educated to the total population according to size-groups of operated land holding in all the nine villages,
- it is noteworthy that the percentage increase is by and large greater in the higher size-groups than in the lower size-groups.

(8) The important beneficiaries of education during the period upto the level of intermediate education are Brahmins and other high castes Hindus, cultivating castes, and backward and scheduled castes; education beyond the intermediate level is concentrated only among the 'cultivating castes' and that too in only two of the nine villages under study.

(9) Finally, there are important intra-group variations within each of the important caste groups in respect of educational progress and these variations were to some extent linked with economic differences as denoted by size-groups of land holdings. Further, the economic differences appear to gain in importance in higher as compared to lower levels of education.

Appendix

Economic Characteristics of the Villages included in the Study

Village	District	Economic Characteristics	Years of Survey & Resurvey	Nature and Existence of Schools	
				1st point	2nd point
I	II	III	IV	V	
Saran	Gurgaon, Punjab	Impact of Faridabad	1955-56	Basic Primary School	Basic Primary school
Bahautwas	Gurgaon, Punjab	Township Non-agricultural occupation and mixed farming	1960-61 1955-56 1960-61	Basic Primary school	Basic Primary schoo
Bhatian	Ludhiana, Punjab	Impact of rural electrification	1956-57 1961-62	Primary School	Primary School
Ratta Khera	Ferozpur, Punjab	Tractor Cultivation	1956-57 1961-62	(1) Middle School (2) Primary School	(1) Middle School (2) Primary School
Ratol Rohi	Ferozpur, Punjab	Impact of Canal Irrigation	1956-57 1961-62	Basic Primary School	Basic Primary School
Sanoli	Saharanpur, U P	Backward Agriculture in 'Khaddai' Area	1955-56 1960-61	No School	No School
Mohammedpur Gazmalpur	Agra, U P	Impact of Bangle making industry at Ferozabad	1956-57 1961-62	No School	No School
Kalinjar	Agra, U P	Soil Conservation	1956-57 1961-62	Primary School	Primary School
Gati	Etawah, U P	Goat Breeding	1956-57 1961-62	Primary School	Primary School

I AM sure K N Raj would not have published and publicised his two Nalanda lectures if he was expecting a wide common agreement on all the points he makes. I am presenting below some points which appear to call for further clarification and discussion. I am deliberately refraining from engaging myself either in writing a full critique of Raj's thesis or presenting an alternative thesis.

(1) On page 17, Raj writes "Growth of national income at a compound rate of 7 per cent per annum (and perhaps a little more) is *therefore* within our reach in the next few years provided we are prepared to make that *minimum of additional effort* now required" (italics mine). As I understand it, the statement makes two points. The first is that a 7 per cent rate of growth has got some particular crucial significance for the economy as of now; and the second is that this rate of growth is "within our reach". In order to support my contention that Raj does attach some particular significance to the 7 per cent rate, let me also quote the following two sentences from pages 9 and 13:

"On these general considerations, it is fairly clear that a rate of growth of around 5 per cent per annum in agriculture is the *minimum* that needs to be achieved in the coming years" (italics mine).

"Failure to achieve the higher rate now required can be fatal in its consequences" (italics mine).

It may be mentioned here that a 5 per cent rate of growth of agriculture is considered by Raj as concomitant to a 7 per cent rate of growth of income.

(a) I have no quarrel with the arithmetic and the subsidiary assumptions that establish that a 5 per cent rate of growth of agriculture and a 10 per cent rate of growth of industry results in a 7 per cent rate of growth of income. But, then, various alternative combinations are possible. One can equally correctly say that a 7 per cent rate of growth of agriculture together with a

12 per cent rate of growth of industry would lead to an income growth of around 8.5 per cent; or that a 4 per cent rate of growth of agriculture and a 8.5 per cent rate of growth of industry would lead to an income growth of about 6 per cent. Raj selects the combination of 5 per cent for agriculture and 7 per cent for income and repeatedly refers to them as the minimum required, but never explains 'minimum' in what sense. Nor does he argue anywhere that this combination is an optimal combination in any sense. However, a hint is available as to the possible explanation for his choice in the following statement on page 20: "if the rate of growth of agriculture is stepped up to around 5 per cent per annum, about one quarter of the higher rate of growth of national income is saved, and at the same time the present trend of rising export earnings is maintained, it should be possible without much strain on the economy to dispense altogether with net inflows of foreign savings within the next decade". If the combination of 5 per cent for agriculture and 7 per cent for income is considered the *minimum* required from the point of view of the objective of making the economy self-sustaining within a decade, one cannot very well accept the contention in the very general way in which it is made. The argument has to be presented in terms of a model with realistic and plausible values for the parameters, especially considering that it involves specific magnitudes: the rate of growth for agriculture, the marginal rate of saving and the time horizon.

(b) When Raj says "therefore within our reach" and "that minimum of additional effort" what does he mean? One would think that he has described in detail the minimum effort necessary to raise the rate of growth of agriculture from 3 per cent to 5 per cent, for he talks of "*that* minimum effort" (italics mine). But he has not done anything of the sort. It is true that he has discussed the phenomena of shortfall in production and shortage in market supply of agricultural products in some detail. One may perhaps agree with

him that the recent fall in agricultural production and in the market supply of agricultural products could be explained partly by price fluctuations that were either uncontrolled or even aggravated by incorrectly-timed releases of imported grains; also, that the present state of tenurial relations between cultivators and land owners do not provide sufficient incentive to farmers for the use of expensive inputs. However, these general comments do not amount to any specific diagnosis nor to any recommendation of concrete measures to be adopted. When Raj writes "What is necessary now is... a precise determination of certain specific measures required to accelerate agricultural development" (page 12) or "if, however, increased supply of the required inputs for agriculture is combined with a minimum number of measures on the institutional side to improve the responsiveness of producers, there is no reason why a higher rate of growth in agriculture of the order required cannot be achieved within a very short period" (page 13), he is neither diagnosing nor prescribing but only indulging in tautologies. It may be noted that Raj himself does not fail to remark that the 3 per cent rate of growth in agriculture recorded up till now has largely "come from extension of area and only a small proportion from increase in yields" (page 11); and that "since the scope for extending cultivated area is limited agricultural production can continue to grow rapidly only if yields per acre can be steadily increased..." (page 11). He also argues that "the rates already realised do not compare unfavourably with rates recorded in other countries placed in broadly comparable situations". All this would justify the expectation that the rate would *fall* rather than that it would rise. When Raj talks about *doubling* the average rate of growth of income—from 3.5 per cent to 7 per cent—does he not take any account of his own cautious statement: "It is, therefore, possible to claim with some confidence that the economy is continuing to grow at an average rate

of no less than 3½ per cent per annum" (page 2)? Will tautologies achieve this feat of doubling?

(c) I seek a clarification of the main burden of Raj's argument about the effect price fluctuations might have had on production and supply. He seems to find both price rise and price fall to be factors contributing to short supply. On the one hand he writes "the large scale releases of imported foodgrains in the years of bumper harvests kept their prices at a low level relatively to the prices of manufactured products and created the impression that the Government had no interest in maintaining a structure of relative prices which would give incentive (or at least not create disincentive) for raising foodgrain production" (page 4). On the other hand, he argues "A sharp improvement in the terms of trade, as has been witnessed in the case of wheat in the course of the last year, could have thus brought about a significant reduction in the amounts marketed". There is an apparent contradiction between the two statements. Is Raj assuming an upward sloping curve for production and a downward sloping curve for market supply? If the elasticity of demand for foodgrains with respect to income of agricultural producers and the elasticity with respect to price for non-agricultural consumers are suitably chosen, increase in price, increased production, increased self-consumption and increased market supply may be shown as consistent. But why should in the first instance the farmer increase output in response to price rise if he is going to sell less? It may be mentioned that Raj is not thinking here of the shortage in market supply due to holding back of stocks to which he devotes another paragraph.

(2) While discussing the effects of price instability on changes in production and supply of agricultural products, Raj speaks extensively about the terms of trade between agriculture and industry. One of the strong recommendations he makes is not to allow "a situation to develop in which the terms of trade turn sharply against foodgrain producers" (page 8). In particular he recommends that it is "necessary to ensure that the index number of prices of rice and wheat are not allowed to fall below 125 if possible and 120 under any circumstances" (page 7). Earlier he writes "The rise in price of rice since 1962-63 has been really only of the order required to correct the turn in terms of trade in favour of

manufactured products between 1958-59 and 1962-63".

It appears to me surprising that one should discuss the levels at which to fix agricultural prices only in terms of the so-called terms of trade, especially when the latter are to be measured in terms of the ratio of the index numbers of agricultural prices and industrial prices. One would have thought that there was a welfare aspect to the question. Agricultural prices largely represent prices of wage goods, whereas most manufactured products do not enter the wage basket nor are they by and large such intermediate and capital goods as would interest agricultural producers. Thus, it cannot even be said that the ratio of these two index numbers in any sense measures the relative purchasing powers of consumers depending on agriculture and industry respectively. It would appear from Raj's argument that whenever there is a rise in the price of manufactured goods, he would recommend a matching rise in that of agricultural products so as to "correct" the terms of trade back to those prevailing during some arbitrarily fixed base year. He does not anywhere bring in the index number of consumer prices. Is the fact that this latter index rose from 96 in 1955 to 170 in October 1964 not to be taken into account in any way in discussing the problem of price stabilisation?

(3) Raj deliberately underplays the importance of the shortfall of foodgrain production as a factor giving rise to the phenomenal price rise of last year. He writes "If therefore the imports of foodgrains into the country had been used to build up stocks in the years of good harvest and supplement domestic production in the bad years, there would have been no reduction in the per capita availability of foodgrains for consumption during this period" (page 4). Probably true; but to prevent a price rise surely it was not enough that per capita availability was not diminished: it required to be increased, considering that per capita income has been constantly going up. The income elasticity of demand for foodgrains is not as low as it used to be thought at one time. It is definitely higher than 0.5. If one bases oneself on cross-section data the figure comes out nearabout 0.7. It is higher, around 0.9, when one bases calculations on time-series data which is the more appropriate thing to do.

(4) Raj emphasises at a number of

places the fact that the official series of national income in India underestimates the growth of the small scale industries sector. I am in agreement with his hunch. However, I would like to make two comments on the way he uses this possibility in his argument.

(a) He writes a page 2: "When allowance is made for such under-estimation the gap between the planned and the actual rate of growth of national income during this period may be found to be negligible". This argument cannot be accepted. For the planned rates of growth emerge from calculations which are made within the very framework of national accounting which is alleged to involve an under-estimation of the rate of growth of small scale industries. If the national income series is to be corrected for this under-estimation before interpreting it as reflecting the rates of growth actually realised, they may be compared with the plan target rates only after the latter are also similarly revised upwards.

(b) Raj does not take into account this under-estimation in the growth of national income when discussing the probable increase in the rate of saving. As the estimate of saving is arrived at indirectly from the estimate of capital formation, it follows that if the rate of growth of income is under-estimated in the official series, the rise in the rate of saving would be over-estimated if the uncorrected series is used in the denominator, as it is by Raj.

(5) Talking of price rise during the period under review, Raj writes: "Wholesale prices in 1960-61 were only about 12 per cent higher than in 1951-52 and about 25 per cent higher than in 1952-53. (The price level remained at around the 1960-61 level till 1963-64)" (page 19). The part of the statement within brackets seems to be factually wrong; the remaining part of it also loses much of its force when one examines the paths actually followed by prices instead of comparing two end-points. We present in the table on the following page the series of index numbers for wholesale prices (general index: new series) and consumer prices (all-India: general). The consumer price index number is obviously the more relevant for the present purpose.

It is strange that Raj should show so little concern with the rise in the cost of living. On page 7 he writes "... the fixed and low income groups in

the urban sector (together with landless agricultural labour in the rural sector) have perhaps had to bear in real terms almost the whole of the additional burden imposed by defence. To give these sections of the population some relief at the earliest opportunity is likely to be politically tempting...". Raj is vehemently against the government yielding to the temptation. But can there not be anything other than political expediency to justify giving relief to consumers?

Year	Wholesale price Index (Base: '52-53=100)	Consumer price Index (Base: '49=100)
1951	125.0	105
1952	102.3	103
1953	104.1	106
1954	99.6	101
1955	91.5	96
1956	102.7	105
1957	108.7	111
1958	111.0	116
1959	115.5	121
1960	122.9	124
1961	125.8	126
1962	127.2	130
1963	132.5	134
1964 (January)	136.3	140
1964 (October)	157.9	170

Source: Monthly Abstract of Statistics, C S O.

(6) Discussing the marginal rate of saving achieved during the decade 1951-52 to 1960-61, Raj writes: "It is not the level of average per capita income which governs the rate of saving so much as the pattern of distribution of income, and this latter is indeed very favourable to a high marginal rate of saving in India", for, as he has observed immediately before, "Income distribution in India is perhaps more skewed than in many other countries".

To the extent that the pattern of income distribution determines the rate of saving, the rate of marginal saving would reflect the distribution of incremental income. Raj has earlier demonstrated that the marginal rate of saving during the period of planning has been much higher than, almost double, the highest average rate reached during the period. The obvious conclusion to draw is that the incremental income has been distributed more unequally than the average income, which implies a change in the income distribution towards greater inequality. This is also one important aspect of the "performance and prospects" of the Indian economy.

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Foodgrains Shortage will Continue in the Fourth Plan

M J K Thavaraj
A Vasudevan

Excess of demand for foodgrains over supply will continue as the dominant characteristic of the Indian economy at least till 1970-71. But the gap between demand and supply may not be very wide if an average annual rate of growth of 5 per cent in agricultural output is achieved during the Fourth Plan period.

The implications of excess demand for foodgrains, nevertheless, have to be carefully examined and the necessary institutional arrangements made in the interests of economic growth and price stability.

MODERN economic analysis regards excess demands as the basic factor causing inflation. This is largely indicated in developing economies where the attempted rate of investment is substantially higher than the voluntary or mobilised rate of saving. Part of the investment may be financed through external borrowing; but the uncovered gap is often bridged through created money. The possible adverse effects of increased money supply arising thereby may partially be neutralised by hoarding or monetarisation of the barter-based pockets in the economy. The utilisation of idle capacity that might exist in directly productive sectors or the shortening of the average frutition lag of investment programme may also partially offset the net increase in the aggregate demand generated through deficit financing. Despite all these, if supply falls short of demand, there will develop an inflationary pressure. This has been recognised by the monetary authorities of the country, the Reserve Bank of India, when they maintain in their Report of Currency and Finance for the year 1963-64 that the recent rise in prices in India is "basically the outcome of the widening gap between aggregate demand and supply (p 1). The same phenomenon is also more cogently analysed by K N Raj.¹ Though excess demand appears to be the overall feature of the current economic situation in India, nowhere else is it as acute as in the case of food-grains. We have already analysed the current demand for and supply of foodgrains and their projected trends for the rest of the Third Plan period have already appeared in these columns earlier.² The present exercise is to extend the analysis to the Fourth Plan period. These estimates may be related to the entire economy as well as to the urban population which is likely to expand more rapidly as compared with the

rest of the economy.

Agricultural productivity, in general, is influenced by a large number of factors such as the area of cultivable land, cropping patterns, ownership structure, market environment, organisation and management of land, irrigation facilities as well as the use of fertilisers, seed, and manures and improved implements. It may be mentioned that in older agrarian communities with a given ownership structure the growth of agricultural output would largely be a function of the application of intensive methods of cultivation.³ In the earlier stages, the available irrigation potential might be tapped to the best advantage. But when the scope for further extension of irrigation becomes narrow or costlier increased reliance may have to be placed on bringing more areas under better seed improved implements, chemical fertilizers, pesticides, etc. It should however, be recognised that even the best methods of intensive cultivation may flounder against badly conceived and implemented institutional arrangements.⁴ Even where peasant farming provides the basis of agricultural organisation suitable market environment in the form of incentive prices, appropriate marketing and credit facilities may have to be made more effective as stimulants to agricultural production.⁵ For, there is very little evidence to support the theory of the backward sloping supply curve in agriculture.⁶ At best it may be maintained that where the bulk of the peasants live below the margin of subsistence, any increase in food production may result in increased farm consumption rather than in enlarged surplus. But insofar as the middle and rich peasants account for the bulk of the food production as well as the marketed surplus an appropriate market environment may be expected to have a favourable impact on agricultural output as well as on the marketable surplus. The

opening up of the country through a widespread network of transport and communication and the glimpses of urban life as seen through the mass media of communication such as films seem to induce the farmers to market a larger proportion of a given output in order to enjoy some of the comforts of urban life⁷.

It is true that all that is marketed by the farmers does not enter the urban market. This may be designated, for our own convenience, as gross marketed surplus. A part of what is marketed immediately after harvest may be bought back by the farmers themselves at later stages at higher prices in order to provide for their requirements of seed or consumption. A part of the surplus may be consumed by the non-agricultural rural population.⁸ When these are deducted from the gross marketed surplus the remainder, which may be called the net marketed surplus, is made available for consumption to the urban sector (or for export, beyond the level of self-sufficiency). In India, however, the net marketed surplus along with the net depletion of inventories and net imports constitute the effective supply of food-grains in the urban market.

There is no precise or upto-date estimate of either gross or net marketed surplus covering the entire economy. Attempts were made by official agencies to collect figures of net marketed surplus for wheat and rice in a few States in 1955-56 and 1956-57 respectively. They seem to be the latest attempts made. The Average of net marketed surplus of rice in 10 states in 1956-57 was about 31.4 per cent of the total rice output. In 1955-56 the average of net marketed surplus of wheat in 5 States constituted about 32.7 per cent of the total production.⁹ The official estimates seem to include the 'buy back' of the cultivators. Neverthe-

THE ECONOMIC WEEKLY

less, these ratios would provide a rough measure of the net marketed surplus in the Indian economy.

Project Demand

With these clarifications about the concept of marketed surplus we may now proceed to examine the supply position of foodgrains at present vis-a-vis the demand. We may also project the demand for food-grains upto the end of the Fourth Five Year Plan, i.e. 1970-71. Applying different rates of growth to food output we may estimate the quantum of food production, that is likely to be realised by 1970-71. We may also project the net marketed surplus that may be required by the end of the Fourth Five Year Plan. It is hoped that these projections would throw some light on the excess demand phenomenon noticeable in foodgrains.

The total food-grains production was about 81 million tonnes (1 tonne = 1 metric ton = about 2204 lbs) during 1960-61. About 10 million tonnes of this (i.e., 12.5 per cent of total production) are treated as retention by the farmers for use as seeds, live-stock feeds, waste etc. Two-thirds of the remaining 71 million tonnes are said to have been consumed in the rural sector. Applying the officially estimated ratio mentioned earlier, we would get the figure of 24 million tonnes as net marketed surplus. On a *per capita* basis, however, the amount consumed in the rural sector could be regarded as an irreducible minimum. But in view of the fact that 5 to 10 per cent of the farmers account for 60 per cent of the net marketed surplus, any increase in the output of these big farms may be expected to bring about a more than proportionate increase in the net marketed surplus, their staying power remaining unchanged. For the same reasons, stagnated agricultural output in the face of growing population may bring about a less than proportionate reduction in the net marketed surplus though in this process it might cut into the per capita consumption of food-grains of the bulk of the small peasants and landless agricultural labour. In so far as the relative prices move against the agricultural sector the farmers may have to restrain their consumption further in order to buy a given or increased amount of urban goods required for their consumption or agricultural operation. Though analytically such marginal relationships between increments in output and increments in net marketed surplus as well as the impact of the varying terms of trade on the net marketed surplus are conceivable, no empirical quantifica-

tion is available for use in the projections about net marketed surplus. Hence we have to rely on per capita rural consumption at a constant or increasing level as the basis of estimating net marketed surplus.

The Third Five Year Plan document had made a projection that India would need 100 million tonnes of foodgrains by the end of 1965-66.¹⁰ This target might indicate the aggregate agricultural output required to attain self-sufficiency, a concept which has been employed in the body of the Third Plan document. It could also imply the 'production potential' of a given investment programme consistent with a minimum nutritional standard. A 'self-sufficiency' target normally may or may not allow for import of foodgrains. Besides, it might refer to the minimum required to maintain a given level of consumption through a rigorous system of rationing and control. However, the Plan documents seem to have set this target as a production potential with no net imports of foodgrains. But with the stagnant foodgrains output in the first three years of the Third Plan, the food-grains target seems to have been revised downward to 90 million tonnes in the recent documents of the Planning Commission.¹¹ Assuming that this target would be realised over the remaining years of the Third Plan it is likely that there will be an overall shortage of about 7 million tonnes covering the entire economy and a gap of the same order might arise between the net marketed surplus and the urban demand unless it is covered through imports.¹²

The recent Indian Census placed India's population around 439 million in 1961. It is believed that population is presently growing at 2.4 per cent per annum and that it might touch a figure of 492 million by 1965-66 and 555 million by 1970-71.¹³ If in view of the enlarged programme of industrialisation the urban population may be assumed to claim about 20 per cent

of the total population then the actual urban population might register an increase of about 33 million over the decade 1960-61 to 1970-71.

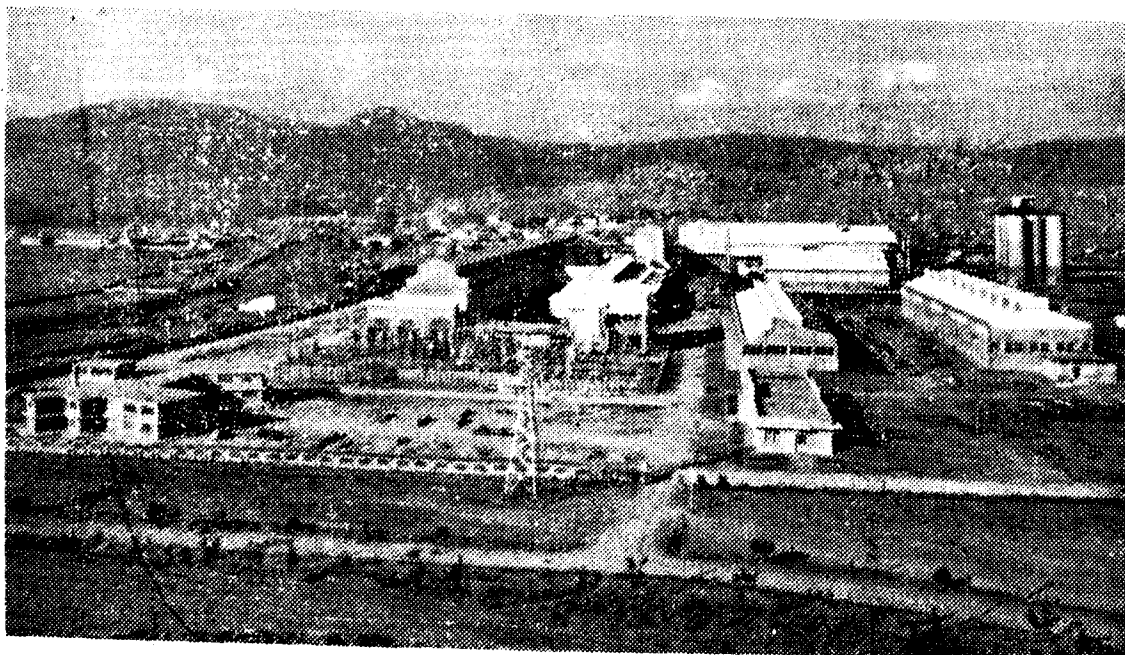
In order to reach the minimum nutritional standards for India's population, it is believed that 403 grams of cereals and 104 grams of pulses are required per head per day. But the actual availability at present is only about 375 grams of cereals and 65 grams of pulses.¹⁴ In accordance with these standards, the total amount of cereals and pulses needed over the period upto 1970-71 was estimated as in the table below:

These are net figures excluding the 12.5 per cent of the production of foodgrains that is currently used for seed, animal feed, wastage and manufacture of non-food products. The gross production to be aimed at would be 82.7 million tonnes of cereals and 21.4 million tonnes of pulses by the end of 1965-66; and 93.3 million tonnes and 24.1 million tonnes of pulses by the end of 1970-71 with the set nutritional standards. Assuming that about 30 per cent of the produce may be entering the urban market, the net marketed surplus should be around 31 million tonnes and 35 million tonnes in 1965-66 and 1970-71, respectively. These estimates, however, assume that food habits would gradually change from cereals and pulses in favour of fruits, vegetables, milk, meat etc.

The planned targets envisaged need not necessarily correspond to the estimates made on the basis of nutritional standards. Assuming that there will be 2.4 per cent population growth per annum and an increase of 66 rupees in per capita incomes, there will be a need for at least 13 percent increase in food over and above the level that would be obtained in 1965-66. This means that the demand requirement by the end of the Fourth Five Year Plan will be 110 million tonnes. This figure is arrived at on the assumption that there will be no

	Population (Millions)	Cereals Required (Million tonnes)	Pulses Required (Million tonnes)
1959-60 to 1961-62	438 (1961 census)	58.5	10.5
1965-66	492	72.4	18.7
1970-71	555	81.6	21.1

(Source: A plan for development of India's population by V G Panse, V N Amble and T I Abraham, *Indian Journal of Agricultural Economics*, Vol XIX, NO 5, April-June 1964, p 15).



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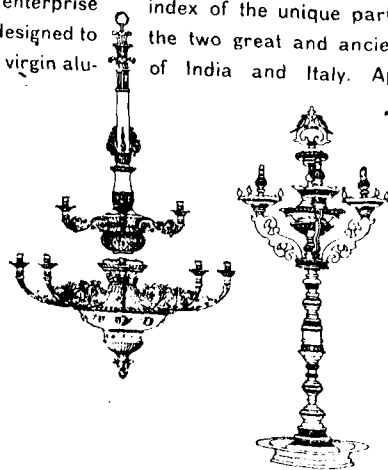
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change in the level of per capita consumption as compared with 1960-61. The Perspective Planning Division has already worked out that the demand requirement by the end of 1970-71 to be about 122 million tonnes on the assumption that the per capita consumption of food-grains would be improved from the per cent 163 kilograms to 186 kilograms.¹⁵ Over the same period, the relative growth of the urban sector, might give rise to an additional demand of about 40 per cent at constant levels of consumption. This would mean that the net marketed surplus should be about 40 million tonnes by 1970-71. If we allow for an increase of 12 percent in the per capita consumption the net marketed surplus may have to be in the neighbourhood of 45 million tonnes by the end of the Fourth Five Year Plan.

The actual supply position, on the other hand, may ultimately turn out to be different from the nutritionally desirable targets and/or planned targets as described above. The Perspective Planning Division has assumed 5 per cent rate of growth of food-grain by 1970-71 which means that the supply position will be 112 million tonnes which will be exactly equal to the planned target at the existing per capita consumption. But the past trends in food-grains production do not seem to justify this assumption. In the first ten years of planning, there has been an increase in food-grains' output by slightly more than 40 per cent i.e. 4 percent per annum. Part of this increase is said to be on account of better reporting and coverage. Of the balance a major part is attributable to extended area of cultivation rather than to increased yield per acre.¹⁶

And in the Third Plan, the annual average growth of food-grains may range between 2 and 2.5 per cent. Perhaps with better irrigation facilities and larger inputs like fertilisers, manures, seeds, pesticides etc and with improved organisational arrangements it should be possible to have 4 percent growth per annum in food-grains, during the fourth Plan Period. Under this assumption, the food-grains output by 1970-71 would stand around 105 million tonnes leaving a gap of about 7 million tonnes between the projected demand requirements at the existing per capita consumption and supply. If we allow a 12 percent increase in the per capita consumption of the entire population the excess demand phenomenon would become as large as 17 million tonnes.

Even if we assume 5 per cent rate of growth in food-grains' output there will be an excess demand for food-grains of about 10 million tonnes, if the per capita consumption is allowed to improve by 12 per cent. If output turns out to be 105 million tonnes by 1970-71, the net marketed surplus may actually be around 32 million tonnes, while the required marketed surplus would be about 40 million tonnes. Even if the total food-grains output reaches the target of 112 million tonnes the marketed surplus may not exceed 34 million tonnes thus leaving an uncovered gap of 6 million tonnes, on the basis of a constant level of consumption and more than 11 million tonnes when a 12 percent increase in the level of urban consumption is allowed for. Thus, there seems to be no escape from the fact that the excess demand phenomenon in food-grains would continue to persist till the end of the Fourth Five Year Plan.

To conclude, excess demand in food-grains is likely to continue as the dominant characteristic of the Indian economy at least till 1970-71. But the gap between demand and supply may not be very wide if an average rate of growth of 5 per cent could be realised in agriculture during the Fourth Five Year Plan period which case import of food-grains may have to continue. But the implications of excess demand will have to be carefully examined and the necessary institutional arrangement made in the interests of economic growth with price stability. Much would, obviously, depend upon the rate of growth of output of food-grains in the next seven years. The higher the supply elasticity, the larger would be the growth potential and the lower the price instability.

Notes :

- ¹ K N Raj, "Prices and Economic Policy", *Statesman*, August 15, 1964, p. 1.
- ² M J K Thavaraj, "Food-grains : the case for Rationing", *The Economic Weekly* October 3, 1964, pp 1599-1602.
- ³ S J Patel, "What is Holding Up Agricultural Growth", *The Economic Weekly*, Annual Number, February 1964.
- ⁴ K N Raj: "Factors Responsible for Low Productivity in Agriculture". *The Economic Times*, October 7, 1964. Also, his "Institutions and Economic Growth", *The Economic Times*, October 8, 1964.
- ⁵ D R Gadgil: "Price Policy for Food-grains. Its Implications",

The Economic Weekly, September 26, 1964.

Also J P Lewis: 'Quiet Crisis in India', *The Brookings Institution*, Indian Edition, 1963, P. 165.

⁶ V Dubey, "The Marketed Agricultural Surplus and Economic Growth in Underdeveloped Countries", *Economic Journal* December 1963.

⁷ *Ibid.*

⁸ This is supposed to be about 20 per cent of the rural population. (See Dharam Narain "Distribution of the marketed surplus of Agricultural Production by size-level of Holding in India: 1950-51" p 24)

⁹ Ram Saran, "Problems of Marketable Surplus in Indian Agriculture", *Indian Journal of Agricultural Economics*, Jan-March 1961.

¹⁰ W B Reddaway, however, thought that the Plan target was high. He estimated that the food-grains output would be about 95 million tons by 1965-66. Ref, "The Development of the Indian Economy, George Allen and Unwin, London, 1962, p 129-30.

¹¹ "Notes on Perspective of Development India : 1960-61 to 1975-76. Perspective Planning Division, Planning Commission, April 1964, Table 10, P 14.

¹² M J K Thavaraj *op cit* p 1602. Applying the present rate of growth of population the urban demand may reach a figure by 33 million tonnes whereas the net marketed surplus may not exceed 26 million tonnes.

¹³ "Notes on Perspective of Development India: 1960-61 to 1975-76", *op cit*, Table 1, p 3. Even this rate is regarded as an under estimate and the actual rate of growth is said to be in the neighbourhood of 3 per cent.

¹⁴ V G Panse, V N Amble and T P Abraham: "A Plan for Improvement of Nutrition of India's Population", *Indian Journal of Agricultural Economics*, April-June 1964, p 14.

¹⁵ The emphasis placed by the Perspective Planning Division was on the production of cereals and pulses to meet the demand of growing population enjoying rising incomes. As such, food habits may not be expected to change widely in the next ten years or so.

¹⁶ Area under food-grains seems to have increased at the rate of 1.6 per cent per annum over the first decade of Indian Planning.

The Metal Box Company of India Ltd

Chairman's Review

THE Thirty-second Annual General Meeting of The Metal Box Company of India Limited will be held on Tuesday, the 20th July 1965 at 59C Chowringhee, Calcutta.

The following is a copy of the Review by the Chairman, Mr M K Velodi, which has already been circulated to members".

Sales

Having regard to the raw material shortages which were recurrent throughout the year, I am particularly happy to be able to report good progress: the Company's product sales, at Rs 16.77 crores, increased 21% over the previous year. The net growth, at constant prices, of 16% (against 11 to 12% for the two preceding years) was achieved by building up the sales of non-tinplate products whose growth was doubled.

By careful planning we managed to meet all the commitments we undertook, but regrettably not our customers' total requirements of tinplate and polyethylene products. This was frustrating to them and to us, particularly at a time when our efforts to balance and modernise equipment and methods had begun, both in qualitative and quantitative terms, to show results.

Supplies to the Defence authorities were more than twice the previous year's. The problems which always seem to dog this kind of work continue, but significant progress has been made and continuous production of a number of important items established. Our technical men have visited Defence establishments in England and the USA: from these sources and our own experience we now have considerable expertise. It is to be hoped that Government policy will permit its continued use and keep active in the national interest the additional plant installed specially for Defence requirements.

Export sales were adversely affected by the political situation in Burma and crippling restrictions in Ceylon. However, new markets have been explored, especially in West Asia where we hope to make good our setback. We are aiming at an export target of Rs 40 lakhs; but we shall not hit it unless some of the difficulties connected with raw materials can be overcome. In our export markets delivery within thirty days is a common stipulation:

because of insufficient stocks of raw material we have failed to meet delivery dates and business has been lost. Moreover, our overseas competitors have the advantage of cheaper materials, even after we have allowed for every export incentive in our costs. We have accepted the Ministry of Commerce's invitation to identify the problems inhibiting exports and we hope that a satisfactory solution, making possible the expansion of our exports on the scale we have targeted, will be found. A further point needs to be made: in certain areas of our business, exporting at our target level will affect our service to our home markets. We regret any annoyance that this may cause our customers in India which we will, of course, make every attempt to minimise. However, we hope very much that our customers will accept some short term inconvenience as necessary in the wider context of national interest.

Following our representations that packing should be recognised as an industry in its own right, the Planning Commission have, in the context of the Fourth Five Year Plan, set up a Committee for the development of the Packaging Industry to consider the industry's requirements of plant, raw materials and technical manpower. This Committee has already collected valuable data on the likely demand for consumer goods and the resources necessary to meet it. We are collaborating closely and several of our senior managers are associated with the Committee's work.

Food and cash crops are reported to be satisfactory for the current year and the demand for our products is expected to continue to remain at a high level. It is therefore a matter of great regret; if not surprise, that raw material availability should reflect so directly the deterioration in the country's balance of payments. For want of imported tinplate, supplies of Open Top cans for the fruit and vegetable processing and similar industries, for which imported qualities of tinplate are essential, have had virtually to be suspended, at a time when 35% of the fruit and vegetables grown go to waste.

For 1965/66 the maximum availability of tinplate in the country is likely to be only 145,000 to 150,000 tonnes compared with an estimated demand of 212,000 tonnes. We appreciate the

many urgent claims on the country's hard pressed foreign exchange resources but it seems inevitable that efforts to hold the prices of important consumer commodities will be undermined if a high priority is not given to tinplate imports.

Tinplate vs Substitutes

Whilst tinplate capacity in the country is being built up—it should match demand in two to three years' time—our strategy has been to develop as rapidly as possible the use of substitute packaging materials, aluminium sheet and foil, laminated paper, foil/plastic products, Diotainer plastic bottles and Diothene bags, with injection moulded plastic components, replacing tinplate wherever possible. It would, however, be a great mistake to under-estimate the importance, both in the immediate and long term, of tinplate as an indispensable packaging material in a country where the climate is extreme, retail outlets are far distant from manufacturing centres, and the shelf-life of consumer goods is long. There are many products for which tinplate's functional properties make it, for the next decade at least, India's most practicable packaging material. Doubtless, such considerations have influenced Government's decision to plan a massive increase in tinplate manufacturing capacity over the next two to three years.

Having secured the medium term future, it is greatly to be hoped that Government will succeed in finding the foreign exchange to bridge the short gap between now and the time that Rourkela's new five stand mill comes on stream in 1966/67. It would be tragic if the price line should be pushed upwards as a consequence of a sufficient volume of important consumer goods failing to get to market for want of packages. This could affect, for example, milk, baby foods, fish, fruit and vegetable canning, food beverages, biscuits and food oils. If the necessary bare minimum is not spent this year on tinplate imports, Rs 250 crores worth of essential goods will be affected. It would be equally tragic if by holding up, in this way, the natural growth of the market for consumer goods the future market for which this tinplate mills is being installed is seriously jeopardised.

This future market may also be put in hazard through damping down its

demand by the imposition on tinplate of punitive excise and import duties. It should be borne in mind that tinplate anywhere in the world is a high cost packaging material. In Bombay where there is the largest concentration of packers in India, local tinplate costs precisely twice as much as it costs the packer in England. Of this a quarter is due entirely to excise. In India tinplate is as much a poor man's packing medium as any other man's: for example, kerosene oil tins account for some 35,000 tonnes. These tins and indeed most of the tins made in the country (say another 100,000 tonnes) have an after-use as household utensils for working and middle class families. They are used to store kerosene and such comestibles as food grains, sugar, cooking fats and oils and to protect them from the depredations of rodents, termites and other insects. Their importance in the economy can be gauged by the fact that a second-hand four gallon can will be purchased for household use at a price close to that paid by the packer of kerosene. This applies to most tins fitted with resealable closures. Therefore, when considering alternatives for tinplate, the fact that none of the substitutes so far developed have the same sort of domestic after-use value must be remembered. If tinplate were eliminated for packaging, it might well have to be reintroduced in the form of household hardware for storing food.

When planning the end-uses of the product of the new tinplate mill it will be wishful thinking to say "if three years hence there is an inadequate domestic market then we shall export our tinplate". Tinplate is a highly sophisticated steel product and the new plant will require several years of high activity for the domestic market before an export surplus of the quality demanded by the markets overseas can be developed. It is an unpleasant thing to say, but at this moment in time Indian tinplate quality is probably the poorest in the world. For this reason our export markets insist that the entire tinplate content of all the packaging materials we export shall be imported; and Indian canned goods are only acceptable in these markets in cans made from imported tinplate. This is the unhappy position, even though Rourkela's reversing mill has been operational since 1961. Rourkela in overcoming the inevitable teething troubles in setting up a new mill and learning a new and difficult trade has, and will continue to have, all our support. In time we have no doubt that they will achieve the re-

quired consistency of quality. We stress the time factor in order to make abundantly clear how long it takes to establish tinplate quality. There should therefore be no easy optimism about tinplate exports: these are unlikely to be achieved within the next five years.

Raw Materials

Raw material supplies throughout the year presented problems; they were generally insufficient, often irregular and frequently of variable quality. The already high local price of tinplate rose by 20% during the year under review—nearly three times the rise in the Wholesale Price Index for Manufactured Articles as a whole. These price increases were absorbed by the economy because of the large gap between supply and demand, though they have reflected sharply on a wide range of essential consumer products.

With the steady increase in the growth of non-tinplate products, aluminium has become an important raw material in the form of container sheets, slugs and foil. Supplies of container sheets improved but slugs and foil were not available in the quantities required. Polyethylene supplies improved during the second half of the year but may cause concern once again if the availability of alcohol is restricted. We hope, however, to get sufficient quantities for 1965/1966, albeit at approximately three times the domestic price in the UK!

While adequate quantities of paper and board were available, quality, never very high, deteriorated to the detriment of the printing. There are signs of shortages arising during the coming year and we are continuing our efforts with our suppliers to improve both the quality and volume of supplies.

Decoration materials, particularly items with imported ingredients, were difficult to obtain—a result of the general foreign exchange situation. As these are critical to our entire operation, our Research Department is devoting much energy to developing further alternative materials made from indigenous ingredients, an obviously slow and difficult task since quality and cost have to be safeguarded.

Research, Design and Development

Metal Packages

BOMBAY BRANCH. During the year most of the Branch's printing equipment has been transferred to Bombay No. 2 (Deonar) where it is now fully operational. Their improved and

more spacious plant layout makes possible the use of modern handling methods, greatly enhancing efficiency. An extension of Bombay No. 2 is currently being planned to provide additional storage facilities for raw material and finished goods. The remaining plant at Bombay No. 1 (Worli) is being re-laid out to improve the factory's efficiency.

CALCUTTA No. 1 FACTORY. At Calcutta No. 1 considerable progress has been made with the introduction of improved manufacturing methods, resulting in economies in the use of materials and a marked increase in labour productivity.

MADRAS BRANCH. The activity of our Madras Factory has increased substantially and a building extension is under construction. On the West Coast a ten-acre site has been purchased adjacent to the railway on the outskirts of Ernakulam. A modern factory is being constructed to re-house the equipment at present in Cochin and so improve our services to the exporters of canned prawns. At Mangalore where we cater principally to the export requirements of the cashew packers, we have been able to purchase the freehold of our factory site.

Paper Group

The promise of the good start I reported last year has been fulfilled and the year's production targets were comfortably exceeded. The training of personnel, particularly printers, has advanced successfully which enables the factory, when so required, to run on double shift.

Flexible Packages and Plastics

Last year I mentioned the sanction by Government of the expansion of our Flexible Packaging Works at Calcutta No. 2. Unfortunately, owing to delays in obtaining the necessary import licence, the plant has only recently been ordered. Meanwhile, the introduction of new laminated materials has provided a further substitute for tinplate containers. The acquisition of a majority interest in Kosmek enables us to extend throughout India an integrated operation, making available, for packaging purposes, plastic bottles made to international standards and also to develop the use of the new thermoplastic materials which can be blow-moulded as soon as they become available in India.

Defence Products and Industrial Components

Throughout the year a large proportion of our technical resources at Cal-

cutta No. 2 have been devoted to supplying the Ordnance Factories. Specialised lines have been established to produce highly accurate components which have necessitated the purchase of additional plant and equipment.

Machinery Building

There is now a need to increase the installed capacity of our Machinery Building Section and we have applied to Government. We hope to have the additional equipment operating within the next two to three years. Throughout the year we continued to export machinery to overseas customers and our associates.

Research Department

The Research Department continues to play a major part in the development of the Company. During the year our Customer Research Canning Laboratory commenced operation. This additional service to the canning industry will assist in resolving problems involving canning technology. Additional buildings are being constructed for a new Paper & Board Laboratory as well as for the expansion of the existing laboratories. In collaboration with our suppliers a steady reduction in the imported content of many essential finishing and process materials is being achieved.

Technical Development Division

Despite heavy calls on T.D.D.'s services to assist Calcutta No. 2 with Defence work, there has been continued progress in the development of improved tamperproof containers and closures. Its development of new manufacturing techniques has contributed to the improved productivity of the production units.

Visits From Associates

During the year we received much valuable advice from our Consultants, some of it on the spot. In particular we had pleasure in welcoming Mr K D Brough who, apart from being a member of our Board, is Managing Director of The Metal Box Company Overseas Ltd and a Director of The Metal Box Company Ltd. We were able to discuss with him pressing current problems, in particular, the procurement of plant and raw materials.

Other visitors from our Company in the UK and other associates abroad were: Lord Murray of Newhaven, KCB, who has recently joined the Board of

The Metal Box Company Ltd, Mr V E Bowyer, Head of Staff & Personnel Division of The Metal Box Company Ltd, Mr D I Allport, Territorial Officer for Asia and Mr J G Nicholson, Head of Administration of The Metal Box Company Overseas Ltd. Technical visits were made by Mr R L Bowyer, Mr J H Brown and Mr J D Flemingham from Metal Box's U K staff. Other visitors included Mr R L Perin, Vice-Chairman of Continental Can Company, Inc, and Dr Adolf Mannicke, Head of Marketing, Advertising and Sales Control Department of Schmalbach's, West Germany. The very considerable knowledge and experience of these visitors was of great use to us in planning our development programmes.

Employee Relations

The past year has not been a particularly happy one from the viewpoint of labour relations in the country. The man-days lost as a result of strikes and lock-outs (7.3 million against 3.3 million in 1963) reflect the general unrest generated by the sharp rise in prices and their impact on the cost of living. Against such a background, it was perhaps inevitable that we too would have to face our share of turbulence.

Nevertheless, the year began well in Bombay where a comprehensive bipartite agreement, due to expire in September 1965, was concluded with our daily rated employees. However, an outside union continued to press its demands on behalf of a minority, and the matter eventually went before a tribunal which gave its award in our favour. In Mangalore, failing an agreement on wages, adjudication became necessary. Although the tribunal upheld our contention that there was no case for revision, we are continuing our efforts to get our relationship with our employees there on a more satisfactory footing. In Madras, negotiations on the renewal of the agreement with the monthly rated staff are proceeding satisfactorily.

Our real trouble spot has been Faridabad where an outside union, which we do not recognise, incited our workers to adopt go-slow tactics in spite of the fact that all the pending disputes had been referred to a tribunal. Matters came to a head in March when the workers resorted to a sustained go-slow campaign with intermittent sit-down strikes, leading to a situation where a lock-out had to be declared. This regrettable step was taken only when it became quite clear that without it a

lasting solution to the malaise would not be possible. We hope that the restoration of normal relations between the Company and its employees in Faridabad will not take too long to achieve.

The three-year agreement on Prosperity Bonus expired this year, and future arrangements will have to be in accordance with the Bonus Ordinance.

Training continues to be regarded by your Company as being highly important. This year ten Indian officers were sent for specialised training to the U K: one senior manager attended the Administrative Staff College at Henley. At the Company's Training Centre in Calcutta two General Management Courses were attended by twenty-eight officers of whom two came from associates in South East Asia. In all, there have been twelve such courses since their inception and over 80% of our management have participated in these with beneficial effect. We also organised a residential course on Sales Management and three Supervisory Courses. These two courses were supplemented regionally by non-residential courses at the Factories.

I am happy to be able to mention once again the assistance received from the Company's employees in our activities and I wish to thank all of them and the management for another year's successful effort.

Board Changes

Your Board has been strengthened by the addition of an experienced industrialist from Bombay, Mr Akbar Hydari and Mr D I Allport, Metal Box's Territorial Officer for Asia. Mr Chiswell Jones whose services with the Group in Italy have prevented his attending our meetings gives up his seat on the Board. His resignation will be accepted with particular regret, his services to the Company as Chairman and Managing Director over a period of seventeen years have made a lasting contribution to your Company's development.

Nehru Memorial Fund

The Company has made a contribution to the Nehru Memorial Fund of Rs 61,600 in accordance with the recommendations of the Indian Engineering Association.

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

The Oriental Fire and General Insurance Co Ltd

Speech of the Chairman, Shri B D Pande, ICS

THE following is the speech delivered by the Chairman, Shri B D Pande, I C S, at the Seventeenth Annual General Meeting of the Shareholders held in Bombay on Monday, the 28th June, 1965:

GENTLEMEN,

The Report, Accounts and Balance Sheet for the year ended 31st December, 1964 are already in your hands and with your permission, I propose to take them as read. Before we proceed to consider these for adoption, I would like to make a reference to the entry of Life Insurance Corporation of India into the general insurance field.

Considering the business available in the country and the present trend of increase in the total general insurance premium, I am confident that both the Life Insurance Corporation and its subsidiary, the "Oriental Fire" which is so well established in the General Insurance field will have sufficient scope for expansion. The approach of both the Organisations must be to get a larger share of the general insurance business available in the country. I also expect them to give a lead in exploring fresh avenues in the field of general insurance and serve the growing needs of the country. With the very rapid growth, economic and technological, in our country it is necessary that we should attempt a new thinking with respect to the general insurance industry. Still greater growth, industrial and agricultural is inevitable and the General Insurance Industry should also fall in step by introducing new schemes helpful to the country.

I would like to make a reference to our business abroad. The overall results from business abroad are still not satisfactory and in some territories we are compelled to reduce our business with a view to improving our results. We have stopped accepting business in Indonesia mainly due to the reason that we are not permitted

to repatriate any surplus funds from that country. Our operations in Pakistan were giving us cause for concern for some time now and in spite of our best efforts, the position remains unsatisfactory. Under the circumstances, we considered it prudent to stop writing new business from June 1965 and necessary steps are being taken in this direction.

Coming to the results of the year's working, I am gratified to state that the year 1964 has been the best year so far. The gross profit for the year 1964 is Rs 124.50 lacs against a gross profit of Rs 29.61 lacs in 1963. The net profit amounts to Rs 42.50 lacs against Rs 17.11 lacs in 1963. The improved results are largely due to substantial reduction in the claims ratio, particularly in Fire and Miscellaneous Departments.

The gross premium of the Company for the year 1964 was Rs 1,053.92 lacs as against Rs 1,014.93 lacs in the year 1963 showing an increase of Rs 38.99 lacs (3.84%).

The overall ratio of net claims to net premiums was 50.66% for the year 1964 as against a ratio of 59.71% for the year 1963.

The Fire Department's claim ratio for the year 1964 was 34.27% (Rs 57.21 lacs) compared to that of the previous year's 46.31% (Rs 82.90 lacs). This can be attributed to the satisfactory experience in Indian business.

In the Miscellaneous Section also the claims ratio has come down to 51.17% (Rs 194.83 lacs) during the year 1964 as compared to 61.22% (Rs 210.19 lacs) for 1963.

In the Marine Section, the claims ratio has registered a small improvement at 87.54% as compared to 1963 ratio of 90.34%.

The overall ratio of commission and expenses of management to net premiums is 29.92% during 1964 against

32.43% in 1963 which can be considered satisfactory.

As a result of the year's working, the Departmental Reserves have shown an increase of 7.30% as compared to 15.67% for the year 1963.

Our investments for the year 1964 aggregated to Rs 529.79 lacs and the total depreciation ascertained at Rs 11.78 lacs is covered by the Investment Reserve. Considering the total investment and the general fall in prices of shares and securities, the depreciation of Rs 11.78 lacs (2.22%) should be considered nominal.

Your Directors have recommended a dividend at the rate of 10% (subject to deduction of tax at prescribed rates), as against a rate of 8% for the year 1963.

The Reserves have been further augmented by an appropriation of Rs 26.40 lacs as under:—

	Rs in lacs
General Reserve	11.50
Contingency Reserve	10.00
Dividend Equalisation Reserve	4.90
Total:	26.40

The year's working has resulted in an increase in the funds of the Company from Rs 504.60 lacs in 1963 to Rs 562.28 lacs during the year 1964 registering an increase of Rs 57.68 lacs or 11.43% over the last year.

In conclusion, I take this opportunity to express my thanks to our clients and well-wishers both in India and abroad who have continued to extend us their support. I also thank the Officers, Staff and Development officials of the Company for their loyal and good work.

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

Duncan Brothers

THE financial result of Duncan Brothers and Company for the year to December 1964 shows maintenance of the upward trend established in the previous year. But the achievement has been offset by heavy taxation. Climatically, the 1964 season in North-east India was favourable for harvesting a large tea crop, and the company's managed properties shared in this improved outturn by placing on the world markets some eight per cent more tea. Plantations in South India were as a whole less fortunate than those in the North, for here crops were considerably reduced as a result of excessively dry weather. In Pakistan the tea industry enjoyed another good season, and with the production of a record crop, it was possible to resume overseas shipments on a small scale. Development of the tea estates in the company's agency has continued to the maximum extent possible and existing tea areas are being extended wherever the requisite soil conditions can be found. The introduction of more up-to-date techniques in both factory and field have also been continued, with more estates adopting Rotorvane and C T C processing, the planting of improved quality strains of higher yielding clonal tea and the extension of artificial overhead wherever chemically suitable water supplies are readily available. Trading in tea during 1964 was not quite as successful as in the previous year because increased crop production resulted in a somewhat weaker market during part of the season, thereby lowering profit margins.

Although the company's group of jute mills continued to operate at maximum capacity, trading margins were substantially lower than in the preceding year. Considerable price fluctuations were once again witnessed, in raw materials towards the middle of the year and in sacking during the last quarter. Efforts are being continued towards diversification of activities. Modernisation of machinery in the dressing and winding sections has been completed. Export of jute goods increased very substantially, and the company now enjoys a prominent place among shippers of jute goods from Calcutta.

During the year, production at the woolcombing plant could not be maintained due mainly to the curtailment

of foreign exchange allocations to the industry for import of wool. Besides, defence orders came to an end, and as a result there was a slump in the market for tops from Indian wool. The working of the dye plant still remains affected by shortage of dyestuffs. Phillips Carbon Black recorded its first profit in 1964, when production of industrial carbon black increased considerably. At the present rate, the plant is expected to meet the production target of 30 million pounds during the current year. Plans for the expansion of capacity by ten million pounds have been finalised, and the programme should be completed by the end of this year. Schrader-Scovill's factory has begun full production of valves for motor vehicle tyres. National-Standard Duncan's factory started manufacture of beadwire in February this year, and production is gathering momentum.

The year's result shows a jump in sales and other income from Rs 5.72 crores to Rs 8.47 crores, but gross profit rose only moderately from Rs 44.73 lakhs to Rs 49.83 lakhs. Depreciation has taken up Rs 1.82 lakhs (Rs 1.58 lakhs) and taxation Rs 29.35 lakhs (Rs 26.15 lakhs). After taking into account the net loss on investments and some other adjustments, there is left a disposable surplus of Rs 16.61 lakhs compared to Rs 10.84 lakhs previously. To this is added Rs 1 lakh written back from contingency reserve to enable transfer of Rs 1.50 lakhs (same) to capital redemption reserve, Rs 0.13 lakh (Rs 0.24 lakh) to development rebate reserve and payment dividends on preference and equity capital requiring Rs 15.90 lakhs (Rs 15.60 lakhs). The dividend on equity capital is unchanged at Rs 12 a share.

Indian Copper

SPEAKING to shareholders of Indian Copper Corporation at their annual meeting held some time ago in Calcutta, the Chairman, S C Gladstone, said that the company's expansion scheme comprised an electrolytic plant, a new flash smelter of advanced design, a plant to produce sulphuric acid and a nickel sulphate plant and certain crushing, concentrating and mining machinery. The electrolytic refinery was now being put into production and the first wirebars were expected shortly. The refinery had more

than its share of teething troubles due to the poor quality of some of the indigenous plant and delays in delivery. Blister copper was still not available from the US and although the company has held an import licence since March last year it had not been possible to make any purchase. A part of the licence had been converted to a general currency area licence, and it was expected that it would be possible to obtain some copper early in the next year. Meanwhile, copper surplus to the requirements of the rolling mill had been accumulated and stocks were sufficient to keep the refinery in operation for the next seven months.

Gladstone added that the company had entered into agreements with John Miles and Partners of the U K and Outokumpu Oy of Finland for the flash smelter and flash furnace respectively. A second agreement was signed with the latter company for the design of a special type of nickel sulphate plant which would treat the residues from the electrolytic refinery. The machinery for ore grinding at Surda and crushing at Mosaboni was now being manufactured.

He expressed the hope that these projects, which would increase the production of copper and produce sulphuric acid and nickel sulphate from raw materials which would otherwise go waste, should give a reasonable return on investment when put into operation at the end of 1966.

SLM-Maneklal

FAIRLY pleasing results have been produced by SLM-Maneklal Industries for the year to March 31, last, when both sales and earnings were substantially higher than the previous levels. But the directors have not recommended any dividend with a view to conserving funds.

The preliminary profit figures released by the company recently relate to twelve months whereas those of the preceding period were compiled for 15 months and are, therefore, not strictly comparable. However, sales during the year have gone up to Rs 55.80 lakhs from Rs 36.08 lakhs of the previous 15-month period, and gross profit has jumped to Rs 23.49 lakhs from a mere Rs 6.10 lakhs. Provisions for depreciation and development rebate have syphoned off bigger slices of the profit, taking Rs 7.63 lakhs and Rs 7.29 lakhs as against only Rs 1.53 lakhs and Rs 1.40 lakhs, respectively. Taxation demands a slightly lower amount of Rs 0.75 lakh (Rs 1.30 lakhs) and there is left a surplus of Rs 7.82 lakhs compared to only Rs 0.10 lakh previously

July 3, 1965

which was arrived at after adjusting the preceding year's loss. Of the surplus, Rs 7.75 lakhs are ploughed back to general reserve, and the directors are of the view that a major portion of this amount will be exempt from tax. Reviewing the 1964-65 performance, one is encouraged to expect that the company may pay a maiden dividend for the current year.

Alembic Chemical

THERE can be no discrimination 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 hold it up on the ground that the public sector might like to undertake manufacture of the item at a later date. These observations were made by R B Amin, Chairman, Alembic Chemical Works, at the 58th annual meeting of the company held some

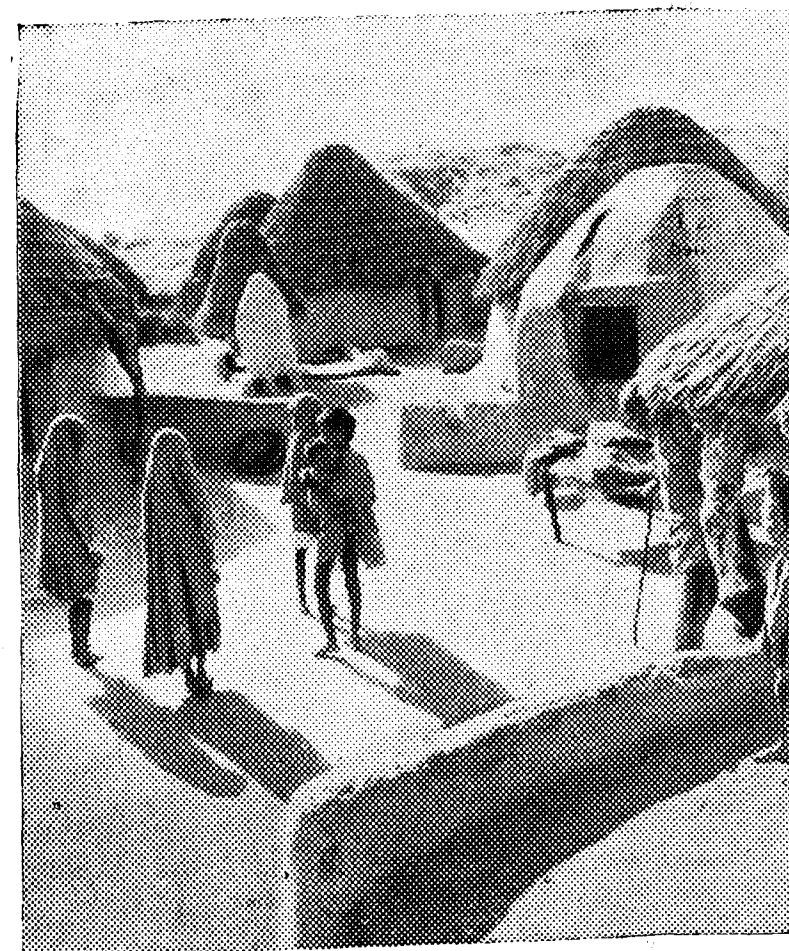
time ago at Baroda, while telling shareholders that the company had not been able to get approval of Government for its proposal to undertake the manufacture of two antibiotics, viz, Erythromycin and Kanamycin. The company had also secured the collaboration of reputed manufacturers of these products. Amin said that the Government appeared to be undecided about whether the manufacture of these and other new antibiotics should be reserved for the public sector.

Reviewing the progress made by the company over the past three years, Amin said that it had undertaken and completed various schemes of expansion. The more important among these were: the expansion of the penicillin plant, the sulphuric acid and fertilizers plants and the distillery. These schemes had contributed to the satisfactory results of 1964. The company had been granted a letter of intent for the manufacture of hydroxocobalamin, and the terms of collaboration were being negotiated with the foreign collaborators and the Government.

Shamsher Sterling Cable

AN expansion programme estimated to cost Rs 90 lakhs is envisaged by Shamsher Sterling Cable. The programme covers manufacture of 400 miles of PVC power cables, 600 tons of magnetic wires and 2,400 tons of ACSR and AA conductors per annum. Of the estimated capital outlay, Rs 35 lakhs are intended to be raised by the issue of additional capital and the remaining amount by a loan from IFC. The Japanese collaborators have agreed to subscribe for Rs 12.5 lakhs worth of equity shares out of the proposed capital issue. Meanwhile, the company's conductor section installed in December 1963 has been working satisfactorily, and the thermoplastic unit began production in September last year.

During the year ended December 1964, the company's sales advanced from Rs 41.42 lakhs to Rs 65.07 lakhs and gross profit improved from Rs 5.03 lakhs to Rs 5.89 lakhs. Of this, Rs 5.84 lakhs have been taken up by the provision for depreciation for the year 1964 and arrears on that account.



INTO THE VERY HEART OF INDIA!

Ten years ago...that's when we first started. It seems but yesterday. We've been busy going out to help people, different people. We've met them in town and in village...in plain and in woodland...in mansion and in hut. Together with our Subsidiaries we have over 1800 offices to serve them. Yet our work has only just begun. There are years, many years ahead. And today, we at the State Bank of India, pledge ourselves anew, to the dedicated service of our people and our country.

STATE BANK FOR SERVICE

LPE-Aiyars S. I A

CURRENT STATISTICS

SCHEDULED BANK ADVANCES TO SMALLSCALE INDUSTRIES AND CO-OPERATIVE

	(Rs crores)		
	Smallscale Industries	Cooperatives	Total
Half-Yearly Averages			
Jan-June 1964	53.81	13.57	67.38
	(+11.41)	(+0.42)	(+11.83)
Jan-June 1963	42.40	13.15	55.55
	(+ 8.30)	(+2.76)	(+11.06)
Jan-June 1962	34.10	10.39	44.49
	(+ 7.64)	(+2.50)	(+10.14)
Jan-June 1961	26.46	7.89	35.91
	(+ 6.96)	(+1.60)	(+ 8.56)
Outstandings at the end of June 1964	53.88	14.37	68.25
	(+11.41)	(+4.20)	(+15.61)
June 1963	42.47	10.17	52.64
	(+ 7.88)	(- 0.45)	(+ 7.63)
June 1962	34.59	10.62	45.21
	(+ 7.45)	(+1.85)	(9.30)
June 1961	27.14	8.77	35.91
	(+ 6.41)	(+1.40)	(+ 7.81)

Note: Figures in brackets indicate change over the previous year.
Source: Reserve Bank of India.

BANKING RETURNS

	June 25	June 18	May 28	June 26
Reserve Bank				
1. Note Circulation	2664.58	2706.41	2698.42	2484.12
2. Rupee Coins	95.05	93.05	94.26	102.80
3. Deposits				
(a) Central Govt	65.64	52.99	64.11	79.71
(b) Other Govts	14.78	14.80	15.93	14.05
(c) Banks	104.31	102.38	104.61	102.18
(d) Others	179.71	181.19	174.86	162.18
4. Foreign securities	70.00	70.00	70.00	89.45
5. Balance abroad	7.31	9.47	7.34	7.15
6. Rupee securities	2403.07	2438.07	2453.07	2226.03
7. Investments	234.64	199.25	163.54	273.90
8. Loans and advances to Govts	74.75	80.83	82.31	53.34
9. Other Loans and advances	203.09	216.96	244.79	137.08
Scheduled Banks				
1. Aggregate Deposits (net)	2680.99	2670.16	2653.53	2362.05
Demand (net)	1322.80	1317.66	1316.34	1154.00
Time (net)	1476.31	1467.16	1452.08	1308.04
2. Cash in hand	72.32	71.30	72.10	63.60
3. Balances with the Reserve Bank	95.94	93.68	91.29	86.78
4. (2)+(3) as % of (1)	6.28	6.18	6.16	6.37
5. Borrowing from Reserve Bank	85.59	107.75	126.45	4.03
(a) Against usance bills and/or promissory notes	23.40	37.92	44.07	1.67
(b) Others	62.19	69.83	82.38	2.36
6. Advances	1775.16	1774.31	1747.63	1539.57
(a) State Bank	449.38	445.92	234.49	...
(b) Others	1326.78	1328.39	1513.14	...
7. Bills discounted				
(a) Inland	233.89	246.35	282.93	179.73
(b) Foreign	73.27	73.93	75.37	63.74
(c) Total	307.16	320.28	358.30	243.37
(i) State Bank	34.93	38.66	55.47	...
(ii) Others	272.23	281.62	302.83	...
8. (6)+(7) as % of (1)	77.76	78.44	79.36	75.48
9. Investment in Govt Securities	724.08	722.90	721.22	633.07
10. (9) as % of (1)	27.01	27.07	27.18	26.80

PREMIUM ON IMPORTED GOODS

A comparison of the landed cost and the internal market prices of certain imported raw materials used by the pharmaceuticals and dyes industry.

Item	Unit	C I F Price	Landed Cost	Local Market Price
Thiamine mononitrate	kg	74.60	93.00	220.00
Thiamine hydrochloride	"	73.60	92.00	160.00
Vitamin A (a gr= 1 M I U)	"	250.00	300.00	593.00
Folic acid	"	300.00	375.00	750.00
Riboflavin	"	132.00	165.00	360.00
Ascorbic acid 'vit C'	"	20.00	27.00	75.00*
Inositol	"	36.00	45.00	100.00
DL-Methionine	"	21.00	33.00	70.00
Calcium Pantothenate	"	59.00	74.00	165.00
Vit B6 (Pyridoxine HCL)	"	302.00	377.00	800.00*
Vitamin B 2 (Calciferol)	gm	2.00	2.50	4.50
DL-Pathenol	kg	209.00	261.00	1,000.00
Pepsin 1: 3000	"	24.00	35.00	60.00
1 - Lysine - Monohydrochloride	"	44.00	67.00	110.00
Phenobarbitone	"	25.00	33.00	590.0
Citric acid	"	2.00	2.50	.300
Magnesium carbonate light	"	1.00	1.60	1.00
Riboflavin - 5 - phosphate sodium	"	503.00	630.00	1,000.00
Ferrous fumarate	"	10.00	15.80	26.00
Pancreatin	"	7.80	11.50	19.00
Acetyl methionine	"	30.00	47.50	90.00
Lactic acid	"	4.50	7.10	15.00
Niacinamide	"	18.40	23.00	130.00*
Sodium sulphate	"	11.90	17.50	54.00
Diethyl stilboestrol	gm	380.00	558.60	Unavail-able
Methyl testosterone	kg	1,050.00	1,543.50	3,200.00
Lactose	"	1.60	2.25	4.25
Sorbitol	"	1.45	2.10	5.75
Vitamin B-12	gm	45.20	56.50	215.00*

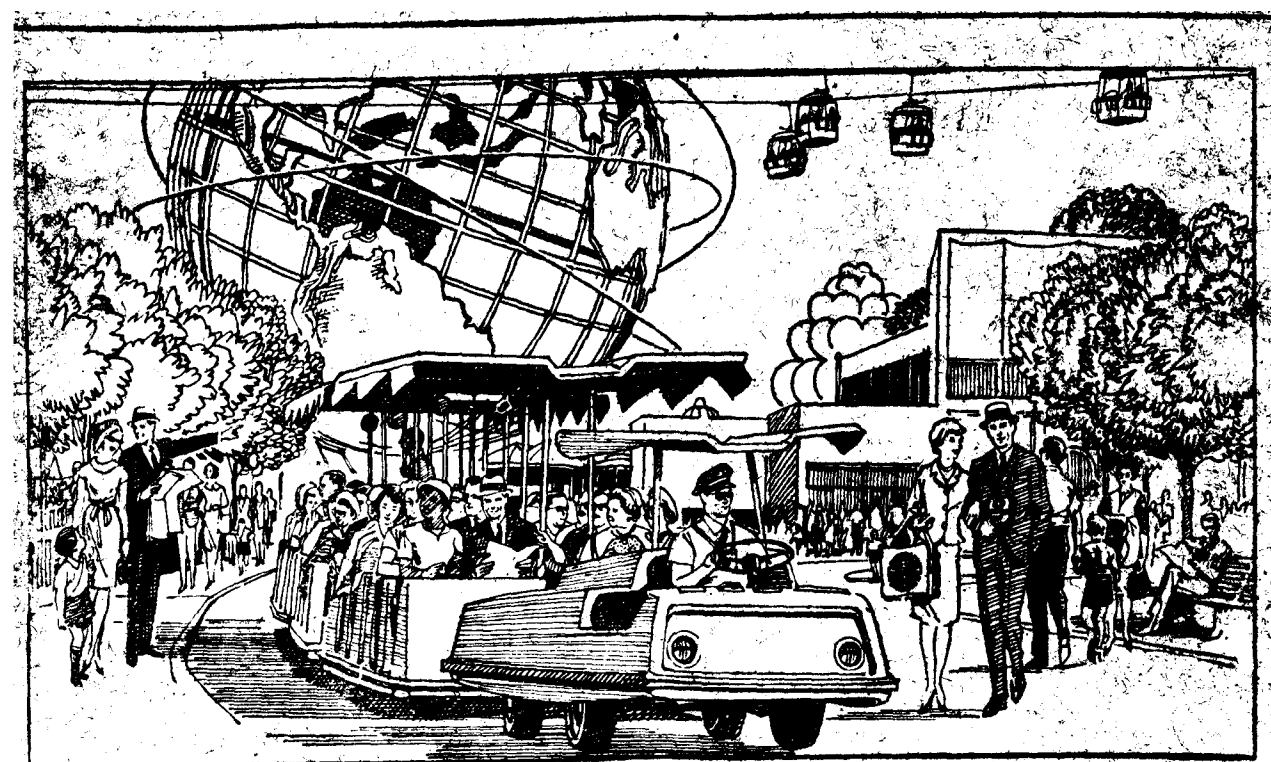
* Locally produced hence imports are restricted.

Source: Indian Institute of Foreign Trade and Basic Chemicals Pharmaceuticals and Soaps Export Promotion Council

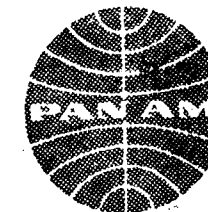
INDEX NUMBERS OF WHOLESALE PRICES

(Base : 1952-53=100)

Group and Sub-Group	WEEK ENDING			
	5-6-65	29-5-65	8-5-65	6-6-64
Food Articles	161.0	159.9	158.7	151.3
Cereals	136.8	137.1	137.1	130.6
Pulses	151.9	152.8	154.5	139.0
Fruits and Vegetables	173.3	173.7	171.3	182.2
Milk and Ghee	170.2	166.8	162.9	139.2
Edible Oils	200.8	198.4	198.6	178.9
Fish, Eggs and Meat	280.3	194.3	185.1	162.9
Sugar and Gur	154.8	155.5	162.3	194.5
Others	195.3	192.6	182.5	176.3
Liquor and Tobacco	138.0	138.0	139.0	125.0
Tobacco	135.9	135.9	137.0	122.3
Fuel, Power, Light and Lubricants	147.1	147.0	146.2	142.7
Industrial Raw Materials	175.5	174.8	174.0	152.9
Fibres	158.0	159.1	159.4	134.7
Oilseeds	213.7	211.3	209.3	185.0
Minerals	129.3	129.3	129.3	103.7
Others	140.1	138.9	138.0	130.6
Manufactures	144.8	144.1	144.1	133.1
Intermediate Products	164.0	163.1	159.5	145.9
Finished Products	141.6	140.2	141.6	130.9
Textiles	140.1	139.9	141.1	127.6
Cotton	138.1	138.1	138.8	135.9
Jute	142.7	142.0	144.3	97.5
Woollen	170.3	170.3	170.3	168.7
Silk and Rayon	139.4	139.4	140.3	140.1
Metal Products	178.9	178.9	178.9	168.1
Chemicals	124.4	124.4	124.4	119.1
Oil Cakes	225.3	213.4	213.7	185.1
Machinery and Transport Equipment	133.4	133.4	133.4	127.0
Others	127.5	126.4	126.4	127.5
All Commodities	157.6	156.8	156.0	145.5



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IMPENDING BATTLES IN THE CONGRESS
MANAGING AGENCY SYSTEM FAR FROM DEAD
MUSLIM COMMUNITIES OF GUJARAT**

VOLUME XVII NO 28

JULY 10, 1965

SEVENTY-FIVE PAISE

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THE ECONOMIC WEEKLY

Vol XVII No 28 July 10, 1965

EDITORIALS

Development Decade 1083
Coup de Gaulle 1084

WEEKLY NOTES

Cochin Refinery: Same Story—
Fifth Steel Plant—The One
That Survived—Village In-
dustries in Fourth Plan—
Planning Commission's Veto
—Profitability and All That 1085

CAPITAL VIEW

Impending Battles 1089
— Romesh Thapar

FROM THE LONDON END

Labour's Second Wind 1091

BOOK REVIEW

Social Stratification among
Muslims 1093
— Imtiaz Ahmad

SPECIAL ARTICLES

Price Controls in the Indian
Economy: Do They Hamper
Growth? 1097
— V C Shah

Managing Agency System Far
From Dead 1101
— R K Hazari

Export Promotion through
Import Entitlement: A Reply 1109
— I S Gulati

Case against Collaboration in
Advertising 1111
— R S T

BUSINESS NOTES

Tata Oil—TISCO—Metal Box 1111
—Kirkoskar Pneumatic—
Oriental Fire—Utkal Machi-
nery

FROM THE CHAIR

Shree Digvijay Cement Com-
pany Limited 1116

CURRENT STATISTICS 1118

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Development Decade

THE appraisal by the Secretary-General of the United Nations of the Development Decade at mid-point is not a cheerful document. The Decade of Development launched by the United Nations was designed to remind both the developed and underdeveloped worlds of a number of things. First, that the process of development itself was irreversible—the world is adopting to its use the modern instruments of science and technology. It also sought to stimulate the imagination of the people and to make them aware of the increasing inter-dependence of the whole process—the growth, underneath the vicissitudes of day to day politics, of a sub-stratum of economic and social experience which is more or less common to all the nations of the world. Above all, it tries to dramatise the stark fact that the gap between developed and developing countries is tending to widen, leaving two-thirds of humanity below the poverty line.

Today, half way through the Development Decade, the harsh fact persists that many of the poorest economies grow the slowest, that the gap between per capita incomes of the developed and underdeveloped countries has widened during the sixties and the flow of international assistance and capital to developing countries, which could narrow the gap, has virtually ceased to increase. The progress towards the modest goal of the developed countries transferring one per cent of their national income to the developing ones in the form of aid emphasised by the General Assembly, has been halted. The prospect of developing countries attaining a minimum annual growth of national income of 5 per cent at the end of the Decade, which the General Assembly had set as its target in its resolution on the subject, has receded; the annual growth rate of these countries as a whole slowed down from 4.5 per cent in 1955-60 to 4 per cent in 1960-63.

The misery of much of the developing world threatens to grow worse in the second half of the Decade. On present showing, the numbers of unemployed and those who suffer from hunger and malnutrition will be markedly greater in 1970 than today. This is dismal enough but the picture is made even more dismal by rapid and uncontrolled growth of population in the underdeveloped countries and the rapid migration to the cities, adding to the growth of more densely-crowded shanty towns and leading to further deterioration of standards of housing, health and sanitation.

Yet the Secretary-General sees no cause for despair. Modern technology has unlocked the doors of skill and output, confounded the gloomy prophets and fantastically increased man's power to produce. And poorer nations have the past experience of the advanced nations to draw upon. Today, with hindsight, we can better interpret what has been happening. Another advantage is the scale of information now available in every field connected with development. The vastness of potential innovation is the best guarantee to progress and the task of transferring knowledge to it is correspondingly urgent. Not that modern technology is all gain for the developing nations. Much of it has been designed for other societies at other times. It does not always meet their present needs. Worse still, it involves them in difficulties as when modern measures of health bring about a sharp increase in population before food production, educational and industrial development have become really dynamic. Moreover, much of this technology is geared to the needs of societies in which the labour is scarce and capital abundant. The trend of research in the developed nations continually leads to producing synthetic substitutes, which displace primary products, instead of increasing their competitiveness or diversifying their use.

The basic premise on which rests the effectiveness of the United Nations for giving or channelling aid to help the developing and underdeveloped countries is that of sharing of resources between the richer and poorer countries. At bottom, it demands the recognition, however dim or imperfect it may be, of the right of the people in any part of the world of working with an amount of capital per head which, if not equal, should not be too disproportionate. U Thant in the course of his appraisal more than once allows himself the thought that just as developed countries have progressed towards a fairer sharing of incomes within their own societies, some day the same principle will come to prevail among the different countries of the

Coup de Gaulle

world. And the United Nations, acting as a forum for international co-operation, is the fittest instrument for bringing it about.

Since the Decade began, the flow of aid has flattened out though more of it, 10 per cent in 1963 as against 6 per cent in the late '50s, is now flowing through multilateral channels, which is a gain. The total of aid, however, must continue to expand if the growth targets for the Development Decade are to be attained. Projections clearly indicate the increase in the gap that needs to be financed by external capital. And at the mid-point of the Decade, one cannot say that the future of this essential financing is secured. In fact, the levelling off of the flow since 1961 has set back progress towards the target. The Secretary-General complains that it is as though development programmes financed by foreign aid or loan have lost the élan of a new venture before they had acquired the respectability of old usage.

The need for external assistance is not confined to long-term capital. Working capital also needed to underpin international trade is provided by the IMF. But though it has started to operate a modest scheme of compensating primary producing countries for fluctuations in export receipts, much of the finance made available by the IMF has gone to developed countries and the general growth of world trade is outstripping its resources.

Because sharing of resources is the basic strategy of development, the steps towards expanding the export trade opportunities of the developing countries initiated by the U N Conference on Trade and Development, the Secretary-General hails as the most important event so far of the Development Decade. But U Thant is also aware—how could he possibly be not?—that :

“The United Nations does not exist apart from its Member Governments and, in the last analysis, governmental decisions will determine the tempo of its activities over the rest of the Development Decade”.

With the United Nations itself under a cloud and its function as an instrument in lessening political friction in eclipse, there is an unmistakable tragic note in the words and it is not difficult to see why the mid-point appraisal should lack cheer. But one lives in the hope that the logic of world events, if nothing else, will restore the UN to greater effectiveness. And, if the UN is to survive, it can do so only by being a world body in the real sense of the term.

EVER since its inception in 1958 the European Economic Community has impressed the world as a grand structure. It has conveyed this impression in various ways: by bringing together some of the world's leading industrial nations, by reaching ever new heights of prosperity and by proving a tough bargainer in trade negotiations. But above all it has impressed by its promise. As Walter Hallstein, its President, said, the Community was not in business, it was in politics. It was the ambition of its architects to create a nation comparable to the world's greatest in power and grandeur, and perhaps to surpass them all.

Without the promise, without the ambition, without the idealism, however ill-defined and inconsistent it was, there would have been no EEC. And yet, the skeleton of the EEC was a bargain between the industrial Germany and Benelux on the one hand and the less developed France and Italy on the other. What was proposed was a Common Market, not only for industrial goods, but also for agricultural products, for labour and for capital.

The market for labour and capital has been unified; so will be the market for industrial goods by 1967. The agricultural arrangements still hang fire; since they will mainly benefit the French, they feel that the part of the bargain that has been carried out is unfair to them. On the other hand, the industrial Common Market did not hurt France as it was expected to, and her partners deny that they owe a debt of gratitude to her.

And yet they went far towards paying it. In December they agreed on common cereal prices to be achieved in 1969 which would virtually wipe out cereal growing in Germany and Benelux and leave the cereal market to French farmers. The final agreement on subsidies to maintain farmers' incomes and to help them change their product patterns was also favourable to France. The only outstanding question was the financing of the subsidies: it had to be settled by June 30.

It was not settled. France proposed that the subsidies be financed by pro-rata contributions from the member countries and administered by the European Economic Commission, while the Commission, supported by the other five, proposed that the entire proceeds of import duties levied by the Community be turned over to it for the financing of subsidies as well as

other collective endeavours of the member countries. It would thereby collect over \$ 2,400 million by 1972, of which about \$ 1,000 million would be left with it for collective purposes.

The financial implications of the Commission's proposal were not necessarily unfavourable to France. They, however, would make the Commission financially independent, and put large resources under the control of the Commission and of the EEC Parliament. In other words, the proposal was designed to provide the financial underpinnings of a supra-national authority. This assured its rejection by General de Gaulle. Not that he is against such an authority, but he would like it to command a European army, and he would want it to agree with and so, in effect, implement his foreign policy.

Following the breakdown of negotiations on June 30, de Gaulle's recall of the French Ambassador to the European Economic Commission, and the beginning of non-co-operation with various EEC working groups were unimportant events — undistinguished examples of de Gaulle's mastery of gestures. More significant is the breakdown of negotiations between the EEC and Nigeria. As long as France stays unrepresented, the Commission cannot negotiate: it is paralysed in its external relations. This will also mean the breakdown of negotiations with Austria and Denmark, as well as of the Kennedy Round and may well give new strength to the European Free Trade Area and revive interests in African and Commonwealth trading arrangements. Hitherto it was difficult to reach any agreement with the EEC because all its six members had to ratify it; now it will be impossible since one will not be there at all. A small change for non-members of the EEC, but it could turn the tide against Brussels.

Where does the EEC go from here? It is unlikely to die: it would be too much trouble all round dismantling it, and France would rather be in a Common Market that excludes Britain than be out of one that includes it. Even an agreement on agriculture is not quite ruled out: de Gaulle is an able tactician and has a brilliant negotiator in Couve de Murville, and a compromise can certainly be reached without any principles being involved.

The EEC will survive; it will still remain a milestone. But it will no longer mark the beginning of a road: it will mark its end.

Cochin Refinery: Same Story

WHEN the agreement to set up the Cochin refinery was signed two years ago with Phillips Petroleum Company of USA, it was acclaimed as being a considerable improvement, from the point of view of the country's interests, over the agreements with Burmah-Shell, Esso and Caltex. This, no doubt, it was—in many respects. The feat of persuading a major American oil company to collaborate on a minority basis with the Government was itself considered an achievement for the Oil Ministry, then under K D Malaviya, as well as a sign of the changed times. In one crucial respect, however, the agreement with Phillips followed the pattern of the earlier agreements. Like Burmah-Shell, Esso and Caltex, Phillips was given the exclusive right to import crude oil for the refinery for a period of 15 years from sources of its own choice.

How onerous and contrary to national interest this commitment can be, has been driven home to us by the present foreign exchange crisis. Because of exchange difficulties, the Government has had to turn off a major part of the imports of oil products through the private oil companies and substitute for them imports from the Soviet Union and other countries in the rupee payment area. As was pointed out in these columns in the issue of June 26, 1965, imports of oil products from these sources, apart from being against payment in rupees, are also cheaper. This is as much true of crude as of products. But here the Government has its hands tied by the refinery agreements which give the companies the right to import oil from their own sources. Thus, however grave the exchange situation, the Government has no alternative but to go on spending foreign exchange at the rate of Rs 30 to 40 crores annually for the three private sector refineries even though a good part of these imports could be had without spending a dollar of foreign exchange and at cheaper prices per gallon. When the Cochin refinery goes on stream the annual commitment of foreign exchange for import of crude will increase further, the refinery having a capacity of 2.5 million tonnes expandable to 3.5 million tonnes.

The Oil Ministry has already had a taste of what is in store. In anticipa-

tion of the refinery starting operations in January next year, Phillips has negotiated with a supplier in the Middle-East for the necessary crude supplies. It has to do this since its own principal concessions are in Libya, and getting crude from the Middle East will save on transport costs. What is worrying the Oil Ministry, however, is the price per gallon at which Phillips is going to import the crude. This price is reported to be actually higher than that at which the private refineries import their crude, which is itself too high since the companies are not giving us the maximum discounts which are currently available on the so-called posted price of crude oil. Under the terms of the Cochin refinery agreement Phillips is obliged to purchase crude “on the best terms possible”, but this constraint doesn't mean a thing as has been shown by the practice of the private refineries which are also bound to import crude on the best terms available. Discounts on crude were first given to India by these companies long after they had become quite common in the international oil market and then after some bullying by the Oil Ministry. Even so the rates of discount have consistently lagged behind those which the same companies have allowed to other countries. The Oil Ministry is either in the dark about the maximum discounts currently available or is unwilling to force them on the oil companies.

In the case of the Cochin refinery, the Oil Ministry will be a little less helpless, or so one hopes. The reason for this hope is that under the terms of the agreement and in keeping with its majority participation in the share capital, the Government will nominate five of the nine directors of the refinery company. Phillips Petroleum's right to import crude will be beyond the control of the board of directors, being written into the original agreement, but there is no reason why the board should accept Phillips' prices if these can be proved to be too high. It remains to be seen how effectively the Government will wield its control of the board to ensure that crude prices are kept down to the minimum.

Incidentally, it has been clear from the very beginning that the pricing arrangements contained in the Cochin refinery agreement are more than a little curious. The agreement provides that Phillips will import crude on the “best terms possible”; it also provides

that the refinery company will get a process margin of 1.35 dollars per barrel of crude (apparently to assure Phillips and its Indian associate, Duncan Brothers, their profit margin); and, finally, it enjoins that the refinery will make available all its products, other than those for export, to the Government (or its nominees) at prices not exceeding those determined by the Oil Price Enquiry Committee. These three provisions could prove incompatible and, in fact, it is likely that at the price at which Phillips is reported to be preparing to supply crude, and after allowing for the refinery margin, the price of oil products may turn out to be higher than those fixed by the Oil Price Enquiry Committee, which are now likely to be reduced further if the Talukdar Committee takes into account the full discounts which are currently available in international markets. In that case what will give way: crude price, refinery margin or product prices?

Fifth Steel Plant

THE penultimate round of the battle for the fifth public steel plant to be located in the peninsula has been won by Andhra. The British-American Steelworks for India Consortium (BASIC) has selected Visakhapatnam as the best site in preference to Bailadila, Goa, Hospet, Salem and Neyveli. Hospet is indicated as the best inland site but the Consortium has plumped for a deep water site, partly because it would cost somewhat less but mainly because it can be oriented much more easily to import of coke and export of finished products—and because potential financiers have demonstrated “a genuine preference” for such location. It has an advantage of about Re 1 per ingot tonne in variable cost and of Rs 11 crores in capital cost over Hospet. Bailadila and Goa have been ruled out due to their poor transport connections and commitments to export iron ore. Iron ore costs at Salem would be substantially higher though it is favourably located for the distribution of finished products.

Inter-State rivalries have not been slow to come out into the open after the disclosure of the Consortium's recommendations. The Andhra Chief Minister rushed to say that the just claims of his State had been accepted, which provoked Lal Bahadur Shastri to caution him that the Centre (which

is responsible for the project) has still to come to a decision. Mysore has asserted that Hospet cannot be brushed aside. Madras, armed with the earlier Dastur report on Salem and with a Japanese collaborator in sight, has claimed that Salem with its projected half million tonnes of specialised steels is a different proposition, quite independent of the Consortium's investigations. It was the Centre's inability to deal with these pressures which led it to refer the question of location to the Consortium which, there is no doubt, has been swayed as much by the merits of various sites as by the inclinations of potential lenders of foreign exchange in Europe and U.S., some of whom have received generous public relations treatment from the Steel Minister in the course of his recent extended foreign tour.

In the inter-State wrangles which are sure to be witnessed during coming months, the key questions regarding the fifth plant are likely to be lost sight of. Is BASIC going to get a turn-key contract with consultants acting as suppliers also? How much of the plant and equipment would be imported? What are the terms of the credits that are likely to be offered by the financiers? Would export or corresponding import commitments be part of the contract since the parties concerned are so keen to have a foreign trade-oriented location? These questions are of greater importance than which State gets the plant.

The One That Survived

THESE are hard times for international get-togethers. The Afro-Asian conference slipped through the chink created by Ben Bella's fall, to the barely disguised relief of a substantial section of Afro-Asian opinion: whether Humpty Dumpty can be put together again remains to be seen, but some potential participants at least are gratified that they are spared the agony of choosing between Peking and Moscow, between Djakarta and Kuala Lumpur. But the Afro-Asian conference, famous as it now is because it raised so much dust in trying to meet, is only the most dramatic failure. The United Nations itself, queen of the multitudinous assemblies, remains paralysed on the surface for lack of cash, but at a deeper level high and dry on the rocks of new nationalism — de Gaulle, Kossygin, Sukarno and now, most important, President Johnson, quite clearly no longer need the ideological trappings of United Nations when there are apparently only dis-

united ones, when unilateral action seems to pay. The twentieth anniversary of UN in San Francisco offered little hope of a brighter future — only the insistent reiteration of the central nationalist dilemma which killed the League of Nations, even if heavily garnished with traditional pieties.

Other associations have not done much better. For the moment, the Common Market has defeated de Gaulle and opted for a strong central executive. In doing so, it has threatened its own existence. Such threats have occurred before and have been survived, but France will soon have to choose between using the Community as a setting to project its own national power, and submerging its identity in a supra-national entity, commanded by a professional bureaucracy. SEATO, far away and never as significant as EEC, remains looking slightly absurd

since America scarcely bothered even to notify it of its action in Viet Nam. The defection of France is only the largest nail in SEATO's coffin to date. The Organisation of American States has also hardly recovered from its role as by-stander while the United States invaded the Dominican Republic — shoot first, consult afterwards, is not the best recipe to persuade Latin America that Washington has its best interests at heart. Meanwhile, a longer crisis threatens the dissolution of one of the largest and most heavily armour-plated mammoths, NATO. The straws in the Washington wind suggest that there is a powerful faction within the Administration (using as its mouthpiece the Disarmament Agency) pressing for an immediate follow-up to the Test-Ban Treaty to prevent the proliferation of nuclear weapons and, despite Viet Nam, seal the Soviet-American detente. This is all very

well, but the advocates also go on to argue that the detente may be achieved at the cost of NATO's latest ploy to contain de Gaulle and all the undeclared nationalists, the Multilateral Defence Force. Crudely, the argument demands that a Moscow-Washington axis be swapped for the Atlantic Alliance.

Thus, these are not just hard times for those who wanted, through international meetings between statesmen, to transcend the brutal simplicities of the Cold War; it is just as hard for the exponents of simplicity, for the shrinking cohorts of cold warriors. Paradoxically, one of the least strong members of that select club of international-meeters, the Commonwealth Prime Ministers, has currently made the biggest dent in the world press — perhaps partly because most other assemblies are plunged in gloom, half-listening to the creak of faulty timbers. Despite all the manifest disagreements within the Commonwealth, bound together by no more than a shared experience of the same imperialism (but including the imperialist as well), Harold Wilson has been able to use it as a means to try and find some way through the Vietnamese jungle. Of course, he did it pre-eminently to safeguard himself from attack by the Labour Party Left (quite rightly grumbling at the total subordination of Labour Britain to American foreign policy; the prize for obedience, not so often noticed, was seen in the foreign credits that have supported sterling since last October) and to cut a dash on the international scene preparatory to the possible general election this autumn, much as Macmillan skipped about Russia in a white fur hat to impress the British voter before the 1959 election. He might also have done it because Washington desperately needs some face-saver in Viet Nam. However, whatever the reasons, the astonishing result is that the Commonwealth did not evaporate under the strain. The grumblers were there, and since the Conference they have proved largely right. Moscow refuses to talk on behalf of the Viet Cong; China and North Viet Nam do also refuse, adding acidly that a power so totally loyal to Washington as Britain could never be regarded as an impartial arbitrator or even honest broker, even if President Nkrumah is hiked along to make the mission seem more respectable. Wilson has edged along to suggest that the mission might meet the Viet Cong also — only to find America angered at this playing with fire. Even the

prospect of an amiable chat between the Commonwealth mission and U Thant has now been scotched.

But although the mission is unlikely to achieve anything, as a lesson in public relations Wilson's exploit will go down in the mythology of the Commonwealth as an illustrious deed that somehow makes the Commonwealth worthwhile. More to the point, in the wrack and ruin of international assemblies which we are currently witnessing — the old chrysalis has not yet shown what manner of butterfly 1966 will see — it is odd to see the one with apparently the least to hold it together in fact outliving the rest. It may be the cohesion that presages disintegration; it may be that there is so little to the Commonwealth, there is nothing that could disintegrate; it may be the illogicality that defies reason, so beloved of the ruddled; it may be the sentimentality of the last generation, awaiting only the newcomers to dissipate. Whatever it is, it has survived the assault of Harold Wilson with dignity and almost come to mean something — the reverse trend to sister international associations.

Village Industries in Fourth Plan

A Correspondent writes:

WHEN U N Dhebar says "not hurt", he apparently means "hurt". According to newspaper reports, he has written to the Prime Minister that he would not feel hurt if the Prime Minister thought it fit to disband the Khadi and Village Industries Commission, of which he is the Chairman. The reason for this offer of self-immolation is Dhebar's dissatisfaction with the Planning Commission's attitude towards khadi and other village industries as expressed in the Fourth Plan targets of additional powerlooms, spindles, rice mills and footwear factories. The Khadi Commission has proposed an outlay of Rs 160 to Rs 170 crores for its Fourth Plan schemes, as against the Third Plan allocation of Rs 93 crores. The physical target proposed for khadi production is 250 million yards by the end of the Fourth Plan as against a target of 160 million yards by the end of the Third Plan and an achievement to date of only about 100 million yards. It is claimed that 2.4 million people are getting part time employment in khadi and village industries and that this figure will be raised to 5 millions by the end of the Fourth Plan.

It may be too hasty to conclude optimistically that the dispute is a sign of the dawning of economic sense in the Planning Commission in a field which has up till now been left entirely to the fads of ideological enthusiasts at the cost of the scarce savings of the nation. About Rs 200 crores would have been spent on these industries during the course of the first three Plans and it is doubtful whether there could have been a worse way of spending the amount. For, there can be absolutely no economic justification, either from the growth or even from the welfare point of view, for subsidising these thoroughly inefficient industries. To describe these industries as inefficient is not enough; for it is not merely that they are not competitive. It is often forgotten even by critics that while khadi cloth has got in this country a certain consumer demand, producers of most of the other industries of the groups do not meet any consumer demands at all. There is no market whatsoever, either in the urban or in the rural areas, for such products as cottage matches, hand-made paper, cottage soap, etc.

These so-called industries have gained from the confusion arising from their being associated with other very different industries also passing for small scale industries. Thus, there are the industries that can be set up on a small scale but with power and modern technology; there are the handicrafts, which incorporate traditionally inherited skills that cannot be simulated by machines, which have, therefore, a market of their own and great possibilities of export. There are products, like handloom cloth which cater largely to luxury demand and khadi cloth for which also there is demand though this is not likely to expand. Lastly, there are the so-called village industries, the products of which have no market whatsoever. There cannot be the same set of arguments for this very heterogeneous group of industries.

It may be recalled that economics of this group of industries were discussed threadbare in a series of articles in this journal during the early years of the Second Plan. The discussions established the uneconomic character of the khadi industries beyond any doubt. The Ambar Charkha which was supposed to be a great improvement over the traditional charkha was found equally uneconomic. However, at that time, calculations were based on the assumption that "the Ambar Charkha could be plied for 300 working days in

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a year and produce 6 or 8 hanks per day". The Third Plan admitted that in fact the Ambar Charkhas "were worked on an average for about two hours in a day for about 200 days in a year and the average production was only 1.8 hanks per day." Production even at this low rate has led to accumulation of stocks of unsold products. This latter indication of faulty resource allocation is not confined to the khadi and village industries alone as the very near crisis of stocks of handloom products in South India demonstrated.

Planning Commission's Veto

THE Planning Commission has not given up its opposition to the small car project. Newspaper reports indicate that the Commission is against inclusion of the project in the Fourth Plan. Apart from the merits of the project, the Planning Commission's stand raises the old question: Where does the Commission's function end and the executive agency take over?

The Planning Commission has long been used to taking a hand in executive decisions (and, in the process, not doing its own work well). Its eagerness to record its opinion on the small car project reflects this habit. A rational division of labour would, of course, require the Planning Commission to restrict itself to recommending general policy. For example, it can lay down the target for passenger cars for 1971. (The present decision on the small car implies that this target will not be raised, for raising the target for existing producers will also involve commitment of foreign exchange, the lack of which is the ostensible reason for not allowing the small car project). Then, assuming that this target requires a rise in capacity and production, the Planning Commission can lay down the policy relating to projects for achieving the target. It can state, for instance, how much foreign exchange (and, of what kind—rupee payment, tied or free) would be allowed to be used on capital account and on current account, and what would be the obligations of the party (whether existing producer or new) in regard to output and prices. This would be the legitimate function of the Planning Commission.

Instead, the Planning Commission, without committing itself to any policy, pronounces judgment on individual projects. This is ideal ground for vested interests to play off Government orga-

nisations—in this case, the Planning Commission and the Industry Ministry—against one another. Having got the small car project torpedoed, they no doubt hope later to be able to secure approval for their own expansion projects which might not only be more expensive in terms of foreign exchange but might also not help to reduce car prices. The existing production facilities have been set up on wrong lines so that, as the producers themselves admit, there is practically no scope for any economies of scale.

Coming to the small car project itself, one fails to understand the logic of the Planning Commission's reported decision. Is it the intention to perpetuate the car shortage—and provide monopolistic advantages to existing producers? The foreign exchange argument against the project does not hold water in the case of some of the proposals at least: Czechoslovakia has offered credit on rupee payment terms and the Renaults are reportedly prepared to give an export guarantee.

Profitability and All That

RUSSIAN economists faced a serious problem a few years ago when stocks of certain lines of garments and shoes began to mount: apparently, the consumers were on strike against them. The stocks were liquidated somehow, but similar problems continue to recur, and have caused much discussion. Much of the discussion concentrates on the quality of the goods, with which the unsaleability of the goods has an obvious connection; but argument has also extended to whether the present way of specifying a large number of "success indicators" for individual enterprises is good enough. Professor Liberman of Kharkov has suggested that they should be replaced by a single criterion—that of profitability, and his proposal has attracted much notice in the non-communist world and has been looked at as a portent of an era when communist economies will adopt capitalist mores.

This proposal has hitherto tended to overshadow Liberman's other ideas, which are just as important to the case he is making. In a paper that has recently reached us, he explicitly recognises that a reform of prices is an essential precondition to the application of profitability criteria. He says that prices should take the quality of goods, i.e., their effectiveness in operation, re-

liability and durability into account, and that prices should be set as goods become antiquated or obsolescent. He also favours the replacement of notionally set output targets by orders from trading enterprises, construction sites, etc., which would be able to specify quality requirements. A buyers' market for goods and competition between enterprises are also advocated, so that there is a relation between the efficiency of enterprises and the demand for goods.

The discussion on the Liberman proposals still continues to lean towards ritual and doctrine; the question whether it is "unsocialist" to make profits still obsesses many Russian economists. But the problems which gave rise to the proposals also persist.

Insofar as the accumulation of stocks has something to do with quality, the implementation of Liberman's suggestions will certainly alleviate it. But there is probably a Keynesian reason for their accumulation. It is well known that the growth of production of consumer goods has been accelerated in the Soviet Union's Seventh Plan. Production of these goods has been rising faster in relation to consumer incomes, and has probably led to excess supply of a number of consumer goods, especially consumer durables. So even if the Russians advance in the solution of the problems of pricing and quality control, they will still be left with the task of learning to regulate aggregate demand.

Errata

Ashok Rudra has drawn our attention to the following misprints in his articles:

- (i) In the article, "Indian Economic Growth: Performance and Prospects" — Some Comments", in the issue of July 3, 1965, on page 1070, column one, the 28th line from bottom should read "and decreased market supply may be" instead of "and increased market supply may be".
- (ii) In the book review, "Pathetic Women", in the issue of June 19, 1965, on page 980, column two, the 33rd line from top should read "none for the world in which she" instead of "many more for the world in which she".

The errors are regretted.—Ed.

CAPITAL VIEW

Impending Battles

Romesh Thapar

THERE is a perceptible flexing of political muscle in the Capital. Reports from the States also suggest that in-fights, major and minor, are being planned. All this no doubt has something to do with the forthcoming AICC deliberations at Bangalore, when various disgruntled but still ambitious groups within the ruling party plan to challenge the powerful move to clear the way for Kamaraj's second term as Congress President, but it would be short-sighted to assume that the inner-party struggle is taking place in a total vacuum. Although the vendettas between various political personalities strengthen this impression, fortunately for us certain rather substantial developments have now begun to intrude upon thinking within the ruling party and might help discipline the impending battles.

Planning Commission on Defensive

At Yojana Bhavan, Asoka Mehta is the first to notice the faint smell of gunpowder. Reports are current that Fourth Plan targets are again under assault and that many critical sectors will feel the axe. It would be idle to record the multitude of rumours in circulation until the scale of the plan is officially released, but there is no denying that the anti-planners are mobilising behind the slogan of 'consolidation' to blunt our development effort which they see as a growing threat to the *status quo* of privilege and profit.

The panic spread by the Finance Ministry about the balance of payments gap has certainly the effect of putting the Planning Commission on the defensive. There is demoralisation, too, in the Finance Ministry over the prospect of having to negotiate large loans merely to pay back the interest on earlier loans. And T T Krishnamachari, disgruntled and isolated, has yet to make up his mind about what is to be done. His silence, and the fact that his friends are deserting him in his decline, do not help matters at this critical moment.

The lack of economic and social perspectives at the level of the political leadership is startling, to say the least. Apart from mouthing slogans about self-sufficiency, no one is prepared to spell out what sacrifices are called for. The balance of payments crisis has highlighted the often obscured fact that our industry, despite three five-

year plans, remains terribly dependent on foreign spares and servicing. We have also learned that little has been done to twist the ears of manufacturers who are behind in their commitment to become self-sufficient. Yet, when in despair, someone urges that in order to build the foreign exchange funds for this disastrous lapse, a call should go forth to ban the consumption of those things which can be readily sold abroad—sugar, for instance—the politicians begin to whimper about the angry outbursts such a policy might spark.

Again, the real trouble is that there is no one to give a lead. We prefer to beg in the capitals of the world. We seem to have forgotten, despite many pointed lessons, that there are other ways to survive. Indeed, judging from the comments which appear in our daily newspapers, it is no longer politically healthy to recall this embarrassing truth. But, as I have said earlier, events are conspiring to bring us into collision with reality.

For example, the story of the GOI's clash with the oil companies has kindled the embers of national self-respect. Oil products, paid for in rupees, are being forced upon a reluctant private distribution network. This is being done despite the quiet warnings being given about the possible repercussions on aid-giving countries in the West. The demand to nationalise a rebellious oil industry can be heard in the most cautious of political circles. Obviously the managers of these oil companies either did not appreciate the crisis facing the country or were misled into believing that they were still powerful enough openly to manipulate the policies of a meandering GOI. You can now hear them going around the corridors of the Secretariat claiming that they have been 'raped'!

Naval Aid from USSR

To take another example, we could perhaps talk in similar vein in London and Washington on the question of naval hardware. For long months, we have been knocking at various doors in Whitehall and at the Pentagon to get ourselves a few submarines, some fast moving torpedo and rocket-firing boats and some other naval craft. We were also told to keep away from the Kremlin, for this would lead to a boycott by the West. But having been spurned, we are at last heading Moscow-wards with

full Cabinet backing. The 'shocked' British, our traditional suppliers for the Navy, are now threatening to abandon a vital frigate-building project. They have also promised to block all future naval aid, whatever that may mean. Commonwealth, indeed!

Tanks were denied to us because we were told that we were likely to use them against Pakistan. The naval shipping list, so essential for the defence of the Andamans and Nicobars, was also described as likely to make the Pakistanis suspicious. In fact, it was pointed out that the Anglo-American naval concentration in South-East Asia was adequate protection for the Indian Ocean. The argument clearly revealed what was intended—an India forever dependent on western protection. It's cheap, they said. And we were encouraged to go West in the hope that we would receive free gifts of equipment. This sorry tale is over. We shall pay in rupees—to the Soviet Union, it's healthier. Even the Cabinet, terribly inhibited not so long ago, has at last been persuaded.

But because every Cabinet Minister is a law unto himself, the lesson drawn is never applied generally. We have developed extraordinarily gullible attitudes. Take the latest bit of cynical expertise which has been offered us by a Western steel consortium. Vishakhapatnam has been chosen by these tongue-in-cheek specialists as the location of the fifth steel plant which is planned to expand to 4 million ton capacity. The Western consortium has not only obliged Steel Minister Reddy who hails from Andhra, but has also indicated that it will only support a project so located. Another quite unnecessary threat!

Agitations are bound to be started to change the location, particularly in Mysore where the Hospet site is known to have been approved earlier. Reading the summaries of the Western consortium's reasons for selecting Vishakhapatnam one would imagine that locations are to be determined because of their convenience for the suppliers and contractors. Vishakhapatnam may well be alright, but it passes comprehension why a group of specialists should decide to 'dictate' a site to the government. These strange tactics will probably hinder speedy implementation by trying up the project in political controversies.

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for the battle at Bangalore, they will have to weigh some of these issues with care before they raise their hands in support of this or that contender for leadership. We are passing through a complex phase in our development. The leadership of the party during this period will be compelled to re-forge those perspectives which died with Nehru. This is no easy task in the absence of a dynamic man or group of men. The dry rot over which Prime

Minister Lal Bahadur sits firmly will have to be treated.

The first step is to prevent the subversion of the central apparatus of the party by politicians who have the make-up of gangsters. At the moment, Kamaraj looks as if he is the man who can salvage the healthiest cadre of the ruling party and entrench it for the elections of 1967. He will need energetic assistance—but, then, that is the next step.

FROM THE LONDON END

Labour's Second Wind

HAROLD WILSON's categorical announcement that he has no intention of calling a General Election this year, means that barring accidents the Labour Party will continue in office for at least another twelve months, and this will now provide it with the opportunity to take the steps to prove that Labour will introduce the type of changes into the British economy for which they were elected. In the fresh start that is to be made, it appears likely that there will be some reorganisation of Wilson's cabinet and that a new drive will be made to improve the image of the Party.

Unpopular Measures First

Perhaps on the advice of Earl Attlee, Wilson decided to proceed with the unpopular things first, and although this has certainly reduced the popularity of the Labour Government, it may have left the way open for more positive action which will serve to reassure and reinspire Labour supporters who at present are disappointed and disillusioned with the record of the Government. It appears likely that in the next session there will be an impressive programme calculated to win back waning public support. This could well include bills on mortgage rates, criminal justice reforms based on a White Paper to be published shortly, wage related national insurance benefits and contributions, a guaranteed minimum income for old people, some cuts in defence expenditure as the Defence Review progresses, and a second wave of new towns. With these sights in view, it is not surprising that Wilson has decided to battle on despite his razor edge majority. The controversial Finance Bill is now out of the way and it is not yet certain whether the Steel Bill will be postponed or not. It also seems likely that it will be too late to debate the Jard Commission proposals before the summer recess as the White Paper has not

yet been published.

In many ways this is a courageous decision for Wilson to take because it means that he will have to face up to the difficult sterling situation which is likely to crop up once more in autumn. Traditionally, September is a time of strain for sterling, but in 1965 the pattern of payments has been so distorted that it may well be that purely seasonal pressures may be less. The figures put out by the Treasury on the gold reserves have been set out in such a way that they hide more than they reveal. Officially, the reserves at end-June were down £24 million, or £21 million if interest payments to the US are excluded. However, an unstated amount was drawn against the \$750 million credit line with the New York Federal Bank. Therefore, it is really impossible to gauge the real situation, and generally speaking, foreign exchange markets now pay more attention to monthly trade figures than to recorded movements in the reserves.

The fact remains that the economic horizon is still far from clear, and recent figures on the balance of payments are not as favourable as might have been hoped. Despite the fact that the balance of payments figures for the first quarter showed the expected improvement, they did not succeed in restoring complete confidence in sterling. The fact that world opinion still continues to be jumpy about the prospects of sterling was confirmed by the rumours of sterling devaluation which spread around Wall Street on the eve of Callaghan's visit to the US. The unusually heavy outflow of capital in the first quarter was partly offset by the improvement in trade, but this has not been maintained since. Much depends on how effective the action taken in the budget to discourage overseas investment will turn out to be. The Chancellor of the Exchequer hopes to reduce last year's deficit of £745

A clash at Bangalore would do nobody any harm. Too long have the bitter skirmishes between the factions and leaders been held behind a smokescreen of goodwill and friendship. A few open battles would prove invigorating for a party which looks mentally and physically palsied but continues surprisingly enough to show strength at the polls. We would then know who stands for what and where—a pre-condition for the treatment of the dry rot.

million to £300 million in 1965 and eliminate it by 1966. Certain factors assisted the first quarter figures. To begin with, the figures on imports into Britain were affected by the New York dock strike which held up shipments of exports to Britain; this factor will not apply again. On the other hand, the pressure of US companies to repatriate funds, and the uncertainties about sterling which led to heavy remittances from subsidiaries of foreign firms, may well continue. However, some relief will be obtained from the agreement recently concluded by which Germany will offset foreign exchange costs of British forces by buying British goods worth £127½ million. The crux of the situation, therefore, continues to be the need for Britain to increase exports and decrease imports. This is a factor which will continue to overhang the British economy for the next few years. Britain's share of world trade has fallen from 20 per cent in 1954 to 14 per cent in 1964 and the downward trend seems to be continuing.

Labour's Strategy

The main strategy on the economic front relates to the Economic Plan which should be ready by mid-September. It is understood that replies to the Department of Economic Affairs growth questionnaire suggest that British industry believes that as things stand at present, it is unlikely that the growth target of 25 per cent increase in domestic product will be reached by 1970—the improvement is likely to be nearer 23½ per cent. Again, industry believes that the shortage of workers will amount to 500,000 rather than the anticipated 300,000. Productivity is unlikely to reach the 3.5 per cent improvement for which the Government is hoping, and will probably be nearer 3 per cent. British industry believes that with the possibility of a contraction in demand from the Common

Market countries and the USA, competition overseas is likely to become increasingly severe in the next year or two.

The second bolt in the Government's armoury is its Prices and Incomes Policy. How effective this will turn out in practice still remains to be seen, but the Government is claiming that George Brown and Aubrey Jones of the Prices and Incomes Board, have won a significant victory over the road haulage industry. This, they hope, will set a precedent for further successes. The fact remains that since the Government is not in a position to impose price controls, the organisation really has no teeth and most of the pressure so far has been more on the wages than on the prices front. Fighting speeches have not been lacking about the need to control prices, and George Brown in his speech last week-end at Bristol, said that Britain was being "taken for a ride" by unscrupulous firms inflating their prices unnecessarily. He also went on to say that the Government would "make the biggest drive that has yet been made to get prices stabilised and all incomes within the level of the productivity rise". The attack on the incomes front was continued by Callaghan who told a Labour Party Conference in Swansea over the week-end that incomes have been rising too quickly and faster than production.

A World Slump?

What do Britain's economic prospects look like at the moment? The Chancellor of the Exchequer assured the US Administration that Britain had a good chance of winning her balance of payments battle by the end of 1966, but even he admitted that it would be a long and hard haul in which gimmicks could play no useful part. The fact remains that the UK economy is far from healthy. The economy appears to be overheated, and the latest Ministry of Labour figures show that there is over full employment. At the same time, prices on the Stock Exchange have been slipping sharply, reflecting the same trend in Wall Street. Indeed, the whole world economic picture appears to be far from rosy, and it is not surprising that people are beginning to wonder whether the world is sliding into a second slump. There are many similarities between 1965 and 1929, and it is for this reason that Martin, the Chairman of the US Federal Reserve System recently appealed that the world should take "seriously" recent comparisons between the present and the period preceding the

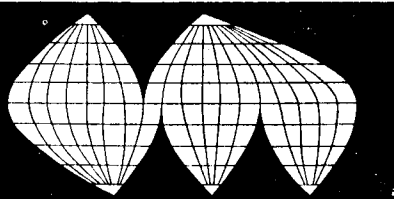
breakdown of the inter-war economy and heed to warnings about the threat of another "great depression". Looking at the international scene, there is the return of a dollar gap, financial difficulties in Japan and Western Europe, the tightening of world money markets, the fact that many developing countries have no hope of servicing the external debts they have accumulated.

At the same time, the present system working since the two reserve currencies are no longer doing the work they should be. Since the rest of the sterling balances are being used and dollars are being converted into gold, while exchange controls are undermining the reserve roles of these two currencies. If this trend continues and both the UK and the USA eliminate their balance of payments deficits and inter-

national reserves are concentrated in Western Europe, there will be no effective machinery for using these surpluses in other countries, and the whole problem of international liquidity will assume a very menacing form. In these circumstances, it was not surprising that this was the principal subject discussed in Washington by the British Chancellor of the Exchequer. Any hope that the Labour Party will be able to achieve the objects which it set out in its Election programme must depend on the state of the British economy, which, in its turn, depends on the state of the British economy, which, in its turn, depends upon the state of the world economy as a whole, and it is hoped that some more sensible approach to this question of international liquidity will now be considered.

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BOOK REVIEW

Social Stratification Among Muslims

Imtiaz Ahmad

Muslim Communities in Gujarat: Preliminary Studies in their History and Social Organization by S C Misra, Asia Publishing House, 1964; pp XVI + 207, Rs. 18.00

SOCIOLOGISTS and social anthropologists have not paid much attention to the study of Indian Muslim social structure. While in recent years they have made systematic field studies of several Hindu communities which have enriched our understanding of Hindu social structure, few attempts have been made to study Muslim communities. Even students of village communities in which Muslims constitute a substantial proportion of the total population have neglected the analysis of Muslim social institutions. They have generally treated Muslims as a single and an undifferentiated social entity and have paid little attention to the examination of social groupings and patterns of social stratification and inter-group relations among them.² In the situation this study of the history and social organization of Muslim communities in Gujarat is bound to be received as a significant contribution to Indian sociological literature.

The study is primarily concerned with a socio-historical analysis of the social organization of Muslim communities in Gujarat. The author tries to examine the ways in which Islamic culture penetrated and interacted with the local Indian tradition at the social level, the changes which came into Islam as a result of this interaction, the manner in which foreign Muslim communities became increasingly Indianized and the local converts merged into the Muslim society and, finally, how Indian Islam shaped itself not only in its ideational and cultural aspects but also in social and inter-personal spheres. In short, the book is concerned with an examination of the process of adoption of the Islamic Great Tradition to the Indian Little Tradition.

Two Approaches

The problem which the author attempts to examine here can be approached in two different ways. It can be approached from a historical point of view by making a study of the rise and development of Muslim society through the centuries. One can study the various social institutions and ways of life which Muslims of foreign origin

brought with them when they migrated to India, the manner in which Indian beliefs, usages and practices affected these social institutions and ways of life, the factors which led to the conversion of local Hindu population to Islam, the extent to which social institutions, beliefs and religious practices of the early converts became a part and parcel of Muslim society and the adjustment which Muslims made with Hindus in the regions where they settled. In other words, one can examine the forces which acted and inter-acted in the formation of Muslim society through centuries.

The other approach is sociological. One can select a community or group of communities of Muslims, spend sometime living in it and make a systematic study of its various social and cultural aspects. One can, for example, examine what are the social institutions of that community and the specific functions they perform in the total social system. One can also compare the social institutions of the Muslim communities with the social institutions of Hindus and examine the pattern of interaction between the two societies. Although a sociological study can provide greater insight into the internal and external structure of social relations within the society, its usefulness in understanding the dynamics of Muslim society is very limited.

However, neither approach is adequate when used alone in understanding the complex nature of Muslim social structure. Muslims had already possessed a flourishing civilization and an elaborate socio-cultural system before their contact with India. A knowledge of their past history is, therefore, necessary for the analysis of their social structure. At the same time, since their establishment in India, Muslims have been living side by side and in close contact with Hindus and the two societies have interacted upon one another in several important ways. In order to understand the nature of this interaction it is necessary to study actually existing social relations between them in a contemporary setting. For a proper study of Muslim social structure it is necessary that an analysis along his-

torical lines should somehow be combined with an analysis along sociological lines. In this book Misra tries to bring together the different approaches of history and sociology.

The book is divided into three separate parts. In the first part the author presents a brief sketch of the rise and development of Islam in Gujarat and discusses the Bohra and Khojah missionaries. He shows that the settlement of Muslims in Gujarat dates back to a very early period. Being a coastal area Gujarat had been attracting Persian and Arab traders from early times and in the ninth and tenth centuries there were flourishing Muslim settlements. The Muslim trading communities lived in close proximity with Hindus and the relations between the two communities were cordial. The Hindu rulers were tolerant and secular in their treatment of Muslims. During the reign of Siddharaj Jaysingha (1094-1143), for instance, a mosque demolished by fire worshippers was reconstructed at state expense and the miscreants were severely punished. The charisma of Siddharaj Jaysingha's personality among the Muslim subjects was such that three of the major Muslim communities in Gujarat, namely, Bohras, Khojahs and Sunnis claim to have converted him to Islam.

Treatment Inadequate

The author's treatment of the historical aspects of Islam in Gujarat seems extremely inadequate when it is recalled that his objective in the book is to study the social aspects of Indo-Muslim contact. He merely presents an account of the presence of Muslim communities in Gujarat and discusses the Bohra and Khojah missionaries on the basis of historical sources and local traditions. He does not deal with the specifically social aspects of the problem. For example, he does not provide any information on the social stratification of early Muslim settlers in Gujarat and the kind of influences which made an impact upon their social structure. Even while dealing with Khojah and Bohra missionaries he does not tell us to what extent these mis-

sionaries contributed to the spread and development of Islam in Gujarat.

It seems to me that in the context of socio-historical aspects of Indian Islam a fundamental problem is the impact of the typically Indian social institutions, beliefs, usages and practices upon the social structure of Muslim society. This problem can be studied by examining the castes and classes from which converts were recruited, what were the patterns of social stratification among them, what kinds of social relations they developed with Muslim of foreign origin and how their incorporation into the Islamic fold finally led to the emergence of a composite social stratification among Indian Muslims.

Historical Material Available

The analysis of these problems calls for painstaking effort no doubt but material for their study is not entirely lacking. Persian chronicles, inscriptions, coins, foreign travellers' accounts, Persian, Arabic and Indian literatures and local traditions provide information which can be used for the analysis of these problems. In a study of Muslims in Bengal, for instance, Abdul Karim³ has used these sources to analyse Muslim society in Bengal. He examines the socio-political background of Bengal on the eve of Islamic impact, the contribution made by various elements such as the Sultans, Muslim scholars and Sufi saints to the consolidation of Islam and discusses the composition of Muslim society and the local aspects of religious and daily life of Bengali Muslims. He shows how Islam came into Bengal as a foreign religion but was slowly integrated into the socio-religious system of the people. Although Karim's treatment of Muslims in Bengal is historical and no attempt is made to deal with sociological problems, his study provides a very satisfactory analysis of the forces acting and interacting in the formation of Muslim society in Bengal. It is from studies of this kind that the social aspects of Indo-Muslim contact can be adequately understood. Students of Muslim social history are likely to be disappointed by Misra's treatment of the rise and development of Muslim society in Gujarat.

The second part of the book attempts to analyse the culture and social organisation of Muslims in Gujarat. In this part the author gives ethnographic accounts of the Muslim communities in Gujarat. The accounts are concerned primarily with the manners and customs, social volitions, dress and social organization of the differ-

ent communities. The data on which these accounts are based were partly derived from documentary sources such as the National Register of Citizens and District Reports etc, and were partly collected through field work among the communities. Some accounts are more detailed than others for two reasons: in the first place, some communities are larger and more widely distributed so that they show greater regional variation; secondly, field work could not be done intensively among some communities.

In the nineteenth century ethnographic glossaries and compendium were compiled in different parts of India.⁴ These glossaries and compendiums provided valuable information on the origin, religious beliefs and usages, customs and manners and kinship and caste organization of all important castes and tribes in different regions. In latter years the reports of the decennial censuses provided detailed accounts of castes and tribes and the changes taking place among them in the different provinces. In many ways the second part of Misra's book resembles the ethnographic glossaries and list of castes contained in the census reports. Although it provides valuable information on customs, manners and social organization of Muslim communities in Gujarat, it does not provide information on the nature of inter-relations between these communities so that a sociologist interested in an analysis of the inter-relations between the different castes and communities will find them extremely inadequate.

Total Social Structure Ignored

The author treats each community as separate and independent. He discusses the occupation, customs and manners and social organization of each caste as if it exists in isolation from the rest of society. Even while discussing recent changes in occupations, dress customs and styles of life of members of the different communities he does not attempt to relate these changes to the total social structure and makes no effort to see how far these changes are local reflections of wider social changes.

Sometimes sociologists and social anthropologists isolate a particular community from its total social network and study its form and structure in detail. Such an isolation is, however, an analytical device used to facilitate a systematic understanding of the internal structure of the community. In actual situations every caste or community is embedded into a wider social

system and it derives its existence by the fact that it is a unit in a system of similar units. In studies of social structure it is necessary to place each community in relation to groups of like order.

The importance of studying a caste or community in its social context has been stressed by many sociologists and social anthropologists. Marriott⁵ for instance shows that the apparent uniqueness and seemingly fortitious variety within caste in India and Pakistan become capable of regular analyses and understanding when a caste is examined, not historically in isolation, but locally and regionally with systematic regard for its contexts. Ansari⁶ has also said that the examination of inter-caste relations is necessary for a fuller understanding of the way in which the caste system operates among Muslims. Misra's treatment of each community as an isolate unit leads to many drawbacks in the analysis of Muslim social stratification.

Relations with Hindus Ignored

In the first place, we are unable to study the nature of social stratification in the Muslim society of Gujarat from the ethnographic accounts given in the second part of the book. For a proper analysis of the system of social stratification it is necessary that we should have information on the patterns of status groups, economic classes and power groups in any society. Such an information can be obtained only through the analysis of interrelations between the various communities in social, economic, political and jural spheres. Since each community is treated here in isolation this information is not available.

Secondly, since only the Muslim communities are the focus of attention, the relationships between these communities and Hindus with whom they may be living in close proximity are omitted from analysis. It is up to the author of a book to limit the scope of his study and he can easily choose to leave out any set of relationships from analysis. Nevertheless, the nature of interaction between Hindus and Muslims constitutes an important area for study of Muslim social stratification for without an understanding of this interaction it would be difficult to appreciate the influences wrought by Hindu social structure on the social structure of Islam in India.

Broadly, the relationships involved in the study of Muslim social structure can be reduced to three main categories.

First, there are relationships which exist among the different Muslim communities or castes residing in a local area or region. Each relationship in this category form part of sub-systems of ritual economic and political relations by reference to which groups are defined and consequently the status of members of each group as well as their behaviour and mode of conduct when acting as such towards members of similar groups is differentiated. Secondly, there are relations between persons either as individuals or as members of kinship groups of different kinds such as household, family and lineage etc. Most of these relations exist between members of the same caste and community and the behaviour of members in respect of each other is undifferentiated. Finally, there are relations of Muslims both as an undifferentiated unit and as individual members of specific caste groups with Hindus as a single social entity and as individual members of caste groups. In dealing with problems of social structure it is necessary that these different categories of social relationships should be separately investigated.

It is difficult to deal with the three categories of social relationships mentioned above at the provincial level. It would, therefore, have been useful if the author had narrowed the area of his field study. He should have organized fieldwork in a few peasant and urban communities in different parts of Gujarat and tried to examine the kinship, inter-caste and inter-community relations at local levels. Such a study would have provided more socio-logically useful data.

Elements of Caste System

The third part of the book is a general discussion of Muslim social organization. In this part the author discusses the elements of a caste system in the system of social stratification among Muslims, the self-governing institutions and marriage and family customs, especially the hypergamous and endogamous marriage patterns and some of the restrictions which family obligations put upon its members. He also tries to locate the trends and processes of social change among the Muslim communities in Gujarat. Although the discussion is largely based upon data provided in the book, the author has also drawn upon material from other areas for comparative purposes.

The author argues that social stratification among Muslim communities in Gujarat is patterned on the Hindu

caste system. In his opinion there are two bases from which this similar patterning might have originated. In the first place, it might have originated from the recognition of consideration of propinquity and status among Muslims elsewhere. The spread of Islam led to the proliferation of power groups and racial considerations became important determinants of status. In Islam, thus arose a highly fluid communal system which, though flexible and highly responsive to subtle nuances, was still affiliated to birth as a status symbol. This system provided a basis for the development of a caste-like system among Indian Muslims.

Different from Hindu Caste

The other basis of a caste-like system among the Muslims in India lies in the social stratification system in the indigenous population which became incorporated into Muslim society through conversion. Originally, the local population belonged to a caste society in which status was rigidly defined by birth and maintained by strong social sanctions. When these groups became incorporated into Islam through conversion either by peaceful persuasion, threat of force, offer of material or political advantages or aspirations of upward mobility they imported their social system with them. Since much of early conversion was group conversion this was relatively easy.

The author, however, points out that the system of social stratification among Indian Muslims also shows some significant differences when compared with the Hindu caste system. For one thing, the acceptance of the principle of caste in Muslim society is different from the Hindu caste system. While both the systems resemble each other in the endogamous pattern of marriages and keen sense of birth and lineage among the Muslims the system has not been elaborated to any great extent. The degree of hierarchical gradation is looser and mobility is relatively easy within the scale of Muslim castes. Further, status which is a subtle blend of so many definable and indefinable elements plays an important role in determining social distance so that it is difficult to arrange the castes into any definite hierarchy. Secondly, since the Muslim social system admits wealth and status as determinants of status honour, comparatively less emphasis is placed in it upon pollution. Thirdly, within the Muslim social stratification there is no ritually pure caste like Brahmins with dispensations and obligations which may be peculiar to them

alone. Sayyads who are given a prominent place among the Muslim castes lack the charisma which has given the Brahmins their peculiar place in the Hindu society. Fourthly, while endogamy is accepted as a general social restriction among most caste groups some of the intermediate castes intermarry freely. Finally, the Muslim system of social stratification has no independent existence. It has developed symbiotic relationship with the Hindu caste system so that it has become, in a wider sense, a part of a larger whole.

Several scholars have mentioned that there is no elaboration of hierarchical ranking of castes in the Muslim society.⁷ Marriott⁸ has, however, shown that this relative simplicity of ranking in Muslim society is not associated with the predominance of Islam in any region. The elaborateness of the hierarchical ranking of castes is determined, among other factors, by the number of local caste groups in the society. To favour an elaborate caste ranking it is necessary that the concrete structural units of the society must be numerous. He suspects that the simple development of hierarchical ranking of castes among Muslims may be connected with the simple structure of local communities.

In Eastern U P

There seem many good reasons for correlating the elaborateness of hierarchical ranking of castes among Muslims with the size of community structure and number of caste groups. My own data show that the predominantly Muslim villages of eastern U P consisting of a number of Muslim caste groups have elaborately developed hierarchical rankings and the different caste groups in those villages can be arranged into fairly definite positions of status honour.⁹ In the middle Indus and Bengal Delta, however, where the local communities are small and the number of castes in them is limited the hierarchical ranking is very simple. Although Misra has made no attempt to correlate ranking to the number of caste groups in this book, this is a problem which should be investigated before the simplicity of hierarchical ranking among Indian Muslims can be accepted finally.

The author identifies a process of mobility among the Muslim communities to which he gives the name Islamization. It implies patterning of the way of life of a particular caste on the more respectable pattern in Islam, changes in occupation and dress and the weakening of the traditional self-

governing, *janat-bandi*, organization. This process always takes place within the caste system because it is intended to bring about upward mobility and it affects the total structural arrangement of the society. The author does not provide any discussion of how this process is actually brought about within a group of communities. Further, he considers the existence of local reference groups irrelevant to the process of Islamization. My own data, however, suggest that along with the process of Islamization of the style of life of a caste, the Islamizing group also begins to lay claim to a superior status. Also, since the process always takes place in a local setting the existence of local reference groups determines the extent and direction of this process.

It is obvious that the usefulness of this book is very limited for sociologists and historians interested in the study of Indo-Muslim contact. It is, however, likely to be very useful for the students of Islamic studies. In the past they have generally based their studies of Muslim social structure on the study of religious literature and textual sources, and side-stepped the peculiarities of Indian Islam. They have also hesitated to survey the communities whose faith and history have been their chosen theme. This book, as Professor Grunebaum remarks in his Preface "opens the door to one of the least investigated sectors of the Islamic world and it provides a rich introduction to the composition and stratification of Gujarati Islam and the social realities within which the Muslim faith is lived in the complexities of an area where traditions are mingled rather than blended".

Notes

¹ For a number of years Ghaus Ansari's study, "Muslim Caste in Uttar Pradesh: A Study of Culture Contact" (Lucknow 1960), has remained the only standard sociological work on social stratification among Indian Muslims.

² See, for instance, Dube, S C "Indian Village", London, 1957 and Srinivas, M N 'Social System of a Mysore Village'. In *Village India* (ed) Makim Marriott, Chicago, 1957. Although Muslims respectively constitute 16.6 and 11.8 per cent of the villages studied by Dube and Srinivas and there are suggestions in their works that they consist of several district sub-divisions both authors treat the entire Muslim population as

an undifferentiated unit.

³ Karim, A "Social History of the Muslims in Bengal Down to A.D. 1538," Dacca, 1959.

⁴ For Gujarat see Desai, G H "A Glossary of Castes, Tribes and Races in the Baroda States, Bombay, 1912.

⁵ Marriott, Makim. "Caste ranking and Community Structure in Five Regions of India and Pakistan" Poona, 1960. p 1

⁶ *op cit* p 58.

⁷ See, for instance, Ansari, G *op cit* p 66, Marriott, M *op cit* p 43 and Ahmad, Z 'Muslim Caste in Uttar Pradesh', *The Economic Weekly*, February 17, 1962. p 389.

⁸ *op cit* p 49.

⁹ Fieldwork was carried out in a predominantly Muslim multi-caste village in Barabanki District in eastern Uttar Pradesh between March 1961 and May 1962.

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Price Controls in the Indian Economy

Do They Hamper Growth?

V C Shah

The two crucial questions which arise in any discussion of the role of price controls in the Indian economy are:

- Is the choice of commodities whose prices are controlled rational and justifiable? and,*
- Do price controls impede the flow of investment resources into the industries whose products are subject to price control?*

An attempt is made here to examine from these two angles the existing controls on prices of manufactured goods.

THERE is an impression in some quarters, both in India and particularly in foreign countries, that the Indian economy is studded with a number of price controls. Such an impression is unjustified. This is evident from the fact that out of the numerous non-agricultural products only 17 commodities are at present subject to price controls. The twelve commodities whose prices are controlled statutorily are sugar, kerosene, coal and coke (higher varieties), woollen yarn and articles, worsted weaving and hand knitting yarn, iron and steel (flat products), cotton, fertilisers, cotton yarn and textiles (coarse and fine varieties) cement, ethyl alcohol and molasses. The remaining commodities — paper, motor vehicles, petroleum and petroleum products, matches and bicycles — are subject to non-statutory price control.

The story of price controls on agricultural commodities in India is the same as in the Western countries, such as the USA and the Federal Republic of Germany. There is, however, a basic difference. In the USA, for instance, the Government follows a price support policy for agricultural products in order to maintain parity between agricultural prices and industrial prices in the interests of farmers. In India, agricultural price policy is designed not only to protect the consumers' interests but also to induce farmers to increase agricultural output. This analysis is confined to price controls on the 17 non-agricultural commodities. It does not attempt to cover agricultural price policy which is a challenging topic by itself.

There are two crucial questions which should be considered in discussing the role of price controls in the Indian economy. Firstly, it is necessary to analyse the choice of products within the framework of economic justification for imposing price controls on them. Secondly, one

must examine the impact of the operation of price controls on the flow of investment resources into industries whose products are subject to price controls. This is a very basic question for various reasons. After all, price control policy is a short term measure to meet the problems created by the shortage of supply in relation to the demand. But the long run solution is to equate supply to demand by, increasing the production capacity of the industry. This is possible only if the operation of price control does not discourage investment in the industry.

Why Price Control?

The price mechanism in a free enterprise economy brings about an optimum allocation of resources given certain assumptions. These are (a) perfect competition in both the product and factor markets, (b) perfect divisibility of all resources and products, (c) absence of direct interdependence among producers and consumers, i.e. absence of any divergence between social benefit and private gain as well as social cost and private cost.

In addition, two points pertaining to the Pareto optimum are worth noting. The general equilibrium theory is after all a static theory and therefore fails to take into account the implications of dynamic forces in a growing economy — for instance, the concept of pecuniary external economies and diseconomies. Secondly, the Pareto theorem does not offer any policy norms for income distribution. On account of these characteristics of the Pareto theorem together with its unrealistic assumptions, the price mechanism left to itself as suggested by the static equilibrium theory in both its general and its partial form, cannot serve the basic objectives of economic policy. Hence, the need for Govern-

ment interference with the market mechanism.

In India, price control has been one of the instruments in the armoury of the Government for achieving economic objectives and for implementing the Five Year Plans. Specifically, there are four objectives which price controls on the 17 non-agricultural products are expected to fulfil. These are:

- to protect the interests of the vulnerable sections of the consumers given the income distribution;
- to facilitate investment in priority industries which are essential for laying the foundation for rapid economic development of the country;
- to prevent monopolistic exploitation by a few firms belonging to a single industry, and
- to ensure a reasonable degree of price stability.

(a) The consumption of essential products like sugar, kerosene, coarse varieties of cotton textiles and molasses is vital to those sections of the Indian society which are relatively poor. In a growing economy when prices of such products are under pressure, it is natural that these vulnerable sections cannot purchase their day-to-day requirements at market prices. Just as during war time essential consumer goods are subject to price controls and rationing in the interest of the consumers, their prices are at present controlled in India in the interest of the lower income groups. And the pressure on consumer goods prices is generated by the strains and stresses inherent in the process of accelerating the rate of the growth of the Indian economy.

(b) Economic planning implies investment priorities. Such priorities have to be determined because the market mechanism fails to allocate the scarce resources in a manner that would hasten the pace of economic

growth of India. The failure of the market mechanism, in turn, is due to the divergence between social and private cost, as well as social and private gains. It is extremely desirable that scarce resources, particularly the basic inputs such as steel, cement and coal are made available for priority investments in adequate quantity, at the proper time and at reasonable prices. This is because the flow of basic inputs to the different sectors of the Indian economy, is essential for maintaining the time schedule of various key projects. If the time schedule is upset, the problem of phasing the Five Year Plans would become extremely difficult. This is particularly so in the case of India because it does not possess the safety valve of imports to supplement the deficiencies in the domestic production of basic inputs. Thus the rationale behind price controls coupled with distribution controls on cement, higher varieties of coal and coke and flat

products of iron and steel industry is to enable the user industries to purchase them at reasonable prices and in adequate quantities.

In the absence of price controls, some of the priority industries requiring cement, steel and coal would find it very difficult to buy them in adequate quantities and at reasonable prices in the free market. It is very likely that cement would be available for luxurious residential construction in the growing urban areas whereas construction of irrigation canals and dams would be starved of cement. Everyone, however, would agree that investment in dams and canals is more beneficial than investment in luxurious construction from the point of view of the society as a whole.

(c) It is true that the number of producing units in a given industry is not a necessary and sufficient condition for considering the industry a monopoly or an oligopoly. However, market conditions tend to be mono-

polistic or oligopolistic when the number of enterprises in a given industry is relatively small. It is, therefore, not incorrect to regard paper, motor vehicles, matches, bicycles, iron and steel, fertilisers, and petroleum and petroleum products industries as monopolistic or oligopolistic. This is because the number of units manufacturing paper and paper board were 45 in 1964, those manufacturing motor vehicles were 9, scooters, motor cycles and three-wheelers 9, and bicycles 20. There were only four companies which manufacture petroleum and petroleum products and only 6 producing matches, and two main private sector units in the iron and steel industry.

Given the market structure for the products of each of these industries, it is not unlikely that they might follow a policy of administered pricing. If so, these industries would tend to exploit the consumers of products such as paper, motor vehicles, petroleum

Table: Profitability Ratios Industry-wise, 1960-61 to 1962-63

Industry	Gross Profits as Percentage of Total Capital Employed			Profits after Tax as Percentage of Net Worth			Dividends as Percentage of Paid-up Capital		
	1960-61	1961-62	1962-63	1960-61	1961-62	1962-63	1960-61	1961-62	1962-63
Coal mining	8.9	8.3	9.5	7.8	5.7	8.1	9.2	8.8	7.8
Sugar	8.8	7.4	7.6	11.2	7.4	3.5	13.9	11.6	9.7
Cotton textiles	12.0	12.9	7.9	13.5	13.1	5.8	12.1	12.4	10.0
Iron and steel	6.9	8.0	9.6	10.4	10.2	12.8	12.6	12.6	13.0
Transport equipment	9.8	10.1	10.6	12.1	11.0	9.5	9.9	9.6	8.4
Matches	16.1	16.2	17.6	12.5	11.7	13.4	16.2	16.4	16.4
Cement	8.3	8.7	11.4	7.8	7.9	9.4	9.7	9.8	9.3
Paper and paper products	9.4	8.4	8.3	9.9	8.0	7.1	10.2	9.8	8.6
Tea plantations	12.1	9.4	10.7	9.0	6.0	5.9	14.6	11.9	10.2
Coffee plantations	10.4	6.4	12.2	10.3	4.4	7.5	12.4	8.7	10.3
Rubber plantations	16.9	14.0	13.3	10.5	7.3	8.0	11.1	10.3	10.6
Edible, vegetable and hydro-generated oils	8.6	7.4	7.3	10.4	6.4	7.9	8.0	7.2	7.3
Tobacco	13.4	11.7	14.2	8.7	6.9	7.7	10.7	10.3	9.2
Jute textiles	7.6	3.4	16.4	7.0	-2.0	19.5	8.6	5.9	13.1
Silk and rayon textiles	15.8	13.2	9.7	19.1	17.1	11.1	10.0	9.2	8.2
Woollen textiles	19.4	20.1	17.5	17.8	19.9	17.4	12.2	12.0	11.8
Non-ferrous metals	12.8	10.9	10.0	17.4	9.0	9.9	7.4	5.8	4.2
Electrical machinery, apparatus and appliances, etc.	12.8	11.6	14.1	14.2	13.4	11.5	13.0	12.8	11.3
Machinery (other than transport and electrical)	11.4	10.4	11.0	14.7	12.8	10.7	9.2	9.8	8.1
Foundries and engineering workshops	8.4	9.3	10.3	7.0	8.7	9.3	10.2	9.3	8.8
Basic industrial chemicals	13.7	12.3	10.5	14.1	13.1	11.4	8.9	9.8	9.4
Ferrous/non-ferrous metal products	11.3	11.1	11.2	11.0	9.9	9.8	13.1	16.0	12.2
Medicines and pharmaceuticals preparations	14.5	13.5	13.7	17.1	15.9	12.0	15.18	13.7	11.2
Other chemical products	11.6	11.2	13.4	11.3	10.3	9.8	11.2	14.0	14.5
Mineral oils	12.8	14.1	14.3	11.0	10.8	7.1	14.4	16.5	16.5
Electricity generation and supply	7.4	8.0	7.6	8.9	8.3	7.1	8.0	8.2	8.6
Trading	8.4	9.2	8.7	9.8	10.4	8.6	15.3	14.7	12.1
Shipping	-0.1	0.8	4.9	-4.0	-1.9	3.0	2.7	2.8	3.6
Total (including others)	10.1	10.0	10.1	10.9	10.0	9.0	11.1	10.9	9.9

Source: Reserve Bank of India.

and petroleum products, matches and bicycles. Such a situation would not be consistent with the objective of preventing exploitation of the consumers and also concentration of economic power. The Governments in Western countries, such as the UK and the USA do not allow full freedom to the management of an oligopolistic industry to adopt an administered pricing policy. The Government in India would likewise be justified in becoming a party to the determination of prices of these commodities.

Theoretically, effective maximum price of a commodity produced by a monopolist or an oligopolist might lead to increased output and more efficient allocation of resources. If the maximum price is somewhere between the equilibrium price which would be determined in the absence of price control and the point of intersection of marginal revenue and marginal cost itself, a monopolist or an oligopolist would regard the demand curve for his product as perfectly elastic upto a certain limit. The new marginal revenue curve upto a limit (which would also be equal to the average revenue curve) would be lower than the original marginal revenue curve. The producer would determine the equilibrium output by equating his new marginal revenue curve with the marginal cost curve. Hence there would be higher output provided the producer had not already reached the point of production beyond which his marginal cost curve had become perfectly inelastic.

It is plausible that in the Indian conditions, effective maximum prices of products like paper, motor vehicles, iron and steel, matches and bicycles may not have the effect of increasing their output. This is because producers in these industries are likely to be operating their plants at full capacity in the sense that they would have stretched output to the point beyond which marginal cost would have become inelastic.

(d) Price control policy has also another important objective to fulfil, viz, maintaining a reasonable degree of price stability. If prices of sugar, kerosene, coarse varieties of cotton textiles and molasses which enter into the cost of living of the masses of India are not controlled, it is very likely that trade unions would be under pressure to push up the wage rates. If trade unions were to succeed in raising the wage rates to compensate the working class for rise

in cost of living, industrial development would suffer. In other words, India would experience the familiar cost push inflation which countries like the UK and the USA have faced in the post-war period. Since cost push or for that matter demand pull inflation is not desirable for economic growth of either a developed or an underdeveloped country, the Government of India is justified in resorting to price controls of these essential consumer goods.

Again if steel prices, for instance, are not subject to price controls, the cost of production of a number of industries consuming steel would rise. Just as steel prices in the USA are extremely important for maintaining stability of the American economy, they are equally important not only for the stability of the Indian economy but also for its growth.

The analysis thus indicates that the choice of commodities subject to price controls can be justified on economic grounds. The policy is consistent with the objectives of maintaining reasonable degree of economic stability, preventing exploitation of vulnerable classes of the society and mitigating the effects of imperfect market structure.

The important question that now remains is whether the price control policy has created conditions for the long run solution of the problem of shortage of certain commodities. In other words, the policy should be scrutinised from the point of view of its impact on the flow of investment resources into the controlled industries in order to raise their capacity consistent with the requirements of other sectors of the economy. One should, therefore, examine the basis on which price of a commodity is fixed by the Government.

Formula for Fixing Prices

The Government fully recognises that the efficiency of an enterprise depends to a great extent on its price policy. It believes that prices charged by an industry should provide sufficient resources to that industry for its expansion. The price policy should also enable an industry to attract new investment for its growth. In other words, the prices fixed by the Government should yield a reasonable margin of profit — reasonable in terms of enabling the industry to build up adequate reserves for expansion and reasonable in terms of attracting new capital by offering a handsome

rate of return to the prospective investors.

It seems that the Government has followed the cost plus principle in fixing prices for the 17 commodities. Such a principle is a necessary but not a sufficient condition for making price control policy adequately flexible for ensuring a reasonable rate of return to the investors in industries subject to price controls. For this purpose, the Government has to estimate the cost of production including replacement of plant and machinery at current or prospective cost.¹ It should also determine a rate of return which is consistent with the degree of risk and uncertainty inherent in an industry whose product price is to be fixed, in comparison with the degree of risk and uncertainty in other industries.

Another important aspect of price control policy is to determine relative prices of multiple products manufactured by a single industry, in such a way that the structure of production would be in conformity with the pattern of demand for the multiple products over a period of time. This calls for projection of the pattern of demand for industries like iron and steel and petroleum and petroleum products. If the relative prices fixed by the Government fail to reflect the changing pattern of demand in a growing economy, the structure of production could become distorted. Such a development particularly in the case of a basic industry would have very adverse effects on the rate of growth of the economy.²

The formula evolved by the Tariff Commission is by and large followed by the Government, while fixing prices of various products. The formula, generally, provides for 12 per cent before tax return on total 'capital employed'. It may be useful to examine the implications of the formula in terms of the maximum rate of return that it may determine.

Let,

$$R_c = P_o R_o + P_b R_b$$

P_o = proportion of owned capital to total capital employed.

P_b = proportion of long term borrowed capital to total capital employed.

R_o = rate of return on owned capital.

R_b = rate of interest on long term borrowed capital.

R_c = profits before tax as percentage of total capital employed.

Let us assume that R_c = 12 per cent. If the long-term borrowed capital can be raised at 8 per cent rate of interest and if the ratio of owned capital to borrowed capital is 1:1, the formula would yield a ceiling of 16 per cent before tax return on owned capital. With a higher ratio (owned capital to long-term capital) of 1:2, the ceiling on the rate of return (before tax) on owned capital, according to the formula, would be 20 per cent.

In the case of priority industries, Indian companies in which public are substantially interested and whose ratio of owned capital to long-term borrowed capital is 1:1, would at present bear an aggregate tax incidence of 45 per cent so long as profits before tax on owned capital would not exceed 20 per cent. If, however, such companies in the priority industries are entitled to various tax concessions and if the ratio of their owned capital to long-term borrowed capital is 1:2, the tax incidence would be lower than 45 per cent. Thus the ceiling of 20 per cent return on owned capital determined by the formula, would yield a maximum net return (after tax) of more than 10 per cent.

Incidentally, it may be noted that industries subject to price controls except the consumer goods industries are regarded as priority industries entitled to tax concessions including the proposed special development rebate introduced in the Budget for 1965-66. Hence, industries producing basic inputs have scope for earning a net rate of return of more than 10 per cent on owned capital.

From the long run point of view, the crucial question is whether investment resources are diverted from controlled industries to non-controlled industries. This is indeed a very difficult question to answer. The reason is that for this purpose, it is necessary to determine the optimum differential rates of return in various industries according to the degree of risk and uncertainty prevailing in the different industries. If the actual differential rate of return in a given industry is below the optimum differential that would bring about equilibrium of investment resources in the economy, one can easily draw the inference that additional capacity in such an industry would not be created.

In the absence of data on the optimum differential rates of return, it may be useful to turn to the profitability ratios estimated by the Reserve Bank of India. The Table shows that in the case of industries whose products are subject to price controls, gross profits as percentage of total capital employed did not exceed 12 per cent except in the case of matches during the three years 1960-61 to 1962-63. Similarly, gross profits as percentage of total capital employed in other industries were not appreciably higher than 12 per cent except in the case of woollen textiles, mineral oils and medicines and pharmaceuticals. Again, profits after tax as percentage of owned capital in the industries subject to price controls varied between 3.5 to 13.4 per cent. The same profitability ratio for other industries except woollen textiles, medicines, pharmaceuticals ranged between 4.4 per cent to 14.7 per cent. The behaviour of dividends as percentage of paid-up capital declared by the controlled as well as non-controlled industries was more or less similar to that of other profitability ratios. Subject to the limitations of these profitability ratios, one may, therefore, infer that there does not exist wide divergence between rates of return in various industries, which may justify investment in the non-controlled industries at the cost investment in industries subject to price controls.

tries at the cost investment in industries subject to price controls.

The analysis indicates that it may not be proper to blame entirely the price control policy for lack of adequate expansion, if any, in some of the industries whose product prices are fixed by the Government. Even if these industries are capable of raising financial resources, additional capacity may not be created at a desired rate because of bottlenecks in the supply of essential inputs which they require. It is, therefore, necessary to find out in the case of each individual industry whether the difficulties in obtaining the required inputs both indigenous and imported or the price control policy is responsible for any lag in the growth of the industry.

Notes

¹ This implies that the controlled prices should be changed whenever cost of production changes. Such a flexibility is evident in the upward revision of controlled prices of some of the products, such as coal and steel.

² This point is very well stressed by the Raj Committee. See Report of Committee on Steel Control, Government of India, October 1963, pp 13-14.

THE INDIAN IRON & STEEL CO LTD

NOTICE

THE Register for Ordinary Shares in the Company will be closed from Tuesday, the 20th July, 1965 to Tuesday, the 3rd August, 1965, both days inclusive, for the purpose of payment in due course of final dividend on Ordinary Shares in the Company for the year ended 31st March, 1965. The dividend when declared will be paid to those Shareholders whose names appear on the Company's Register of Members for Ordinary Shares on the 3rd August, 1965 or to their mandatories.

BY ORDER OF THE BOARD,
MARTIN BURN LIMITED,

F G Liversedge

Managing Director,
Managing Agents.

Registered Office:
12, Mission Row,
Calcutta-1.
29th June, 1965.

Managing Agency System Far From Dead

R K Hazari

The managing agency system is far from dead or dying. It still thrives in large non-government public industrial companies.

The powers and remuneration of managing agents have been statutorily restricted but law and policy have still to make a significant impact on the area of corporate activity under their management.

The rate at which this system of management is declining in importance is far too slow and gradual. A quiet and easy killing of rentier management is now necessary in the interest of developing a rational managerial set-up for large public industrial companies.

[This article supplements the author's earlier article on the same subject in the Annual Number, February 1964, in which he made out a case for the abolition of the managing agency system on the basis of his own research. The present article is written with a historical perspective and brings together available facts and opinions expressed over the last few decades.]

THE managing agency system grew out of the enterprise of European individuals who came to Calcutta as representatives of trading companies. They found the country lacking in industrial leaders, since imports from Britain had crippled the master craftsmen, and traders, moneylenders and big landowners had neither the inclination nor the experience to go into modern industry. The prospects of local processing and rudimentary manufacture for export were attractive because of the availability of raw materials and cheap labour. With the opening of the Suez Canal and the laying of railways, the Indian market also appeared on the business horizon. Exploitation of the prospects required capital, contacts with suppliers of equipment and buyers of produce, and skilled labour; these the European representatives were well-qualified to supply or procure. Their mercantile experience and connections proved invaluable; the deficiency of technical expertise was made up by hiring it from Britain. The field open to each entrepreneur was wide; mistakes could be made without burning of fingers. Entrepreneurs moved from jute into coal, from tea into steamers, from these into some kind of engineering, to find a market for one in the other. The Industrial Commission of 1916-18 noted that:

"A characteristic feature of organised industry and commerce in all the chief Indian centres is the presence of the large agency firms, which, except in the case of Bombay, are mainly European. In addition to participating in the export and import trade, they finance and manage industrial ventures all over the country and often have several branches in the large towns. The importance of these agency houses may be gauged from the fact that they control the majority of the cotton, jute and other mills, as well as of the tea gardens and the coal mines. This system originat-

ed and has still continued owing to the ability of these houses to furnish financial help to industries; it also owes its existence to some extent to the difficulty, in the case of companies under European control, of finding among the relatively small class of leading men of business available in India directors, especially managing directors, who will remain in the country long enough to guarantee continuous supervision... An agency firm as a rule comprises several partners, some of whom are in India, while the others attend to the firm's affairs in London or elsewhere. There is no doubt but that the system is in many ways well adapted to present conditions in India, and has a far greater list of successes to its credit than can be shown by ordinary company management under individual managing directors."

In Calcutta, the system, thus, combined ownership mainly by residents in Britain with management by partners and assistants in India. Although family influences predominated and the partnership was carried on from generation to generation, the more enterprising and ambitious of the junior assistants could look forward to becoming partners ultimately. Managing agents did the preliminary work of starting new concerns, promoted joint stock companies, employed their own funds or arranged for finance by acting as guarantors, and also managed the concerns. Besides these promotional, financing and managerial functions, they acted as agents for sales and purchases. The more important managing agencies also carried on export and import trade, insurance, banking and various kinds of agency business.

On the West Coast, the managing agents were, with some exceptions, Indian. The first written managing agency agreement was between the Bombay Spinning and Weaving Company and Cowasjee Nanabhoj Davar concluded in or about 1854; the agree-

ment provided for his remuneration on the basis of yarn produced (see S D Mehta: "The Indian Cotton Mill Industry 1854 to 1954"). It can be safely presumed that the managing agency arrangements in Calcutta were imitated in Bombay by Indian merchants, who made fortunes from the opium trade with China and later, during the American Civil War, from the export of raw cotton to Lancashire; the latter alone was said to have earned Rs 51 crores worth of gold and silver. Cowasjee Davar and Manockjee Petit in Bombay and Ranchhod Chhotatal in Ahmedabad, and those who followed them raised most of the capital from their own resources but also secured substantial monetary and other assistance from agents of British machinery suppliers and friends. Though the mill companies were public, they had very few shareholders. In Ahmedabad, where, unlike Bombay, most of the bigger managing agents were by tradition bankers rather than traders, funds were raised in the form of deposits, too; the larger suppliers of capital got a share in the managing agency, contingent upon taking up a specified part of the share capital of the managed company — a rudimentary form of underwriting.

In both these centres, capital was also raised from potential selling agents, etc, in consideration of future contracts. Commission to agents of machinery suppliers was often paid for in shares. The managers and technicians were generally British till the twenties. The privilege of sharing the fruits of managing agency was, however, normally restricted to members of the founding family with financiers as the only co-sharers, if any. From the thirties and forties onwards, however, some Indian managing agents in these centres and in Delhi, Kanpur, etc, began to give a share in the managing agency commission to senior employees also.

The common practice with managing agents (leaving aside the fly-by-night variety found in all countries) was to promote and set up a concern and when it was reasonably well established to either make it a public company and throw open its share capital to the public or otherwise dispose off their holdings. Care was taken at all times to retain permanent management rights; in most cases, adequate share capital was also retained in order to frustrate any move to oust them. What little evidence there is of shareholdings by managing agents in the first half of this century indicates that, whatever the position might have been in the 19th century, the well known managing agents held only a small part of the share capital of the companies under their management, and the proportion tended to decline even before 1939. Both Lokanathan and Basu, (whose works are the principal sources of information for the early history of the system) observed that the holdings of leading managing agents in the companies under their management were tending to shrink in cotton and jute companies, at any rate.

Lokanathan found ("Industrial Organisation in India", pp 41-43) that, in the twenties, the holdings of managing agents in managed companies were small and in many cases the holdings belonged to the partners/directors of the managing agents. The Bombay Shareholders Association testified on the basis of shareholding data before the Tariff Board in 1932 that managing agents had ceased to be the principal shareholders in Bombay cotton mills. A representative of Martin and Co stated that his firm did not hold even 20 per cent of the shares of the companies under their managing agency because they prided themselves on the fact that they were successful agents. Obviously, therefore, managing agents were not, in general, inclined to lock up their resources but took the earliest opportunity to free their funds for investment in other directions. The Tariff Board of 1932 observed that:

"Where the managing agent represents a high standard of ability and sense of responsibility, it may make little difference to the company to what extent the managing agent is interested in the share capital of the company. The better class of managing agent works partly for the remuneration fixed for him under his agreement but partly also out of regard for his reputation

and out of a sense of pride in the tradition of management associated with his concern."

As the direct contribution of managing agents to share capital declined, they sought security in permanent and comprehensive rights of management. These rights were assured through agreements in which managing agents acted in a dual capacity, as managers and as shareholders. Until 1913, the law did not require an elected board of directors. When the law made elections mandatory, the outside directors depended for their continuance upon the loyalty they showed to the managing agents. Thus, although the managed companies were joint stock concerns with boards of directors, they were more akin to partnerships with outside shareholders as sleeping partners. As the holders of considerable shares (either in their own names or through partners and associated companies), it was in the managing agents' interest that the companies be managed efficiently and fair dividends be paid. But managing agents were paid in a number of other ways, too: commissions on profits, purchases, sales, and insurance, re-

muneration to relatives, etc.

Managing agency by itself secured a certain value because of its rights and privileges apart from its ability to show profit in the concerns managed; the dividend earnings of agents were subordinate to their earnings in other forms. As the managers-cum-key owners were not chiefly interested in returns on investment, the general inducement to invest and public confidence in investment was adversely affected. Managing agency rights became a negotiable asset; in every boom period, the rights in many companies were transferred at fabulous prices and capitalised at inflated values; during slumps, transfers took place because the managing agents as distinct from the managed companies were in trouble and could no more raise finances on their guarantees. Even the Tatas handed over the majority control in the managing agency of their electric companies to an American syndicate without the prior sanction of the shareholders of the companies.

Originally, the common method of remuneration to managing agents was a commission on output. When ring

Table 1: Commission Paid to Managing Agents, 1927-30

Year	No of Mills	Profit + or Loss —		Total Allowance and Commission to Mg Agents (Rs lakhs)
		Before Depreciation.	After Depreciation.	
		(Rs lakhs)		
1927	75	+157.00	— 7.36	30.87
1928	73	—126.46	—298.78	18.32
1929	76	— 71.85	—230.67	20.26
1930	71	— 94.23	—236.99	13.45

Source: Lokanathan: "Industrial Organisation in India", p 345 n.

Table 2: Coverage of Joint Stock Companies by Managing Agents in 1954-55 and 1962-63.

	Number of Companies					
	1954-55			1962-63 *		
	Public	Private	Total	Public	Private	Total
1. Companies managed by managing agencies	4,091	964	5,055	1,217	223	1,440
2. Total Cos. at work	10,056	19,569	29,625	6,022	19,407	25,429
3. Total Cos. excluding banking, insurance and Govt. companies	9,126	19,442	28,568	5,380	19,218	24,598
1 as % of 3	40.7	4.9	17.7	20.2	1.2	5.7
1 as % of 3	44.8	5.0	17.7	22.6	1.2	5.9

Source: Company News and Notes, September 2, 1963.

spindles replaced mules in cotton mills, this system led to abuses. J N Tata was the first in 1886 to change over to a commission on profits. Till 1956, however, Ahmedabad cotton mills and Calcutta jute mills generally gave a commission on output, in addition to an office allowance. The tea industry paid 2½ per cent on sales and a further 2½ per cent on profits. Coal and cement companies paid on the basis of profits while in sugar, both the systems existed side by side. In 1916, Tata Iron and Steel adopted a sliding scale of remuneration, rising from 5 per cent to 9 per cent of profits according to various slabs of dividends declared. With the notable exception of Tata companies, profits were defined for this purpose as profits before interest and depreciation.

Many reputable managing agents surrendered their commission when the managed companies were in difficulties, and even gave up the interest due on debenture holdings, beside providing or securing large finances. In 1928, managing agents of 73 cotton mills in Bombay surrendered Rs 1.91 lakhs of managing agency commission and Rs 7.40 lakhs of interest on loans and debentures. From 1922 to 1927, Ahmedabad mill agents surrendered Rs 13.31 lakhs of managing agency commission. The surrender in Bombay was not exactly munificent (see Table 1).

Mixed Blessing

That the managing agency system was a mixed blessing was being recognised even before 1920. The Industrial Commission was impressed by the high financial prestige of "the better-class agency firms and the readiness of the investing public to follow their lead" but was not altogether complacent about their performance.

"...they (the better-class agency firms) have not escaped criticism as being unduly conservative in their methods of business and as exhibiting undue reluctance to embark on new ventures. They have been charged with lack of enterprise and an unwillingness to follow up lines of development naturally proceeding from the expansion of operations in their own specialised industries. In other words, they have been inclined to develop commerce rather than industries, and have thus been at times less helpful than might have been the case, in clearing the way for continuous industrial progress." (Report, pp. 8-9).

The Central Banking Enquiry Committee 1931 had the benefit of con-

siderable evidence on the working of the system during the twenties, especially in the western region. Appraisal of this evidence induced the Committee to recommend lesser dependence on the managing agency system for industrial development:

"Although the Managing Agency system is reported to have done a great deal for the industrial development of Bombay, it is admitted that it is not by any means a perfect arrangement but has many serious drawbacks. There have been cases where the Managing Agents have, besides managing their own mills, traded and speculated and the resulting weakness in their position has reacted on the financial position of the mills themselves and led to banks withdrawing their cash credits even when the mills were in-

trinsically sound, merely because the Managing Agents had become weak. Further, although it is true that in times of crisis such as Bombay has been going through, Managing Agents have incurred extensive losses as a direct result of financing the mills under their control, there have been a few cases in which these Agents have turned their loans to the mills into debentures, with the result that the concerns have passed into their hands and the shareholders have lost all their capital.... This system works well when everything goes on smoothly and when the industries are prosperous... when conditions alter and the industry or the particular concern comes up against bad times and the Managing Agents find themselves compelled to find more money to support the industry, it is found that they

Table 3: Constitution of Managing Agencies.

	1954-55		1962-63	
	Number	% of Total	Number	% of Total
Unincorporated firms	2,522	64.0	548	52.5
Private companies	1,238	31.3	402	38.5
Public companies	184	4.7	94	9.0
	3,944	100.0	1,044	100.0

Source: Company News and Notes, September 2, 1963.

Table 4: Frequency Distribution of Managing Agencies

Frequency Distribution (No of cos Managed)	1954-55	1962-63	
	No of Managing Agents	Total No of Companies Managed	Total No of Companies Managed
1	3526	3526	799
2	250	500	67
3	64	192	24
4	37	148	16
5	14	70	10
6	12	72	10
7	9	63	3
8	10	80	2
9	5	45	6
10	1	10	7
More than 10	16	349	...
Total	3944	5055	1044

Source: Company News and Notes, September 2, 1963.

are not able in all cases to cope with the requirements.

We suggest therefore that attempts should be made to make industrial enterprise in India less dependant on this system for future development. The establishment of direct financial relations between industrial companies and commercial banks is desirable...." (Report, Vol. I, pp 279-80.).

Lokanathan (in 1935) also expressed dissatisfaction with the working of the system in all its three main aspects, namely, promotion, finance and management:

"There have been cases of waste... ill-conceived and fraudulent promotion. They (the managing agents) have been unwilling to pioneer and risk in

new enterprises, where the profits have been neither large nor certain. However, successful the managing agency system of promotion might have been in the past, it cannot be concluded that it is so at present, or will continue to do so in the future.

Since most Indian concerns have been under-capitalised, with share capital barely sufficient for block expenditure, the balance has to be raised from various short term or undependable or expensive sources. With debentures and preference unpopular funds had to be raised by or through managing agents which had the result of further strengthening of the managing agency system. Had the share and permanent capital raised at the start been sufficient to cover the

needs of working expenses, there would not have been the same need for the continuance of an institution like the managing agent to finance industrial concerns.

While its (the system's) power for doing injury may be great, its capacity to do good is limited. So far as the Indian section of the managing agency system is concerned, its continuance can be explained and justified only because of the concentration of ability, experience and capital in the hands of a few persons who have done great service to industrial development. If it became possible to persuade them to do so for industry in an altered status what they have been doing as members of agency firms, the result would perhaps be wholly

Table 5: Companies Managed by Managing Agents Industry-wise

(Paid up Capital in Rs crores)

Industry	1960-61*					1954-55				
	Total No of Companies	Total Paid-up Capital	No of Cos Managed by Mg Ags	Paid-up Capital of (3)	(4) as % of (2)	Total No of Companies	Total Paid-up Capital	No of Cos Managed by Mg Ags	Paid-up Capital of (8)	(9) as % of (7)
1 Agriculture (excl plantations)	290	2.49	7	0.23	9.2	854	4.43	190	1.29	29.1
2 Tea plantations	583	32.30	130	12.34	38.2	591	27.86	266	16.09	57.7
3 Other plantations	129	8.14	39	4.27	52.5	234	7.90	75	4.09	51.8
4 Coal mining	436	93.42	62	9.93	10.6	495	22.73	204	18.31	80.6
5 Other mining	338	14.95	16	5.21	34.8	421	14.55	90	5.86	40.3
6 Grains & pulses	230	6.09	15	1.21	19.9	263	5.11	52	3.04	59.4
7 Vegetable oil and dairy products	361	13.19	24	11.31	85.7	436	15.02	139	7.83	52.2
8 Sugar	203	44.08	62	28.21	64.0	216	30.23	108	22.84	75.5
9 Tobacco	58	19.73	2	1.41	7.1	68	19.24	12	1.77	9.2
10 Textiles	1,012	212.36	313	122.67	57.8	1,678	184.52	724	147.00	79.7
11 Beverages	128	4.79	7	0.79	16.5	328	9.01	84	2.85	31.6
12 Leather	148	3.96	11	0.87	22.0	178	3.61	45	1.12	32.0
13 Basic ferrous metal	505	379.15	23	57.91	15.3	318	34.22	85	29.97	87.6
14 Transport equipment	423	49.77	22	21.09	42.4	435	35.60	81	18.77	54.5
15 Electrical engineering	61	2.25	4	1.03	45.8	400	18.18	93	6.30	34.9
16 Machinery & workshops	834	60.09	54	14.25	23.7	646	26.67	148	12.50	46.9
17 Metal products	585	31.20	30	6.25	20.0	507	16.25	91	5.71	35.1
18 Chemicals & pharma	1,145	99.22	62	16.27	16.4	1,858	60.44	495	21.49	35.6
19 Perfumes & toilet	76	0.74	4	0.29	39.2					
20 Paint & varnish	137	3.65	5	0.62	17.0					
21 Matches	31	3.38	3	0.33	9.8					
22 Cement	33	41.52	12	34.01	81.9	30	23.98	13	21.23	88.6
23 Clay & glass	400	13.30	30	4.64	34.9	440	12.38	126	7.40	59.8
24 Rubber	113	10.48	10	3.56	34.0	90	4.37	22	1.07	24.4
25 Paper & stationery	247	33.99	30	15.89	46.7	201	15.98	60	12.72	79.3
26 Power	257	39.19	85	33.59	85.7	354	34.48	209	30.53	88.1
27 Other manufacturing	1,478	46.02	35	2.14	4.7	2,174	19.35	368	4.51	23.9
28 Transport	1,464	52.90	30	8.43	15.9	1,550	42.15	120	28.27	67.9
29 Commerce, finance, storage & real estate	8,347	238.25	87	6.86	2.9	13,564	291.94	799	51.32	17.6
30 Other services	1,142	14.16	20	1.76	12.4	2,457	18.79	443	5.75	30.9
Total	*					29,625	970.82	5,055	465.44	47.9

Sources: 1960-61: Company News & Notes, December 16, 1964.

1954-55: Nigam: "Managing Agencies in India" (First Round), 1957.

* The data for 1960-61 are not comprehensive. Hence the totals are not given in the Table. The totals of figures in cols 1 to 5 are as follows:

Col 1: 21,194 Col 2: Rs 1,574.86 cr Col 3: 1,234 Col 4: Rs 420.37 cr Col 5: 26.7%.

good. There are no benefits which would be lost by such a change, for those benefits are not the result of the system but of the ability and resources of the persons who run the system".

Statutory restrictions on the powers of managing agents were imposed for the first time in 1936. The duration of appointment of a managing agent in public companies was limited to 20 years at a time, but there was no restriction on re-appointments long before the expiry of the initial appointment. Managing agents could be re-

moved if they were convicted of a non-bailable offence punishable under the Penal Code in relation to the affairs of the company. They could transfer their office only with the approval of the company in general meeting. Powers of management were vested in the board of directors, but subject to the articles of association of the company which proved a gaping loophole. In 1938, insurance companies were debarred from having managing agents; banking companies were similarly excluded in 1949.

Table 6: Change over to Secretaries and Treasurers, 1960

	No. of Cos.	Paid up share capital (Rs crores)
1. Formerly managed by S & T	9 (5+4)	1.6 (0.4+1.2)
2. Formerly managed by directors	16 (1+15)	2.6 (0.6+2.0)
3. Formerly managed by mg. agents	136 (10+126)	21.2 (1.3+19.9)
4. New companies	18 (2+16)	2.4 (neg+2.4)
Total	179 (18+161)	27.8 (2.3+25.5)

Source: Company Law Administration Information Broadsheets Nos 6 and 7, 1961. Figures in parentheses are for private and public companies, respectively.

Table 7: Form of Management of New Companies

Form of Management	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	Total
Managing Agents	14	15	7	14	21	29	34	134
Managers	2	1	1	3	3	4	1	15
Secretaries and Treasurers	1	1	7	3	1	3	2	18
Managing Directors	197	227	250	508	596	515	388	2,681
Directors	634	717	830	924	1,062	1,063	1,072	6,302
Total	848	961	1,095	1,452	1,683	1,614	1,497	9,150

Source: Company News and Notes March 16, 1964.

Table 8: Management Pattern of Non-Government Companies 1964

Form of Management	Public			Private			Total		
	No	Share Capital (Rs cr)	% of Total	No	Share Capital (Rs cr)	% of Total	No	Share Capital (Rs cr)	% of Total
Board of Directors	3849	203.74	18.6	13652	198.71	50.0	17501	402.45	26.9
Managing Directors	672	274.02	25.0	6074	158.96	40.0	6746	432.98	29.0
Managing Agents	1121	523.85	47.8	151	9.72	2.4	1272	533.57	35.7
Secretaries & Treasurers	200	35.97	3.3	9	0.70	0.2	209	36.67	2.5
Managers	66	57.92	5.3	30	29.81	7.5	3047	87.73	5.9
Total	5908	1095.50	100.0	19916	397.90	100.0	25824	1493.40	100.0

Source: Company Law Board, Research and Statistics Division.

Statistical data on the significance of the managing agency system have been available since the mid-fifties. (Tables 2 to 4). In 1954-55, there were 3,944 managing agents, of which 2,522 were unincorporated firms, 1,238 were private companies and 184 were public companies. These managing agents managed in all 5,055 companies, out of the total of 28,568 companies (excluding banking, insurance and government companies) in that year. The 5,055 managed companies accounted for 54 per cent of the total share capital of 28,568 companies. Management by managing agents was more pronounced in public companies, 71 per cent of the share capital of which (excluding the three above mentioned categories) was in companies managed by managing agents.

Out of 3,944 managing agents, 3,526 managed only one company each, and 250 managed two companies each. About 95 per cent of the managing agents, thus, managed two companies or less. Only 17 managing agents managed 10 or more companies each.

In 1962-63, the number of managing agents came down to 1,044, of which 548 were unincorporated firms, 402 private companies and 94 public companies. The 1,044 managing agents managed 1,440 companies, out of a total of 24,598 companies (excluding banking, insurance and government companies) in that year.

Of the 1,044 managing agents in 1962-63, 899 managed one company each and 67 two each. About 93 per cent of the managing agents thus managed two companies or less. Only 7 managing agents managed 10 companies each, which excludes others which they managed as secretaries and treasurers.

In 1954-55 the system was of predominant importance in plantations, coal, grains and pulses, vegetable oil, sugar, textiles, iron and steel, transport equipment, cement, clay and glass, paper, power and transport (Table 5). Its importance was relatively nominal in services and in two industries, tobacco and rubber which were mainly under the control of international combines (Imperial Tobacco and Dunlop Rubber). By 1960-61, the importance of the system in the aggregate was greatly reduced by the formation of government companies, transmutation of erstwhile managing agents into secretaries and treasurers, greater frequency of subsidiaries, and flotation of new companies with other forms of management. In that year, managing agents continued to be of predominant importance in plantations (in tea, subsidiaries and director managed companies became more significant), vegetable oil and dairy products, sugar, textiles, cement and power.

Secretaries and Treasurers

The institution of secretaries and treasurers was recognised for the first time in the Companies Act 1956. There was no reference to it in the report of the Bhabha Committee. The intention of the then Finance Minister, C D Deshmukh, in encouraging this new system was, among other things, to smoothen the transition from managing agency to other forms of management and to enable those managing agents which managed more than 10 companies to retain the management of the excess number. Under the Act, secretaries and treasurers had practically the same powers as managing agents, except that they had no right to nominate directors and their maximum remuneration was 7½ per cent of profits.

Before the expiry of all old managing agency agreements on the notified date, namely, August 15, 1960, there were only 9 companies with paid up capital of Rs 1.6 crores which were managed by secretaries and treasurers. As of August 16, 1960, 179 companies were managed by 45 secretaries and treasurers (see Table 6). The overwhelming majority of companies under such management, thus, consist of companies which were formerly managed by managing agents. Out of the 45 secretaries and treasurers (20 public, 15 private, 8 unincorporated and 2 foreign bodies), 23 which managed 144 companies in

this form also acted as managing agents of 146 other companies. This dual role enabled the leading managing agents which had previously managed more

than 10 companies to retain the management of the excess companies.

Between mid-August 1960 and end-March 1963, 45 more companies adopt-

Table 9: Remuneration to Managing Agents 1950-1962

	No of Companies	Profits* (Rs cr)	Remuneration to Mg Agents (Rs cr)	(3) as % of (2)
1950	751	73.26	9.81	13.4
1951	751	96.93	12.42	12.8
1952	751	65.63	10.41	15.9
1953	751	76.05	10.36	13.6
1954	751	89.40	11.16	12.5
Total @		401.27	54.16	13.5
1955	749 (30)	98.60 (2.36)	14.13 (57)	14.3 (24.2)
1956	736 (27)	102.17 (3.35)	11.49 (36)	11.2 (12.2)
1957	690 (24)	72.04 (1.43)	8.29 (13)	11.5 (9.1)
1958	665 (25)	88.90 (1.43)	8.77 (13)	9.9 (9.1)
1959	630 (49)	117.41 (4.55)	10.66 (33)	9.1 (7.3)
Total**		479.12 (13.12)	53.34 (1.52)	11.1 (11.6)
1960-61	1333	228.12	13.03	5.7
1961-62	1333	243.88	12.53	5.1
1962-63	1333	267.40	13.20	4.9
Total @		739.40	38.76	5.2

Source: Reserve Bank of India Bulletins, January 1957, September 1961, July 1964.

* Before managing agents' remuneration and taxation.

@ Figures for 1950-54 and 1960-63 relate to all companies in the Reserve Bank sample, including those not managed by managing agents.

** Figures for 1955-59 relate exclusively to companies managed by managing agents. Figures in parentheses are for companies managed by secretaries and treasurers. These data are not comparable with earlier and subsequent data.

Table 10: Remuneration to Managing Agents by Size of Companies, 1959-1963
(As percentage of profits before tax and remuneration)

Paid up capital (Rs. lakhs)	1959 (1001)	1960 (1333)	1961-62 (1333)	1962-63 (1333)
5-10	7.4	7.5	7.5	7.5
10-25	8.2	7.2	7.4	7.7
25-50	7.0	7.7	6.8	6.5
50-100	8.3	6.9	6.5	6.1
Above 100	5.2	4.3	3.8	3.7
Total	6.4	5.7	5.1	4.9

Source: Reserve Bank of India Bulletins, June 1962, June 1963, July 1964. Figures in parentheses give the number of companies. Size-wise data in Reserve Bank studies are available only since 1959.

ed this new form of management. Of these, 29 had secretaries and treasurers which also acted as managing agents of other companies. Only 18 (14 in 1960-62 and 4 in 1962-63) were new companies; the remaining 27 were in existence before and probably had other forms of management (*Company News and Notes*, November 16, 1963 and December 16, 1963).

Since 1956, the number of new companies proposing the appointment of managing agents has declined

steeply. Between April 1956 and March 1963, 9,150 new companies were formed. Of these 134 had managing agents, 15 had managers, 18 secretaries and treasurers, and 2,681 had managing directors; the remaining 6,302 were managed by boards of directors without any statutory managerial personnel (Table 7).

In 1964, nevertheless, the relative importance of the managing agency system in terms of the share capital of managed companies in public non-

government sector remained practically unassailed (Table 8). More than one-half of the share capital of non-government public companies was in companies managed by managing agents and their close variant, secretaries and treasurers. If banks, insurance and other service companies, and subsidiaries of international combines, which either do not or cannot have managing agents are excluded, the proportion would rise from one-half to about three-fourths or more. In spite

Table 11: Remuneration to Managing Agents by Industry 1955-59

Industry	1955		1956		1957		1958		1959	
	No of Cos	% of Profits	No of Cos	% of Profits	No of Cos	% of Profits	No of Cos	% of Profits	No of Cos	% of Profits
1 Tea plantations	124 (11)	17.0 (15.5)	127 (7)	10.8 (9.4)	117 (7)	13.1 (9.1)	117 (7)	12.4 (9.0)	109 (14)	8.9 (8.3)
2 Coal mining	46	20.2	44	21.1	42	11.7	39 (2)	11.2 (6.0)	36 (5)	11.4 (10.3)
3 Sugar	61 (1)	14.6 (4.7)	60 (1)	12.8 (7.4)	59 (2)	9.7 (66.1)	51 (2)	15.0 (22.6)	47 (4)	10.2 (29.2)
4 Cotton textiles	174 (13)	19.4 (26.6)	172 (13)	13.9 (18.6)	161 (7)	34.1 (33.6)	154 (5)	15.0 (—)	149 (6)	12.9 (8.3)
5 Jute textiles	44	51.3	42	(—28.0)	40	17.1	40	10.9	33 (5)	9.7 (8.3)
6 Iron & steel	2	3.6	2	3.7	2	4.7	2	2.3	2	2.4
7 Transport equipment	8	11.7	8	9.2	6	16.2	6	9.9	5 (1)	10.5 (—)
8 Electrical engg	13	13.3	13	11.0	11	10.3	12	7.0	12	10.9
9 Other machinery	36 (1)	15.0 (6.1)	36 (1)	13.0 (8.5)	35 (1)	12.2 (7.7)	34 (1)	11.9 (8.0)	34 (1)	10.9 (8.5)
10 Aluminium	2	9.7	2	14.2	2	11.1	2	10.1	2	10.2
11 Basic Chemicals	8 (1)	12.3 (—)	8 (1)	10.0 (—)	8 (1)	12.7 (—)	8 (1)	11.7 (—)	7 (1)	11.5 (—)
12 Pharmaceuticals	8	23.8	8	14.1	5	10.6	5	10.4	5	10.5
13 Matches	1	16.0	1	15.1	1	11.8	1	10.2	1	9.6
14 Other chemicals	12	12.8	11	11.6	11	12.8	11	11.0	11	9.8
15 Cement	9	10.9	10	10.3	9	10.8	9	10.6	9 (1)	10.6 (8.1)
16 Pottery	10	17.7	10	11.9	9	10.5	7	11.1	7	10.5
17 Rubber	2	13.9	2	16.5	2	11.5	2	8.2	1	15.0
18 Paper	13	10.8	13	13.9	13	13.0	12 (1)	10.7 (8.1)	12 (1)	9.6 (7.1)
19 Construction	4	13.6	4	10.2	4	18.0	4	9.5	4	9.6
20 Power	20 (1)	11.8 (23.9)	20 (1)	12.0 (21.4)	18 (2)	9.4 (18.8)	17 (2)	9.5 (3.1)	14 (4)	9.4 (8.4)
21 Trading	10	14.1	10	9.5	7	10.6	6	10.0	6	10.3
22 Shipping	9	26.8	9	9.2	8	10.2	8	10.2	8	18.6
23 Hotels & restaurants	3	13.0	13	15.3	3	11.7	3	10.5	2 (1)	8.3 (11.5)
Total (incl others)	749 (30)	14.3 (24.2)	736 (27)	11.2 (12.2)	690 (24)	11.5 (9.1)	665 (25)	9.9 (9.1)	630 (49)	9.1 (7.3)

Source: Reserve Bank of India Bulletin September 1961.

Note: Data relate to only those companies which were managed by managing agents. Profits are taken as before managing agency commission and taxation. Figures in parentheses relate to secretaries and treasurers.

of the decline in its popularity, *the managing agency system is far from dead or dying*. Managing directors and their variant, managers, are comparatively insignificant as a form of management.

It should be emphasised at the same time that remuneration to managing agents has been tending to decline. It was 13.4 per cent of profits before tax (which is slightly different from the definition of profit for calculating the remuneration of managerial personnel in the Companies Act) in the aggregate Reserve Bank sample of public companies (including those not managed by managing agents) in 1950 and 4.9 per cent in 1962-63 (Table 9). The decline has taken place mostly in large sized companies, i.e., those having a paid up capital of Rs 50 lakhs and above (Table 10). Separate data for companies managed by managing agents are available only for 1955-59. The number of companies so managed declined during this period and remuneration as percentage of profits came down from 24 per cent in 1955 to 12 per cent in 1956 and to 7 per cent in 1959. Shrinkage in remuneration was most obvious in traditionally managing agency managed industries like tea, coal, sugar and textiles (Table 11).

Common impressions notwithstanding, the managing agency system still predominates in the management of large public industrial companies as it did before, only slightly less so. Law and policy have succeeded in somewhat restricting the managing agents' powers and reducing the remuneration paid to them but they still have a vast area of corporate activity under their managerial control. Ever since the report of the Industrial Commission in 1918, pleas have been made for giving a little more time to the system. According to business spokesmen, the time has not arrived even now—just as it had not arrived thirty years back. When the Companies Act, 1956 imposed a wide variety of restrictions on managing agents, it was said that business enterprise would be throttled. That unhappy consummation has not come about. We are now being told by the same people that the Companies Act has done all that was necessary to mend the system and that there is no need to end it; they do not object to further mending! How long are we going to tolerate this twisted logic in defence of irrational management? Euthanasia rather than a further dose of irksome procedural restrictions is clearly what is indicated.

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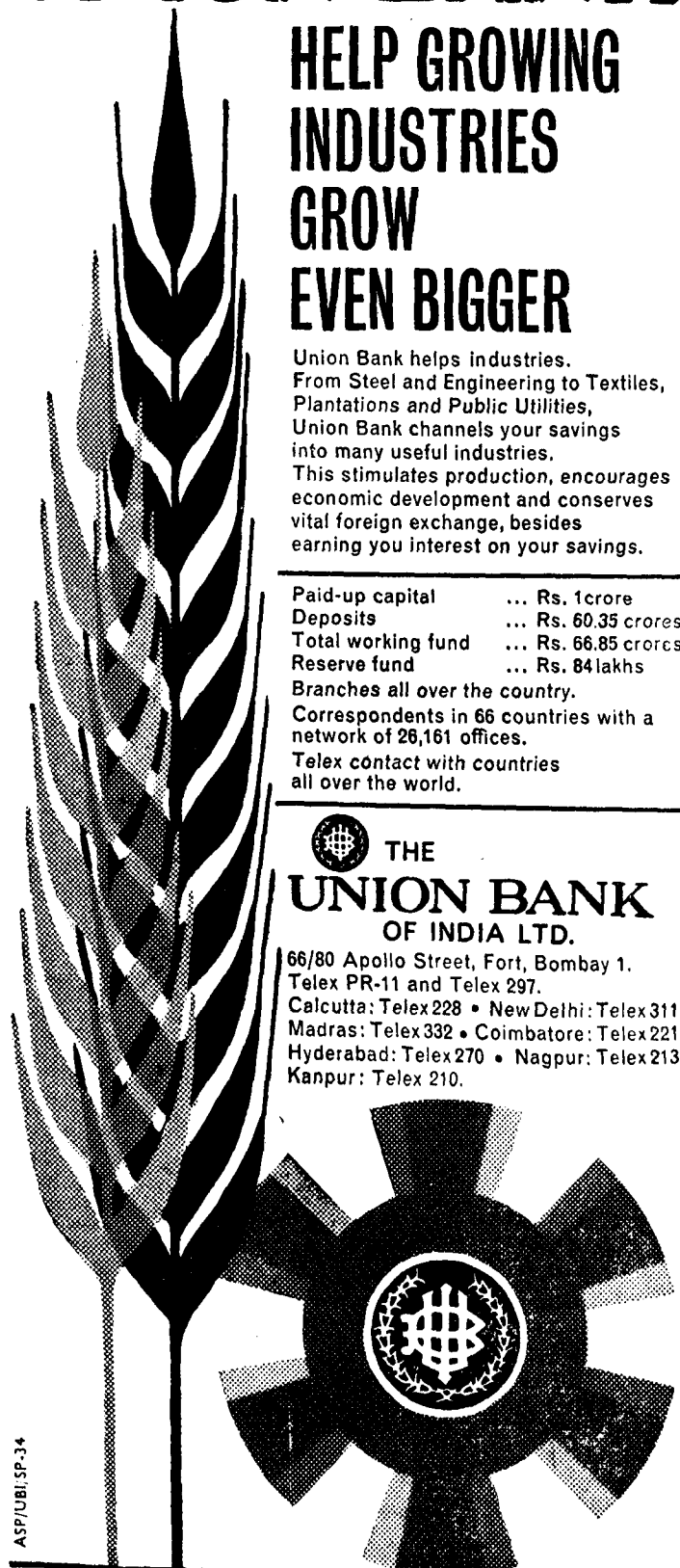
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Export Promotion Through Import Entitlement

A Reply

I S Gulati

RG SARAIYA does me great honour by commenting in your issue of June 22, 1965 on my article on the above subject published in the issue of May 22. But I am not certain that I can honestly accept his compliments when he observes that I have "brought a certain amount of clear thinking on the problem which is of vital interest to the country". After reading Saraiya's letter I have got the distinct impression that the exposition in my article was not clear enough.

Let me, therefore, try to state my position clearly. Firstly, a distinction should be drawn between two parts of Import Entitlement, i.e., (i) entitlement against import content, and (ii) entitlement towards bonus. Secondly, what I object to in the existing scheme is not the 100 per cent entitlement against import content but to the linking of the second part of Import Entitlement, viz, bonus entitlement, to import content. This yields the ludicrously self-defeating result demonstrated in my article, namely, "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." Thirdly, the modified scheme for the distribution of entitlement applies to the bonus part of import entitlement and not the part that is given against import content, i.e., even assuming that the modified scheme were adopted, Import Entitlement will still be given in two parts, one against import content at the rate of 100 per cent and the other against net export earnings at the rate of 31.5 per cent or 47 per cent or what have you, depending upon the constraint under which one operates.

In the light of the above, it is not correct for Saraiya to say that my modified scheme "substitutes bonus entitlement a 36.5 per cent of export earning against the present scheme which gives import entitlement by way of twice the import content of an export product...". The correct position is that my bonus entitlement at 36.5 per cent of net export earnings will substitute the existing bonus entitlement (and not total Import Entitlement). Therefore, the objection that under my modified scheme certain exporters "are likely to be seriously 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 article" is not valid.

I would invite Saraiya's attention to the table below which compares schematically the total import entitlement against each category of export. I now feel that I ought to have included this table in the original article. If I had done so it would not have caused the above misunderstanding. It can be observed from this table that even export product K, with import content as high as 90 per cent of FOB value gets 94 per cent import entitlement under my modified scheme and this evidently more than covers the import content of the export. As regards export product D, Import Entitlement under my scheme would be higher at 52 per cent against 50 per cent under the existing scheme. So the incentive to the producer of this particular export product, as also of export products A to C, to export will be greater under my modified scheme than to-day. I am sure that in view of the clarification now offered Saraiya will agree with me that my scheme will not only not have a retro-

grade effect on the total volume of exports covered under entitlement scheme but have, *what I claim to be its chief merit*, a positive effect on exports and a still more positive effect on export earnings.

Saraiya's second objection concerns my manner of appraising the existing scheme of Import Entitlement. Again, the distinction between the two parts of entitlement, that against import content and that towards bonus, is very useful. I have argued that it is the total outlay on the bonus part of Import Entitlement which ought to be related to the increase in net export earnings from the products covered by the scheme. My reason for excluding the other part (i.e., that against import content) is that this entitlement would have been given in any case if the item in question was to be produced locally. But I was afraid at the time I wrote the original article that it exposed me to the possible objection that I was being generous in my appraisal because the underlying assumption that entitlement against import content would have to be given in any case was not necessarily valid. A question might well be

Table : Comparative Import Entitlement Against Exports.

Export Product	Import Entitlement under the Existing Scheme			Import Entitlement under the Modified Scheme		
	Against Import Content	Against Bonus	Total	Against Import Content	Against Bonus	Total
A	10	10	20	10	33	43
B	15	15	30	15	30	45
C	20	20	40	20	29	49
D	25	25	50	25	27	52
E	30	30	60	30	26	56
F	37.5	37.5	75	37.5	23	60.5
G	50	50	100	50	19	69
H	60	40	100	60	15	75
I	70	30	100	70	11	81
J	80	20	100	80	7	87
K	90	10	100	10	4	94
L	100	0	100	100	0	100

Note: This table is based on Tables 2, 3A and 3B of the original article published in *The Economic Weekly*, May 22, 1965.

raised: Aren't several industries in India working below capacity for want of foreign exchange? The entitlement specifically given against any export is meant not so much to raise the utilisation of capacity and thereby to increase the availability of output locally but to increase exports.

On the other hand, Saraiya takes me to task for being less than generous in relating the increase in export earnings to the total outlay and not just the increase in outlay on the bonus part of the Import Entitlement. (Incidentally, even the Ministry of Commerce takes the increase in total Import Entitlement and not just the bonus part. Saraiya seems to go even further, unless, of course, he is using the term bonus entitlement as synonymous with Import Entitlement, which is not unlikely in view of what has been said above.)

Let us examine Saraiya's argument a little more closely. If goods are not allowed to be imported under the export promotion scheme, he says, they would have to be imported in any case; because there is, to put it in his own words, "a genuine shortage of a

number of goods in India which have to be imported as a necessity and not as a luxury". If we accept Saraiya's argument, this means that all outlay of exchange on Import Entitlement, be it against import content or towards bonus, be it an extension of the previous year's outlay or an increase over and above that, would have been incurred in any case. It further follows that all increase in export earnings under the Import Entitlement Scheme represents a genuine increase and no netting is called for, *not even by the increase in outlay in bonus entitlement.*

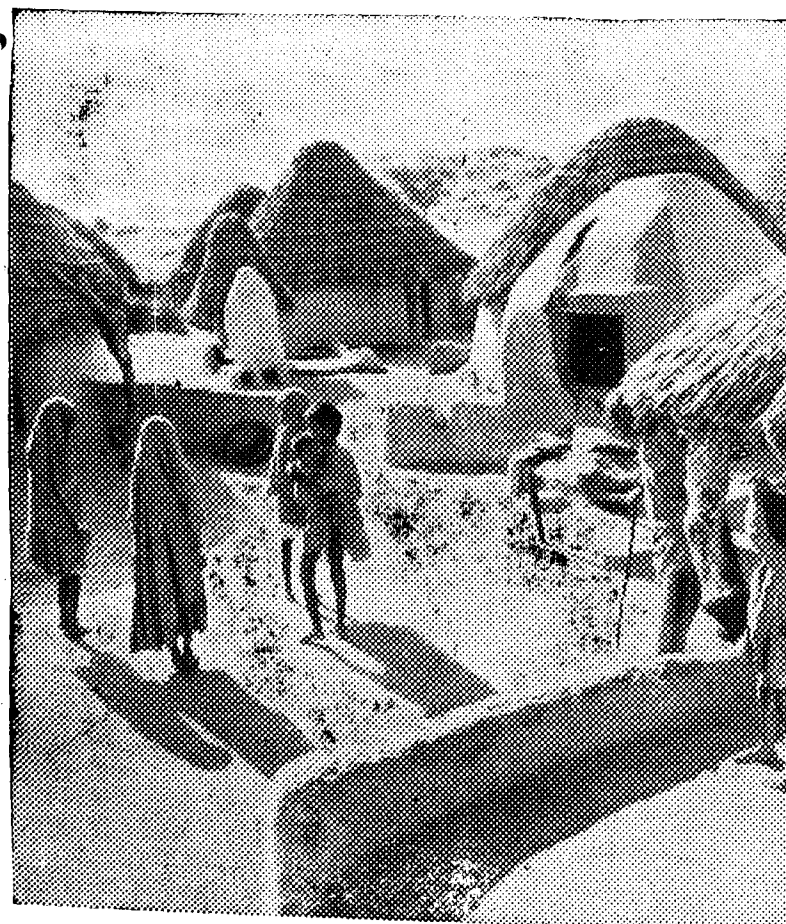
This surely is an absurd position which I am doubtful if Saraiya will really want to maintain. I am more convinced now than I was when I wrote the original article that the criterion for appraising the Import Entitlement Scheme suggested by me is the logical and the most reasonable one to adopt. And in terms of this criterion the existing Import Entitlement Scheme turns out to be no better than a dead mouse unearthed from under the hill.

As regards "the question of the importance to be attached to imports

which are allowed under the existing bonus entitlement scheme" and are sold in the internal market, its only relevance to the problem of export earnings is that so much of exchange is given up not according to internal priorities but with a view to promoting exports. Whether imported things are consumed locally for fun or otherwise is extraneous to the issues discussed by me.

Before I conclude, let me state clearly that my conclusions based on the study of the existing scheme of Import Entitlement should not be taken to reflect adversely on the idea that under a regime of import controls, exports could be promoted by linking import licensing with exports. All that I would like to claim for my study is that it shows that the manner in which import entitlements are given under the existing scheme is not designed to achieve the best results.

I must apologize to Saraiya that I am not adequately equipped with information on Pakistan's Bonus Vouchers Scheme and am, therefore, unable to offer my comment, at this stage at least.



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STATE BANK FOR SERVICE

Case Against Collaboration in Advertising

I HAVE read with interest the article "Case for Foreign Collaboration in Advertising" in your issue of May 22, 1965 and have the following comments to make on it.

The first thing that needs to be pointed out is that the inflow of foreign capital that might result from the two collaboration agreements is a mere £10,000. So, obviously, from the point of view of their contribution to strengthening our exchange reserves there is not much to commend them.

Your contributor has justified collaboration in advertising on the ground that Indian-owned and Indian-managed agencies do not have "technical know-how" and "managerial skills". But this has to be established. The Government appointed a Commission in 1952 under the chairmanship of Justice Rajadhyaksha to report on the state of the Press in this country. The Commission's recommendations, made public in 1954, were accepted unanimously by the Government and Parliament. Unfortunately, only a few of them have been implemented by Government either by legislation or by administrative action. Referring to the position of advertising agencies, the Commission noted the fact that the bulk of advertising was being handled by five major foreign-owned agencies. "We would like", the Committee added, "that Indian capital and Indian personnel be associated with advertising agencies." What has become of the Press Commission's observations, and of the Government's assurances on the floor of Parliament?

Your correspondent was unfair to Indian advertising agencies. The standard of advertising in India during the past 15 years has improved tremendously. The campaigns done on behalf of LIC, Telco, Vicks, Sanforized, Indian Oil Corporation, Golden Tobacco, to mention only a few, can stand comparison with the best in the world. It cannot be said that the agencies which handle these accounts have been "leading a sheltered life" nor that they "secured and retained accounts by means other than fair." Also, it seems nothing to say that Indian advertising is "at least 20 or 30 years behind the times." Development of advertising must necessarily depend on development of industries and their needs for scientific marketing and advertising.

Market research assumes importance only when there is keen competition in a *laissez faire* economy. In India,

as in any other developing countries where the standard of living is low, market research cannot assume the importance that it has in, say, the U.S.A. However, a number of Indian agencies have been giving assistance to their clients in market and product research. Similarly, motivational research, if it is to be realistic, will have to be developed essentially by indigenous expertise. Motivation research is being conducted in the major cities and certainly we have felt no need for foreign collaboration. Further, it is not as if no attempt at all has been made to train managerial personnel in this country.

The volume of press (Indian and Eastern Newspaper Society members only) advertising in the country has gone up from Rs 1.79 crores in 1952 to Rs 11.11 crores in 1964. In the process, the share of the foreign agencies has dropped from 54 per cent to 32 per cent in 1964. Here the figures quoted by your correspondent do not reflect the correct position. But even on the basis of his figures, it is obvious that foreign collaboration will

first eliminate the Indian agencies who, according to your correspondent, are weak and handle only 18 per cent of total advertising.

It is also argued in favour of foreign collaboration in advertising that we have to promote sale of our goods in foreign markets and that the Indian agencies are unequal to this task. While it is true that Indian agencies have not established their own offices abroad, they are certainly in a position to get the services of leading advertising agencies abroad on associationship basis.

In conclusion, I have to say that this hankering after foreign collaboration which has received the blessings of the Government creates an inferiority complex among Indian advertising agencies. One would have expected that at least in creative work sham imitation and a slavish mentality would be fought against. I, for one, can never believe that creative ability in India has reached a point where we have to await waves of inspiration from across the seas.

—RST

BUSINESS NOTES

Tata Oil

THE key feature of Tata Oil's financial results for the year to March 1965 is that margins as measured by the ratio of pre-tax profits to sales turnover have substantially widened. According to the preliminary profit figures, total sales advanced by six per cent from Rs 13.80 crores to Rs 14.63 crores but pre-tax earnings were pushed up over 57 per cent from Rs 29.12 lakhs to Rs 45.86 lakhs. These profit figures have been arrived at after providing for depreciation charge which amount, however, is not disclosed. For the year 1963-64, this provision was Rs 18.07 lakhs.

But the picture is completely reversed after other necessary provisions are made. Taxation bites much deeper, having chopped off Rs 25.60 lakhs against only Rs 9.39 lakhs previously, and development rebate reserve too requires a higher amount of Rs 7.60 lakhs against Rs five lakhs. Equity earnings are, therefore, actually lower at Rs 12.66 lakhs compared to the previous year's Rs 14.73 lakhs. The equity dividend is maintained at Rs three per share but it requires a bigger amount of Rs 16.82 lakhs against Rs 12.61 lakhs, because the 1,40,000 new

bonus shares are now entitled to the dividend distribution. Apart from Rs 1.35 lakhs (same) required for the preferential dividend liability, Rs 0.22 lakhs (0.75 lakh) are to be written off debenture issue expenses. Accordingly the directors have to withdraw a sum of Rs 5.38 lakhs from general reserve to make up the deficiency in the disposable profit.

TISCO

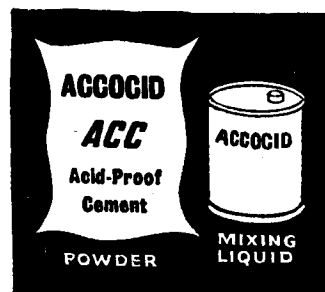
DALAL Street received a rude jolt on July 1 on announcement that the Board of Tata Iron and Steel Company had decided to keep the dividend unchanged at Rs 12 per share. Not only did Tata Steel Ordinary tumble down, but several other active shares lost considerable ground on hasty bull liquidation and aggressive bear selling. The weakness was not confined to Dalal Street alone; but was also reflected in other stock markets in the country. This was but a natural reaction, for a widely held belief, that the dividend would be stepped up by a rupee or so, was shattered. This belief was inspired by quite a few factors, chief among which

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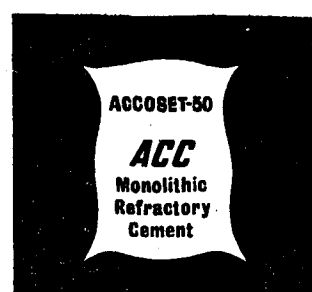
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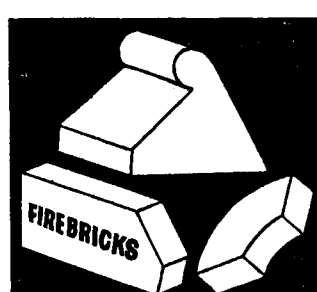
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was the feeling that the company had had a more prosperous year since it had surpassed the previous output records and also had the benefit of decontrol of about 45 per cent of its production. It was also argued that the Board would bear in mind the need to create a favourable climate in the market, particularly because the company might need to raise additional capital for the contemplated further expansion. Besides, the increase in dividend in the preceding two years in succession had whetted the shareholders' appetite and they thought they were unlikely to be disappointed when, in view of the rising trend in the interest structure, there was a stronger case for the Board to adopt a more liberal dividend policy. All these hopes, however, were belied, and the directors decided to toe a conservative line.

The preliminary statement of financial results for the year to March 1965, as expected, shows a satisfactory growth in turnover which is up nearly 12 per cent from Rs 110.44 crores to Rs 123.55 crores. Gross profit is, however, only a shade better at Rs 24.85 crores compared to the previous year's Rs 24.44 crores, showing thereby a visible dent in the profit-margin which is down from 22 per cent to 20 per cent. This is partly due to the provision for interest liability payable on the Rs 10-crore special advance from the Government. It may be noted that this liability is still the subject of negotiation with the Government. So far it amounts to Rs 3.5 crores, but the company has not provided the full amount in the accounts, though it has not been specified as to how much amount has been provided. A better picture of the performance could be had if this information were made available. Meanwhile, the absence of any official clarification has led to conjectures in the market.

The provision for depreciation is stepped up from Rs 7.97 crores to Rs 10.14 crores and that for the tax liability from Rs 4.75 crores to Rs 6.15 crores, with the result that the after-tax profit is down by well over a fourth to Rs 8.56 crores compared to the previous year's Rs 11.72 crores. The allocation to development rebate is lowered from Rs one crore to Rs 30 lakhs. After taking into account the preferential dividend liability of Rs 0.84 crores, equity earnings work out to Rs 7.42 crores against Rs 9.88 crores. As before, equity dividend requires Rs 4.41 crores. The dividend

cover has shrunk from 2.24 times to 1.68 times. Of the remaining surplus, Rs three crores have been allocated to deferred taxation reserve which last year received Rs 2.70 crores. It has not been possible to add any amount to general reserve to which as much as Rs 2.75 crores were transferred a year ago.

Metal Box

STRESSING the importance of tinplates as a packaging material, M K Vellodi, Chairman, Metal Box Company of India, said in his annual review circulated to shareholders that it is indispensable in a country where the climate is extreme, retail outlets are far distant from manufacturing centres and the shelf-life of consumer goods is long. There are many products for which tinplate's functional properties make it, for the next decade at least, India's most practicable packaging material. Doubtlessly, such considerations have influenced Government's decision to plan a massive increase in tinplate manufacturing capacity over the next two to three years. Having secured the medium term future, it is to be hoped that Government will succeed in finding the foreign exchange to bridge the gap between now and the time that Rourkela's new five stand mill goes on stream in 1966-67. It would be tragic, Vellodi says, if the price line should be pushed upwards as a consequence of a sufficient volume of important consumer goods failing to get to market for want of packing material. This could affect, for example, milk, baby foods, fish, fruit and vegetable canning, food beverages, biscuits and food oils. He warned that if the necessary bare minimum is not spent this year on tinplate imports, Rs 250 crores worth of essential goods will be affected.

In regard to the quality of Indian tinplate, Vellodi says, that at present Indian quality is probably the poorest in the world and export markets insist that the entire tinplate content of all the company's packaging materials shall be imported; and Indian canned goods are only acceptable in these markets in cans made from imported tinplate. This is a unhappy position, even though Rourkela's reversing mill has been operational since 1961. He has stressed the time factor in order to make abundantly clear how long it takes to establish tinplate quality. There should therefore be no easy optimism about tinplate exports; these

are unlikely to be achieved within the next five years, according to Vellodi.

Kirloskar Pneumatic

ONCE again, Kirloskar Pneumatic has produced good results enabling directors to step up dividend by 2.5 per cent to 15 per cent, which is also payable proportionately on the capital increased by the issue of rights shares. In the previous year also the dividend was lifted by 2.5 per cent. With a view to raising additional capital of Rs 25 lakhs for further expansion, another rights issue is proposed to be made on the basis of one-for-two at par.

According to the preliminary profit figures, sales turnover during the year to March 1965 has risen from Rs 2.88 crores to Rs 4.02 crores, and gross profit has advanced at a more brisk pace, from Rs 45.19 lakhs to Rs 77.20 lakhs. The necessary provisions for depreciation and taxation have taken up more at Rs 11.11 lakhs and Rs 40.63 lakhs compared to Rs 7.77 lakhs and Rs 23.50 lakhs, respectively, in the previous year. The allocation to development rebate reserve has also been raised from Rs 2.25 lakhs to Rs 3.86 lakhs. Besides, Rs 0.21 lakh (nil) are required to make up for the short provision for the previous year's dividend. The preferential dividend this time demands only Rs 0.03 lakh (0.15 lakh) because a major portion of the preference capital has been converted into equity.

After making these provisions, there is left a substantially higher amount of Rs 21.36 lakhs compared to the previous year's Rs 11.52 lakhs. Of this, ordinary dividend demands Rs 6.25 lakhs (3.88 lakhs). What is more significant from the shareholders' point of view is that despite the considerably increased dividend liability, the earnings cover is better at 3.4 times, against three times in the previous year, which itself is a sufficient indication that the company should not find difficulty in maintaining the dividend rate on the enlarged capital, even if earnings stay at the present level.

Oriental Fire

SPEAKING to shareholders of Oriental Fire and General Insurance Company at their annual meeting in Bombay a few days back, the Chairman, B D Pande, said that the overall results from the company's business abroad were still not satisfactory and that in some territories the manage-

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We represent a tradition almost a century old, command a management service going back to 1892. Over the years too we have acquired an understanding—of a basic industry, and developed an attitude—towards the challenge of its expansion... When the nation needs better iron, more steel and more diversified end products they must come first from the more efficient working of existing installations which new plant and equipment should balance and supplement at a comparatively low investment cost. Expand, consolidate, expand. Aim assuredly at impact—but not by sacrificing in-phase economies. This then is the principle to guide us in our assigned role to take production to 2 million tonnes of ingot steel through another two-phase expansion programme.

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THE ECONOMIC WEEKLY

ment was compelled to reduce business with a view to improving results. It had stopped accepting business in Indonesia mainly due to the reason that the company was not permitted to repatriate its surplus funds from that country. The operations in Pakistan were giving the management cause for concern for some time and, in spite of the best efforts, the position remained unsatisfactory. Accordingly, it was decided to stop writing new business from June 1965, and necessary steps were being taken in that direction.

Referring to the entry of LIC into the general insurance field, Pande said that, considering the business available in the country and the present trend of increase in the total general insurance premium, he was confident that both LIC and Oriental Fire would have sufficient scope for expansion. He hoped that both would provide a lead in exploring fresh avenues in the field of general insurance and serve growing needs of the country.

Utkal Machinery

UTKAL Machinery has successfully cast, machined and ground large drying cylinders of 1500 mm diameter with a face width of 3.5 metres. Five such cylinders together with spiral scoop and heat insulating plates have been fabricated for a paper mill and six others are under manufacture for another client.

The Company feels that the government can now restrict imports of drying cylinders. To meet the requirements of smaller paper mills the Company has plans to manufacture drying cylinders of 1200 mm diameter. The Company has at present a production capacity of 48 drying cylinders per annum. All components are indigenously fabricated and no foreign exchange is, therefore, involved.

Larsen and Toubro are the selling agents of Utkal Machinery.

Money and Banking

Thursday Morning:

EASINESS in the call money market continued during the week with interest rates declining rather sharply. Demand for funds was largely unchanged and with the supply position having improved substantially due to the increased inflow of funds, borrowers were able to secure their requirements easily. Rates of interest declined from last week's level of 5 per cent to $3\frac{3}{4}$ per cent. The two Central Government loans were fully, subscribed within

a short period but did not have any effect on the money market.

During the week to June 25 aggregate deposits of the scheduled banks increased by Rs 23.52 crores to Rs 2704.31 crores. Increase in demand deposits was particularly marked by Rs 22.45 crores to Rs 1272.33 crores. Time deposits increased slightly by Rs 1.07 crores to Rs 1432.18 crores. Bank credit declined by Rs 12.49 crores to Rs 2069.83 crores. Borrowings from the Reserve Bank also came down from Rs 85.59 crores to Rs 65.99 crores. Investments in Government securities at Rs 726.72 crores showed an increase of Rs 2.64 crores. Cash in hand and balance with the Reserve Bank increased by Rs 2.42 crores to Rs 170.69 crores. Money at call and short notice were higher by Rs 8.44 crores to Rs 65.49 crores.

Notes in circulation during the week

to July 2 increased by Rs 12.92 crores to Rs 2677.50 crores, according to the Statement of Affairs of the Reserve Bank of India. Foreign securities decreased from Rs 70 crores to Rs 68.35 crores and balances held abroad were lower by Rs 2.46 crores at Rs 4.85 crores. Rupee securities came down from Rs 2403.07 crores to Rs 2394.72 crores. Deposits of the Central Government showed an increase of Rs 43.95 crores at Rs 109.59 crores. State governments' deposits were higher at Rs 16.71 crores by Rs 1.93 crores. Scheduled bank deposits at Rs 102.94 crores were Rs 3.40 crores higher than in the previous week. Loans and advances to governments decreased by Rs 25.71 crores to Rs 49.64 crores. Advances to scheduled banks rose by Rs 4.80 crores to Rs 68.46 crores. Investment increased by Rs 59.71 crores to Rs 298.38 crores.

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Shree Digvijay Cement Company Limited

Speech of the Chairman, Shri G L Bangur

FOLLOWING is the speech of Shri G L Bangur, the Chairman, delivered in his absence by Shri B D Somani, at the Twentieth Annual General Meeting of the Shareholders held at Sikka on Tuesday, the 29th June 1965.

Gentlemen:

I have pleasure in welcoming you to the Twentieth Annual General Meeting of the Company. The Directors' Report and Audited Statement of Accounts have been in your hands for some time past and with your consent, I take them as read.

We are at present passing through a very difficult period in the economic and political arena of our national life. While many of our economic problems of importance still remain unsolved, we are at this critical juncture facing on our border two aggressive neighbours — China and Pakistan — which compels us to divert our valuable resources for the defence of our country. It is, however, gratifying to observe from Press reports that there is likelihood of imminent accord between India and Pakistan on the Kutch Border issue. If the cease-fire agreement does take place, I hope that it may gradually lead to establishment of better relations between the two countries followed by settlement of other outstanding issues. I hardly need to mention the fact that the economy of both the countries, i.e. India and Pakistan is very closely inter-woven and therefore the settlement of the disputes is bound to benefit the people of both the countries. I hope that under the able stewardship of our Prime Minister the country would be able to surmount all these difficulties.

The working results of your company for the year under review have shown good improvement over the previous year. It has been decided by your company to expand the existing capacity of cement by 2 lakh tonnes for which the company has been permitted by the Government of India to import machinery of the value of Rs. 60 lakhs against the sub-loan of foreign currency from the Industrial Finance Corporation of India and the Industrial Credit and Investment Cor-

poration of India Ltd. It is expected that the additional capacity of 2 lakh tonnes will be achieved by the 2nd/3rd quarter of 1966. The Company has also recently received a Letter of Intent for expansion of the capacity of its asbestos products by another 36,000 tonnes per annum. In order to finance the proposed integrated expansion programme, the Company is intending to issue debentures to the extent of Rs. 2.25 crores secured by a pari passu charge on the fixed assets of the Company with the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India Ltd.

As you know, the rise in demand for cement has far out-stripped the increase in output. There is keen anxiety on the part of the Government as well as the industry that production should increase rapidly as well as substantially. But the fact remains that the rate of growth of the industry is slow which is clear from the fact that the installed capacity in 1964 was only 10.50 million tonnes against 10.12 million tonnes in the previous year, i.e. the actual increase has been less than 4 per cent.

The cost of production of the cement industry has been increasing progressively mainly due to general increase in price level in the country and the increase in railway freight as well as in labour wages. In spite of this pressure of increase in cost, the question of adequate price increase for cement has always been delayed. However, I welcome the increase of Rs 4 per tonne in the retention price with effect from 1st June, 1965 and this, I hope, would enable the industry to meet the rise in the industry's cost of production for the time being.

I would, however, like to draw the attention of the Government to some important aspects of the price policy which deserve their serious consideration. Firstly, the present price structure of the cement industry will fall due for revision from 1st April 1966. Any reference to the Tariff Commission by the Government at this stage may involve a lot of delay as the Tariff Commission will not be able to complete its examination and submit its recommendations to the Government

in time for the price revision to be decided from the period beginning 1st April 1966. I, therefore, strongly urge the Government to introduce some simple procedure of examining the cost structure through their own cost Account so that necessary data may be available to the Government in time to determine the prices.

Secondly, the question of allowing a suitable price increase exclusively earmarked for expansion purposes is of crucial importance, at a time when the country is faced with a serious shortage of cement. The Government should have favourably responded to the representations of the Cement Industry for a suitable increase earmarked for expansion. I, however, regret to say that the Government has turned down the proposal of the industry and have expressed their inability to allow any increase for purposes of expansion. It will be really helpful if the Government would permit a specified percentage of the industry's production to be sold in the free market so that people are not to run even for small quantities of cement required by them for their own housing, repair work, etc. It will help all concerned and may be expected to yield satisfactory result to consumers, producers and Government alike.

I would like to congratulate the Finance Minister on his bold step in providing new incentives under the Finance Act, 1965, which will stimulate industrial production and exports. I hope Government would take a liberal view of the scheme, while selecting the industries to which the incentives would be extended and the rate at which Tax Credit Certificates would be allowed. The Tax Credit Certificates should also be made negotiable.

Managing Agency System

At a time when the country is undergoing so many severe economic pressures, it is unthinkable that Government should engage its mind on small things. There are enough provisions made by the Government in the Companies Act to curtail and keep within bounds the powers of

the managing agents, including payments to managing agents which have been specifically prescribed and brought down to the lowest level. Whatever the form of management, whether by managing agents or otherwise, the cost of management will be there and it does not seem that by abolishing the managing agents, it will result in lesser expenses. Managing Agents consist of several individuals working together and pooling their resources through the group management, as a whole which has proved to be helpful in knitting the organisation together and thereby bringing down management costs to the minimum extent possible. The financial resources and managerial skill provided by them have been of great value for continuity of working as well as retention of confidence. Bankers and other financial institutions always take an orthodox view based on the backing of the experience, credit and respectability of the particular group of management. Quite often industrial units have been saved from conditions of adversity by timely help of the managing agents and there are instances where managing agents have given up moneys due to them from managed companies for years together. It is, therefore, not clear why the question of doing away with the system altogether should be considered at all, particularly at this juncture when the necessity of pooling both managerial as well as financial resources is of great importance.

Wage Board for Cement Industry

Shareholders are perhaps aware that the Government of India has constituted a Second Wage Board for the Cement Industry composed of a Chairman and six members, two representing Employers, two representing Employees and two independent members. The terms of reference of this Wage Board are similar to those made applicable to the first Wage Board, namely: determination of fair wages on principles set forth in the report of the Committee on Fair Wages. At the same time, considering the serious handicaps under which the industry operates and also the fact that the previous Wage Board had after substantially increasing the wage level evolved a formula to link dearness allowance with the cost of living indices, I do not quite see why a Second Wage Board should have been appointed. The Board, however, has already started on its task and it is hoped

that in making its recommendations, it will consider linking any increase in emoluments that it may recommend with increased productivity and work load on the part of the workers.

The labour-management relations at all the factories remained cordial throughout the year.

Before I conclude, I would like to

express on behalf of the Management warm appreciation of the loyalty, hard work and whole-hearted co-operation of the company's employees at all levels at the office and the different Works.

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



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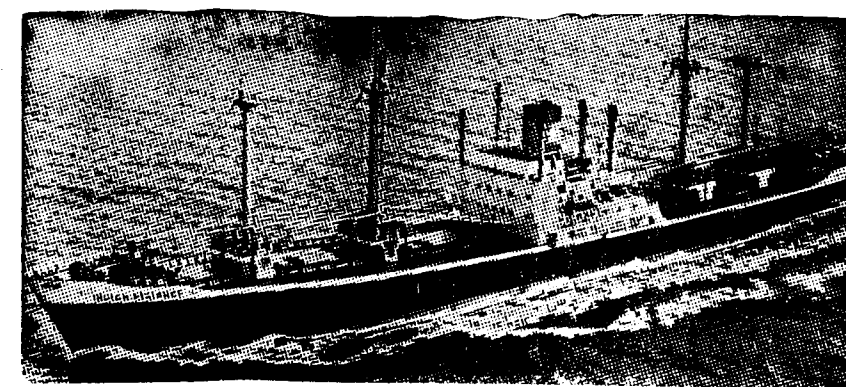
Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in

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BUSINESS IN INDIA, ALL INSURERS

	(Rs lakhs)			
	1963	1962	1961	1960
Gross Premium Written Direct in India				
FIRE, total	18,82	17,49	16,35	14,45
Indian insurers				
Amount	12,46	11,70	10,72	9,28
Per cent of total	66.2	66.9	65.6	64.2
Non-Indian insurers				
Amount	6,36	5,79	5,63	5,16
Per cent of total	33.8	33.1	34.4	35.8
MARINE, total	11,56	10,34	9,41	8,48
Indian insurers				
Amount	8,03	7,16	6,48	5,82
Per cent of total	69.5	69.2	68.8	67.8
Non-Indian insurers				
Amount	3,53	3,18	2,93	2,77
Per cent of total	30.5	30.8	31.2	32.2
MISCELLANEOUS, total	22,19	20,01	18,15	15,24
Indian insurers				
Amount	17,76	16,68	14,66	12,14
Per cent of total	80.0	80.9	80.8	79.6
Non-Indian insurers				
Amount	4,43	3,83	3,49	3,11
Per cent of total	20.0	19.1	19.2	20.4
ALL GENERAL INSURANCE				
total	52,56	47,84	43,17	38,27
Indian Insurers				
Amount	38,25	35,04	31,86	27,23
Per cent of total	72.8	73.2	72.5	71.2
Non-Indian insurers				
Amount	14,32	12,80	12,05	11,04
Per cent of total	27.2	26.8	27.5	28.8
Net Premium Income in India				
FIRE, total	13,36	12,25	11,00	9,15
Indian insurers				
Amount	9,26	8,51	7,49	5,97
Per cent of total	69.3	69.5	68.1	65.3
Non-Indian insurers				
Amount	4,10	3,74	3,51	3,18
Per cent of total	30.7	30.5	31.9	34.7
MARINE, total	7,81	6,67	9,41	8,58
Indian insurers				
Amount	5,38	4,52	3,89	3,11
Per cent of total	68.9	67.7	65.5	60.3
Non-Indian insurers				
Amount	2,43	2,15	2,05	2,05
Per cent of total	31.1	32.1	31.2	32.2
MISCELLANEOUS, total	18,94	16,67	15,13	12,18

SOURCE: Controller of Insurance Government of India.

	1963	1962	1961	1960
Indian Insurers				
Amount	15,36	13,51	12,26	9,50
Per cent of total	81.1	81.0	81.0	78.0
Non-Indian insurers				
Amount	3,58	3,17	2,88	2,88
Per cent of total	18.9	19.0	19.0	22.0
ALL GENERAL INSURANCE				
total	40,11	35,59	32,07	26,49
Indian insurers				
Amount	30,01	26,54	23,64	18,58
Per cent of total	74.8	74.6	73.7	70.2
Non-Indian insurers				
Amount	10,10	9,06	8,44	7,90
Per cent of total	25.2	25.4	26.3	29.8

BUSINESS OF INDIAN INSURERS

	1963	1962	1961	1960
Gross Premium Written Direct				
FIRE, total	14,54	14,23	13,26	11,63
In India				
Amount	12,46	11,70	10,72	9,27
Per cent of total	85.7	82.3	80.9	79.8
Outside India				
Amount	2,08	2,52	2,53	2,53
Per cent of total	14.3	17.7	19.1	20.2
MARINE, total	9,92	9,28	8,62	7,79
In India				
Amount	8,03	7,15	6,47	5,82
Per cent of total	80.9	77.2	75.2	74.7
Outside India				
Amount	1,89	2,11	2,14	2,09
Per cent of total	19.1	22.8	24.8	25.3
MISCELLANEOUS, total	23,87	21,73	19,66	16,46
In India				
Amount	17,76	16,18	14,66	12,14
Per cent of total	74.4	74.4	74.5	73.7
Outside India				
Amount	6,10	5,55	5,00	4,33
Per cent of total	25.6	25.6	25.5	26.3
ALL GENERAL INSURANCE				
total	48,32	45,23	41,54	35,88
In India				
Amount	38,25	35,04	31,86	26,23
Per cent of total	79.2	77.5	76.7	75.9
Outside India				
Amount	10,07	19,10	9,68	8,65
Per cent of total	20.8	22.5	23.3	24.1

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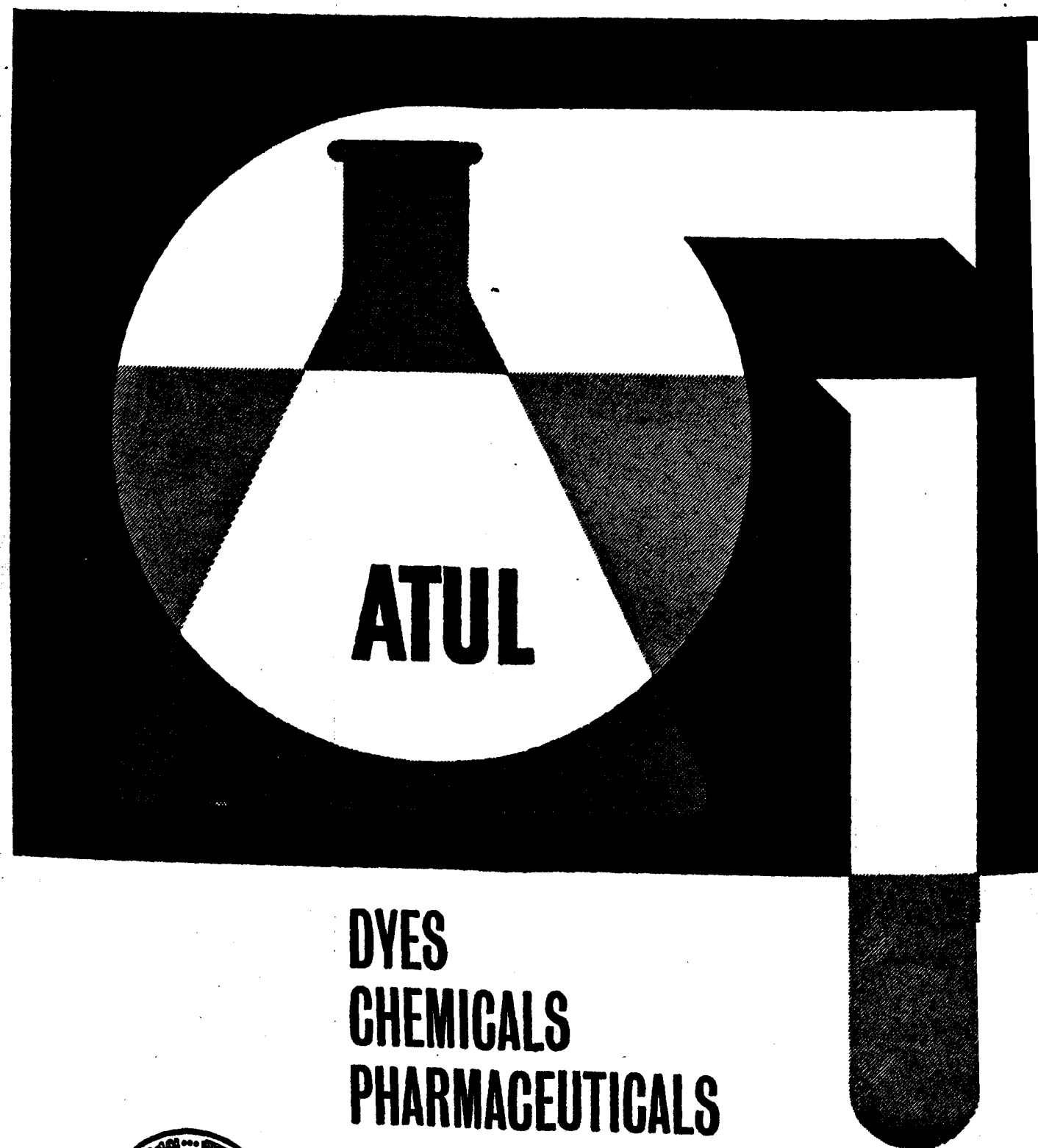
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ZONAL COUNCILS IN INDIAN FEDERATION
CONGRESS PARTY'S FOUR TROIKAS
COMMON MARKET ON THE ICE**

VOLUME XVII NO 29

JULY 17, 1965

SEVENTY-FIVE PAISE

THE ECONOMIC WEEKLY

Vol XVII No 29 July 17, 1965

EDITORIALS

- No Light Still 1119
Towards a Healthy Press: A
Test Case 1120

WEEKLY NOTES

- Significance of Plan Size —
Seasonal Price Fluctuations —
Wrong about Bilingualism —
Oil Price and Storage Capacity —
Goa: Referendum at Last —
PL 480, Once Again —
Sluggish Package Programme 1121

LETTERS TO THE EDITOR

- Census Publications 1124
PL 480 Transactions 1125
Village Industries 1125

CAPITAL VIEW

- The Congress Troikas
— Romesh Thapar 1126

FROM THE LONDON END

- Common Market on Ice 1127

LETTER FROM AMERICA

- A Period of Transition
— Philip G Altbach 1129

BOOK REVIEWS

- The Search for Hope
— Ashok V Desai 1145
Conscience of a Socialist Congressman
— N K 1148

SPECIAL ARTICLES

- Zonal Councils in the Indian
Federal System: A Case
Study
— Shriram Maheshwari 1131

- Occupational Structure of
Cities, 1901-61
— B R Kalra 1139

- AROUND BOMBAY MARKETS** 1149

BUSINESS NOTES

- Tata Engineering — Larsen
and Toubro — Burn and
Company — Sandvik Asia
— Zenith Steel Pipes —
Permanent Magnets — Dig-
vijay Cement — Indu Mills 1150

- CURRENT STATISTICS** 1153

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No Light Still

IT is difficult to believe that in withholding announcement of the import policy for the current year the Government had no more serious purpose in mind than to create uncertainty and panic. But if there was some other purpose, what was it? Of course, since no import licenses were issued in the first quarter of the year a certain reduction of import demand may have been achieved, but, surely, the import bill for the year could have been cut in a more rational and less indiscriminate manner. That apart, can it be honestly maintained, even by spokesmen of the Government, that the public has been given any evidence so far of the time gained being put to good use to evolve policies and procedures which will cut imports according to estimates of availability of foreign exchange with the minimum of impact on industrial production and, particularly, on exports? What we have had instead, as was pointed out in these columns in the issue of July 3, is a series of piecemeal measures. That a device so uncertain in its impact as advance deposits against imports was thought of as a means to phase out imports over the year when the same result could have been achieved more directly through the elaborate import control machinery that the Government has at its command is indicative of the inability of current official thinking to come to grips with the basic elements of the foreign exchange crisis. As if to confirm this, no sooner was the advance deposits scheme announced than it was withdrawn for certain categories of imports.

The latest instalment of import policy announced on Thursday gives no idea of the monetary ceilings for import of various items. Licences to actual users will be issued on the recommendations of the sponsoring authorities "out of the overall monetary ceilings allocated to these authorities for the purpose". In other words, applications would be considered increasingly on individual merits, which is a good thing so long as one is reasonably sure that merit implies clear priorities. Too often, however, it becomes a matter of relative and extraneous pressures, succumbing to which is passed off as proof of flexibility. True, the Red Book in the past also did not give the monetary ceilings but the ceilings are a matter of far greater concern to manufacturers now that there is known to be acute foreign exchange stringency. If there has been any foreign exchange budgeting done in New Delhi, these ceilings must have been laid down for the more important items at any rate. Why not then publish them, if only as evidence that they exist?

So far as the permissible items are concerned, there is no doubt that the policy is less stringent than was expected. No article of machinery (other than machine tools) has been added to the ordinarily banned list. There is also practically no change in the list of machinery items which can be imported by actual users if they can prove that indigenous supplies are not available. As regards raw materials and components, it is claimed that care has been taken to prevent any slowing down of industrial production. But since the rate of growth of industrial production has already slowed down this is a claim rather difficult to concede readily.

To return to the areas which remain dark, export incentives continue to be uncertain though earlier it was promised that they would be announced with the import policy for actual users. The announcement has now been further postponed. Such prevarication on export incentives can indicate only more-than-ordinarily-acute inter-Ministerial wrangle. Otherwise export promotion schemes should have been the first to receive attention since they have been squarely blamed for the most striking aspect of the foreign exchange crisis: the failure of export earnings to match declared physical exports of goods. Nothing is yet known about the future of the much-criticised import entitlement scheme. At the same time, the tax credit scheme proposed in the 1964-65 Budget remains to be spelt out. It is not disclosed at what stage of its labours the committee of officials appointed to re-examine existing export incentive schemes and to determine the quantum of tax credits against exports of different categories of commodities is. There can be no doubt that in certain commodities, import entitlement could be reduced to substantially below the export performance and the reduction made up through tax credits. It should be possible, in fact, to taper off the import entitlements over a definite period of time replacing them gradually with tax credits.

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MADRAS I

Towards a Healthy Press

—A Test Case

AN organisation, once it has been properly set going, seems to run by itself. That is why newspaper readers in the country have had no reason yet to suspect that anything was seriously wrong with India's largest group of newspapers, the 127-year-old *Times of India* and the *Illustrated Weekly, Navbharat Times, Maharashtra Times* and the others owned by Bennett Coleman & Co Ltd which, in turn, is owned by Shanti Prasad Jain (and his relatives and companies), the industrial magnate of Vivian Bose Enquiry fame. The management of this group of newspapers has for some time been in the hands of a Board of Directors appointed under a consent order of the Companies Tribunal, set up under the amended Companies Act, to which Government had petitioned for the removal of the management of the Company. The petition was filed under several provisions of the Companies Act which provide *inter alia* for the removal of managerial personnel on charges of mismanagement and also under a wider provision recently inserted which empowers the Tribunal to intervene when the management of a company is found acting against the public interest.

As an offshoot of the Vivian Bose Enquiry which investigated the case of one live and nine dead companies in which Dalmia and Shanti Prasad Jain were involved, Government appointed an Inspector in April 1963 to investigate the affairs of Bennett Coleman & Co. The senior officers of the company under the direction of Shanti Prasad did not co-operate in this enquiry in the beginning but later, when assured by the late Prime Minister Jawaharlal Nehru that the case against the offenders would be actively pursued, they came forward to give evidence and produce documents, regarding the alleged malpractices of Shanti Prasad. Government issued an ordinance in July last year to protect the service and interests of the employees during the pendency of investigations by the Inspector or proceedings before a Tribunal appointed under the Act.

The interim Board of Directors consists of four directors representing the shareholders, two directors nominated by Government, and a Chairman who was acceptable to both sides and who has been vested with a limited power of veto. This interim Board, however, does not seem to have worked smoothly,

for a fresh petition was filed by the Government in February last praying for an alternative arrangement for the management of this group of newspapers either by a Board of Management, or a Special Officer, or any other arrangement which the Tribunal might deem fit.

The allegations against Shanti Prasad and other directors, which are being considered by the Companies Tribunal, are of misappropriation of large sums of money, manipulation of accounts of income in order to get approval of the Controller of Capital Issues for issue of new shares at par, various payments to settle losses in speculation of Shanti Prasad or his companies, and interference in editorial policy. The latter was brought out forcefully by the Editor of the *Times of India* in his letter to Pandit Nehru in which he complained of the "nerve-shattering difficulties and frustrations" under which he had to work. The Editor had confidently expected the late Prime Minister's "unconditional endorsement that the paper should be independent and honest in the expression of its views" to be followed up by suitable action. He had also put forward the view of the senior officers that the paper "should be organised with Government aid and initiative into a co-operative" in order to ensure clean administration and editorial independence. This proposal had been put forward in the Press Commission's report also in a general context.

The petitions filed before the Companies Tribunal are pending and the above allegations are subject to judicial determination in due course. Meanwhile, part of the proceedings of the Tribunal have been stayed by the Bombay High Court on technical grounds on an application by Shanti Prasad.

The growth of a healthy press in the country had been one of Pandit Nehru's abiding hopes and enduring interests. He had particularly regretted that large sections of the Press in the country should be owned and controlled by industrial magnates. The public, therefore, has much greater concern in the case of Bennett Coleman & Co, which is before the Companies Law Tribunal and has been the subject of investigation by the Special Police Establishment with which the case was registered in January 1964, than what arises from violations of the Companies

Act or alleged mismanagement. The fate of the largest group of newspapers in the country will be watched with more than usual interest for on it will depend largely the future and the possibilities of the growth of a healthy press.

It is reported that the Home Minister who is the Chairman of the Vivian Bose Sub-Committee of the Cabinet is no longer in favour of criminal prosecution which should have followed the Special Police Establishment investigations completed early this year and in the course of which several thousand documents were seized. Instead, the possibility of bringing about a settlement with Shanti Prasad Jain is being explored. It is incredible that the Home Minister, who is bent upon eradicating corruption in all walks of life, could be in favour of such a course. It is not only Nandaji who is committed to the eradication of all corruption; Lal Bahadur Shastri is on record as saying that the common man has lost confidence in the Government and it is the duty of the Government to see that this is restored. Will such a settlement be conducive to the restoration of confidence?

If there is such a move—we hope there is not—then this is certainly the most propitious time to push it through. Parliament is not in session, so inconvenient questions will not be asked, at least not for some time and the controversial AICC session in Bangalore will keep the top men all busy.

There is no reason, however, to believe that all is lost yet. There is a question of propriety and procedure—whether the Home Ministry is entitled to interfere with the normal process of law when once it has been set in motion. There is the more urgent and pressing question which arises in view of the delay in following up the report of the Special Police Establishment: Has the Home Ministry taken the independent advice and opinion of the Attorney General on the report submitted by the S P E? But apart from questions of propriety and procedure, the ground for hope that all is not lost lies in this that it is a matter of such importance as to engage the attention of the Cabinet at the Centre and it would be difficult to imagine that the Cabinet can ever dispose of this matter in so cavalier a fashion without due consideration of its wider implications. The future of the press and the institutional basis of a healthy press is a national issue today and we shall not believe that the Government will lose this opportunity of setting the right precedent.

Weekly Notes

Significance of Plan Size

THE resources committee of the National Development Council has decided to stick to the target of Rs 21,500 crores to Rs 22,500 crores for the size of the Fourth Plan. Does this mark the end of the excited, though not particularly fruitful, debate which has been going on, even in official circles, since the publication of the Planning Commission's "Memorandum" in October 1964. We have heard urgent argument for reducing the Plan as well as for enlarging it. But the scales were weighted in favour of the former. The Planning Commission itself had cut the physical targets suggested for a number of important sectors. Then the Prime Minister put a stop to talk of enlarging the size. There were, therefore, grounds for apprehension that a downward revision was on the cards, especially in view of the fact that the States had come up with very much lower estimates of resources than expected by the Planning Commission. The National Development Council has now resolved to raise additional resources to the tune of Rs 3,000 crores by various means including additional taxation. The disciplining of the States has been achieved just as we had said in these columns two weeks ago it would be. The States have undertaken to raise proportionately a larger share of the additional resources in the Fourth Plan than in the Third Plan against concessions of a relatively unimportant nature.

So far so good. But how far? What significance is to be attached to the financial figure representing the size of the Plan? It has not been sufficiently strongly stated by economists that the size of the Plan as thus indicated is not of any significance. It is the sum of two figures—"investment" in the private sector and, in the case of the public sector, what is called "outlay", which includes investment as well as additional current expenditure on Plan account. Then again, purely statistically, the target for the public sector is meaningful in the sense of being *ex post* verifiable; no such meaning can be attached to the so-called target for the private sector, for which the estimates of savings and investment are admittedly of an extremely sketchy character.

But the most serious of the objec-

tionable features of this particular concept of size is that it is a value measure and, therefore, meaningful only when the prices at which it is measured are specified. But this is nowhere done and one talks of Rs 21,500 crores or Rs 22,500 crores as if they were measures of absolute physical units. It is true that in the Planning Commission's "Memorandum" it was mentioned that the financial figures are in the prices of 1963-64. But since then, during the last year to be precise, prices rose sharply and yet in all the discussions and loud thinking, there has been little concern at the fact that each time one talked of Rs 21,500 crores, one was talking of a different magnitude in real terms.

When the country is supposedly wedded officially to the concept and philosophy of physical planning, why should there be all this emphasis on a financial figure as representing the size of the Plan? There is obviously a contradiction between fixed physical targets and a fixed financial size when there are no targets for prices. This contradiction has exploded the balances of the Third Plan where the physical achievements have fallen far short of targets and yet the outlay targets have been over-fulfilled. In most Planning Commission pronouncements and documents, much satisfaction is drawn from the fact that if not in anything else at least in the matter of outlay, the Third Plan targets have been fulfilled. A fine testimony indeed for the planners' faith in physical planning! It is gratifying, however, that the irrelevance of the concern for financial figures was pointed out at the meeting and by no less a person than the Food Minister who is reported to have said that most of the present economic difficulties were due to the failures in the Third Plan and emphasised that unless we ensured that similar failures did not recur, the Fourth Plan would have no meaning.

Seasonal Price Fluctuations

A RESERVE BANK study of variations in the prices of agricultural goods shows that seasonal variations in the prices of a number of commodities have lessened in the past fourteen years. The study calculates the trend-cycle component by means of a twelve-month moving average and the seasonal component as the

per cent deviation of monthly averages from the corresponding moving averages; a residual remains after the extraction of the trend-cycle and seasonal elements, which is called the irregular component.

The amplitude of seasonal fluctuations (i.e., the difference between their peak and trough) differs greatly between commodities—its average over the 14 years is as high as 10.0, 12.2 and 14 per cent for wheat, rice and groundnuts and as low as 4.2 for raw cotton. There does not seem to be much correspondence between the violence of seasonal variation and the degree of concentration of market arrivals: the arrivals of groundnuts and cotton are equally concentrated, and those of wheat far more concentrated than of rice, and yet seasonal fluctuations are greater in the prices of groundnuts than of cotton and in the prices of rice than of wheat. Evidently, institutional factors are also at work.

Prices at each point of time have to be such that people are induced to hold neither more nor less than the existing stocks; so apart from the unevenness of market arrivals, the costs of storage and the minimum rate of return on storage required by stockists must also influence the prices. It is possible that the storage costs of rice, wheat and groundnuts are higher than of cotton and jute: apart from their greater bulk, they also lose weight during storage as a result of dehydration.

However, the market organisation seems to exercise a significant effect. Stocks of the industrial raw materials are held partly by cotton and jute mills and partly by traders in close touch with them; the risks of holding stocks are, therefore, at a minimum, and so are the required profits. Owing to the greater dispersion of stocks of wheat, rice and groundnuts, the risks and the minimum profits in their storage are higher.

It is interesting that the amplitude of seasonal variations in the price of jute has declined from 18.0 per cent in 1951-52 to 7.2 per cent in 1964-65, and that of cotton from 4.6 to 3.7. The decline might be attributed to the price stabilisation and buffer stock activities of the Jute Board, the Cotton Commissioner and the Forward Markets Commission. The stability of variations in the case of wheat, rice and groundnuts is puzzling; possibly, the

restrictions on inter-State movements and on stock-holding have offset the tendency towards greater stability of prices. However, this problem calls for a more detailed analysis and the analysis should be extended to more commodities. It is to be hoped that the Reserve Bank will undertake it.

Wrong about Bilingualism

SUMMARY of a paper prepared by the Secretary of the Education Commission appearing in the Press a few days ago suggested that according to the 1961 Census data on languages known to people, the position of Hindi in non-Hindi areas was "far from happy". The highest and the lowest percentages of Hindi-knowing population in Southern States were, respectively, 1.28 in Mysore and 0.20 in Madras. English was described as "the most largely-known subsidiary language in India with a clientele which is even larger than that of Hindi as a subsidiary language (9.36 million)".

A scrutiny of the relevant census material shows that both the conclusions drawn in the paper mentioned above are unwarranted. This is not because the number of persons knowing a language other than his mother-tongue is underestimated. But the instructions to enumerators laid down that he should not record more than two languages against the question eliciting information on bilingualism. Further, even in the case of persons reported as knowing more than one language (besides their mother-tongue), the tabulation is based only on the language first recorded by the enumerator. All this is clearly stated on the flyleaf to Table C-VI of the 1961 Census of India, Volume I, Part II-C (ii), "Language Tables" (p 137). It implies that the pattern of bilingualism shown by the Census tables is seriously affected by the order in which a person named the language other than his mother-tongue known to him. If a person with Tamil as his mother-tongue and knowing both English and Hindi reported them in this order, the present census table on bilingualism indicates him to be knowing only English. If, therefore, the Education Commission wants to know the extent to which Hindi is known in non-Hindi areas as a subsidiary language, it must embark on a special tabulation of the Census data on bilingualism. It might even recommend for the 1971 Census a special question on the knowledge of Hindi; that would resemble the special ques-

tion on 'literacy in English' which was a part of the Indian Censuses prior to 1951. Also to make a complete inventory of the extent of multi-lingualism in the country, the Census may be asked to record all the languages known to respondents. But it is obviously unfair to draw invalid inference from the Census data. It is possible that the Secretary of the Education Commission has qualified his inference in the paper; but then he should have corrected the misreporting in the Press.

Oil Price and Storage Capacity

THE cuts in crude prices announced by Burmah-Shell and Caltex will save Rs 1 crore and Rs 17 lakhs, respectively, of foreign exchange, it has been reported. Esso is said to be preparing to follow suit. The price of Iranian crude would now be \$1.48 a barrel and of Kuwait \$1.34. The new prices are effective from July 1. They compare favourably with the best offers of \$1.50 Iranian and \$1.35 Kuwait for the Madras refinery. As Ankleshwar, which supplies a quality comparable with that from Iranian sources, increases its despatches to Bombay refineries, the imports of Kuwait crude can be stepped up, bringing down the foreign exchange cost further. This gesture by the oil companies is only remotely connected with the squeeze applied by the Government on distribution of refined products. The immediate provocation for it lies in the forthcoming submission of the Talukdar Committee's report on oil prices—and the negotiations for expansion of coastal refineries which were stalled pending agreement on crude prices. Agreement is, of course, still a distant prospect because hard negotiations will commence only after the Talukdar report is submitted and the terms will depend on the final offers for Madras and Haldia.

In the meanwhile, Indian Oil appears to have overcome the desperate problem of arranging supplies of diesel and kerosene in areas where it had little or no distribution and storage facilities. Complaints of shortages are muted for the time being but how long can it maintain its emergency pace? Procedures and facilities designed to meet emergency requirements cannot be maintained indefinitely. They have to be formalised. Nearly one-half of the inland storage capacity of the oil companies will remain idle since their imports will never be restored to the previous level, while Indian Oil has a

THE ECONOMIC WEEKLY

long way to go before it can have adequate storages. At the end of March 1964 it had only 65 depots with a capacity of 31,600 kls and 624 retail outlets, against a target of 145 depots with a capacity of 46,750 kls and 1,650 retail outlets. The situation could not have improved appreciably since then in spite of its heroic performance during the last few months. Its sales increased more than 5 times, from 2,11,000 kls in 1961-62 to 11,72,000 kls in 1963-64 but the percentage of target achievement fell from 83 to 63 per cent. It has lost special discounts, amounting to at least Rs 18 lakhs which the Russians would have offered for scheduled lifting of quantities additional to those agreed in 1960, and lost a further Rs 50 lakhs on a product exchange arrangement with the oil companies, all due to inadequate storage and marketing facilities. The costs imposed on it this year too must have been considerable. One way out of this wasteful situation is for the Government to induce the oil companies to lease part of their inland storage to Indian Oil. The only alternative to this is to requisition the capacity.

Goa: Referendum At Last

WHAT made the Congress Parliamentary Board reverse the Party's policy on the future of Goa was less the wishes of the people of Goa, more those of the Congress leaders of Maharashtra. To that extent the Mysore Chief Minister is right to feel aggrieved—the patent absurdity of Mysore's claim to Goa notwithstanding. It was strange that at the meeting between Lal Bahadur Shastri and the Goa Chief Minister, the other person present should have been Y B Chavan.

Ever since the elections in Goa in 1963, there has been close rapport between Maharashtra Congress and the Maharashtra Gomantak, the ruling party in Goa, somewhat reminiscent of the collaboration between the Congress and the Samyukta Maharashtra Samiti at the time of the agitation for merger of Bombay in Maharashtra. In this set-up the position of the Goa Congress, which is after all the Congress organisation in Goa, has become increasingly queer. It contested the elections, disastrously, on the plank of retaining the *status quo* for the time being and since then its President has come out openly against merger with Maharashtra. What role the Goa Congress plays in the coming elections it will be indeed interesting to see. It will be difficult to make a *volte face* and campaign for merger

THE ECONOMIC WEEKLY

now; nor will the Congress want to dig its grave by joining hands with the United Goans, the chances of a popular vote in favour of merger being as good as they are. So perhaps it will stay out of the elections altogether.

In that case the election will be a straight fight between the Maharashtra Gomantak, actively aided by the Maharashtra Congress, and the United Goans. What we will have in effect will be a referendum even though the Government of India may not like the word allegedly because it might set a "dangerous" precedent. This kind of casuistry is so typical of the Congress. If to consult public opinion on an issue like that faced in Goa is to set a dangerous precedent, then a referendum amateurishly camouflaged as an election is no better than a straight referendum.

The need for all this double-talk could have been avoided had the truth been faced at the outset that since the present political division of the country was determined by the States Reorganisation Commission and since Goa was not a part of the country then, a decision had to be taken about it and there could be nothing wrong if in taking this decision the opinion of the people involved was consulted. Surely this is not going to set a precedent for agitation by DMK in Madras or by Akalis in Punjab or indeed by Pakistan in Kashmir!

PL 480, Once Again

FOR a subject which is not at all a matter of opinion but of ascertaining the true facts, the impact of PL 480 transactions on money supply has provoked a surprising amount of controversy. Exactly what happens when PL 480 counterpart funds are spent by Government has been described, step by step, by the Reserve Bank and the Finance Ministry. But that has not stilled the controversy. Now the National Council of Applied Economic Research has raked up the subject in its latest report, on "Management of Public Debt in India". The full text of the report is not available yet but, to judge from detailed newspaper accounts, the Council has come to the conclusion that under the present procedures PL 480 funds are spent twice over, thereby contributing to an expansion in money supply. It has, therefore, recommended that the funds should be impounded with the Reserve Bank instead of being invested in Special Securities issued by the Government as at present.

Neither this recommendation, nor the

judgment about the impact of PL 480 funds on money supply on which it is based, is new. Both have been closely examined and rejected, by official economists and others. Under the present procedure, followed since May 1960, when PL 480 imports are paid for, all that happens is that imported commodities are exchanged for Special Securities issued by the Government. There is no effect whatsoever on money circulation. Subsequently when the imported commodities are sold, there is a contraction in money supply which is, however, offset when the sale pro-

ceeds are spent. The confusion is created when the impact of the proceeds of the Special Securities spent by the Government is equated with the impact of PL 480 funds. The difficulty arises because PL 480 transactions are not treated in isolation, as they should be for analysing their impact on money supply, and normal budgetary exigencies are traced to the emergence of the PL 480 funds.

The Council's analysis appears to be marred by other flaws as well. It is stated, for instance, that while the direct effect on money supply of the



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procedures under which the Government sells wheat and spends the sale proceeds is neutral, the indirect effect will be positive provided there occurs a net increase in bank deposits. What is one to make of this statement? If the impact on money supply is neutral, how can there be an increase in bank deposits? It is possible that the authors of the study have at the back of their minds changes in the currency-deposits ratio consequent on Government's spending of counterpart funds, for they say that a rise in bank deposits may or may not occur depending on the public's relative preference for holding bank deposits and currency. But, surely, the currency-deposits ratio does not change from day to day, depending as it does on the growth of the banking habit? It is hardly likely that the ratio will be different when the Government contracts money supply through sale of commodities from when it spends the sale proceeds.

Similarly, while examining disbursement of counterpart funds, it is stated that when the US Embassy disburses counterpart funds it must first sell some of the Special Securities and that if the Government buys these Securities back its cash balances with the banks and the latter's investments will go down so that the effect on money supply is neutral. But, obviously, this neutral impact on money supply is possible when the fall in the non-monetary liabilities of the banking system is matched by equivalent fall in its financial assets, whereas in this case the Special Securities are *not* the financial assets of the banking system. They are held only by the US Embassy.

Sluggish Package Programme

THREE years after it was started, Maharashtra's Intensive Agricultural District Programme still has to get over its teething troubles. This is particularly disturbing, considering that the very rationale of the IADP is to select a few highly promising districts and then, by concentrating there a whole package of better and increased inputs, obtain quick improvements in yields per acre. The idea of a package programme for selected districts has been in the air since at least the late fifties; it was introduced on a pilot basis in three districts in 1960-61. It is amazing, therefore, that in 1965 the administration in one of the better run States should be treating difficulties like those of recruitment and of the credit-worthiness of the farmers, as newly discovered problems.

The programme in Maharashtra got

off to a bad start. It seems that the State Government would have liked to choose Kolaba district but that the Union Government, on advice of Reserve Bank officials, insisted on Bhandara district because it was thought that the latter had more irrigation tanks. However, a large number of tanks turned out to be in a state of disrepair. Similarly, the co-operative societies were found to be much weaker than had been expected; many of their members were defaulters; and about 50 per cent of the cultivators in the package programme did not belong to any co-operative society. The State Government has turned a number of short-term loans into long-term ones, stood guarantee for them for the first two years of the programme, and has started a campaign

LETTERS TO EDITOR

Census Publications

THE Registrar General's office feels grateful for the very appreciative notice in your issue of July 3 on the Census publication programme. It will be of interest to your readers to know that already 90 volumes of Tables for all India and for each State have been published. The additional number of volumes of Tables which will be published without fail by the end of this year will be 72. The number of districts in India is 332. A total of 295 District Handbooks will be published by next December and already 84 have been published. By this programme, all the important demographic, social, cultural and economic tables projected in the 1961 Census will have been published, down to the level of each village, for most of India. The number of analytical Census reports already published is 33. Another 34 will be published by December. Nine State atlases will have been published at the end of the year. The firm figure of the number of volumes to be published by next December is 735.

Even with their electronic appliances and facilities for offset printing directly from tables printed by computers, it has not yet been possible for any other country which took its census in 1960 or 1961, to produce more than a fraction of this amount. It may seem odd, as indeed you have observed, that while some tables still remain to be published, as many as 200 village monographs should have been published. We have a great dearth of presses which print tables in 6 or 8 point type. Mono printing facilities for

to increase the membership of the co-operatives. There is also a phased programme to repair the damaged irrigation tanks. Effort is also being made to link credit with marketing. The plan is to construct 309 godowns for this purpose in the district. Of these 130 have been completed and the rest are under construction.

There are few other indications of energetic activity, however. It is to be hoped that the lack of pre-planning which resulted in appointment of staff taking three years will now be a thing of the past. It would be interesting to find out if the slow progress of the programme in Maharashtra has anything to do with its implementation not being the direct responsibility of the State Government as in other States but that of the Zilla Parishad.

statistical tables are extremely limited. It is gratifying that the Census of 1961 has been able to augment India's capacity in this direction by a piece of planning started in 1958-59. The tables and village survey monographs are printed in non-competing presses. In other words, the village surveys are printed in presses which cannot undertake table printing. By common acknowledgment, at home and abroad, these monographs by my colleagues have been an outstanding contribution. This office has been complimented time and again that a similar output has not been possible elsewhere at any time.

Your readers will be happy to learn that an attempt is being made to attach a branch of the Publications Division to the Registrar General's Office at Delhi to pay prompt attention to demands for copies of Census reports.

You have thought fit to make the following comment: "And it is time to take a hard look at the practice of writing an official report on the Census data for each State or Union Territory, a task for which administrative officers are not always fitted. We should probably switch over to the pattern in USA where the Census Bureau is mainly a collector and publisher of data and undertakes, by and large, only evaluative studies." Although one feels tongue-tied yet, in the interests of future demographic research, the facts had better be faced. You will perhaps concede that not very much of independent demographic analysis of Indian data worth the name exists outside of the official reports of Cen-

sus Commissioners and State Superintendents and much of what has so far passed for non-official and independent demographic analysis of census data has been to a considerable extent acknowledged or unacknowledged rehashes of extracts and conclusions from published official reports on the Census. My colleagues have received high praise from very exacting scholarly circles at home and particularly abroad on the quality of the 1961 Census reports of several States, the official age and life tables, and the analytical reports so far published on the demographic, economic, cultural and language data. While admittedly, official reports have been and will be of varying quality, it is doubtful whether in the present sluggish state of scholarly enterprise in India they could really be dispensed with. Besides, unlike in other countries members of the Indian Administrative, Statistical and Economic Services, who write these official reports, have had as good a scholarly academic record in their university days as any. It is hardly surprising therefore if with four to six years of dedicated and unremitting work of 14 to 16 hours a day and with their opportunity of keeping their ears to the ground, they should relapse into laudable scholarship and outdo in their own field academic scholars who usually spend no more than four hours every day with more than four months of vacation thrown in every year. This indeed is a serious matter in a much wider national context.

This office feels grateful, too, for your gracious comment on its effort at stimulating scholarly enterprise in India.

A Mitra

Office of the Registrar-General,
Delhi.
July 10.

PL 480 Transactions

I HAVE read with interest M. Z. Mogri's article "PL 480 Transactions" in your issue of May 29, 1965. I do not agree with the author's thesis that although PL 480 transactions individually and severally do vary cash flows in the economy, their net impact is nil as far as money supply with the public is concerned. The main defect in the author's analysis, as also in the analysis of Reserve Bank and Government of India economists (V V Bhatt, D R Khatkhate, etc), is that PL 480 transactions are considered in a static

rather than in a dynamic setting.

It is clear from Mogri's Table that deposits created in favour of the Government of India with the Reserve Bank of India initially on the basis of *ad hoc* Treasury bills remain unaffected. The only change that takes place after a week or so is that *ad hoc* Treasury bills are transformed into special Government securities created in favour of the US Embassy. These deposits are drawn upon by the spending units of the Government and thus the stream of Government expenditure is swollen. As a result of the fresh injection of cash into the economy, the cash resources of the credit institutions increase and the credit institutions are thus in a better position to create credit in favour of spending units both in the private and public sectors.

The process of creation of currency is similar to that under the commodity currency standard advocated by a school of economists led by Milton Friedman, but with a little difference. The arrangement for sale of food stocks is well known. The Government of India sells the stock of foodgrains to the State Governments who, in order to take delivery of the stocks, seek fresh credit facilities from the State Bank of India. The creation of fresh credit in favour of the State Governments would theoretically cancel out the deposits created by the Reserve Bank in favour of the Government of India. But in practice, such adjustments take place only after a great time-lag. Till such adjustments are effected, the two lines of credit, namely one with the Reserve Bank and the other with the State Bank, run concurrently. Needless to say, the impact of these credits is expansionary.

Again, the sale of foodgrains by the State Governments takes place against lines of credit created in favour of licensed traders by the commercial banks. These credits are retired as the consumers pay cash out of income earned in the previous period for foodgrains obtained from the grain shops. The impact of this transaction is contractionary, but it does not wholly offset the preceding expansionary impact for the simple reason that the injection of cash *via* Government spending has a multiplier effect on the money supply and the speed with which the spending units of the Government spend is several times faster than that with which the selling units of the Government collect cash. Hence, I have no hesitation in concluding that the analysis of Mogri and of the official

economists of the impact of PL 480 transactions is wrong.

Bashuri Ghosh

Calcutta
June 10.

Village Industries

IN his note "Village Industries in the Fourth Plan" (July 10, 1965) your correspondent betrays only his incomprehension, ignorance and indifference to the suffering of common people. U N Dhebar objected to making the Boeing and the bullock cart run on the track; he wanted both to run. In effect what he wanted was necessary co-ordination between the policies of the Government of India (the Planning Commission is a mere agency of the Government) towards organised and decentralised sectors. If the Government wants to get yarn from spinning mills it should not assist Khadi; if it decides to assist Khadi there should be no more of spinning mills. So much for your correspondent's incomprehension.

His ignorance finds expression in the very bold statement that "there is no market whatsoever, either in the urban or in the rural areas, for such products as cottage matches, handmade papers, cottage soap, etc". Let your correspondent enquire of the principal paper traders in the city about handmade paper consumption. He might profitably look up some of the prestige publications of renowned companies as well as the match boxes used by them. Suffice it to say, there is as yet no marketing problems for cottage soap.

In many areas of the country there is marked preference for ghani oil and hand-pounded paddy. Unfortunately licencing of mills (contrary to recommendations of expert committees) has severely affected the stability and competitive capacity of these industries.

The Khadi and Village Industries Commission, I am sure, will reply to the specific criticism of its programmes. I shall only refer to the correspondent's amazing insensitivity to economic reality. According to one of the most reliable estimates during 1961-62 more than 25 crores of people in this country did not have even fifty paise to spend per day. Any occupation that yields even this much of income is economic, relevant and worth all the support. But many village industries do yield a larger income.

Subhash Chandra Sarker

Bombay
July 14.

The Congress Troikas

Romesh Thapar

THESE days, the leaders of the Congress who are regularly closetted with Prime Minister Lal Bahadur discussing matters pertaining to the future of factions and factotems in the States always come away marvelling at the visible excitement of the 'boss' over various incidents in his foreign tours, excitement which temporarily has deflected his attention from the intrigues of the party — intrigues which normally absorb his time and energy. That this should be happening on the eve of the impending battles at Bangalore is significant. Lal Bahadur quite clearly continues in command of a situation which, according to him, only looks unhealthy from the outside.

For example, those who make a study of the permutations and combinations of personality and policy within the ruling party maintain that the behind-the-scenes Syndicate has now dissolved into four troikas which are contending for power and influence in the coming year of election preparations. The troika which is in the lead is made up of Lal Bahadur, Gulzarilal Nanda and Kamaraj. It is at the moment receiving crucial support from the troika of Indira Gandhi, Y B Chavan and Subramaniam. Two troikas are in opposition. One comprises S K Patil, Sanjiva Reddy and Atulya Ghosh. The other, which seeks to make an impact, consists of Morarji Desai, Jagjivan Ram and Vijayalakshmi Pandit.

Kamaraj's Second Term

Each troika claims bases in the States either through Chief Ministers or through the party 'bosses'. At the Centre, too, alignments are said to be along these four broad divisions. Prime Minister Lal Bahadur's skill lies in controlling one of the two troikas opposed to him. And it is this troika of Patil, Reddy and Ghosh which is being uncertainly wooed by Morarji Desai and his supporters. A break up of this troika, or its neutralisation on a crucial issue like the projected second term for Kamaraj, is sought as the first step to consolidate the ascendancy of the right wing in the hierarchy of the Congress Party.

Those who plan to challenge the present balance of forces within the party claim that what is required is an unfettered, critical group within the party. Only then, they claim, will

it be possible to smash the 'Nehruist dogmas' which have made Lal Bahadur and his colleagues 'the prisoners of indecision'. The fact that Vijayalakshmi Pandit is considered to be part of this group is highlighted. It is assumed that her influence, for whatever it is worth, will eat into the wavering supporters of the two troikas which cement the present government, the troikas headed by Lal Bahadur and Indira Gandhi.

If Morarji Desai manages to block Kamaraj's second term, and there is a likelihood of either Jagjivan Ram or Atulya Ghosh contesting for the presidency, then it looks very much as if Indira Gandhi will have to relinquish her ministership and face the challenge from the right wing. It is maintained that she is about the only person who could ride the storm. But it is unlikely that there will be this kind of upset. Each day sees support for Kamaraj gather. He has certainly become the symbol of stability and fair play in the eyes of the rank-and-file leadership.

The rise of Kamaraj to national prominence has astonished even Kamaraj. Every now and then he confides to his close friends that he would like to return to the chief ministership of Madras State. This frequent refrain is probably designed to convince himself that this is no longer possible—or, for that matter, necessary. He is also beginning to draw crowds all over the country, a sure sign that he has broken through a major barrier for a regional politician. Indeed, even his silences are interpreted as meaningful. Foreign governments, too, are taking note.

The Soviet Union, for instance, is very much alive to the influence that Kamaraj is beginning to wield. This probably explains the extraordinary official invitation extended to him to visit the USSR. From all accounts, a rather lavish reception is planned for him. If this becomes a fashion, Kamaraj may soon find himself, like fellow troika-ist Lal Bahadur, a much travelled man. All this is to the good. We need to give a new status to the organisational leadership of the ruling party. It is, presumably one way of puncturing those monopolists of all public glory—the ministerialists—and of making the organisational wing look as attractive. Strange yardsticks, but of such stuff is democratic politics made in India.

The halo of VIP foreign travel, arranged by some to escape the harshness of summer's heat and engineered by others as an essential part of their search for national recognition and respect, is now about the most sought after distinction in this supposedly 'socialistic' Capital. At one stage, it is believed that over twenty ministers of the GOI were abroad for one reason or the other, including Cabinet Minister Satyanarain Sinha who on his own admission spent a great deal of his time examining how night clubs and strip-tease shows encourage tourism! Small wonder then that our bureaucrats are not far behind.

Kamaraj's second term as President of the Congress Party could be historic, that is if he is prepared to mobilise a team of purposeful activists who will help him purge the party of those elements which have reduced it to the most prosperous managing agency in the country. Individualistic interventions, based on a personal preference for this or that leader, will no longer repair the damage. The political deterioration in Punjab has underlined this fact. The Congress President has to crack the hold of the cynical 'bosses' of the party. Not an easy task, but one which has to be accomplished if the party is to release the initiative of its younger, more talented and dedicated supporters.

Purge of Congress Vital

This purge, so vital if the most able persons are to represent the party in the legislatures and Parliament, has always been thwarted by the fear that the purged will join with parties like the Swatantra to make it difficult going for the Congress in the elections. Kamaraj has to accept this challenge. He has to urge acceptance of reduced majorities in the legislatures and in Parliament, even the loss of a few States, should opportunist alliances make this inevitable. He has to project political perspectives into the party, perspectives rooted in the conviction that democratic action will ultimately restore the prestige of the party of Gandhi and Nehru against the rabble of self-seekers who threaten dire consequences whenever they are interfered with or purged.

Some such thinking is beginning to percolate into quarters close to Kamaraj. Perhaps, in the coming months it

will, like floodwater, help cleanse the Congress organisation. What with all the crises that are developing, the ruling party has to be re-tempered. Clear thinking, political ability and a militant dedication to the economic and social objectives enunciated at

numerous party conferences must provide the foundation for Kamaraj's presidency. Without this foundation, the rot, the dry rot, will spread. It will spread despite the manipulations of the troikas.

Tailpiece: The Chanda Committee,

moving at a leisurely pace in its initial investigation of AIR, now desires to tour the Soviet Union, Europe and the United Kingdom to study broadcasting set-ups. Two to three weeks of study is planned. Chairman A. K. Chanda has also requested for ambassadorial rank!

FROM THE LONDON END

Common Market on Ice

AFTER France's dramatic walk-out following the impasse over agricultural financing arrangements, the cracks on the Common Market surface are beginning to yawn in a rather alarming manner. Whatever the final outcome may be, there is no doubt that, for the moment at any rate, the Common Market must remain in a state of suspended animation.

The French are now sulking like Achilles in his tent, and have returned to Paris with the comment: "It is unthinkable that in present circumstances further meetings of the Common Market Council of Ministers can be held". The French Ambassador to the Common Market has also been withdrawn.

De Gaulle's Real Motive

Although the crisis has ostensibly arisen over the question of agriculture, it is perfectly obvious that the break has come because of the supranational implications of the Common Market which, when it was originally founded, was meant to have a political personality as important, or indeed even more so, as its economic personality. It is on this question of supranationality that de Gaulle has always had the gravest suspicion. To him, the only possibility of European political association is his idea of the *Europe des patries*, and not the supranational type of association favoured by the original architects of the Common Market. Many believe that this latest crisis has almost deliberately been engineered by France in order to avoid an irrevocable obligation to a future supranational Europe.

The facts which led to the dramatic breakdown at 2 a.m. in the morning are fairly simple. The point at issue was a common Community price for farm products. The French point of view was that the spirit of the Rome Treaty included not only a Common Market for industrial goods, but one for agriculture as well. As the largest agricultural producer, with an urgent

need for access to the Community market, France stood to benefit substantially from any common policy on agricultural prices. The original proposals were that a common grain policy should come in on July 1, 1967, and that Community financing should begin on the same date. This financing involved an elaborate system of import levies, balanced by home outlays on research and export promotion which should be borne by the Community rather than by the Governments. The Commission had also been asked to produce a scheme whereby Community financing could be organised, and at the same time it was intended that a transitional programme should be drawn up to begin after June 1965.

The scheme presented by the Commission showed that the domestic payments that were needed (\$1,000m a year) exceeded receipts from import levies by \$400m. The Commission then suggested that since an additional source of income was needed, the member Governments' contributions should be replaced by an independent source of finances for the Community. Under Article 201 of the Treaty, the Commission can make proposals to transfer industrial tariffs from national to Community coffers. The Commission, therefore, proposed that as from July 1967, these revenues should go to the Commission. But since these would now stand at the substantial sum of \$2,300m it was necessary that the Commission's budget should be controlled by the European Parliament. It was this that triggered off the crisis, because here was the thin end of the supranational wedge. France tried a compromise resolution which, while agreeing that import levies should pass into the hands of the Commission by July 1, 1967, suggested that the Industrial common market and the central collection of industrial tariffs should be delayed until 1970, and in the intervening period, national contributions, as at present, should make up the Commission's shortfall. This would mean

that Parliamentary control would not be necessary.

One of the interesting features in this disagreement was the revelation that at long last, instead of kowtowing to the French, some of the Common Market partners, particularly Germany, Italy and Holland, were prepared to stand up to them. The other members of the Six were willing to renew the finance regulations until 1967, but not until 1970.

If the French proposal had been accepted, it would have perpetuated the present state of affairs by which the other members of the Community, specially Germany and Italy, were financing to a very considerable extent the export of France's farming surpluses. Again it must be appreciated that under the Rome Treaty, the whole system of industrial tariff reduction demands that the full industrial customs union must come about by July 1967, particularly now that the European Free Trade Association arrangements are expected to be completed by January 1967.

French Dilemma

Of course, for the French, this is an awkward dilemma. Hitherto, French farmers have received generous subventions from the Community Fund and have the hope that the Community market would be opened up as an export outlet. If things now go wrong, this will prove to be an empty dream and de Gaulle will have to face severe opposition from the farm vote. On the other hand, if there is a choice between this and the possibility of creating a supranational authority, there is no doubt which way the General's choice will go.

While there has been a certain amount of wry amusement in Britain over the crisis in the Community, there are a number of difficulties that are bound to have their impact, not only

on the Common Market, but on the world as a whole. To begin with, there will now quite obviously be even further delays in the ill-fated Kennedy Round because, as has always been known, unless some solution can be found to the question of agricultural prices in the Community, no across the board tariff concessions will be permitted. Further delays will now result and the Kennedy Round may well pass the deadline date originally suggested by the Americans, without any satisfactory outcome.

While the Common Market is in this State there certainly does not seem to be much scope for Britain to attempt the type of bridge-building and tunnelling between the Common Market and EFTA as originally proposed by Harold Wilson. However, from the point of view of the British, there may well be reason for some hope that if the Common Market is not going to be the tightly knit organisation originally intended, there may well be room for a more receptive attitude to British association with the Community. Does this now mean that the grandiose scheme of General de Gaulle's *Europe des patries*, which will include an association of the whole of Europe from the Atlantic to the Urals, including the Soviet Union and Eastern European countries, is now any nearer attainment? For de Gaulle, this would be the perfect answer to the divisions of Europe and would provide a viable alternative to the NATO organisation. This may well account for the General's friendship to Russia and his "reasonable" attitude on Vietnam and the Dominican Republic. Commenting on this the *Statist* says:

"What does this mean for Britain? If this analysis of President de Gaulle's thinking is correct, there is the possibility of a relationship developing inside Europe which would be more satisfactory than most of the compromises proposed so far, and surprisingly in line with British thinking. Perhaps President de Gaulle will one day offer some free-trading arrangement to Britain and her present partners as an extension of the frozen position inside the Common Market. But that is a distant prospect. Although in view of the latest collapse in Brussels the General regards any talk of British entry into Europe as academic, he would still hope that the community of his own devising can emerge."

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LETTER FROM AMERICA

A Period of Transition

AS midsummer approaches, and Americans turn their thoughts to the annual vacation while the colleges and universities are quiet, a mood of frustration seems to have permeated the liberal, radical and student movements in the United States. Despite President Johnson's impressive record on domestic issues and his seeming absolute control over the usually recalcitrant Congress, most of the comment that has emanated from liberal spokesmen has been critical. Attacks on the much vaunted "War on Poverty" have grown in recent months, as it has become clear that many of the programmes have fallen under the control of political bosses rather than professional social workers. The greatest source of frustration remains, however, issues of foreign policy. The Dominican episode, which was opposed almost unanimously by the liberal press and the intellectual community, has receded into the background. Indeed, it would seem that informed American opinion was so dumbfounded by the Administration's handling of the Dominican crisis (which still lingers on) that it was almost speechless. Even analysts usually favourable to the State Department remained silent, or even mildly opposed to the Dominican adventure. The big issue is Vietnam, and the news from this embattled land has been frustrating to everyone in America.

Teach-ins Sap Energy

The intellectual community, which has waged an almost continuous protest campaign against Administration's Vietnam policy, has been rebuffed at a almost every turn. A recent televised debate between a group of critics of the Administration and McGeorge Bundy, the President's Special Assistant and one of the architects of Vietnam policy, proved indecisive since Bundy would not agree with the facts and statistics marshalled by the critics, led by the University of Chicago's Hans Morgenthau, a former adviser to the State Department. The series of more than fifty teach-ins, culminated by a massive 24-hour teach-in in Washington, sapped the energy of the academic community while eliciting snide statements from Administration officials. The rapport which President Kennedy had with the intellectuals has completely disappeared under the present Administration, and is not likely to return. At present, the frustra-

tion which is so evident on the campuses shows no indication of turning to further protest. Professors in America have, after all, never been noted for their courage in matters of public policy, although the recent protests have been a hopeful sign of a possible change in attitude by the intellectual and academic communities.

Frustration has also taken hold, in Washington, which is usually a hotbed of discussion and speculation in any case. While President Johnson continues to increase his popularity among the people (according to the Gallup Poll, some 70 per cent of the population approve of the President, an almost unprecedented figure), he has become rather unpopular in the nation's capital. He has alienated much of the press corps by his high handed press relations, and his style does not seem to fit in with the sophistication characteristic of Washington life. As one analyst has pointed out, American history has shown that when a President is unpopular in Washington for long enough, this trend spreads to the nation as a whole.

The Vietnam war continues to dominate the news, and almost daily stories of South Vietnamese government defeats, and the rising toll of American dead in a conflict which is imperfectly understood in the United States has increased the apprehension of many people. Pictures of tortured Viet-Cong prisoners and of the general devastation of Vietnam have not helped matters, and televised documentaries have frankly discussed the facts of the situation.

Frustration in Student Movement

The student movement, which grew substantially during the past academic year, has also been characterized by a sense of frustration. The Free Speech Movement at the University of California, while achieving substantial gains, has lapsed into inactivity. Student protests against American Vietnam policy have fallen on deaf ears, and even student civil rights activity has not aroused the amount of enthusiasm that it did a year ago. The movement, led by the Students for a Democratic Society, may well be pushed to more extreme forms of protest, and will inevitably see its constituency shrink considerably.

The civil rights organizations themselves, which have just concluded their

annual conventions, seem to be searching for an issue which will offer the possibility of quick success. Impressive victories have been gained in recent years, and the civil rights movement has grown into a powerful force in American society, but it must continue to hold the loyalty of the masses of urban Negroes in the North, and in the rural South. Frontal attacks on housing and job discrimination have not yielded the dramatic results expected, and the movement is left at the present time without an issue to rally masses of Negroes. In Chicago, for instance, protests against the present School Board have turned on the city administration itself, and have alienated many Negroes while not solving any of the day to day problems of the Negro worker.

Search for New Directions

Thus, the long, hot summer has arrived in the United States. So far, it has been marked by silence and apathy. The Vietnam crisis seems to be heading toward a direct confrontation with China, and Soviet-American relations have been severely strained. The Administration, despite protests and widespread dissatisfaction in important sectors of the society shows no sign of moving from its present policy. The liberal and intellectual communities are presently unsure of themselves, and suffer under the frustration of continued defeats and rebuffs from the Establishment. The student movement, though normally quiet during the summer months, is also searching for new directions, and its prospects for the future remain unclear.

Northern cities were rocked by racial violence during the past summer, and it is entirely possible that similar events will occur as the temperature rises. The leadership of the civil rights movement has lost some of its popularity among the Negro masses, and it is possible that any disturbances which do take place will be harder to control than in the past. All of the social movements in the United States are in a period of transition, and their future direction remains unclear at present. In the meantime, events move inexorably toward a climax. Vietnam is not waiting, and neither is the growing discontent among American Negroes. Perhaps the summer will help to clarify some of these pressing issues.

— Philip G Altbach

Zonal Councils in the Indian Federal System

A Case Study

Shriram Maheshwari

The functioning of the Central Zonal Council during the seven years from its inception to 1963 refutes the many criticisms levelled against the institution of zonal councils in our federal system.

The fear that these Councils would become the proverbial fifth wheel in the administrative coach serving no purpose other than impeding speed and efficiency has proved entirely unfounded. Nor have the Councils become one other tier in the power hierarchy. The States constituting a Zonal Council are not required to get the clearance of the Council before proceeding with any programme or policy.

Though the Zonal Councils are the Centre's creation and the Union Home Minister is the Chairman of all the Councils, it has not happened that in their operation the Councils have functioned as handmaids of the Centre. Use of the Councils to persuade the States to accept some policies of the Central Government is just one aspect of the role of the Councils.

If it is not true that the Zonal Councils have been used to weaken the federal system by the Centre encroaching on the spheres of the States, the opposite is also not true. The formation of the Councils has in no way created a challenge to the authority of the Centre, nor is there any possibility of this happening in future. The Council's working is regulated by the Union Home Minister and the Joint Secretary of the Council, who is a nominee of the Government of India, is virtually the resident agent of the Central Government in the Zone, exercising administrative control over the Secretariat of the Council. The Zonal Councils have functioned as purely advisory bodies without exercising anything like coercive powers against either the Centre or the States.

ZONAL Councils, set up under the States Re-organisation Act, 1956, have as their avowed object the development of "co-operative working" to counter "too acute a State-consciousness which has been encouraged even more by arguments about linguism and the like." They have been called upon to promote inter-State co-operation and co-ordination, this being obviously a necessary pre-requisite for the ordered progress of the individual States no less than of the nation as a whole. These Councils, thus, represent an interesting experiment in co-operative federalism, forming a part of the complex of processes for relieving, or, at any rate, reducing the strains and stresses inherent in a federal polity. In particular, they may make recommendations with regard to:

- "(a) any matter of common interest in the field of economic and social planning;
- (b) any matter concerning border disputes, linguistic minorities or inter-State transport;
- (c) any matter connected with or arising out of the re-organisation of the States under this Act."

The present paper is restricted to the discussion of the Central Zonal Council.³ Each Council, it is true, has developed its own nuances and undertones, and, therefore, differs from its counterparts both in matters of details and positive achievements. Nevertheless the common institutional characteristics of these Councils do not, perhaps, make for any fundamental de-

viations. The over-all conclusions emerging from the present study may, therefore, generally hold good in the case of other Councils as well.

The Central Zonal Council consists of Uttar Pradesh, the largest State of the Indian Union from the point of population, and Madhya Pradesh, the largest in respect of area. It covers slightly less than one-fourth of the total area of the country, and is inhabited by one-fourth, approximately, of the country's population. This Zone is the largest in area, and in regard to population is second only to the Eastern Zone. Yet, of all the Zones, this one manifests the highest degree of linguistic homogeneity. Consequently, no psychological barriers, born of differences in the language spoken at different parts, have confronted the Central Zonal Council. Happily placed in this respect, it can usefully address itself to quite a few problems facing the participating States of Uttar Pradesh and Madhya Pradesh. In particular, the following problems may be solved more effectively if tackled on a zonal basis:

- (1) The problem of dacoity in the Chambal ravines and in the contiguous areas calls for inter-State administrative arrangements.
- (ii) The border between U P and M P is, in the opinion of many, not as rational as it could be; and in matters such as the construction and maintenance of roads, administration of justice, implementation of development

projects, there is constant and daily need for co-operation between the two Governments.

- (iii) Fuller utilisation of power projects near the border between the two States calls for increased co-operation and understanding between them. It is not unlikely that while demand for power exists in one State, the potential for power generation may abound in a contiguous area falling within the other State. "For the achievement of optimum benefits development schemes of different States have to be clearly co-ordinated. Water stored in the reservoirs in one State may be used with advantage for irrigation and power generation in the adjoining State. Similarly, power available in one State may be distributed in other States. In certain cases, it may be necessary to divert waters from one basin to the other for the benefit of the region as a whole. Co-operation between the States is therefore, essential for investigations, road surveys, allocation of waters and power generated and sharing of their costs."

The Central Zonal Council was inaugurated on May 1, 1957, and had held five meetings until 1963: First meeting: May 1, 1957; Second meeting: January 4, 1958; Third meeting: June 22, 1958; Fourth meeting: August 28, 1960; Fifth meeting: January 29 and 30, 1963.



**GENTLEMEN PREFER
MAFATLAL GROUP
POPLINS AND SHIRTINGS**

NEW SHORROCK, (SHORROCK), Ahmedabad · NEW SHORROCK, Nadlad · STANDARD, Bombay · STANDARD (NEW CHINA), Bombay · STANDARD, Dewas · SASOON, Bombay · SASOON, (NEW UNION), Bombay · SURAT COTTON, Surat · MAFATLAL FINE, Navsari

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It may be noted that the Council has not been meeting at regular intervals and the interval between successive meetings has been getting longer.⁵ In course of these five meetings the Council discussed 67 items including items concerning purely procedural matters. This number also includes the items that figured on the agenda on an earlier occasion as well but on which the discussion could not be completed, or was postponed for consideration at the subsequent meeting of the Council. Below is a list of the more important subjects discussed by the Central Zonal Council during the seven years to 1963.

- (1) Agricultural production programme for achieving the revised production targets.
- (2) Recasting of State plans in consequence of States' re-organisation.
- (3) Man-power planning.
- (4) Acquisition of land for Rihand dam.
- (5) Supply of electric energy and water for irrigation and other purposes to Madhya Pradesh from Rihand dam.
- (6) Supply of water and power to M P from Matatila dam.
- (7) Development of Chitrakut and surrounding areas.
- (8) Power development on Zonal basis in the Central Zone.
- (9) Recruitment of one-third of the number of the High Court judges from outside the State.
- (10) Inclusion in the 'core' of the Second Five Year Plan of all power development schemes under implementation in the Zone.
- (11) Inclusion of all power projects of the Zone in the Second Plan.
- (12) Formation of a Common Police Reserve Force in the Central Zone.
- (13) Development of border roads.
- (14) Joint selection of technical personnel.
- (15) Establishment of Joint Office of the Administrator-General and Official Trustee for the Central Zone.
- (16) Maintenance of inter-State river bridges.
- (17) Co-ordination of technical educational facilities in the two States.
- (18) Conversion of certain State Highways into National Highways.
- (19) Integrated road development programme for the border areas

in the north of M P and south of U P.

- (20) Appointment of a 'study group' to examine the Motor Vehicles Rules of both the States with a view to ensuring more smooth operation of both goods and passenger road transport services on inter-State routes and connected reciprocal arrangements.
- (21) Examination of possibilities of extending irrigation from Rangan reservoir and Ken canal in M P by U P engineers.
- (22) Improvement of communications between U P and M P.
- (23) Implementation of the safeguards for linguistic minorities in U P and M P.

As mentioned earlier, the Central Zonal Council met five times since its inception to 1963, the number of participants at a meeting fluctuating between 14 and 19. This number includes the Chairman (who is the Central Home Minister), the ministers including the Chief Ministers of the participating States, their 'advisers', and some senior officials of the Central Government. In addition to the Chief Ministers of both the States, there are, as a rule, one or two other ministers from each State. Among the 'advisers' are the Chief Secretaries and Development Secretaries of both the States. The Council, thus, partakes of the features of a summit meeting of the chief executives of the member-States. A senior official of the Planning Commission has also been attending the meetings. His association with the deliberations of the Council is reflective of an urge to make the Council attend to problems of regional development and planning in a more concentrated way. Besides, there are officials of the Central Government attending the meetings. The Central Ministry of Home Affairs is invariably represented by 2/4 officials, generally of the rank of Deputy Secretary and above. The representatives of other Central Ministries which have something to do with, or say on, some items figuring on the agenda in a particular meeting, are also invited.

The nature of membership of the Council, its infrequent meetings, and short one-day sessions do not make it a suitable body for going into details of administrative policies. Inevitably, therefore, it has to depend upon committees,⁶ at one stage or the other, for most of its work. These committees, comprising officials of the two Governments, can meet more frequently and

they submit the results of their deliberations to the Council which then takes appropriate decisions. The Central Zonal Council had appointed the following committees, each entrusted with specific problems:

(1) Man power Planning Committee, consisting of Chief Secretaries, Development Commissioners, and Re-organisation (or Integration) Officers of the two States, to study the man-power problem in the Zone.

(2) Power Development (Technical) Committee for power development on Zonal basis, consisting of the following:

- (i) a representative of the Central Water and Power Commission;
- (ii) a representative of the Central Ministry of Commerce and Industry;
- (iii) Chief Engineers of the Electricity Departments, and/or Electricity Boards of the two States;
- (iv) two representatives of the Development Commissioners of each of the States;
- (v) Directors of Industries of the two States;
- (vi) a representative of the Federation of Electricity Undertakings of India;
- (vii) a representative of the Natural Resources Division of the Planning Commission;
- (viii) Joint Secretary of the Central Zonal Council.

(3) On M P's request for supply of power and water to M P from Rihand dam, the Council appointed a committee to consider this question. It consisted of the following:

- (i) Secretaries of the Irrigation and Power Departments of both the States;
- (ii) Chief Engineers of the department of Irrigation and Power of both the States;
- (iii) representatives of the Finance Departments of both the States; and,
- (vi) Joint Secretary of the Central Zonal Council.

(4) A committee consisting of the following was appointed to examine the feasibility of having a common Police Reserve Force for the Zone, and to draw up a scheme therefor:

- (i) Secretary, Central Zonal Council (Chief Secretary, M P);
- (ii) Home Secretaries of both the States;
- (iii) Inspectors-General of Police of both the States;
- (iv) Joint Secretary of the Central Zonal Council.

(5) A committee, consisting of the following, to prepare an integrated

road development programme for border areas of the two States in the South of U P and north of M P:

- (i) Joint Secretary of the Central Zonal Council;
- (ii) Chief Engineer, M P;
- (iii) Chief Engineer, U P.

(6) A committee was appointed to make recommendations to determine the principles on which payment should be made for lands, houses, etc, for Rihand dam. It consisted of the following:

- (i) Joint Secretary, Central Zonal Council;
- (ii) Revenue Secretaries of both the States;
- (iii) Secretary, Public Works Department, M P;
- (iv) Secretary, Irrigation & Power, U P.

(7) A committee, consisting of the following, to draw up a scheme for the joint control of ferries crossing Chambal and other rivers in the border areas of Madhya Pradesh:

- (i) Secretaries of the Public Works Departments of both the States;
- (ii) Secretaries of the Local-Self Government Departments of both the States;
- (iii) Home Secretaries of both the States;
- (iv) Joint Secretary of the Central Zonal Council.

(8) A committee, consisting of the following, to prepare a progress report on the Matatila dam and to suggest ways and means for expediting its completion:

- (i) a representative of the Central Ministry of Irrigation and Power;
- (ii) a representative of each of the two States;
- (iii) Joint Secretary of the Central Zonal Council.

(9) A committee, consisting of Chief Engineers of U P and M P, was appointed to suggest a suitable method for the sharing of income from inter-State bridges.

(10) A "study group" consisting of the following to examine the Motor Vehicles Rules of both the States with a view suggesting amendment of the Rules to ensure smoother operation of both goods and passenger road transport services on inter-State routes:

- (i) Road Transport Commissioners of both the States;
- (ii) Joint Secretary of the Central Zonal Council.

(11) A Standing Committee of the Chief Ministers of both the States to review from time to time the progress of implementation of the various policy

decisions taken by the Chief Ministers' Conference relating to safeguards for linguistic minorities and national integration.

In the nature of things, all these committees (except Nos 2 and 11) have been of an *ad hoc* nature, ceasing to exist after completing the investigation of the problems with which they were charged. The Power Development (Technical) Committee, which was originally set up as an *ad hoc* body, was later converted into a standing one in view of the obvious importance of power planning on zonal basis.

Committees and Policy-Making

It may be mentioned that the formation of these committees may either precede policy making or follow it. Generally the Zonal Council would wait until the problem has been thoroughly explored by a committee. It has, however, happened that a committee was set up after a policy had already secured approval, and in such a case what the committee is required to do is to prepare a detailed scheme with a view to its implementation. The committee entrusted with the drawing up of a scheme for the joint control of ferries plying between either banks of the Chambal and other rivers in the border areas of Madhya Pradesh, is an example of the latter type of committees. Most of the committees have, however, been constituted preparatory to policy-making.

The pattern of composition of these committees reveals that they are manned exclusively by officials, the joint Secretary of the Council acting as member-Secretary of each committee. The Standing Committee of the two Chief Ministers is the only instance of a committee whose membership is of a political nature. These committees act as the arm of the Council, and certainly do not render the latter less effective, as the final decision rests, obviously, with the Zonal Council itself. The Committee to determine the principles on which payments were to be made for lands, houses, etc, to be acquired in M P for Rihand dam made unanimous recommendations except on one point. The point in dispute related to additional compensation payable to displaced persons. While M P was insistent upon payment being made at the rate of Rs 250 per family of displaced persons, U P was inclined to pay only at the rate payable in its own State, which was Rs 125 per family. The Zonal Council accepted the recommendations of the committee on all matters relat-

ing to compensation for lands, etc, acquired in M P for Rihand dam, but as regards additional compensation to displaced persons for purposes of resettlement, it agreed that payment be made at the rate of Rs 125 instead of Rs 250 per family. Similarly, the committee to inquire into the question of supply of power and water from Rihand dam to M P could not make unanimous recommendations. The Zonal Council decided that the Chief Ministers of U P and M P should try to settle the matter between themselves.

As said earlier, the Central Minister for Home Affairs is the Chairman of the Council and the Chief Ministers of the two States hold office as vice-chairmen alternatively. The Chief Secretary of the State is the Secretary of the Council by rotation in the same order. The office of Secretary being floating in nature, the real functionary is the Joint Secretary who should be a person "not in the service of any of the States represented in the Council". A senior official of the Central Home Ministry has so far been appointed in this post. Subject to the control of the Secretary, the Joint Secretary is competent to perform all or any of the functions of the Secretary and he also acts as the member-secretary of every committee constituted by the Council. The meetings of the Council are held by rotation in U P and M P but the office of the Council is located at Allahabad (U P). The sanctioned strength of the staff of the Council Secretariat is as follows:

(i) Secretary	1
(ii) Joint Secretary	1
(iii) Section Officer	1
(iv) Upper Division Clerk-cum-Cashier	1
(v) Lower Division Clerks	2
(vi) Class IV Staff	6

The work of the Central Zonal Council may, perhaps, be better appreciated if one studies its role

(i) as an institution to help in the implementation of certain national policies and objectives;

(ii) as an institution to help promote planning on zonal instead of State basis;

(iii) as a forum for the participating States to put up a united stand on certain matters against the Centre; and

(iv) as a forum for resolving inter-State disputes.

The Central Government has in the Central Zonal Council an institution to persuade the participating States to fall in line with centrally sponsored objectives and policies. The delicacy of this task is obvious in a federal constitu-

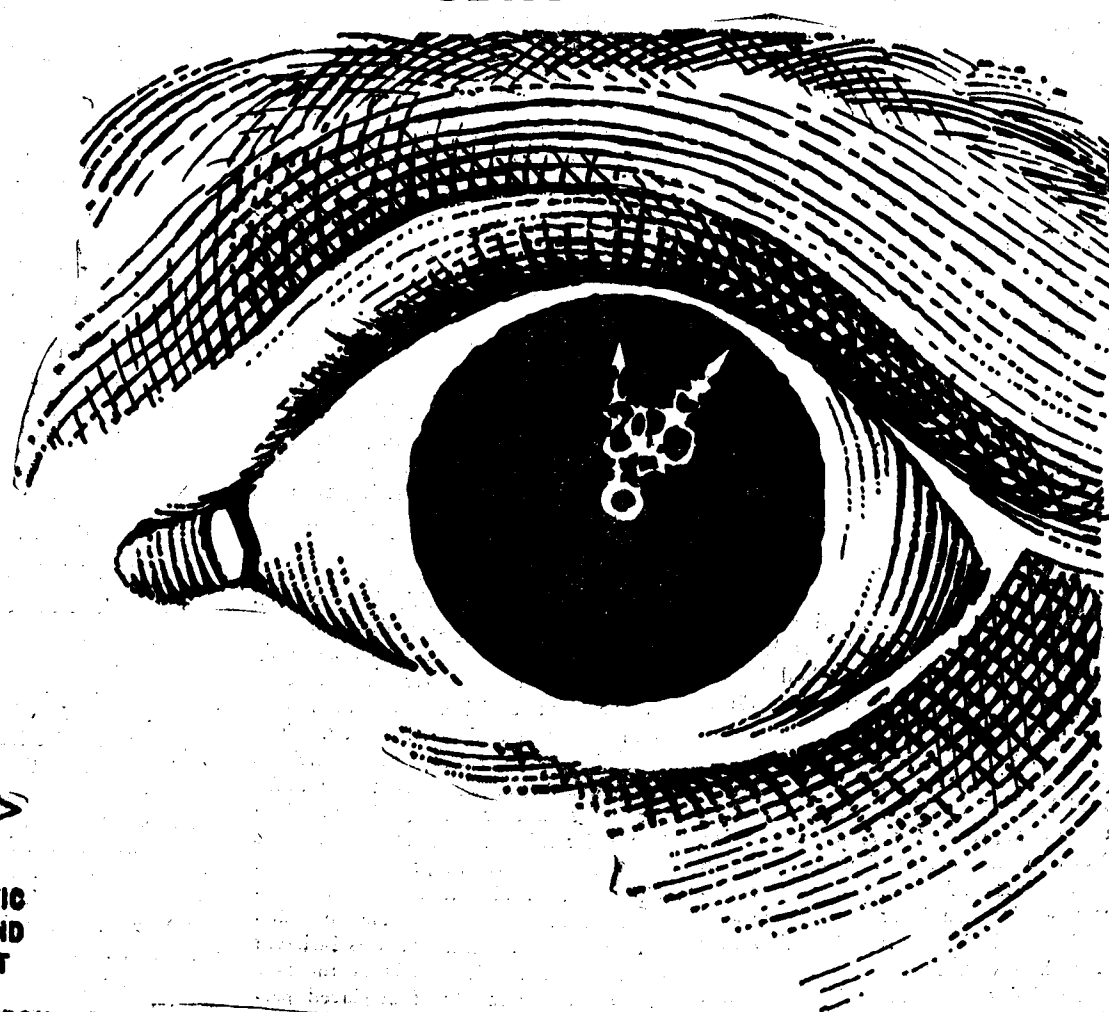
WE LOOK

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programme to reach a target of 2 million tonnes. Research and the constant application of new techniques will win better iron, more steel and more diversified end products from Burnpur's existing installations which new plant and equipment should ideally balance and supplement—at an investment cost *considerably less* than that required for an entirely new plant of the same tonnage.

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tion which demarcates the spheres of activities of the Centre and States. The participating States in the Central Zonal Council being predominantly agricultural, the Central Government has been exhorting them to step up food production. The Chairman, for instance, observed at the second meeting of the Council: "The food situation, I am sorry to say, has deteriorated since we met last, and both the states included in this Zone are seriously affected. Our planned development and stability of our economy depend vitally on our achieving self-sufficiency in food. It calls for a total effort on our part to bring additional areas under cultivation and to increase food output per acre. I hope, each meeting of the Zonal Council will serve to focus attention to this national issue of vital importance." Again, alarmed at the upsurge of disintegrating forces in the country, the Chairman sounded a warning at the fourth meeting of the Council held in August 1960: "Nearer home, while we are engaged in the great task of the economic reconstruction of India, we are faced with a challenge to the integrity of our country and the freedom of our people... In a country so large as ours, it may be difficult to cast off completely regional and other lesser affiliations but unless the supremacy of national interests is unreservedly accepted, our liberty itself may be greatly imperilled. Our independence would be incomplete, fragmentary and even transient if we do not firmly set our face against all the narrow loyalties which stand in the way of our building an abiding sense of a harmoniously integrated nationhood."

Use for Implementing Policies

The Central Government also uses the Zonal Council to implement its policies. The Centrally sponsored safeguards for linguistic minorities have been accepted by the Central Zonal Council and are being implemented now. The Council has set up a Standing Committee comprising the two Chief Ministers to review periodically the implementation of the various policy decisions taken by the Chief Ministers' Conference relating to safeguards for linguistic minorities and national integration. It has, also, agreed to implement the centrally evolved three-language formula, and, further, to dispense with the system of compulsory tests in the regional language for purposes of recruitment. The Council is, thus, emerging as a bulwark of national integration, which is obviously an important role in the

context of the fissiparous tendencies increasingly coming to the surface in the country. Similarly, the Central Government pressed for acceptance of its proposal for recruitment of one-third of the High Court judges of a State from outside that State. This proposal was accepted "in principle" at the third meeting of the Council, held in January 1958. The Central Government, moreover, has won over the participating States to its proposal for a common Police Reserve Force. Initially, this proposal encountered some opposition but was finally carried through. The Council could not for some time, take any decision on the formation of a common Police Reserve Force, as the Chief Minister of M.P., supported by his U.P. counterpart, sought postponement in order to give further thought to the proposal and examine in greater detail the financial implications involved. Occasionally, some concession has to be made to the sentiments of the States to make easier the "selling" of such proposals. This may be illustrated by the Central Government's proposal regarding the appointment of one-third of the High Court judges from outside the State. This proposal has been accepted but the Centre had to make one concession, viz, that it has to secure the prior approval of the State in which the appointment is to be made.

Finally, the Central Zonal Council approved the proposal made by the Central Government, for the exchange of agenda and proceedings between the five Zonal Councils. Although a minor measure in itself, this sets the functioning of the Council in a much wider context.

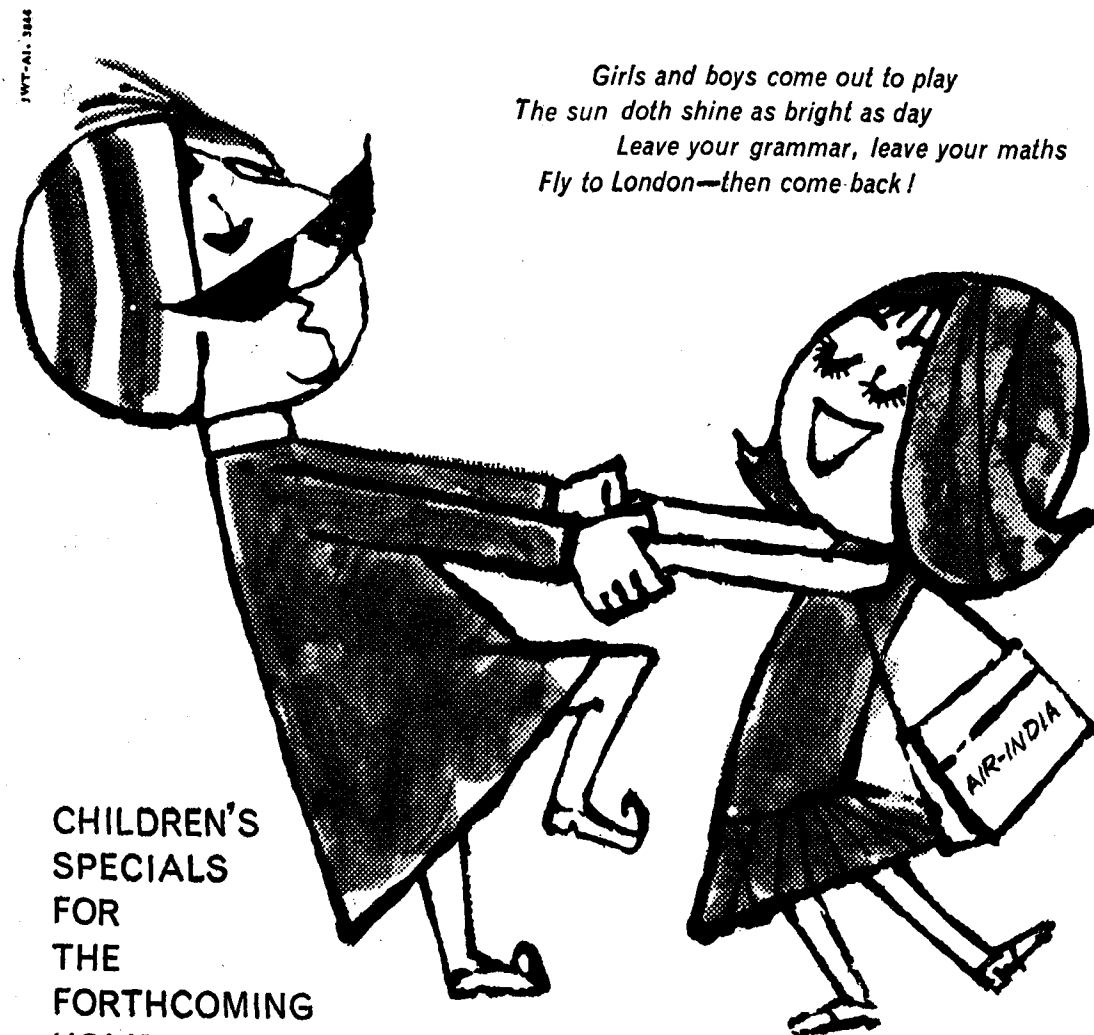
The permanent association with the Zonal Council of a high-ranking official of the Planning Commission is calculated more to make the Council planning-conscious. The inclusion of a representative of the Natural Resources Division of the Planning Commission in the Power Development (Technical) Committee, set up by the Zonal Council in 1958, is a step in the same direction. The Zonal Council has been giving attention to schemes of mutual interest and concern since its inception which is well borne out by programmes like those for man-power planning in the Zone, power development on zonal basis, integrated road development for border areas of the two States, joint selection of technical personnel, etc.

Of vital importance to the successful execution of the Five Year Plans is the

assessment of man-power requirements. The Zonal Council set up at its first meeting a Committee to study man-power problems of the entire zone. The Council has succeeded in evolving a new approach to the problem of power generation which is now being tackled keeping in view the requirements of the Zone as a whole, thereby making power available throughout the Zone. The proposal for power development on zonal basis, sponsored by the Central Ministry of Irrigation and Power, was approved at the second meeting of the Council held in 1958; and the Power Development Committee has been in existence.

Area Approach to Development

The problem of integrated road development for border areas of the two States in the South of U.P. and north of M.P. has been receiving the attention of the Council since 1958, when it constituted a committee to prepare an integrated programme of road development for border areas. As a result of the deliberations in the Council, and also of the offer of some financial assistance from the Central Government, agreement has been concluded for the construction of bridges over Chambal and Yamuna so that the Bhind-Gwalior-Etawah Road, which crosses these two rivers, can be completed. Mention may also be made here of the joint selection of technical personnel by one Public Service Commission instead of the hitherto followed practice of selection by the respective Commissions. This, to be sure, has necessitated some relaxation in rules, and requisite instructions have accordingly been issued to the respective Commissions. Finally, an illustration of planning on a Zonal level has been provided in the vicinity of Chitrakut, in the District of Banda (U.P.), which is important as a pilgrim centre. A joint development programme for this area was proposed in the Council in 1958. At the suggestion of the chairman, the two Governments have since agreed to allot a sum of Rs 50,000 each for development work, in the first instance. The Zonal Council has approved of the setting-up of a development authority south of the river Mandakini under the M.P. Government and a similar authority north of the river Mandakini under the U.P. Government, and, of the establishment of a Joint Advisory Committee to prepare a development plan for the entire region and to co-ordinate the working of these two bodies. This is an attempt



CHILDREN'S SPECIALS FOR THE FORTHCOMING HOLIDAYS

EASTBOUND:

London/Bombay*	AI-106	Thursday	...July 22, 1965
Bombay/Calcutta/ Bangkok/Hong Kong	AI-106A	Friday	...July 23, 1965
Bombay/Madras/Singapore	AI-106B	Friday	...July 23, 1965
London/Bombay*	AI-112	Sunday	...July 25, 1965
Bombay/New Delhi/ Bangkok/Hong Kong	AI-112A	Monday	...July 26, 1965
Bombay/Madras/Singapore	AI-112B	Monday	...July 26, 1965

WESTBOUND:

Singapore/Madras/Bombay*	AI-107A	Wednesday	...Sept. 15, 1965
Bombay/London	AI-107	Thursday	...Sept. 16, 1965
Hong Kong/Bangkok Calcutta/Bombay*	AI-115A	Saturday	...Sept. 18, 1965
Bombay/London	AI-115	Sunday	...Sept. 19, 1965

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at evolving an area-approach to issues of public administration, and such attempts as have been made may, under wise political and administrative leadership, develop into a widespread practice in course of time.

Just as the Central Government has in the form of the Zonal Council an institution to secure the States' compliance with certain matters, the participating States, too, have a parallel opportunity to urge acceptance, by the Central Government, of their proposals by putting up a united stand on certain matters against the Centre. They have been to an extent successful in such united attempts. At the very first meeting of the Council, the Chief Minister of U P referred to the need for a larger allotment of funds in the central sector of the Five Year Plan. The following issues may be cited as other illustrations of the use made of this forum by the States:

- Inclusion in the 'core' of the Second Five Year Plan of all power development schemes under implementation in the zone.
- Inclusion of all power projects of the Zone in the Third Five Year Plan.
- Conversion of certain State Highways into National Highways.

The first two suggestions emerged from the Power Development (Technical) Committee, which had recommended that (i) all power development schemes under implementation in the zone should be included in the 'core' of the Second Five Year Plan; and (ii) all power projects of the Zone should be included in the Third Five Year Plan. These proposals were formally introduced in the Council by the two States. The chairman and the representative of the Planning Commission were not favourable to be proposed; they emphasised difficulties of getting foreign exchange. On M P's suggestion that these two resolutions being of vital importance to both the States, should be referred to the Planning Commission, the Zonal Council consented to pass these on to the Planning Commission together with copies of the discussions at the meeting. Although the material outcome of this proposal was practically nil, it is an indication of how the States have not been mere camp-followers always. Similarly, a united stand was taken on the question of conversion of certain State Highways into National Highways. The representative of the Central Ministry of Transport and Communications

indicated a "very remote" possibility of making any addition to the existing National Highway System during the Third Five Year Plan. The two States, however, insisted that the Central Government accept "in principle" the conversion of the following roads into National Highways:

- Saugar - Chattarpur - Gonda-Tulsipur-Nepal Border Road;
- Gwalior - Bhind - Pilibhit - Pithorgarh-Dharchula - Lipulekh Road;
- Jhansi - Mauranipur - Nowgong-Satna-Bela Road.

The proposal was accepted by the Zonal Council, which forwarded it to the Union Ministry of Transport and Communications for consideration.

Use for Attracting Central Aid

These demands apart, the participating States have also been utilising the Zonal Council for inducing greater financial involvement of the Central Government in certain spheres. This may be illustrated by the following examples. At the third meeting of the Council there was a proposal for construction of bridges over Chambal and Yamuna on the Gwalior-Bhind-Etawah Road. The representatives of M P remarked that out of the three bridges to be constructed, M P had already constructed the bridge on the river Kauri in their territory, and requested that the bridge over the river Yamuna should be constructed by U P, while the bridge on the river Chambal, which forms the border of the two States, should be constructed by both the States jointly. But, as all the available funds with both the States were already earmarked for the Plan, M P pressed for the Centre's financial contribution to the extent of two-thirds of the cost of both the bridges. U P, on the other hand, expressed its inability to provide funds for the construction of any of these bridges because, in the first place, these were not of great importance from its point of view, and secondly, because in its own territory there was felt a more pressing need for the construction of bridges at other places on both the Ganga and the Yamuna. It, therefore, urged that the Central Government should contribute two-thirds of the cost of construction of both the bridges while the balance could be provided by the two States. The Central Zonal Council, therefore, recommended that the Central Government should examine whether two-thirds of the cost of the two bridges

could be made available from the States' share of the Central Roads Fund. U P alone is to contribute for the bridge on Yamuna, while U P and M P are to make equal contribution for the construction of the bridge on Chambal. The Council further recommended that the Central Government should contribute the balance of one-third of the cost of the two bridges. Similarly, on another occasion, the financial commitment of the Central Government was sought to be increased in the case of another bridge, Naughat-ghat bridge. Both the States again combined on this issue, and as a result, the Zonal Council recommended that the Central Government's contribution towards the cost of Naughat-ghat bridge be enhanced to one-third of the cost, notwithstanding the original commitment limited to Rs 8 lakhs.

Fortunately, U P and M P do not have any boundary disputes, such as have bedevilled the relations of some other States. The deliberations of the Central Zonal Council have not, therefore, been marred by injured feelings and acrimony. This, however, does not imply that complaints are never heard at the meetings of the Zonal Council. Quite a few items figuring on the agenda relate to irrigation and power problems but these, it may be added, do not appear to be the peculiar to this zone alone. Practically every river-valley project in the country has given rise to disputes among the States through which the river flows over the distribution of power and irrigation resources created. To come to this zone, M P, a comparatively backward State, has thus been insisting on an adequate supply of power and water from the Rihand and Matatila Projects, both in U P, but the catchment areas of which lie in the north-east districts of M P. At the second meeting of the Council, M P moved for consideration the following two items:

- supply of power and water for irrigation and other purposes to M P from Rihand dam;
- supply of power and water to M P from Matatila dam.

As the construction of Matatila dam had been lagging behind, the question of supply of power and water to M P was considered untimely. In fact, there has been in existence an agreement between the two Governments signed as early as 1953, and it is to be adhered to. The question of supply of power and water from the Rihand dam was, however, entrusted to a Committee consisting of the officials

of both the States. This committee succeeded in making agreed recommendations in regard to sharing of waters, compensation to be paid for lands to be acquired for the dam, and utilisation of water for irrigation by "bundling up" in the upper reaches of the Rihand dam. It, however, could not reach an agreement in regard to the question of supply of power to M P and the price to be charged. The Council thereupon asked the Chief Ministers to settle this matter between themselves. Success did not attend such informal efforts as were made by them, and this problem remained with the Council. At its meeting held in January 1963 it again figured on the agenda. In deference to the Council's desire, however, it was informally discussed, in the first instance, between the two Chief Ministers, and to enable this get-together, the Council even adjourned its meeting, and agreed to continue deliberations the following day. Nothing concrete emerged from this informal discussion, and the Council, when it resumed its sitting the following day, was virtually faced with a deadlock. All it could do, however, was to convene a meeting of the Council the following month with the specific purpose of resolving this dispute. As a result, the Council again met in February 1963. The first day's discussion held out little hope of an agreed solution, and, in an obvious bid to keep the discussion going, the Council constituted a Committee of five officials to report "by tomorrow noon" on the question of sharing of power and water. Successive meetings helped to narrow down the points of difference, and, ultimately, a resolution agreeable to both the States emerged many months later.

The dragging on of this dispute over a period of seven years and its eventual solution bring to the fore two points worth noting. First, the Council has no 'coercive' power to compel compliance with its decisions. What is more, it is aware of its weakness, for, despite the formal provision for voting incorporated in the statute itself, there is a marked reticence to invoke it, the intention obviously being to arrive at agreed solutions. In fact, voting has never been resorted to so far. Secondly, frequent recourse to informal channels of settlement under the aegis of the Council, yet outside its direct control, has been encouraged by the fact of the same political party being in power both at the Centre and in the States. The resultant homogeneous behavioural pattern has helped

to enhance the status and prestige of the Council by reinforcing its effectiveness.

Conclusions

The functioning of the Central Zonal Council over the seven years to 1963 serves to dispose off the various criticisms levelled against Zonal Councils. The fear that these Councils constitute the proverbial fifth wheel in the administrative coach impeding speed and efficiency has proved to be entirely unfounded. An institution discussing, in the course of seven years, sixty-seven items including items of a purely routine nature as well as those which figured on the agenda more than once hardly deserves this criticism. Further, the participating States are not bound to first obtain clearance from the Council before adopting any course of action. The Council therefore, does not constitute another level in the traditional hierarchy. It is also not entirely true that the Zonal Council is the handmaid of the Centre, brought into existence to do the latter's bidding. True, the Zonal Councils are the Centre's creation, the Home Minister is the chairman of all the Councils and the expenses incurred on Council are a charge upon the Central Government. Nevertheless, acceptance of some centrally sponsored policies forms but one aspect of the performance of the Zonal Council. Nor does it emerge from the functioning of this body that the Zonal Councils may grow powerful to the extent of weakening the authority of the Centre. The Council's working is regulated by the Home Minister, and the Joint Secretary of the Council is virtually the resident-agent of the Central Government in the Zone, exercising administrative control over the secretariat of the Council. Besides, the Council has a purely advisory status which obviously inhibits the exercise of anything like dictatorial powers over either the Centre or the participating States.

In the end, a word may be said about the dispute over the supply of power and water to M P. As disputes of this nature have confronted other Zonal Councils as well, it is pertinent to ask: Should solution of problems so vital as sharing of powers and water be allowed to depend upon the moods of the States, particularly when the demand for power is everywhere much in excess of available supply? The existing arrangement stands in favour of the State in which the pro-

THE ECONOMIC WEEKLY

ject is located, and further, inevitably causes delay, which very often serves only to aggravate the existing dispute by leading to a hardening of attitudes on all sides. All this is injurious to the cause of balanced regional development, and, perhaps, calls for administrative steps to bring all projects under particular regions under some form of integrated control.

Notes

- 1 It may be noted that the States Reorganisation Commission (1953-55) made no mention of them in its Report.
- 2 Section 21(2) of the States Reorganisation Act, 1956 (henceforth referred to as the S R Act).
- 3 The S R Act has set up a Council for each of the following zones: (i) Northern zone, (ii) Southern zone, (iii) Eastern zone, (iv) Western zone, and (v) Central zone.
- 4 Agarwal, P P: 'A Note on the Experiences of the First Five Year Plan, in relation to Irrigation and Power Projects', in "Fourth Irrigation and Power Seminar", Central Water and Power Commission, New Delhi, 46-47.
- 5 This is the trend in all the Zonal Councils. The Eastern Zonal Council, thus, met once in 1957, twice in 1958, once in 1959, 1961 and 1962. It did not hold any meeting during 1960. The Southern Zonal Council, too, met twice in 1957 and 1958, and once in 1961 and 1962. Similarly, the Northern Zonal Council met twice in 1957 and 1959, and once in 1958 and 1961. It did not hold any meeting in 1960.
- 6 Provision has been made under Section 18 of the S R Act for the appointment of committees of the Zonal Councils for studying any particular problem or for performing such other functions as the Council may decide. The Act says: "A Zonal Council may from time to time by resolution passed at a meeting appoint Committees of its members and Advisers for performing such functions as may be specified in the resolution and may associate with any such Committee such Ministers either for the Union or for the States and such officers serving either in connection with the affairs of the Union or of the States as may be nominated in that behalf by the Council".

Occupational Structure of Cities, 1901-61

B R Kalra

The industrial structure of Indian cities presents contrasting pictures before and after 1931.

Up to 1931 the cities, along with the rest of the country, had been passing through the historical phase of 'de-industrialisation' as a result of the decay of the handicrafts and other traditional industries. The workers dislodged from traditional industries swelled 'other services' as domestic servants, general labourers, etc. The growth in 'other services' was poverty induced and was accompanied by stagnation in construction, trade and transport.

Industrialisation gained momentum after 1931 with the introduction of discriminating protection and through other State and private efforts and the full impact of these developments was reflected in the Census results of 1951. In 1951 and 1961 we get a picture of developing industrialisation and growth of the infra-structure of the urban economy.

As the economic situation in the cities improved the marginal workers in 'other services' shifted to more remunerative and productive occupations and there took place an allround rationalisation of economic activity.

THE paper deals with occupational or industrial structure of all cities (having population of 1 lakh and more) from 1901 to 1961 (excluding 1941). The workers of occupational categories included in earlier censuses have been re-grouped into nine broad industrial categories of 1961. For this purpose, the study covers 26 cities in 1901, 25 cities in 1911, 29 cities in 1921, 32 cities in 1931, 75 cities in 1951 and 107 cities in 1961. Table 1 gives summary position of industrial structure of cities over the last 60 years.

Table 1 brings out the following important points. Except for a slight reversal during 1921, the categories of cultivators and agricultural labourers and activities ancillary to agriculture have been showing declining proportions. The agricultural portion of the city economy has, of course, been very small. Mining and quarrying had been declining up to 1931 but showed an upward trend in 1951. For 1961, the workers in cities engaged in mining and quarrying are not available separately. Manufacturing including household industry declined sharply till 1931 but it showed an equally sharp upward trend in 1951 and 1961. The categories of workers in construction, commerce and transport, and communication showed irregular movement till 1931 and registered steady increase after that. The proportions of these categories in 1951 and 1961 are well above those recorded for earlier census years. The category of 'Other Services' indicates an opposite trend as compared to manufacturing. It increased speedily up to 1931 and declined thereafter.

The table, thus, presents a contrasting picture of industrial structure in cities before and after 1931. Upto

1931, the cities, along with the rest of the country, had been passing through the historical phase of "de-industrialization" through decay of handicrafts and other traditional industries. The workers dislodged from traditional industries swelled 'Other Services' as domestic servants, general labourers, etc. The growth in the 'Other Services' was poverty induced, and was accompanied by stagnation in construction, trade and transport. Industrialization gained momentum with the introduction of discriminating protection in 1932 and other State and private efforts and the full impact of these measures was reflected in the Census results of 1951. In 1951 and 1961 we get a more favourable picture of developing industrialization and infra-structure of the urban economy. As the economic condition in cities improved, the marginal workers in 'Other Services' shifted to more remunerative and productive occupations in categories V to VIII. As a matter of fact, there took place an allround rationalisation of economic activities.

The rate of growth of population in cities during 1931-61 was seven times as much as recorded for the previous 30 years. The rate of growth of general population in 1931-61 was three times as much as during 1901-1931. Thus we notice a concomitant phenomenon of identical trends in industrialization and urbanisation. The pattern of economic growth of cities during the last 30 years seems to be on the lines of urban growth in western countries during the 19th century. The halting growth of cities during the first 30 years was due partly to lower rate of population growth mainly as a result of natural factors and partly due to the disruption of the older systems of production,

transportation and distribution under the *laissez faire* policy. This period recorded a higher proportion of workers in agriculture which may suggest that many industrial workers moved back to agriculture not only in rural areas but also from cities and other urban areas. As stated by D R Gadgil, "The craftsmen slowly gave up their old occupations, and had to resort to agriculture or any other occupations in which they found an opening. Such a decay of handicrafts and the consequent decrease of population was the fate of a great number of old towns."*

Table 2 gives industrial distribution of working force in cities classified according to certain size ranges of population. However, the cross sectional study of cities at a point of time does not corroborate the pattern obtained through time series data. The table, however, reveals a more balanced structure in 1951 and 1961 in respect of both big and small cities. At macro-level, cities still seem to be more or less self-sufficient nuclei of the areas which they cater.

It may be desirable to analyse more closely the controversial issue regarding the function of urban growth. It may also help to judge urbanisation in the context of economic growth. Such a study may be undertaken either by classifying cities according to their functional or industrial characteristics and comparing their relative growth rates or, alternatively, the cities may be classified according to their differential growth rates to see if they make out any industrial pattern. The second course seems to be more practicable since it is easier to classify workers in cities into indus-

* 'The Industrial Revolution of India' by D R Gadgil, pp 140.

trial categories than to classify the cities themselves. For computing the rate of growth between two census periods we have to take into account only those cities which existed in both the censuses. Thus for any given period, new cities are not taken into consideration. For example, while studying the rate of growth of different cities between 1901-11 a city which existed in 1911 but not in 1901, is not taken into account. That city is, of course, included while working out the growth between 1911-21. Table 3 which is based upon the above approach brings out significant results. The table neatly spells out a clear-cut functional relationship between the industrial composition of cities and their differential growth rates. It can be seen that during each census period the cities whose industrial and infrastructure was more developed registered much higher rate of growth as compared to others with less balanced economic structure. The cities which

recorded the maximum growth rate (50 per cent and above) between 1951-61 were the industrial cities of Jamshedpur, Ludhiana, South Suburban and Visakhapatnam and two administrative-cum-service cities of Delhi and Bhopal. In other cases, the table brings out an inverse relationship between the proportion of workers in 'Other Services' and the rate of population growth. The sanctity behind urbanization is fully borne out by Table 3 and Table 4. Table 4 gives industrial distribution of workers in cities classified according to rate of growth above and below average. It bears out that cities whose rate of growth was above average had higher proportion of workers in categories IV to VIII and lower proportion of workers in Category IX as compared to cities whose rate of growth was below average.

It may be relevant to trace the industrial structure of working force

in non-city urban and rural areas from 1901 to 1961 as worked out in Table 5. The agricultural sector had been growing absolutely as well as relatively upto 1931 and showed some slight improvement (in proportions only) after that. It is significant to note that categories IV and V (manufacturing including household industry) had been declining right upto 1951. While cities faced foreign competition upto 1951 and recovered thereafter, the indigenous industries in non-city urban and rural areas suffered, in the beginning, at the hands of imported goods which had started pouring into the mofussil area by the turn of the century and, later on, from city made goods. Slight improvement noticed in 1961 is due to the emergence of new industrial townships in non-city urban areas. As a matter of fact, the entire non-agricultural component of rural areas got its sustenance from agriculture and it languished when agriculture stopped releasing any surpluses. Soci-

Table 1: Percentage Distribution of Working Force in Broad Industrial Categories in Cities 1901-61

	Population (in lakhs)	No of Cities	I-IX Total Workers	I Cultivators	II Agricultural Labourer	III(a) Live-stock, Forestry, Fishing, Hunting and Plantations Orchards and Allied Activities	III(b) Mining and Quarrying	IV+V Household Industry and Manufacturing Other Than Household Industry	VI Construction	VII Trade and Commerce	VIII Transport, Storage and Communication	IX Other Services
901	61.69	26	2,520,657	100,290	24,521	47,549	2,638	763,376	51,269	356,034	162,614	1,012,366
	...		100.00	3.98	0.97	1.89	0.11	30.29	2.03	14.12	6.45	40.16
911	64.39	25	3,021,520	75,653	24,785	53,744	3,015	771,456	97,561	478,039	289,371	1,227,896
	(+4.38)		100.00	2.50	0.82	1.78	0.10	25.53	3.23	15.82	9.58	40.64
921	73.68	29	3,462,540	95,427	34,219	43,333	1,687	845,501	109,385	553,212	258,564	1,521,212
	(+14.41)		100.00	2.75	0.99	1.25	0.05	24.42	3.16	15.98	7.47	43.93
931	88.91	32	3,786,023	83,776	39,887	77,671	3,084	801,914	106,041	566,812	266,090	1,840,748
	(+20.68)		100.00	2.21	1.06	2.05	0.08	21.18	2.80	14.97	7.03	48.62
951	249.09	75	8,669,079	129,187	64,349	79,406	41,078	2,530,430	281,300	1,797,784	794,983	2,950,562
	(+180.16)		100.00	1.44	0.72	2.90	0.46	29.27	3.24	20.81	9.20	33.96
961	361.12	107	11,945,538	150,627	76,850	152,234	*	613,780 (a)	428,979	2,132,982	1,194,732	3,905,145
	(+46.98)		100.00	1.26	0.64	1.28	*	3,290,180 (b)	3.59	17.86	10.00	32.69
								5.14 (a)				
								27.54 (b)				

* Included in III(a)

(a) Household Industry

(b) Manufacturing other than household industry

Note: Figures in brackets denote percentage increase over previous census.

Table 2: Percentage Distribution of Working Force in Broad Industrial Categories on Cities—Classified According to Size Ranges of Population, 1901—1961

Size Range of Population	Population (in lakhs)	No of Cities	I-IX Total Workers	I Cultivators	II Agricultural Labourer	III(a) Live-stock, Forestry, Fishing and Hunting and Plantations, Orchards and Allied Activities	III(b) Mining and Quarrying	IV+V Household Industry and Manufacturing Other Than Household Industry	VI Construction	VII Trade and Commerce	VIII Transport, Storage and Communication	IX Other Services
1901 Census												
5 lakhs to 10 lakhs	22.88	3	100.00	0.51	0.49	2.36	0.23	31.42	1.81	14.55	10.03	38.60
2.5 to 5 lakhs	7.04	2	100.00	4.26	0.85	0.93	0.00	23.46	2.36	8.19	3.83	56.12
Less than 2.5 lakhs	31.77	21	100.00	6.86	1.44	1.87	0.04	32.13	2.10	16.21	4.46	34.89
All Categories	61.69	26	100.00	3.98	0.97	1.89	0.11	30.29	2.03	14.12	6.45	40.16
1911 Census												
10 lakhs to 20 lakhs	20.35	2	100.00	0.58	0.13	1.47	0.11	23.29	2.61	15.75	14.14	41.92
5 to 10 lakhs	10.56	2	100.00	4.02	0.52	3.52	0.11	16.98	3.12	16.12	7.19	48.42
2.5 to 5 lakhs	2.52	1	100.00	5.46	1.55	1.86	0.04	23.39	6.99	14.04	8.76	37.91
Less than 2.5 lakhs	30.96	20	100.00	3.72	1.65	1.40	0.09	31.96	3.51	16.00	5.40	36.27
All Categories	64.39	25	100.00	2.50	0.82	1.78	0.10	25.53	3.23	15.82	9.58	40.64
	(+4.38)											
1931 Census												
10 lakhs to 20 lakhs	24.34	2	100.00	0.18	0.11	0.96	0.10	20.79	2.14	15.17	8.78	51.77
5 lakhs to 10 lakhs	7.13	1	100.00	1.08	0.30	1.96	0.01	12.65	2.43	10.69	6.38	64.50
2.5 lakhs to 5 lakhs	20.70	6	100.00	2.48	1.21	3.85	0.10	17.10	4.61	17.61	7.45	45.59
Less than 2.5 lakhs	36.74	23	100.00	4.11	1.97	2.06	0.07	25.75	2.49	14.40	5.42	43.72
All Categories	88.91	32	100.00	2.21	1.06	2.05	0.08	21.18	2.80	14.97	7.03	48.62
	(+20.68)											
1951 Census												
20 lakhs and above	56.65	2	100.00	0.22	0.08	0.55	0.17	29.91	2.13	23.85	11.68	31.41
10 to 20 lakhs	39.39	3	100.00	0.51	0.28	1.19	0.20	19.64	7.52	22.04	8.45	40.17
5 lakhs to 10 lakhs	23.22	3	100.00	0.66	0.25	0.62	0.07	44.26	3.13	18.46	5.27	27.28
2.5 lakhs to 5 lakhs	50.31	14	100.00	2.45	1.24	0.73	0.19	29.58	2.44	19.48	8.66	35.23
Less than 2.5 lakhs	79.52	53	100.00	2.96	1.50	1.38	1.26	28.39	2.68	18.40	8.58	34.85
All Categories	249.09	75	100.00	1.44	0.72	0.90	0.46	29.27	3.24	20.81	8.20	33.96
	(+180.16)											
				I	II	III	IV*	V**	VI	VII	VIII	IX
1961 Census												
20 lakhs and above	94.39	4	100.00	0.28	0.09	0.93	1.24	30.94	3.19	20.19	10.36	32.78
10 lakhs to 20 lakhs	40.76	2	100.00	0.25	0.27	0.93	3.15	29.38	3.55	17.69	9.57	35.21
5 lakhs to 10 lakhs	47.94	7	100.00	1.37	0.59	0.87	5.59	29.18	3.73	17.27	10.20	31.20
2.5 lakhs to 5 lakhs	61.83	18	100.00	1.64	0.66	1.11	9.62	26.33	3.81	16.84	8.35	31.64
Less than 2.5 lakhs	116.20	76	100.00	2.33	1.33	1.98	7.15	23.52	3.83	16.38	10.56	32.92
All Categories	361.12	107	100.00	1.26	0.64	1.28	5.14	27.54	3.59	17.86	10.00	32.69
	(+44.98)											

* Household Industry

** Manufacturing other than household industry

Note:—Figures in brackets denote percentage increase over previous census.

Table 3: Percentage Distribution of Working Force in Industrial Categories in Cities—Classified According to Rate of Growth, 1901 to 1961

Growth Rate 1901-1961 (%)	No. of Cities	I-IX	I	II	III(a)	III(b)	IV+V	VI	VII	VIII	IX
1911 Census											
Growth rate 1901-11 (%)											
20% and above	2	100.00	1.01	0.38	1.75	0.16	32.05	1.88	13.72	12.21	36.84
10 to 20%	6	100.00	5.09	1.29	2.41	0.24	25.48	3.30	16.51	5.57	40.11
1 to 10%	5	100.00	1.05	0.18	1.72	0.04	17.06	3.78	18.08	13.93	44.16
Minus (—) rate of growth	13	100.00	3.51	1.50	1.46	0.02	27.92	3.83	15.06	5.78	40.92
All categories 5.7% (average)	26	100.00	2.50	0.82	1.78	0.10	25.53	3.23	15.82	9.58	40.64
1921 Census											
Growth rate 1911-21 (%)											
20% and above	7	100.00	1.64	0.45	0.89	0.09	28.13	3.29	14.78	7.45	43.28
1 to 10%	11	100.00	3.87	0.86	1.27	0.02	21.86	3.26	17.75	8.55	42.56
Minus (—) rate of growth	7	100.00	3.20	2.37	2.15	0.02	17.40	2.65	15.94	5.85	50.42
All categories 7.4% (average)	25	100.00	2.77	0.95	1.26	0.05	23.81	3.17	16.11	7.57	44.31
1931 Census											
Growth rate 1921-31 (%)											
40% and above	3	100.00	2.67	1.02	2.32	0.13	26.65	4.45	18.41	7.22	37.13
20 to 40%	8	100.00	2.61	0.89	1.54	0.02	23.30	2.36	12.56	4.62	52.10
10 to 20%	13	100.00	2.12	1.13	2.34	0.05	15.56	3.00	16.03	7.67	52.10
1 to 10%	5	100.00	1.59	1.09	1.87	0.15	26.86	2.02	13.69	8.41	44.32
All categories 16.2% (average)	29	100.00	2.16	1.06	2.06	0.08	21.02	2.80	15.00	7.13	48.69
1951 Census											
Growth rate 1931-51 (%)											
150% and above	4	100.00	0.59	0.18	0.59	0.07	34.09	5.82	20.46	5.72	32.48
100 to 150%	9	100.00	0.64	0.31	0.66	0.23	28.66	2.96	22.32	10.55	33.67
80 to 100%	9	100.00	1.25	0.58	1.19	0.13	29.47	3.21	19.82	10.22	34.13
40 to 80%	10	100.00	3.17	1.53	1.17	0.11	23.40	1.61	21.46	7.98	39.57
All categories	32	100.00	1.03	0.47	0.80	0.17	29.27	3.40	21.41	9.27	34.18

		I-IX	I	II	III	IV*	V**	VI	VII	VIII	IX
1961 Census											
50% and above	6	100.00	0.70	0.24	1.08	2.11	25.30	5.44	17.48	7.36	40.29
			(0.70)	(0.40)	(1.80)	(2.95)	(34.50)	(7.56)	(13.86)	(9.40)	(28.74)
30 to 50%	25	100.00	1.17	0.55	1.17	5.11	32.29	3.20	17.41	10.49	28.61
20 to 30%	19	100.00	1.10	0.61	1.47	7.60	23.80	3.63	17.23	9.99	34.57
10 to 20%	18	100.00	1.11	0.80	0.95	5.49	26.14	3.32	17.86	10.75	33.58
Less than 10%	7	100.00	1.15	0.22	1.61	1.34	25.81	3.10	22.08	10.65	34.04
All categories	75	100.00	1.09	0.52	1.25	4.80	28.03	3.52	18.11	10.13	32.44

* Household Industry
 ** Manufacturing other than Household Industry
 Note: Figures in brackets are exclusive of Delhi city.

Table 4: Percentage Distribution of Working Force in Industrial Categories in Cities Classified According to Rate of Growth Above and Below Average, 1901-61

	No. of Cities	I-IX	I	II	III(a)	III(b)	IV+V	VI	VII	VIII	IX
1911 Census											
Average growth rate between 1901-11=5.7%											
Growth rate above average	9	100.00	2.10	0.54	1.74	0.14	24.66	2.78	15.98	11.30	40.76
Growth rate below average	17	100.00	3.21	1.31	1.85	0.02	27.05	4.01	15.54	6.48	40.43
1921 Census											
Average growth rate between 1911-21=7.4%											
Growth rate above average	14	100.00	1.69	0.51	0.86	0.08	28.54	3.38	14.36	7.46	43.12
Growth rate below average	15	100.00	3.74	1.35	1.63	0.02	19.51	2.97	17.71	7.67	45.40
1931 Census											
Average growth rate between 1921-31=16.2%											
Growth rate above average	14	100.00	3.17	1.30	2.11	0.05	23.34	2.96	14.57	5.43	47.07
Growth rate below average	15	100.00	1.53	0.90	2.02	0.09	19.57	2.70	15.28	8.20	49.71
1951 Census											
Average growth rate between 1931-51=115.07%											
Growth rate above average	10	100.00	0.56	0.27	0.63	0.19	30.17	3.81	21.93	9.29	33.15
Growth rate below average	22	100.00	2.00	0.91	1.15	0.11	27.37	2.56	20.31	9.22	36.37
1961 Census											
Average growth rate between 1951-61=28.76%											
Growth rate above average	33	100.00	1.07	0.49	1.15	4.69	30.59	3.62	17.38	9.81	31.21
Growth rate below average	42	100.00	1.12	0.56	1.36	4.91	25.16	3.41	18.93	10.49	34.06

* Household Industry
 ** Manufacturing other than Household Industry.

Table 5: Percentage Distribution of Working Force in Broad Industrial Categories in Non-city Urban and Rural Areas, 1901-61

Year	Total Population (in lakhs)	I-IX	I	II	III(a)	Total Agriculture	III(b)	IV+V	VI	VII	VIII	IX	Total Non-Agriculture
1901	232.81	100.00	51.73	17.26	4.27	73.26	0.10	11.30	0.75	5.86	1.00	7.73	26.24
1911	245.99	100.00	51.00	21.08	4.57	76.65	0.25	9.52	0.91	5.24	0.90	6.53	23.35
1921	243.91	100.00	55.95	17.90	4.29	78.14	0.29	8.83	0.77	5.42	0.74	5.81	21.86
1931	269.69	100.00	52.03	19.96	5.01	77.00	0.27	8.51	0.98	5.29	0.83	7.12	23.00
1951	331.97	100.00	53.24	20.97	2.48	76.69	0.58	7.66	0.91	4.21	1.03	8.92	23.31
1961	402.20	100.00	56.30	17.80	2.86	76.96	(*)	6.47 (a)	0.92	3.12	1.03	8.86	23.04

(a) Household Industry
 (b) Manufacturing other than Household Industry.
 * Included in III (a).

Table 6: Percentage Distribution of Working Force in Industrial Categories by Areas in 1951 and 1961

Areas	I-IX	I	II	III(a)	(b)III	IV+V	VI	VII	VIII	IX
Cities										
1951	100.00	1.44	0.72	0.90	0.46	29.27	3.24	20.81	9.20	33.96
1961	100.00	1.26	0.64	1.28	(a)	32.68	3.59	17.86	10.00	32.69
Non-city Urban										
1951	100.00	12.18	6.37	2.09	0.64	22.63	2.62	17.55	5.17	30.75
1961	100.00	11.11	5.91	3.67	(a)	25.30	3.77	15.31	6.54	28.39
Total Urban										
1951	100.00	7.99	4.17	1.63	0.57	25.22	2.86	18.82	6.74	32.00
1961	100.00	6.55	3.48	2.10	0.80	28.48	3.65	16.30	8.04	30.60
Rural										
1951	100.00	57.37	22.44	2.46	0.39	6.35	0.59	2.86	0.62	6.92
1961	100.00	60.33	18.86	3.60	0.44	6.40	0.68	2.06	0.55	7.08

(a) Included in III(a)

Table 7: Percentage Distribution of Increase in Working Force in Each Industrial Category by Urban, Cities and Rural, 1951 and 1961

	Increase in Popn.	I-IX	I	II	III	IV+V	VI	VII	VIII	IX
(1) Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(2) Total Urban	20.76	11.14	0.23	1.29	6.48	46.84	50.83	118.31	83.25	28.27
(I) Cities (Total)	13.52	6.71	0.07	0.30	0.94	28.31	20.21	97.38	45.59	20.48
2,000,000 and over	1.73	0.74	-0.00	-0.00	0.31	5.06	4.02	-3.75	3.91	1.15
1,000,000-2,000,000	1.64	0.67	0.00	0.01	-0.07	2.55	-4.27	6.07	4.05	3.89
500,000-1,000,000	0.86	0.34	0.02	0.03	-0.03	1.25	0.79	2.86	2.42	1.32
250,000-500,000	1.80	0.82	-0.04	-0.15	0.18	4.43	4.94	11.33	8.16	1.03
100,000-250,000	2.53	1.29	-0.03	-0.12	-0.07	5.92	6.88	16.13	12.73	3.06
New Cities in 1961 in 100,000-250,000 range	4.96	2.85	0.12	0.53	0.62	9.10	7.85	64.74	14.32	10.03
(II) Non-City Urban	7.24	4.43	0.16	0.99	5.54	18.53	30.62	20.93	37.66	7.79
(3) Rural	79.24	88.86	99.77	98.71	93.52	53.16	49.17	-18.31	16.75	71.73

Note: Categorisation of cities is according to the population of the cities in 1951

Table 8: Participation Rates by Areas, 1901 to 1951

Size range of Population	Census Years					
	1901	1911	1921	1931	1951	1961
(a) Cities						
20 lakhs and above	.....	.....	.....	.....	44.3	38.3
10 lakhs to 20 lakhs	.....	58.0	57.4	47.8	33.1	30.4
5 lakhs to 10 lakhs	46.4	38.5	36.5	47.4	34.1	31.8
2.5 lakhs to 5 lakhs	40.2	40.1	42.9	42.9	32.7	30.7
Below 2.5 lakhs	37.3	41.6	42.7	37.9	30.4	31.6
All Categories	40.9	46.9	47.0	42.6	35.0	33.1
(b) Non-city Urban					34.3	33.1
(c) Total Urban					33.5	33.5
(d) Rural					40.3	45.1
(e) Total population	46.6	48.1	46.9	43.33	39.1	43.0

ally too, the village communities were interlocked through *jajmani* and caste systems and the non-agricultural sector especially personal services degenerated along with the old social set up.

In the next two annexed Tables 6 and 7 some further details of structural changes between 1951-61 are given. Table 6 indicates industrial composition of working force by cities, non-city urban and rural separately for 1951 and 1961. The proportion of workers in manufacturing including household industry, construction, trade, transport and 'Other Services' was higher in cities than in non-city urban areas in both 1951 and 1961. It

is interesting to note that in non-city urban areas, both the census years registered about 20 per cent of workers in cultivation and activities ancillary to agriculture. Table 7 gives percentage distribution of increase in working force in each industrial category between 1951-61 by urban, cities and rural. The Table shows that while 20 per cent of the total increase of population was in urban areas about 50 per cent of the increase in workers in manufacturing including household industry and construction had gone to urban areas. The rural areas recorded a net fall in the number of workers in trade and commerce and the entire increase in the number of

workers in this category belonged to urban areas. 83 per cent of the additional workers in transport and in 'Other Services' was in urban areas and the rest in rural areas. Within urban areas, cities accounted for about 50 per cent of the total increase in manufacturing including household industry, construction and transport and bulk of the increase in trade and services.

Table 8 brings out participation rate of workers by areas from 1901 to 1961. It is interesting to note that during all censuses larger cities recorded higher rate of participation as compared to smaller cities.



THREE THOUSAND SUNS HAVE COME AND GONE

Ten years ago...that's when we first started. It seems but yesterday. We've been busy going out to help people, different people. We've met them in town and in village...in plain and in woodland...in mansion and in hut. Together with our Subsidiaries we have over 1800 offices to serve them. Yet our work has only just begun. There are years, many years ahead. And today, we at the State Bank of India, pledge ourselves anew, to the dedicated service of our people and our country.

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The Search for Hope

Ashok V Desai

The Crisis of India by Ronald Segal; Penguin, 1965; pp 326, 5s.

“THE visitor to India, aware of the enormous problems which the country faces and unimpressed by the progress towards appropriate solutions that he is able to register, may find himself impatient with the laborious, sometimes seemingly self-defeating processes of democratic rule, may catch himself longing — and supposing that many Indians long as well — for a ruthless government that would, however authoritarily, tackle at least the crises of poverty and over-population, superstition and separatism, official corruption and the crude self-seeking of the commercial classes, head on. Indeed, he may find it surprising that signs of a drift towards totalitarianism are so faint and so few, exceptionally so in a former colonial world of so many authoritarian — many of them military — regimes. He is inclined to suspect the credentials of Indian democracy altogether, and see the government of Congress as a disguised, if rather benign, one-party despotism popularly imposed.”

These words echo the thoughts of many who are no visitors to this country; and Ronald Segal's concern, his indignation, his determination not to give up hope for India, are by no means foreign to us. The issues Segal has chosen fly in our faces. This is not a book one can fall in love with. Many readers are likely to be annoyed by the way Segal rips the rags of pride and decency off India, and those who can take it coolly will be inclined to complain about his selection of evidence, his failure to consider alternative explanations, his simplifications. But I think they will all, through reading him, have advanced their thinking on our political and social problems.

I

Segal finds India unique. This much is incontrovertible; all foreigners, whether from industrial countries or unindustrialised, tropical or temperate, eastern or western, find India different, as do Indians themselves. But in what does this uniqueness lie? In Hinduism, Segal would say. But the way he describes Hinduism (p 15), it means nothing but the Indian scene. It doesn't get us anywhere nearer the Indian uniqueness. And really, it is futile to try to define it in terms of particular features:

it lies, not in those features, but in the peculiar combination of them that one encounters in India.

But surely caste is all Indian? Segal calls caste “the very structure of social survival”, and “the fundamental rhythm of life itself” (p 35). The meaning of these phrases is quite beyond me; but in showing that caste is ubiquitous, Segal has mixed it up with *dharma* and *varna*; he has treated precept and practice, myth, epic and folklore as one. *Varna* is not caste. The vast majority of the Indian population is neither Brahmin, Kshatriya nor Shudra, and much of this residue would not recognise itself as Vaishya. And to read *varna* into the present-day castes is to miss their variety, their complication and their regional limits. There is a world of difference between the simple functional classification that the Aryans — presumably — brought with them and the chaotic maze of castes we find today. And what the religious texts support is *varna*. They are concerned, not with coiffures and the frequency of sexual intercourse, but with the maintenance of the *varna* hierarchy. That a society should have literature that supports the existing hierarchy is nothing unusual; nor is it an Indian peculiarity that we have deified the heroes of our novels or written romances involving our Gods. But the castes which exist as mutually exclusive social groups did not obtain their sanction from scriptures and epics. Their strength depends on the punishment that the people themselves mete out to those who misbehave. To explain why the untouchable behave as they do, we should go, not to the *Dharma-sutras* and *Mahabharata*, but to the high-caste ownership of land and water.

What then are castes? Castes are hereditary groups with rules limiting social intercourse with outsiders. All castes have rules regarding marriage. About other rules, there is much less uniformity: all that is common to them is their purpose of limiting external social contacts. Even today groups that attempt to isolate themselves by means of conventions spring up all over the world. The mutual behaviour of the English and the various coloured communities in England or of Italians

and the natives in Switzerland is very similar to that of castes.

II

Segal races through 4,500 years of Indian history in eighty pages. I am not competent to judge the accuracy of his entire account, but I cannot help feeling that it is too daring. The account rests on more substantial grounds when it comes to the last century; the interpretation of the period as one full of chances lost by a pig-headed British government or an over-confident Congress is interesting and, I think, tenable. However, Segal seems to imply (p 106) that the Muslims were a cohesive political force right since the beginning of the century. On the other hand, there is the view which I think one can ascribe to Nehru, that in India power was bound increasingly to vest in the masses, and that the Congress, being the only mass party, was destined to have a growing share of it: other parties would be crushed by democracy. Up to the 1940s, the evidence favoured this view: look what happened to the Liberals, the Forward Bloc, the Swarajists. So it was possible to deny a future to the Muslim League and to look upon Jinnah as an opportunist who was bound to fail. Then came the killings of 1946-47; the League proved its strength in an unexpected fashion. Did Nehru and the Congress misjudge the traditional communal forces, or were the forces non-existent till the late forties? Is tradition an ever-present influence on history or is it just an instrument for occasional politicians? Maybe, we were too little conscious of communalism till the forties: maybe we are over-conscious now. It is easy to read tradition into history, but impossible to refute its influence.

III

In a chapter on “The Character of Custom”, Segal selects the most detestable Indian characteristics — our indifference, dirt, cruelty towards women, inconsistency, insensitivity, colour prejudice and many other unsavoury traits. I have before criticised Segal for selective evidence, but I cannot here. With every instance Segal draws blood: I, for one, am inclined neither to contradict him nor to attempt justification.

For explanations Segal goes back to history and tradition. Social irresponsibility is linked to caste, inconsistency to a belief in *maya*, colour prejudice to the Aryans, pessimism to *dharma* and to centuries of victimisation by man and nature.

With some of these explanations one runs into trouble about cause and effect. How far did the absence of a social conscience contribute to the growth of caste, and how far the other way? How far is the conception of *maya* an offshoot of the Indian tendency to "reconcile" inconsistencies (compare the examination questions where students are asked to "reconcile" contradictory theories)?

But really, we must start with the question, what constitutes the explanation of a behavioural characteristic? Segal answers it this way: "The Indian is a different sort of person from the Frenchman because his history has been different, his culture is different, his political and economic experience has been different, his relationship to his family, his neighbours, his people, and his world are different. If his character is peculiar, it is because his customs are peculiar, the consequence of different events, sanctions and ideas. He behaves in a particular way because he is expected — and educated — by his context to behave in such a way. It is not his blood or the shape of his skull, but his society, that makes him broadly different. And because he is part of society, however paltry a part, he in turn confirms the broad difference of his society by accepting and transmitting it."

This is right, I feel, but too general. For the explanation of a man's behaviour pattern, we should look to his upbringing: behaviour owes its regular element to the rules a person picked up in the groups that he entered successively as a novice: his family, school, working place, dance-hall, etc. In studying the acquisition of such rules we might take the psychologist's approach and concentrate on some events whose victim or recipient the person has been, or we might follow the ethnologist and study behaviour in the context of the educative institutions; or we might go sociological and do pretty well what we like. But at least this first step must relate to the immediate history of the person, and not go back to his ancestors. History and tradition can come in at the next step, but they can contribute only if the social institutions have emerged or changed over time. If the past was just like the present, it does not in any

sense explain the latter. Causes must be found in events, and not just in the state of things.

From this point of view, I find very little conclusive evidence in Indian history to explain any of our characteristics. Maybe colour prejudice came with the Aryans, or may be some Muslim emperors brought it by introducing Negro slaves. Spanish peasant women swaddle themselves with clothes when they work in fields, leaving only the eyes and hands uncovered; how did they acquire their colour prejudice? Historical speculation is all good fun, but one loses oneself in the sands of time.

Social psychology is somewhat more helpful; it at least provides plausible explanations of specific traits of behaviour, and suggests how they might be improved or countervailed. Dirty habits, cruelty and colour prejudice are, for example, obviously due to social training. When we come to attitudes such as indifference and inconsistency, however, we haven't much to go on. Possibly attitudes are maintained through social sanctions, people taking up abnormal attitudes are ostracised; although this is somewhat doubtful. But how are they inculcated? There are no standard ways of training people in attitudes. I think we are here dealing with concepts that are too general: we find inadequate words for vague feelings that trouble us, and buttress them by selective evidence. Take Segal's examples of indifferent people: maybe there are some people who, when knocked down by cars, just walk away; on the other hand, motorists who knock down pedestrians are also often beaten up. And as regards the landless labourers of limited ambition described by Kusum Nair, a desire for a higher standard of living is generated by the experience of a rising standard of living, and it is natural that people with a long history of stagnant living standards should want little more than they have. But this is the least important of problems: even a slight improvement in the living standards of the poor engenders a disproportionate increase in their desired income. Apparently, Segal does not notice the contradiction between his imputation of material indifference to people and his remarks on the ubiquity of corruption. People are not corrupt for the fun of it, they also get some income from it.

Indifference, or the various traits of behaviour that one lists under this catch-all concept, will diminish with economic changes. It is not something

one needs to worry about; what one should be concerned about is the unequal spread of ambition. In a country where economic change is new, there remain pockets of stagnant standards of living, e.g. among the aborigines, or among the landless labourers investigated by Kusum Nair. Their falling behind and becoming "depressed classes" is a much more serious matter; it will cause much injustice and tension in the long run.

IV

This brings us to economics. Segal points out that Indian economic progress has been slow both in relation to what needs to be achieved and in relation to what China has achieved. I take this as incontrovertible. One can take the view that the difference between the Indian and Chinese rates of growth is not alarming. But the fact remains that the industrial production in China has risen far more rapidly and much more employment has been generated; in agriculture where our record perhaps compares more favourably, the Chinese are not faced with an equally serious problem. And since we started in the same state of economic affairs as the Chinese it might also be fairly said that our performance has fallen short of what can be achieved.

Segal has very little to say on why it has been so; he is more concerned with the distribution of income, which he thinks has been getting more unequal. This concern seems to be based on humanitarian considerations, and not on a belief that a control on income distribution or a mechanism that ensures that personal incomes do not fall below a minimum or rise above a maximum would permit a higher rate of growth of income. I think such a view is tenable and would provide a much more powerful case for institutional changes.

For improvement of income distribution Segal recommends co-operative farming and the abolition of large landed estates (pp 216-17). Now, if this abolition is to be any better than nominal, it will have to embrace the not-so-large estates — say, up to 10 acres — as well, and it is hard to see any benefits of keeping smaller holdings in private ownership. So I do not see why Segal does not argue for fully co-operative farming. Apart from its redistributive effects, it would also permit fuller use of the labour force and facilitate agricultural investment.

But this proposal raises many problems. To take one, is it possible to operate a system in which the income

distribution is much more equal in agriculture than in industry? Will not industry attract the more able people from agriculture? Exodus of the abler people from agriculture is a familiar phenomenon it might be more pronounced with co-operative agriculture and privately owned industry.

However, this is not a problem which need worry one: if one finds that introduction of co-operatives intensifies the exodus, one can then remove industries from private ownership. The important question is, who is to do so? And who is to make agriculture co-operative in the first place?

The Congress, Segal says (p 217). About the same Congress, he also says, "It has guided its followers by its own example of cynical manoeuvring in the pursuit of power, its repeated sacrifices of principle to immediate electoral expediency" (p 246) and that "the determination of policy has fallen further and further into the hands of the party bosses, the political entrepreneurs who collect the contributions of the business community, transmitting its desires along with its gifts, and then organise the constituencies for battle" (p 303). So when Segal suggests that the Congress should introduce co-operatives into agriculture, his reason seems to have been seduced by wishful thinking. But more likely, it is just the conflict between hegelianism and political sociology which afflicts us all.

V

So many of us keep thinking and saying that the State should do this or that. Underneath lies the recognition that reforms that we favour — whether in the agrarian structure, in the ownership of property, in the distribution of income and work, or in the social practices — are never going to be realised by popular initiative or demand; that, in fact, democracy is likely to inhibit them. No democratic government would have banned public hangings in seventeenth century Britain, witch-baiting in eighteenth-century Germany or the burning of widows in nineteenth-century India; none would prohibit bull-fights in Spain and marriages within caste in India. So we wish to give the ideal policy-maker a distinct personality and, in the Hegelian tradition, call it the State. This is the master of the destiny of India whose praises we sing in our national anthem.

And yet we realise in our moments of reflection that the actual state is not a master of its own destiny even; it is just a set of institutions governed

by conventions regarding the distribution of power and its shifts. Given the distribution of political power in India, and taking into account its likely trends, we may be fairly certain that the governments in India will not be very keen on reform.

So what do we do? We can hope. With Segal we might say, "I for one do not begin to have an idea of when and how such a revolution in Indian history will come about. But that it must come, I have no doubt. I believe the alternative to be finally unendurable". It is the common habit of mankind to hope. But *that* reason for hope — that the alternative will be finally unendurable — is false. For it *will* be endurable. We will be the judges of what is to come, and if we can endure the present, so will we the future. We — whether it is we the wellfed or we the starving — endure the present; we pass by hundreds sitting and sleeping on the pavements, eating stale rice and grams, having epileptic fits and dying, and it upsets us none too much. If famine comes tomorrow, we will let hundreds die; if they rise and riot, we will shoot them and forget them. No one can live with a feeling of guilt; we keep changing our definition of crime to suit our basic love of life.

In these circumstances, verbal manifestations of a social conscience are

worthless except as a means of livelihood. If journalists, academics, writers earn their bread by advocating social reform in various ways, it is understandable, it is even natural, but it is hardly a social service, any more than is table talk.

Social service consists in action that either propitiates one's social conscience or extends the freedom of manoeuvre of others who would follow theirs. If one is in a position to influence the government, one should persuade it to do what one considers politically desirable, taking account of its social character in one's advocacy. If one objects to the system, social, political or economic, and is in a position to do anything about it, one should try one's best to overthrow it. For the mass of us, who in a position of little influence and who cannot or do not aspire to do any better, the socially useful task is just to decide our job and do it well. Hopes that India can have a beautiful or just or rapidly progressing society are unjustified at least for the present; but to make it a more professional society, to introduce rewards for good work and sanctions against bad, is still within our reach, and we will thereby make it a more pleasant society to live in. *Dharma* has more meaning than Segal would allow.

The Indian Iron & Steel Co Ltd

Notice

AT a meeting of the Board of Directors held to-day the Directors have recommended in respect of the Ordinary Share Capital payment, under deduction of tax in accordance with the provisions of the Income Tax Act, of a final dividend for the year ended 31st March 1965, of 95 paise per share, making with the interim dividend of 75 paise per share declared by the Board on the 9th February 1965 a total distribution for the year of Rs 1.70 per share. This final dividend awaits sanction by the shareholders at the Annual General Meeting to be convened for Friday, the 3rd September, 1965.

The net profit after provision of Rs 4,46,49,507 for depreciation, Rs 4,53,50,000 for taxation and net transfer of Rs 4,14,82,699 to Appropriation Reserves is Rs 2,29,04,228. For the previous year the net profit was Rs 2,29,04,228 after provision of Rs 4,40,25,006 for depreciation, Rs 3,87,00,000 for taxation and net transfer of Rs 5,35,17,685 to Appropriation Reserves.

The Ordinary Share Register of the Company, as already announced, will be closed from the 20th July 1965 to the 3rd August 1965, both days inclusive, and the final dividend if sanctioned will be paid on and after the 3rd September 1965 to those shareholders whose names appear on the Register of Members on the 3rd August, 1965.

By Order of the Board
MARTIN BURN LIMITED,

F G LIVERSEDGE
Managing Agents.
Managing Director,

Registered Office:
12, Mission Row, Calcutta-1.
13th July, 1965.

Conscience of a Socialist Congressman

The Danger of Right Reaction by H D Malaviya, A Socialist Congressman Publication, 1965; pp 402, Rs 10.

H D MALAVIYA is a leftist, but lest he be mistaken he begins with an outburst against "China's perfidious and treacherous aggression against our holy motherland..." Credentials established, he proceeds to write a book which is inconsequential except to those who share his political purpose.

Admittedly Malaviya has a difficult task. He has to establish that the danger of right reaction has assumed serious proportions in India and at the same time prove the socialist character of the Congress Party and of the policies of the Congress Government. His technique is to use words—extensive quotations from texts of Congress Party resolutions and from speeches of Congress leaders, principally Nehru—to establish the socialism of the Congress and facts—the actual economic and political trends since Independence—to prove that the threat from the right is growing.

The book proceeds in the manner of a 'thriller'. The danger of right reaction is first described in awesome terms, but finally Congress is shown to prevail over all. The Third General Election, in Malaviya's colourful language, was "the first right reactionary challenge of its kind, to all that stands for progress in India", meaning the Congress of course. He invests the success of the Swatantra Party and the Jan Sangh with ominous significance. Yet, lest he should give the impression that the people's faith in the Congress had

* This should seem normal behaviour on the part of opposition parties, but Malaviya does not think so. To him "the correct attitude (for the rightist parties) would have been to get into touch with the Congress and the Government authorities at different levels, particularly in the many committees of the Parliament where issues could have been discussed, information elicited and constructive suggestions made!" As it was, "the extent of the abuse of civil liberties and democratic rights by these parties (was such as to) shock any lover of this country". Why, if this was so, did not the socialist Congress Government act against these abusers of civil liberties and democratic rights instead of finding other scapegoats to arrest and imprison without trial?

suffered, he promptly restores the balance with the statement that the election had proved that "the people stand foursquare behind the socialist programme of the Congress". The most he will admit to is that there were "factional disputes" among "some power-hungry Congressmen" and by clipping the Congress majority the people had merely shown their disapproval of this.

The balancing act is repeated in discussing the consequences of the Chinese attack in 1962. The Chinese imbroglio gave right reaction an opportunity to stage a "general offensive". Demands were pressed for radical changes in domestic and foreign policies; a successful campaign was mounted to remove the Defence and Oil Ministers from the Cabinet and, for the first time, even Nehru was not spared from direct attack.* All this is suitably described in hyperbolic prose. But the balancing statement is not long in coming: "The crisis proved again that Nehru was enshrined in the hearts of the Indian people".

It is when he comes to the actual performance of Congress socialism that the balancing act finally breaks down. At great length Malaviya describes how the Congress party's socialist orientation had been established during the freedom struggle and how after Independence it evolved "a very patriotic programme of national development", covering land reform and economic planning requiring expansion of the public sector and control of the private sector to achieve rapid economic growth and reduction of economic inequalities. What the fruits of this programme have been, is well known. In Malaviya's own words:

"... the weaker sections of the village community, who constitute the overwhelming majority, continue in the condition of poverty and destitution. There is at the other end a very small percentage of the rural population which is well off amidst all round poverty..."

"... control of major industrial economic activity is passing into the hands of a few persons, and the same set of persons or Houses are seen at the apex in different industries."

"Official data available irrefutably prove that, as in the colonial period, so now, in the period of

mixed economy, socio-economic inequality is growing."

Malaviya draws attention to these facts to establish the danger of right reaction. But how did the Congress party's socialist programme produce such contrary results? This he does not explain, which is hardly surprising since if he tried to it would knock the bottom out of his thesis that the Congress is a socialist party. What he can do is to blame right reaction. This he does most generously: "Feudalists", industrial and financial "monopolists" and the "monopoly press" have opposed and sabotaged Congress policies. The truth that the sabotage would have been impossible without the connivance of the Congress party itself is neatly avoided. There are only half-hearted admissions of "sections in the Congress" not having "seriously accepted the socialist orientation" followed quickly by the assertion that "such stragglers from the path, however, have singularly failed to affect the image of the Congress in the mind of the Indian people as a party of social and economic change". Two stragglers are singled out for mention, S K Patil and Kamalayan Bajaj. However, we are assured that their views "are not representative of opinion either of the Congress organisation or of its top leadership". It is nowhere mentioned that the Congress organisation as a whole has subsisted almost entirely on funds provided by "feudalists" and "monopolists" or that practically every important Congress leader has compromised himself with individual "monopolists".**

Against these facts and the facts of abortive land reform, concentration of control over industry and growth of economic disparities, Malaviya can only quote copiously from Congress resolutions on socialism and from the speeches of Congress leaders—speeches made precisely for the purpose to which Malaviya puts them: to persuade the people that the Con-

** Malaviya takes umbrage at G D Birla's recent warning that criticism of industrialists by Congress leaders would one day prove dangerous to the Congress. But, surely, he doesn't need to be reminded that the Birla's close association with the Congress did not end with Gandhi's assassination in Birla House?

gress is socialistic. Malaviya and his brand of socialist Congressmen are welcome to pin their faith on this leader or that—it was Pandit Nehru ("India's beloved leader") then; now it is Indira Gandhi ("symbol of our

departed leader, hope of India and a leader of her people by her own right") and Kamaraj ("who symbolises in his person the urges and aspirations of the toiling millions of India"). Others would rather judge the Con-

gress not by its professions nor by the proclivities of individual leaders, but by its practice as a political organisation and the party in power in the country.

—N K

AROUND BOMBAY MARKETS

Gloom Pervades Stock Market

Wednesday Morning

THE stock market is an awfully bad shape. Equities have suffered an all-round sharp decline over the past fortnight or so, which has brought the market back again almost to its year's low recorded in the last week of May. The fall has occurred despite the ceasefire in Kutch and the consequent easing of tension on the borders, which, however, is scarcely surprising. The fairly impressive recovery in June had been essentially in the nature of a technical correction of the preceding steep decline and the rally might not have proceeded as far as it did but for the massive purchases of a large number of scrips by the Life Insurance Corporation and to some extent by the Unit Trust which created a scarcity of floating stocks. The technical rally would have petered out in course of time in any case but the duration of the corrective phase was cut short by the announcement of an unchanged dividend by the Tata Iron and Steel Company which caused widespread disappointment in market circles. The absence of any news about the widely anticipated bonus issue by Tata Engineering and Locomotive Company along with the dividend announcement added to the market's frustration.

With the change in sentiment, market's attention has once again been focussed on the deteriorating foreign exchange position and its possible repercussions on industrial production through restricted imports of raw materials and components. Responsible spokesmen of a number of companies have hinted at prospects of a considerable decline in production because of restricted imports. The Reserve Bank of India's special deposit scheme for imports, which has been somewhat modified recently, credit curbs and fear of a fresh rise in interest rates have further increased industry's worries. The steel industry's wage bill will swell further as a result of the recent increase in minimum wages as recommended by the wage board for the steel industry.

Trading sentiment on the stock market has been further unsettled by rumours of a possible supplementary budget. These rumours have gained

wide currency following the suggestion made by the resources committee of the National Development Council that the Centre and the State Government should raise additional resources through supplementary budgets in the current financial year. The stock market which is already in a crippled form dreads the very idea of a supplementary budget.

The recent sudden and sharp decline in equity prices has created some payments difficulties though the settlement has been through with one member of the stock exchange closing his business, without being officially declared a defaulter. The stock exchange community is passing through an extremely difficult time. The turnover has shrunk to such small proportions that many stockbrokers are finding it difficult to make their two ends meet. There seems no early end to the stock market's difficulties.

COTTON

Well Above Ceilings

SO FAR, weather reports from most of the cotton growing areas have been far from satisfactory. The monsoon has been weak all through. The rainfall has been quite inadequate at most places. As it is, it only means a delay in the harvesting of the crop but if the monsoon does not oblige soon enough and the cotton producing areas do not get sufficient rainfall, the size of the crop itself will be affected, depending on the nature of the weather. The prospect of a poor crop is extremely disturbing because cotton prices in India are already very high—about Rs 200 to Rs 300 per candy, higher than the prices of comparable cottons abroad—which reflects the continuing imbalance between indigenous production and the industry's requirements.

Mill consumption of cotton during 1963-64 totalled 60.81 lakh bales as against 56.70 lakhs in the preceding season. Consumption during the first eight months of the current season (1964-65) is placed at 42.89 lakh bales of which 5.20 lakh bales are of foreign cotton. On this basis cotton consumption this season is likely to exceed 64

lakh bales which means that the current season will end with a smaller carry-over. Cotton prices are already quoted between Rs 50 and Rs 175 per candy above the statutory ceilings. Except for a very short period, prices have remained well above the ceilings most of the time this season. With consumption continuing to increase with the expansion of spindleage, cotton prices can be expected to rise to new high levels if the new cotton crop turns out to be a poor one as the shortfall cannot be easily made good through imports because of the critical foreign exchange position.

New Delhi has still to announce the cotton policy for the new season (1965-66). It is really amazing that the policy should not have been announced before the commencement of sowings. Perhaps the Government shares the widely held view that prices do not have any significant bearing on agricultural production in the country, more particularly in the case of a commodity which is generally quoted at well above the statutory ceilings. According to informed sources, the Government proposes to raise the floor prices by about Rs 100 per candy and the ceiling prices by about Rs 80 per candy. If the authorities are reconciled to raising ceiling prices by that margin, it would be much better to do away with price control altogether, which, has been reduced to a farce in any case.

OILSEEDS

Prices At New Highs

OILSEEDS prices have recorded a spectacular rise since about the beginning of this month. Within less than a fortnight castor September shot up from Rs 82.40 to Rs 93.75 (per quintal) and linseed September advanced from Rs 102 to Rs 120 (per quintal). Futures simply soared, the penal margins notwithstanding. Bulls are called upon to pay a margin of Rs 5,000 per unit of trading (10 tonnes) in the case of linseed and Rs 2,400 per 10 tonnes in the case of castor. The rise in futures has led to payments difficulties and the market has had to be officially closed to resolve the payments deadlock. Offi-

cial trading has been at a standstill at any rate as futures have remained well above the weekly maximum limits for quite a long while.

But the rise in oilseeds prices cannot be attributed to the evil doings of certain powerful speculators. The rise has been no less pronounced in the spot market. Groundnut oil ready has risen from Rs 25 to Rs 28.80 (per 10 kgs) within a fortnight and linseed oil has improved from Rs 22 to Rs 25. Castor oil has risen from Rs 17 to Rs 18.50. Oilcakes prices have also firmed up by about Rs 15 to Rs 20 per tonne. The bullish fervour in oilseeds markets has gained immense strength from reports of inadequate rains in nearly all the important groundnut producing areas.

Oilseeds prices are now standing at the highest level for the current season and are not much lower than the fantastic levels which prevailed at the fag-end of last season. If this be the position when the country has had good harvests — the best so far —, exports of edible oils remained banned and the supply has been augmented through sizable imports of soyabean oil and mutton tallow, the price situation could easily get out of control if the weather does not oblige and groundnut production is seriously affected. Despite various package plans and other measures to step up farm output, agricultural production remains at best a gamble in rains.

Export activity continues to be restricted to groundnut extractions and cottonseed cake. The performance in respect of groundnut extractions has not been exciting recently. The trade is feeling quite uneasy over the prospect of export of oilcakes being canalized through the State Trading Corporation.

Money and Banking

Thursday, Morning
CONDITIONS in the Bombay short term money market continued to rule easy during the week to July 14. Funds were ample in the market as the inflow from mofussil areas gathered strength. Demand for funds continued more or less at the previous week's level. The rate of interest fluctuated around the previous week's level between 4 per cent and 3 per cent—at the time of writing it was 4 per cent.

During the week to July 7 aggregate deposits of scheduled banks increased by Rs 20.71 crores to Rs 2076.91 crores according to the latest returns issued by the Reserve Bank. This represented an increase of Rs 11.15 crores to Rs 1283.48 crores in demand

deposits and Rs 9.56 crores to Rs 1441.74 crores in time deposits. Cash in hand and balances held with the Reserve Bank registered a rise of Rs 5.25 crores to Rs 175.94 crores. Investments in government securities increased by Rs 3.95 crores to Rs 730.67 crores. Money at call and short notice declined by Rs 5.07 crores to Rs 60.42 crores. Borrowings from the Reserve Bank advanced from Rs 65.99 crores to Rs 68.67 crores.

Notes in circulation increased by Rs 11.84 crores to Rs 2689.34 crores during the week to July 9, according to the Statement of Affairs of the Reserve Bank. While foreign securi-

ties were unchanged at Rs 68.35 crores, balances held abroad were slightly lower by Rs 39 lakhs at Rs 4.46 crores. Deposits of the Central government showed a sharp decline of Rs 32.17 crores to Rs 77.42 crores. State government deposits were slightly higher by Rs 48 lakhs at Rs 17.19 crores. Deposits of the scheduled banks at Rs 104.32 crores were higher by 1.40 crores. Loans and advances to governments were lower by Rs 4.82 crores at Rs 44.22 crores while advances to scheduled banks recorded a decline of Rs 13.47 crores at Rs 54.99 crores. Investments at Rs 276.53 crores were lower by Rs 19.84 crores.

BUSINESS NOTES

Tata Engineering

THE year to March 1965 has proved more prosperous for Tata Engineering and Locomotive Company. It has recorded a very satisfactory increase in sales turnover and profits — the former rising by 28 per cent to Rs 66.13 crores and the latter, at the gross level, by nearly 24 per cent to Rs 8.24 crores, according to the preliminary profit figures. The advance at the pre-tax profit stage, however, has considerably narrowed down, since depreciation charge has syphoned off as much as Rs 84.37 lakhs more at Rs 3.44 crores. But with the tax liability, which though claims Rs eight lakhs more at Rs 2.08 crores, considerably lower at 43.5 per cent against 49.5 per cent in the previous year, the directors are left with an after-tax profit of Rs 2.71 crores, nearly a third more than the previous year's Rs 2.04 crores. The allocation to development rebate has been stepped up from Rs 68.10 lakhs to Rs 95.36 lakhs.

The equity dividend rate remains unchanged at Rs 14.50 a share which, however, requires a larger amount of Rs 148.52 lakhs against Rs 135.32 lakhs, as the new equity shares issued as "rights" are entitled to a proportionate distribution. As before, the preferential dividend demands Rs 8.33 lakhs. Despite the enhanced dividend liability, the cover is appreciably strengthened from 0.9 times to 1.4 times. Of the proposed dividend, nearly 16 per cent will be exempt from tax as against 23 per cent in the previous year. A sum of Rs 16 lakhs is allocated to deferred taxation reserve.

Contrary to expectations in the stock market, the directors have not announced a bonus issue, probably

with a view to considering the issue after the Government's import policy announcement for actual users as the company's production and profitability depends to a large extent on the availability of certain essential components and raw materials which are imported, although it has achieved a fairly high level of indigenous content in the manufacture of commercial trucks. There are already reports that the company has effected a cut in production of the automobile division following restrictions on imports in the first quarters of the current year. Besides, what may have also influenced the directors to defer a decision on the bonus issue is the increased future liability not only on account of the "rights" shares but also on the proposed Rs two-crores preference issue and on the proposed new debentures carrying interest at 7.5 per cent per annum instead of the present rate of five per cent. Before raising the capital further by capitalising the share premium account, the management would naturally like to assess its future profitability prospects so that it may be able to maintain the dividend rate on the enlarged capital.

Larsen and Toubro

A PRELIMINARY statement from Larsen and Toubro for the year to March 1965 shows continued growth in sales turnover and other income which rose by 13 per cent to exceed Rs 10-crore mark. But with costs rising in all directions and margins under pressure, gross profit has risen by six per cent from Rs 1.11 crores to Rs 1.18 crores. After providing Rs 20.81 lakhs (Rs 18.46 lakhs) for depreciation, Rs 51 lakhs (Rs 50.50 lakhs) for taxation and

Rs 3.29 lakhs (Rs 4.46 lakhs) for development rebate reserve, there is left a disposable profit of Rs 42.66 lakhs compared to Rs 37.85 lakhs a year ago. Equity dividend is kept unchanged at 15 per cent, but it is now also payable on the additional capital of Rs 66 lakhs which ranks for four months. The total dividend liability, including that on the preference capital, has thus risen to Rs 29.02 lakhs (Rs 25.72 lakhs). Of the remaining surplus, Rs 13.50 lakhs are transferred to reserves which received Rs 12.08 lakhs in the previous year.

Even though margins have narrowed, the increase in earnings is such that the cover for the enhanced dividend liability has remained unchanged at just under 1.5 times. Judged solely by this yardstick, it is reasonable to expect that, barring unforeseen circumstances, this swiftly growing concern with diverse fields of activities should not find it difficult to maintain the dividend rate for the current year on the enlarged capital. What is more significant is that during 1964-65 the output from the company's modern industrial complex at Powai increased further by 26 per cent on top of a 62 per cent jump registered a year before. The plans for expansion are being implemented, and the management is confident that production and sales will rise further as there is a growing demand of high quality engineering equipment and services supplied by the company.

Burn and Company

OWING to the go-slow tactics adopted by labour in Burn and Company's structural shop at its Howrah works, the tonnes per man per month output fell far short of previous performance in that shop and of performance of similar shops in works owned by other companies in the Calcutta area. The most distressing aspect of the matter, however, was that structural work to the extent of some 8,000 tonnes planned by the company against orders of vital national importance had to be transferred to other fabricators. The company was also not able to complete wagons because the Railways themselves failed in their undertaking to supply in time certain components and steel.

The working of the factory for making magnesite shapes materially improved, but sales of magnesite on the export market dropped owing to keen competition from Europe. Experiments

are being conducted in the beneficiation of the raw materials to improve the company's ability to withstand this competition. The sales of the company's refractory works in various parts of the country continue to be satisfactory but less remunerative owing to a depression in selling prices caused by the fact that the capacity of this industry far exceeds the national demand. Reyrolle Burn, the new company, began production in June 1964 but owing to a shortage of some raw materials output was not upto expectations till the end of March last. But production is now rising and, with the initial teething troubles over, it is hoped that this unit will record steady progress.

During the year to April 1965, Martin Burn's sales advanced by nearly Rs one crore to Rs 13.74 crores but increased costs without correspondingly higher selling prices led to a diminution of the margin of gross profits. The overall financial results, however, showed a very happy picture, as the gross profit was sharply up by nearly Rs 51 lakhs to Rs 2.06 crores. This was primarily due to the fact that the year's accounts did not suffer the heavy debit on account of arrears of profit sharing bonus as had been the case in the preceding year following an award against the company.

After charging depreciation of Rs 42.56 lakhs (Rs 42.94 lakhs), and after providing for taxation Rs 98.65 lakhs (Rs 64.50 lakhs), for development rebate reserve Rs 2.25 lakhs (Rs 9.59 lakhs), for gratuity reserve Rs 13.35 lakhs (Rs 5.24 lakhs) and for capital profits reserve Rs 0.64 lakh (Rs 0.21 lakh), there is left a surplus of Rs 48.38 lakhs, nearly a half more than the last year's. Out of this, Rs 7.03 lakhs (Rs 4.93 lakhs) are set aside for works reconstruction and expansion reserve and Rs 9 lakhs (nil) for the Niwar project reserve. As before, the preferential dividend demands Rs 2.35 lakhs. The equity dividend is stepped up 2.5 per cent to 17.5 per cent, and requires Rs 29.40 lakhs (Rs 25.20 lakhs).

Sandvik Asia

GOOD progress has been made by Sandvik Asia in its programme of expansion of tungsten carbide capacity by three-and-a-half times to 84 tons a year. The construction of the factory building for expansion is expected to be completed before the end of the year. The machinery will start arriving from September and will be commissioned by June next.

Meanwhile, during the year to March 1965 the company reached its licensed capacity in tungsten carbide sintered products, but the rock drill steel factory worked to half the capacity owing to the availability within the country of imported rock drill steel which competed with indigenously manufactured items. A greater utilisation of this plant can be expected, since demand has looked up from the beginning of 1965.

The company has produced good results for 1964-65. Sales advanced from Rs 1.04 crores to Rs 1.23 crores and gross profits jumped from Rs 25.88 lakhs to Rs 37.86 lakhs. Depreciation charge has taken up Rs 14.62 lakhs (Rs 12.09 lakhs), taxation Rs 6.75 lakhs (nil) and development rebate reserve Rs 2.52 lakhs (Rs 4.50 lakhs). A sum of Rs nine lakhs is allocated to general reserve which received only Rs 1.25 lakhs last year. The dividend as raised by two per cent to eight per cent (tax-free) demands Rs 4.80 lakhs compared to Rs 3.60 lakhs previously, and is so well covered by earnings that the maintenance of the present rate of dividend does not seem to be in doubt on the capital proposed to be enlarged by a one-for-four rights issue.

Zenith Steel Pipes

PRELIMINARY profit figures from Zenith Steel Pipes for the year ended April 1965 show further all-round improvement in production, sales and profits. During the year, the company produced 37,000 tonnes of steel pipes as against 32,000 tonnes and 12,000 tonnes in the preceding two years. Of the 1964-65 production, the company was able to export 5,700 tonnes comprising about 45 per cent of the country's total exports of this product. Sales turnover, which had advanced from Rs 1.48 crores to Rs 4.33 crores in the preceding year, improved to Rs 4.77 crores, and the company earned a gross profit of Rs 54.10 lakhs compared to Rs 52.70 lakhs and Rs 34.78 lakhs, respectively, in the previous two years. With the provisions for depreciation, taxation and development rebate reserve claiming Rs 8.21 lakhs (7.87 lakhs), Rs 15 lakhs (13.85 lakhs) and Rs 1.33 lakhs (1.77 lakhs) respectively, the year's equity earnings are slightly higher at Rs 29.56 lakhs compared to Rs 29.21 lakhs. The equity dividend, stepped up by two per cent for the second year in succession to ten per cent, requires Rs seven lakhs (5.60 lakhs), and is covered nearly four-

and-a-quarter times by earnings. As before, the entire dividend is expected to be exempt from tax.

The management has been actively pursuing its project for the manufacture of seamless pipes which involves quite a large investment. Negotiations are in progress with the IFC, Washington and also with the Government of India, and a decision in regard to its implementation is expected to be taken up by the end of 1965. Meanwhile, the implementation of other projects for which the company holds industrial licences has also been deferred, as the seamless pipes project is engaging the management's full attention.

Permanent Magnets

ALTHOUGH Permanent Magnets experienced good demand during 1964 and its sales nearly trebled to Rs 19.15 lakhs but these were lower than expected because of the Government's policy of not completely banning the import of permanent magnets despite representations by the indigenous producers. Besides, sales were affected by the crisis in the electric meter industry, where many units had to curtail their production.

The company's factory is now equipped to produce 180 tonnes of permanent magnets per year. Only a few more machines are required which are expected to arrive before the end of the current year. Meanwhile, the directors expect about 50 per cent rise in the current year's sales. This assessment is based on the fact that in the first five months of the year sales amounted to Rs 10.43 lakhs and there were orders on hand for Rs 14.76 lakhs.

During the year to December 1964, the company earned a profit of Rs 1.77 lakhs against a loss of Rs 3.47 lakhs in the previous year, after charging depreciation of Rs 2.97 lakhs (2.39 lakhs). Development rebate amounting to Rs 4.65 lakhs is yet not provided. The year's profit together with a small amount written back is utilised to reduce the total deficit from Rs 5.29 lakhs to Rs 3.49 lakhs.

Digvijay Cement

GL BANGUR, Chairman, Shree Digvijay Cement Company, has urged upon the Government to introduce some simple procedure of examining the costs of cement industry through its own Cost Accountant so

that necessary data may be available to it in time to determine the prices when the present price structure falls due for revision from April 1, 1966. In his address to the shareholders at their annual meeting held at Sikka a few days back, Bangur said that any reference to the Tariff Commission at this stage may involve a lot of delay as the Commission will not be able to complete its examination and submit its recommendations in time.

The cost of production of the cement industry has been increasing progressively mainly due to general increase in the price level in the country, and the increase in railway freight as well as in labour wages. In spite of this pressure of increase in cost, the question of adequate price increase for cement has always been delayed, says Bangur. He, however, welcomed the increase of Rs four per tonne in the retention price with effect from June 1, and has expressed the hope that the industry will be able to largely meet the rise in the cost of production for the time being.

He regretted that the Government has turned down the industry's request for grant of a suitable price increase exclusively earmarked for expansion when the country is faced with a serious shortage of cement. Bangur said that it will be really helpful if the Government would permit a specified percentage of production to be sold in the free market so that people may not have to run even for small quantities of cement required for their own housing, repair work, etc. In regard to the company's expansion programme, Bangur said that the additional capacity of two lakh tonnes of cement will be achieved by the second/third quarter of 1966. The company has also received recently a letter of intent for expansion of the capacity of its asbestos products by another 36,000 tonnes per annum.

Indu Mills

THE reduction in the 1964 margins of India United Mills, which has been forced by the many factors that affected the fortunes of the cotton textile industry as a whole, has been aggravated by overstaffing and low productivity of the Mills. The combination of these unfavourable factors has resulted in a lower gross profit of Rs 86.70 lakhs, a third lower than the previous year's, even though sales of cloth and other products fetched Rs 1.13 crores more at Rs 16.29 crores

THE ECONOMIC WEEKLY

and income from other sources also brought in more. The number of workers employed is on an average 20 per cent more than in other progressive mills in Bombay. The excess in employment is particularly due to the fact that there is a great deal of old, out-dated and undersized machinery installed in the Mills. The weaving productivity is lower by about 15 per cent as compared to that of the progressive units of the ordinary plain looms. As a result of an overall increase in wages, salaries and other benefits including dearness allowance, the ratio of wages and salaries to realisations has increased by about five per cent which alone works out to nearly Rs 80 lakhs as an additional outgoing.

To the year's profit is added Rs 5.20 lakhs, being the previous year's surplus, Rs 0.95 lakh, refund of taxes of previous years, Rs 30 lakhs, balance of general reserve and Rs 2.22 lakhs, balance of development rebate reserve to make a total of Rs 1.25 crores for disposal. Of this, depreciation has taken up Rs 30.23 lakhs (Rs 17.10 lakhs), development rebate Rs 11.07 lakhs (Rs 9.40 lakhs), tax on dividend Rs 3.05 lakhs (Rs 21.60 lakhs), provision for obsolete stores, dyes and chemicals Rs 0.50 lakh (nil), contribution to gratuity for previous years Rs 5 lakhs (nil), reserve for doubtful debts Rs 5,641 (Rs 7,528), bonus to staff Rs 54.81 lakhs (Rs 27.02 lakhs) and previous years' taxation Rs 2.52 lakhs (nil). Dividend on ordinary shares is cut from Rs 1.25 to 62.5 Paise per share and that on deferred shares from 31.25 Paise to 6.25 Paise per share. Dividend requires Rs 15.63 lakhs (Rs 40.63 lakhs) and the remaining surplus of Rs 2.21 lakhs is to be carried forward.

The programme of renovation and rehabilitation of plant and machinery in all the units continued during 1964. Further orders for machinery worth about Rs 50 lakhs were placed. The modernisation and renovation so far carried out in the Mills, however, is very meagre compared to the needs of the Mills which are estimated at around Rs 10 crores. The directors have chalked out the second phase of modernisation programme involving an expenditure of Rs 2.60 crores, which is proposed to be financed by borrowings. Meanwhile, looking to the performance of the company in the first five months of the year, they have expressed the view that the current year's prospects too look bleak.

CURRENT STATISTICS

Foreign Trade of India

PRINCIPAL EXPORTS' 1964-65

	(Rs crores)				1964-65	1963-64	1962-63	1961-62
Food	260.62	249.85	235.24	214.00				
Fish, fresh or simply preserved	6.14	5.03	3.19	3.37				
Fruits and nuts, fresh	31.23	23.76	21.40	20.27				
Vegetables, fresh and dry, roots and tubers	4.35	5.25	4.53	4.12				
Sugar	19.20	27.10	18.03	15.33				
Coffee	13.35	8.30	7.61	9.02				
Tea and mate	126.96	123.38	129.19	122.26				
Spices	16.79	16.02	13.87	17.51				
Feeding stuff for animals	39.34	36.60	33.30	18.86				
Beverages and tobacco	25.91	22.52	18.87	14.97				
Tobacco unmanufactured	24.25	21.09	17.99	14.05				
Tobacco manufactured	1.59	1.40	0.87	0.91				
Crude materials, inedible, except fuels	139.32	131.78	111.67	118.30				
Hides and skins, undressed	9.07	9.60	10.84	8.22				
Oilseeds, oilnuts and oil kernels	1.73	4.30	4.35	4.52				
Wood	2.21	2.67	3.24	2.76				
Wool and other animal hair	8.84	7.42	6.64	9.19				
Cotton	14.23	16.70	17.07	20.35				
Jute	3.57	2.94	1.30	0.05				
Vegetable fibres, except Cotton and Jute	2.80	2.78	2.79	2.51				
Crude minerals, excluding Coal, petroleum, fertiliser materials and precious stones	13.17	12.05	13.16	11.96				
Iron ore and concentrates	38.76	36.40	19.82	17.41				
Iron and steel scrap	5.99	4.90	1.99	6.25				
Ores of non-ferrous base metals and concentrates	14.87	9.73	9.90	12.81				
Crude animal material, nes	6.15	4.37	5.30	4.70				
Crude vegetable materials, nes	16.07	15.99	13.61	15.36				
Mineral fuels lubricants and related material	12.69	9.76	6.94	5.90				
Coal, coke and briquettes	4.53	2.35	2.81	2.42				
Petroleum products	8.17	7.41	4.13	3.48				
Animal and vegetable oils and fats	7.42	20.60	13.73	6.49				
Vegetable oil	7.11	19.93	13.17	5.82				
Chemicals	9.84	6.90	7.86	8.80				
Medicinal and pharmaceutical products	2.11	1.05	1.06	0.98				
Essential oil, perfume and flavour materials	3.28	2.89	4.30	4.51				
Miscellaneous chemicals materials and product	1.09	0.33	0.26	0.15				
Manufactured goods	348.36	318.92	272.17	269.33				
Leather	27.24	26.20	22.58	25.33				
Rubber manufactured articles	1.56	0.79	0.63	0.30				
Textile yarn and thread	14.40	16.68	15.22	13.95				
Cotton fabrics of standard type	58.58	54.34	46.54	48.25				
Textile fabrics of standard type other than cotton fabrics	119.29	123.69	110.57	87.51				
Tulle, lace, embroidery and other small wares	1.16	1.18	1.39	0.96				
Special textile fabrics and related products	1.60	1.81	1.49	1.96				
Made up articles only or chiefly of textile materials	79.61	55.41	56.56	65.48				
Floor coverings and tapestries	10.26	10.09	8.57	8.41				
Precious and semi-precious stones	12.97	14.18	0.16	0.23				
Jewellery	1.82	1.95	1.06	1.07				
Iron and steel	11.17	3.61	2.27	9.68				
Manufactures of metals, nes	4.23	2.86	2.67	2.14				
Machinery and transport equipment	8.72	5.93	4.41	3.91				
Power generating Machinery	1.35	0.74	0.54	0.54				
Mining, construction and other industrial machinery	2.21	1.88	1.73	1.67				
Electric machinery, apparatus and appliances	2.44	1.51	1.02	0.02				
Miscellaneous manufactured articles	18.38	18.08	11.14	10.12				
Clothing, except fur	4.17	4.56	1.08	0.73				
Footwear	4.27	3.61	2.70	2.40				
Exposed cinematographic films	2.01	2.13	1.46	1.61				
Printed matter	1.12	1.11	0.93	1.06				
Manufactured articles, nes	5.45	5.33	3.83	3.26				
Miscellaneous Transactions and commodities, nes	4.29	4.93	4.32	4.35				
Postal packages	2.79	3.08	3.19	2.46				
Returned goods and special transaction	1.04	1.29	0.50	1.10				
Total	835.24	789.28	686.36	655.17				

Note: All sections indicated in the official classification of exports are included in the above table and are printed in bold type. However, only those groups of commodities have been included whose exports in 1964-65 were at least Rs 1 crore. nes stands for 'not elsewhere stated'.

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

Direction of India's Exports, 1964-67

	(Rs crores)				1964-65	1963-64	1962-63	1961-62
Africa	49.32	46.33						
Ethiopia	1.44	1.70	1.99	2.74				
Kenya	5.41	5.03	5.50	5.32				
Mauritius and dependencies	1.14	1.20	1.14	1.41				
Mozambique	1.38	0.68	0.83	0.95				
Nigeria	5.35	3.78	6.17	7.05				
Rhodesia	2.01	1.27	1.75	2.34				
Sudan	6.52	7.84	9.01	10.3				
Tanganyika	2.64	2.48	2.83	2.84				
United Arab Republic	16.39	12.54	13.06	12.85				
North America	168.49	150.70						
Canada	17.85	21.17		17.58				
United States of America	150.64	129.53	116.59	115.05				
Latin America	15.37	19.06						
Argentina	7.72	10.06	8.52	4.94				
Chile	1.16	1.15	1.28	1.89				
Cuba	1.72	4.01	3.52	5.18				
Peru	1.36	1.08	1.48	1.15				
Uruguay	1.10	0.64	0.77	0.46				
Other American Countries	1.70	1.66						
E C A F E Countries	181.23	184.42						
Afghanistan	5.84	7.57	6.15	4.79				
Australia	20.65	17.59	18.82	15.85				
Burma	7.59	6.31	5.13	5.24				
Cambodia	2.05	1.22	1.19	1.25				
Ceylon	14.47	19.15	13.47	16.98				
Hongkong	5.76	5.52	4.04	3.28				
Indonesia	1.94	2.40	4.05	6.80				
Iran	4.95	4.67	6.37	4.43				
Japan	62.18	58.78	33.99	40.45				
Malaysia	15.38	30.23	16.16	15.03				
Nepal	16.56	11.63						
New Zealand	5.64	7.27	6.59	7.39				

Direction of India's Exports, 1964-65

	1964-65	1963-64	1962-63	1961-62
Pakistan	9.78	6.17	9.34	9.44
South Viet Nam	4.10	2.50	0.78	0.42
Thailand	3.05	1.12	1.99	2.65
Other Asian and Oceanian Countries	27.07	29.73		
Aden	6.07	6.39	4.79	5.47
Bahrein	2.11	2.13	1.80	2.05
Fiji	1.01	1.06	0.88	0.78
Iraq	3.58	3.25	3.74	3.00
Kuwait	3.95	4.49	3.95	3.92
Qatar and Trucial Oman	2.93	2.00	1.79	2.01
Saudi Arabia	3.31	3.20	2.70	3.17
Syria	1.02	3.98	1.70	1.57
East European Countries	148.32	108.64		
Bulgaria	3.07	2.82	1.76	0.89
Czechoslovakia	16.20	16.16	11.27	8.05
German Democratic Republic	12.99	10.08	8.50	4.55
Hungary	8.18	6.06	6.32	4.76
Poland	11.22	9.55	11.67	4.46
Rumania	3.16	2.75	3.40	2.58
U S S R	82.38	51.95	38.28	32.03
Yugoslavia	11.13	9.26	11.12	6.17
European Common Market Countries	57.20	60.60		
Belgium	8.18	8.32	4.48	5.91
France	11.91	10.83	8.54	7.96

	1964-65	1963-64	1962-63	1961-62
West Germany	17.74	19.76	15.29	19.81
Italy	10.14	11.25	9.52	9.06
Netherlands	9.23	10.44	8.95	7.99
European Free Trade Area Countries	179.23	174.71		
Denmark	2.19	2.78	2.82	1.64
Norway	1.21	1.24	0.99	1.25
Sweden	1.63	1.82	1.72	1.63
Switzerland	4.40	5.39	1.66	1.67
United Kingdom	169.36	162.97	162.75	139.65
Other European Countries	7.61	13.45		
Irish Republic	3.45	4.54	4.81	3.90
Spain	1.14	4.81	3.99	0.72
Turkey	1.29	2.52	5.24	3.48
Total, All Countries	835.55	789.28	686.35	655.17

Note : Sub-total of exports to 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, exports to only those countries are shown separately, the value of exports to whom in 1964-65 was at least Rs. 1 crore.

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

INDEX NUMBERS OF WHOLESALE PRICES

(Base: 1952-53=100)

Groups and Sub-Group	MONTHLY AVERAGE		
	June 1965	May 1965	June 1964
Food Articles	161.3	158.7	153.5
Cereals	137.4	136.8	132.5
Pulses	151.9	153.4	141.8
Fruits and Vegetables	173.7	170.4	179.1
Milk and Ghee	169.7	163.8	142.8
Edible Oils	203.7	198.5	185.7
Fish, Eggs and Meat	198.9	188.3	161.5
Sugar and Gur	152.1	159.6	194.7
Others	197.1	184.9	178.2
Liquor and Tobacco	138.4	138.7	126.3
Tobacco	136.3	136.7	123.7
Fuel, Power, Light and Lubricants	147.3	146.7	142.2
Industrial Raw Materials	176.9	173.9	153.9
Fibres	158.4	158.9	134.0
Oilseeds	216.6	209.4	188.3
Minerals	129.3	129.3	103.7
Others	140.6	138.3	130.2
Manufactures	144.9	144.0	133.2
Intermediate Products	164.7	160.4	146.7
Finished Products	141.6	141.3	131.0
Textiles	140.1	140.7	127.5
Cotton Manufactures	138.1	138.4	135.5
Jute Manufactures	142.6	144.1	98.3
Woollen Manufactures	170.3	170.3	169.0
Silk & Rayon Manufactures	139.6	139.9	139.4
Metal Products	178.9	178.9	168.6
Chemicals	124.4	124.4	119.0
Oil Cakes	223.8	212.5	187.4
Machinery and Transport Equipment	133.4	133.4	126.9
Others	127.5	126.4	127.4
All Commodities	158.1	156.0	146.8

BANKING RETURNS

Reserve Bank	July 9	July 2	June 4	July 10, '64
1. Note Circulation	2689.34	2677.50	2748.45	2507.98
2. Rupee Coins	93.46	94.01	91.62	101.06
3. Deposits				
(a) Central Govt	77.42	109.59	73.28	53.42
(b) Other Govts	17.19	16.71	13.10	19.78
(c) Banks	114.05	113.58	93.47	113.46
(d) Others	228.41	230.50	171.15	189.74
4. Foreign securities	68.35	68.35	70.00	89.46
5. Balance abroad	4.46	4.85	3.53	7.99
6. Rupee securities	2414.72	2394.72	2453.07	2211.23
7. Investments	276.53	294.38	162.97	302.30
8. Loans and advances to Govts	44.22	49.04	91.61	25.86
9. Other Loans and advances	210.53	225.99	231.11	449.48
Scheduled Banks	July 3	June 25	May 28	July 3, '64
1. Aggregate Deposits (net)	2400.13	2704.51	2667.35	2395.18
Demand (net)	1169.44	1349.75	1331.74	1169.95
Time (net)	1344.30	1482.62	1455.74	1340.34
2. Cash in hand	65.29	73.98	70.76	68.26
3. Balances with the Reserve Bank	92.31	96.71	98.85	91.50
4. (2)+(3) as % of (1)	6.57	6.31	6.36	6.67
5. Borrowing from Reserve Bank	30.50	65.99	103.01	22
(a) Against usance bills and/or promissory notes	—	5.73	45.56	—
(b) Others	30.50	60.26	57.45	22
6. Advances	1545.98	1782.58	1766.84	1544.38
(a) State Bank	—	450.34	430.49	—
(b) Others	—	1332.24	36.35	—
7. Bills discounted				
(a) Inland	171.11	214.28	275.22	171.00
(b) Foreign	64.66	72.97	76.69	64.81
(c) Total	235.77	287.25	351.91	235.81
(i) State Bank	—	29.90	55.32	—
(ii) Others	—	257.35	296.59	—
8. (6)+(7) as of % (1)	74.24	76.53	78.62	74.32
9. Investment in Govt Securities	675.67	726.72	721.45	674.47
10. (9) as % of (1)	28.15	26.87	27.05	28.16

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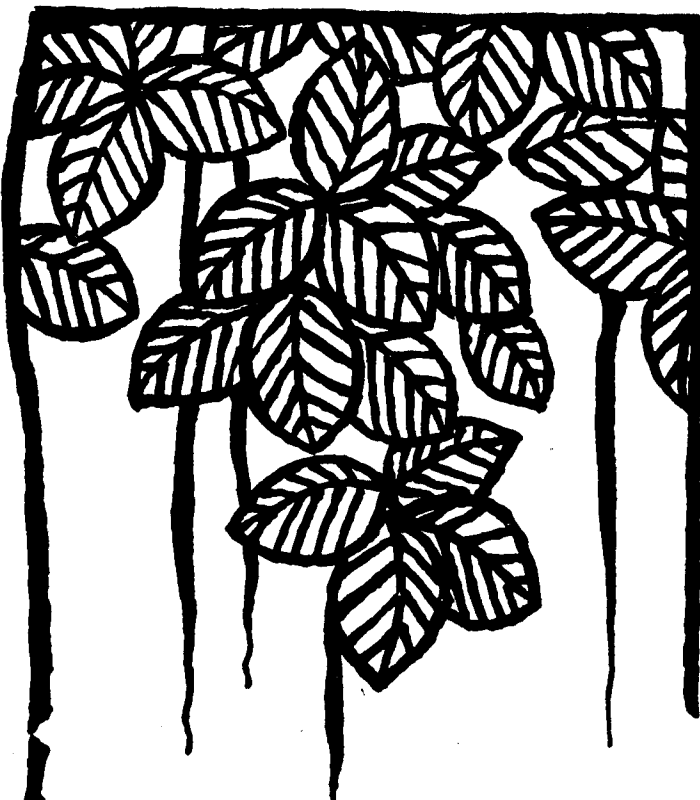
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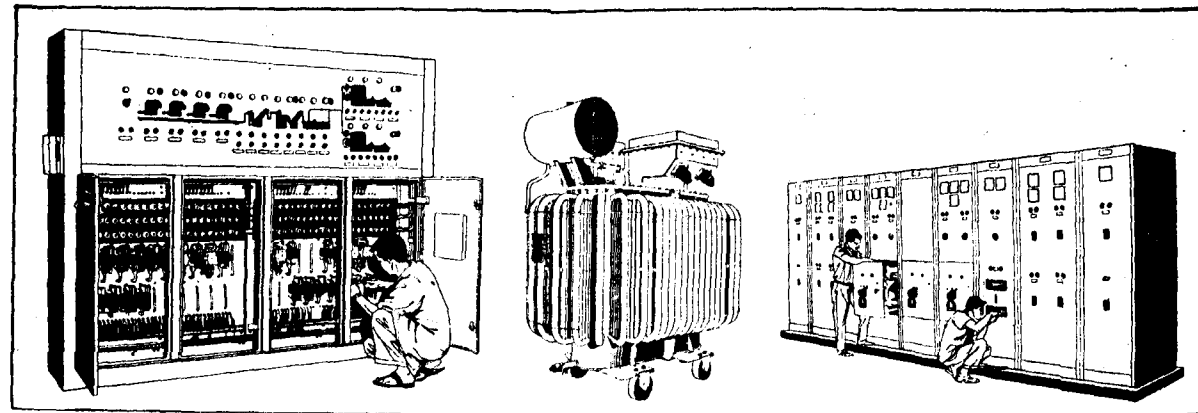
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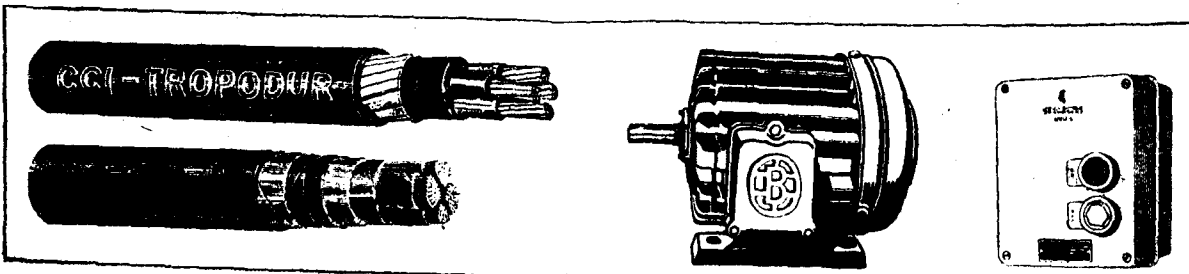
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THE ECONOMIC WEEKLY

Vol XVII No 30 July 24, 1965

EDITORIALS

A Negative Achievement 1155
Pakistan's Lesson in Aid 1156

WEEKLY NOTES

Tax Credits on Exports — Unit
Trust's "Over 6 Per Cent" —
Tinkering with Cotton — Un-
planned Planners — New
US Look at Liquidity —
States and Planning 1157

LETTERS TO THE EDITOR

LETTERS FROM SOUTH 1160
Krishna Menon in Kerala 1163
Vizag as Site for Fifth Steel
Plant: An Andhra View
— C V H 1164

BOOK REVIEWS

The Durable Joint Family 1165
— Andre Beteille
Gandhi, Social Worker 1166
— H R Chaturvedi

OFFICIAL PAPER

Export Talk 1166

SPECIAL ARTICLES

Peace-Makers Divided 1161
(From Our London Corres-
pondent)

Congress versus Swatantra: A
Bye-Election to the Orissa
Assembly 1168

— Pranab Mahapatra
Size, Technology and Economics:
A Study of the Indian Cotton
Textile Industry 1171

— J C Sandesara
Agricultural Growth in Madras,
1949-50 to 1960-61 1177

— T Ramakrishna Rao
Why Export Receipts Lag Behind
Exports: Some Possible Explan-
ations 1179

— Jagdish Bhagwati
AROUND BOMBAY MARKETS
Impressive Rally 1181

BUSINESS NOTES 1182
FROM THE CHAIR
Tata Engineering and Loco-
motive Company Limited 1184

CURRENT STATISTICS 1186

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A Negative Achievement

THE Finance Minister has spoken not a day too soon. Rumours of devaluation have been gathering and making the foreign exchange crisis even more acute, offering as they did a premium on withholding of payments. These have been scotched for the time being by his bold and forthright statement that India will not devalue nor would she declare a moratorium on foreign payments. It is the measures for strengthening the rupee which he listed that leave much room for thought, not with regard to the immediate situation but as a solution to our long run problems. His outright and emphatic rejection of devaluation will be widely endorsed. To look upon it as a possible solution is to assume away our basic problem which, as he correctly pointed out, is that of bringing about structural changes in the economy and enlarging the base of domestic production. The obvious and preferable alternative is the selective approach to the subject of imports and exports and judicious use of incentives and disincentives for giving a stimulus both to import substitution and export promotion.

Notwithstanding the acute concern that it has caused and the wide publicity it has received, the present crisis is not as serious as it has been made out to be. It has been blown up out of all proportions. The regrettable part of it—regrettable, being easily avoidable—is the slackness of our foreign exchange budgeting, the administrative inefficiency which allowed such a wide and incredible divergence between actual shipments and export receipts. That it has gone on so long without anybody bothering to do anything about it is, to repeat, incredible. Even today nobody knows for sure how it happened and who was at fault. True, in retrospect many things appear clear which at the time of their occurrence may have been obscure. But surely one did not need the gift of hindsight to suspect the possible impact of a sharp rise in the Bank of England rate on India's payments position. And that happened way back in October last year. Followed the decline in India's foreign exchange reserves, advertised all over the world, leading to speculation about possible devaluation, the prescription of the Fund on such occasions being no secret to anybody.

That the immediate situation can be met by the measures that have been taken goes without saying. Import entitlements issued in advance of export receipts have been stopped. The leakage resulting from tardy or deliberately delayed crediting of export receipts, it is hoped, will be duly and thoroughly investigated and export control apparatus properly mended to take care of it.

These are not the only factors, however, which upset even the loose form of foreign exchange budgeting that we have. There were other drains on it, food, fertilisers and defence. Can one say that they were really so unexpected, or beyond the range of the provision which prudence demands? Another factor mentioned in this connection is the rise in the price of imported manufactures, plants and machinery. Not that it was supposed that foreign trade and transactions could be conducted without a cushion of reserves but the need for more adequate reserves has probably been brought out this time with much greater force than ever before. Vagaries of the monsoon and consequently of food production have always been with us. To them has now been added unexpected and extraordinary demands for defence outside the country's planned defence build-up.

The present crisis, despite its severity, is no more than a passing affair. It is superimposed on a continued and longstanding strain on our payments position which, however, is not a matter of accident but the result of deliberate design, impelled by the urge for development. The homely prescription of "living within our means" which the Finance Minister has also mentioned in the course of his broadcast, is therefore apt to be misunderstood. Taken literally, it is a counsel of despair for a developing economy which has, perforce, to strike a balance between its aspirations and efforts, if not achievements. At which point should this balance be struck?

The Finance Minister is quite explicit about it that the measures that have now been taken to meet the immediate crisis "are calculated to pro-

duce a better balance in our external accounts over the current year as a whole". But do they also give any indication about the future? Do they suggest the path the country is going to take? There's the rub. Throughout the last few weeks or days when rumours of devaluation and moratorium have been buzzing, there have also been siren voices, like background music, of offers of generous aid to pull the country out of its difficulties provided India would only listen and retrace her path from self-defeating controls, demolish the structure of Import Control and replace it by steps towards freer imports, tempered, if need be, by judicious import duties; wise counsel to call a halt to the mad rush of development, and compromise in favour of consolidation, if only for a year. Along with these there have been gestures of much more aid based on the premise, which can hardly be controverted, that foreign exchange requirements of all our Plans have been grossly under-estimated resulting in periodic crises and continuous strain.

While short term measures will rectify the immediate imbalance, the mounting burden of repayment and amortisation on past debts will remain. This burden, the Finance Minister has also made it clear, is not proposed to be met by declaring a moratorium. The debt obligations will be met all right but it is the creditors who would be asked for the present to take care of them.

What about the future? The present measures taking into account those which can be immediately implemented will certainly be a stop gap but will they also ensure that development will not be halted, that the rate of growth of industrial production, e.g. will not slow down or that more and more of the production capacity, built at such high cost, will not be rendered idle? The Finance Minister concluded his broadcast on a heroic note. While scorning illusory short cuts, he held up before the country the need for a greater sense of discipline and determination over a period of years. Brave words these! But this is a direction which can be followed only through resolute collective action, the call for which cannot come from the Ministry of Finance. At about the same time that the Finance Minister spoke, Lal Bahadur Shastri did some loud thinking on the economic problems facing the country. At the meeting of the Productivity Council he seemed to strike a different note, more

in favour of the thesis of consolidation and lowering our sights to agriculture, to which later in his Bombay talks, the Finance Minister added

machine building. All this definitely points to slackening of development rather than a bold and confident march forward.

Pakistan's Lesson in Aid

OSTENSIBLY the U S has only postponed her aid commitment to Pakistan till after the Congress passes the Administration's aid bill. But, clearly, the point of the move has been driven home to Ayub Khan's government; and for the benefit of the public, wide publicity has been given to the testimony of the U S Assistant Secretary of State, Phillips Talbot, before the House sub-committee on aid appropriations. Talbot but the matter plainly enough. The U S, he said, had been "deeply concerned by the extent of the warming up of relations Pakistan has had with Communist China at a time when the aggressive intentions of Communist China in South-East Asia have been increasingly clear... Clearly, in our (US-Pakistan) relationship the desire to have a common policy has underlain a good deal of what we have been doing... If it should, in the future, become clear that we are taking substantially different roads politically, this, obviously, would have its effect on the rather special aid relationship we have had up to now".

So Pakistan could either return to the path of righteousness with the prospect of continuance of the special aid relationship or she could persist in her erring ways at the cost of this relationship. At the moment it does not appear as if the choice of Pakistan will be in favour of the first alternative. Ignoring the expected spate of anti-American public protests and the alleged (though highly improbable) threat to recognise North Vietnam, there are indications that the Pakistan Government is not entirely unprepared for a reconsideration of U S-Pakistan relations generally, including naturally their aid relationship.

For enlisting as a member of the American camp in the cold war, for joining U S-promoted military pacts and for offering the country for American military bases, Pakistan has been, on a per capita basis, among the most favoured recipients of U S aid. One half of the investment in her second plan came from foreign aid—almost entirely from the western bloc and mostly from the U S. In the

third plan, just launched, the proportion has been brought down, but it is still 40 per cent; in absolute terms aid required will be actually higher—Rs 1,500 crores compared to Rs 1,100 crores in the second plan.

Aid, whether U S, Russian or other, is not charity; the aid-giver expects to exact a price. How high the price is depends on the bargaining strength of the aid-receiver; and the experience of country after country has shown that the most important determinant of this bargaining strength is the availability to the country of alternative sources of aid. In this respect Pakistan's has been a woefully weak position—a fact of which the Pakistan Government has been aware, at least recently. This alone would have been reason enough for Pakistan to look for new sources of aid. But there is another: for many of the heavy industrial projects included in the third plan aid will best come from the Soviet Union and the eastern European countries (and China, perhaps). In April Pakistan signed a trade agreement with the Soviet Union to raise trade between the two countries four-fold by 1967 over the level of 1963. Another agreement on economic co-operation signed simultaneously provides for a 10-year Soviet supplier's credit of Rs 15 crores for import of machinery and a Rs 25 crore loan for the third plan's oil exploration programme.

The source-pattern of assistance in Pakistan's third plan will have been thus in any case materially different from that in the second plan. This change will now be facilitated and accelerated by the U S show of arm-twisting. It is inconceivable that U S aid to Pakistan will be cut off altogether; it will come down from the present "special" levels, but over the third plan the U S will most likely remain the foremost provider of aid, as she has been in the case of India. Nevertheless, Pakistan's aid relations will be in the process put on a healthier basis, and one in keeping with her national interests. Without this crucial change the recent realistic realignment of her foreign relations would have been incomplete and indeed impossible to sustain.

Tax Credits on Exports

THE export tax credits announced last week cover 22 items, most of which do not qualify for import entitlements at present. They account for exports of about Rs 500 crores out of a total of Rs 900 crores. The credits will be allowed on all exports since February 28. Jute manufactures, loose tea, cashewnuts, and de-oiled rice bran will get a 2 per cent tax credit; packed and green tea and calcined magnesite 5 per cent; iron ore, coal, fresh fruits, surgical cotton, gum, myrobalan fruit extracts, crushed bones, refractories and earthen tiles will get 10 per cent. The highest rate of 15 per cent is applicable to alcoholic beverages, manganese, ferro-manganese and processed mica powder. The 10 and 15 per cent credits have been confined to non-traditional commodities or commodities which face severe price competition. Sugar exports, which are to be stepped up in the face of declining international price, will continue to receive a straight subsidy. A considerable part of the exports covered by the tax credit scheme is canalised through the two state trading corporations; it is not clear who the beneficiary of the credits in such cases would be.

Other export promotion schemes which involve import entitlements have been left intact, except for a few significant procedural changes. The import of certain dyestuffs has been completely banned. Art silk exporters are not required any more to import machinery but they cannot import polyester fibres and yarn either. Imported stainless steel cannot be diverted to the manufacture of utensils. More important than all these are the embargo on utilisation of 50 per cent of the entitlement till January 31, and the stipulation that entitlements will accrue only after the production of a banker's certificate regarding export receipts. These announcements will remove the nagging uncertainty that exporters felt since the Budget and more acutely since a large part of the additional export receipts was found missing. Under the import entitlement procedure as existing hitherto, exporters had an incentive to spread out their exports, delay the surrender of foreign exchange and at the same time to utilise their import entitlements as soon as they could without having to wait for the

receipt of export proceeds.

There is considerable sense and advantage in providing for continuity of export incentive schemes, especially at a time when risks can hardly be taken with the foreign exchange situation. This paper has repeatedly expressed the view that import entitlements and tax credits are not mutually exclusive but that over a period of time the latter should be progressively substituted for the former. As more experience is gained with the working of tax credits, it should be possible to bring this about.

Unit Trust's "Over 6 Per Cent"

THE Unit Trust has been able to scrape through to an "over 6 per cent" dividend as promised at its inception. It has declared a dividend of 6.1 per cent for the period ended June 1965. The amount available for distribution to unit holders, after making the maximum statutory deduction for chargeable expenses, was 6.14 per cent, earned by unit holders' funds which had been invested for a maximum period of 10 months only. The fulfilment of the promised rate has, however, been possible only by not making, for the time being, any provision for the depreciation of 1.6 per cent in the market value of investments as compared with their book value. Had such provision been made in full, which few large investors other than banks are ever able to do, the income would have been reduced by roughly Rs 35 lakhs and a 6 per cent dividend to unit-holders would not have been possible.

Even when allowance is made for its statutory privileges like exemption from tax, there is no doubt that UTI has done well in the very first year of its operations. Hardly any enterprise of this nature can start giving an income-tax free return of 6.1 per cent, which is equivalent to a taxable dividend of 7.62 per cent, within a year of its establishment. It is not the current return which the UTI is offering but the prospects of receipt of new moneys in future that causes some anxiety. Out of the total unit funds of Rs 19.13 crores received till end-June, Rs 17.38 crores came in during the first six weeks of sales and another Rs 95 lakhs shortly thereafter. Since then the sale of units has been disappointing. The unit purchasers have stuck to their investments—only 2 per cent or Rs 40 lakhs out of the units

sold have been re-purchased. The problem now is to sell more units and to earn more income funds in order to provide a higher and more attractive return to unit holders. The Reserve Bank expected UTI to provide Rs 40 crores of share capital to the private sector during the Third Plan period and Rs 150 crores during the Fourth Plan. At the current pace of receipt of unit subscriptions, the Third Plan target may well remain unfulfilled.

The trustees of the Unit Trust have taken in hand the formulation of savings plans "which will be announced in due course". They are also organising publicity, in co-operation with the Savings Mobilisation Board, in smaller towns and rural areas. Arrangements are also being made with banks for granting loans against units. In the meanwhile, UTI has to concentrate its attention on earning a higher return. It took up debenture issues in a big way shortly before the Reserve Bank put up the bank rate to 6 per cent, which led to jacking up of rates on new issues, and depreciation of prices of those already issued. Ultimately, of course, the Unit Trust's returns depend upon the state of the capital market but even within that there is scope for improvement of earnings.

Tinkering with Cotton

Our Market Correspondent writes:

UNCERTAINTY about the cotton policy for the 1965-66 season has at last been ended. The Government has decided to raise both the floor and ceiling prices—floor prices by Rs 75 to Rs 100 per candy (784 lbs) and ceilings by Rs 50 to Rs 75 a candy, the exact quantum of increase depending on the variety of cotton. While the obligation of the mills to purchase Cambodia A and B, ISC-67 and Andrews cotton to the extent of 10 per cent of their consumption of indigenous cottons has been retained, the other aspects of the cotton policy, such as the quota system of mill buying and exports, are to be reconsidered later after ascertaining the crop estimates of the new season. The system of varietal or zonal surveys has been dispensed with. There will be compulsory survey only when cotton is sold at or above the basic ceiling price.

It is not known whether the floor and ceiling prices of cotton have been revised upward at the instance of the Agricultural Prices Commission which

has been enquiring into cost-price relationships of different agricultural commodities with a view to evolving an integrated price policy. In the absence of authoritative studies of costs of production and prices of different agricultural commodities it is difficult to compare the return that the farmer receives from the cultivation of cotton and other crops. But considering that the area under cotton has increased over the past few years, production of cotton cannot be said to have suffered for want of remunerative prices.

That the Government has never been able to administer the price control on cotton is well known. This season, except for a very short period, cotton prices have been quoted well above the statutory ceilings throughout. Unofficial premiums at present range between Rs 50 and Rs 150 per candy. In raising the ceiling prices for the new season, the Government has thus merely accepted the *de facto* situation, putting its official seal of approval on the unofficial premiums. Unwilling to abolish cotton control because of the partial statutory control over cloth prices and yet lacking the administrative ability to implement the price control effectively, the Government has now taken the easy way out by raising the controlled prices to the level of the market prices which it has singularly failed to restrain. This solution of the problem has the further, politically important, advantage of being one that will please the farmer.

Unless the new crop turns out to be substantially larger than the 1964-65 crop, cotton prices are unlikely to register any significant decline from the current high levels because on present reckoning the current season is likely to end with a smaller carry-over due both to increased consumption and a smaller crop. The upward revision of ceiling prices will make possible smoother marketing of the crop with a greater measure of freedom to the trade. The revision of floor and ceiling prices is only of academic interest for the farmers who are in any case selling at the maximum possible prices—well above the statutory ceilings.

Not many years ago Indian cotton was the cheapest in the world; but today it is costlier by anything between 30 and 40 per cent after allowing for the spinning value of domestic and foreign cottons. The prices of Indian cotton have been moving up year after year, reflecting the growing imbalance between demand and supply,

resulting from near-static production and increased consumption due to expansion of spindleage. But the rise in prices has not led to any significant improvement in production which continues to depend almost entirely on the unpredictable weather. The ridiculously low average yield of 110/118 lbs an acre, which is less than half the world average, speaks for the efforts that have so far been made by various Government agencies to step up production. The Government has yet to learn that the way to go about helping the farmer is not by continuously raising prices, but by giving him the necessary assistance to increase his production by raising yields.

Unplanned Planners

A Correspondent writes:

FOR a body charged with the responsibility of planning the growth of the country's economy, the Planning Commission seems to have precious little idea of the causes of its own inefficiency as an organisation. Reports which have appeared in the Press of a so-called reorganisation of the Commission show that it cannot think of anything more than reshuffling existing arrangements in the hope of bringing about increased efficiency somehow miraculously. The reorganisation is reported to proceed on the basis of the candid admission that the Commission is not "research-oriented" even though it was intended to be precisely so oriented and that it is run on a "secretarial pattern" rather than as a body of high level experts assisted by a complement of technical staff. The reorganisation scheme which is said to be already under implementation aims to secure "increased output of work, coupled with qualitative improvement". And how is this intended to be achieved?

One of the changes proposed is the removal of all secretarial officials, from lower division clerks to joint secretaries, except in the administrative and accounts sections. To anyone who knows something of the working of the Commission it should be obvious that what is intended is really a change in designations; it is hardly to be expected that all non-technical and non-research-oriented officials can be replaced by technical personnel. And reduction in the number of clerks will most likely have the same effect on efficiency as the earlier removal of peons had: to the extent an official has to keep his own

THE ECONOMIC WEEKLY

files and go to the post office himself his efficiency as a research worker is unlikely to increase!

The fact, of course, is that the members of the Planning Commission and its highest level officials are either of political or of civil service background with very little experience of research work of any kind; and as long as this continues the organisation cannot but have a secretarial orientation with a penchant for "unnecessary and repetitive notes" and all that. It is not as if a planning bureau cannot be research-oriented. The example of the French planning organisation proves that this is perfectly possible. There, however, the organisation is headed by a man who has made his mark internationally as a mathematical economist and econometrician. The various sections are headed, not by retired politicians and administrators, but by relatively young economic experts who have been collectively responsible for establishing what may be called a French school of thought in economics which has received wide recognition.

The proposed creation by the Indian Planning Commission of a "pool of planners" consisting of experts engaged for limited periods at a time on contract basis to work on specific planning problems has all the appearance of a fanciful scheme—and one which is quite unnecessary. There is enough scope within the present set up for such work being done by experts employed on a permanent basis either in the Planning Commission itself (in the Economic Division and the Perspective Planning Division) or in the associated Central Statistical Organisation and the Planning Unit of the Indian Statistical Institute. If no great amount of high quality work has been done up till now in these bodies, the explanation may well be the limited capacity of the Planning Commission to appreciate and make use of such work.

New US Look at Liquidity

THE recent proposal of Henry Fowler, the American Secretary of the Treasury, for a conference to discuss the world's monetary problems has caused some surprise. For many years the attitude of the United States on international monetary issues has been very conservative: the view has been roughly that if a country is running a payments deficit it is committing a moral delict which it must atone for by paying out of its

THE ECONOMIC WEEKLY

reserves or deflating. This view was made much easier to hold by the large gold reserves of the United States and by the fact that the U S did not have to pay its payments deficits in gold because dollars were equally acceptable abroad.

However, the circumstances have changed now. The gold reserves, though still large, have fallen below the minimum currency backing, and the currency law has had to be amended. And there is greater reluctance among foreigners to hold dollars; so there is a prospect that an increasing proportion of payments deficits will have to be paid in gold.

Even more important than the reserve position are the lessons taught by the American and British efforts to improve their payments. The Americans have had a tax on investment income earned abroad for nearly three years now; in the last year the Treasury has also been exercising powerful pressure on the largest companies to reduce foreign investment. These measures have certainly improved the balance of payments; for the first time since 1957 the USA had a payments surplus in the first quarter of this year. But much of this improvement was, it is feared, seasonal. The annual balance might still show a deficit somewhere between \$1 and 3 billion.

The British measures have been much more drastic and less effective. First a surcharge of 15 per cent was imposed on imports in November, much to the horror of international institutions and the chagrin of Britain's trade partners. It has had no visible effect on imports. Then a corporation tax designed to discriminate against foreign investment was introduced in April. Though we must wait longer to see its impact, it has hitherto had little.

One will always be able to say that the Americans and the British failed because they did not go far enough. In particular, they have used physical restrictions on neither commodity trade nor financial flows, and they have made little use of tax-subsidy measures. They have not exhausted a tenth part of the various gimmicks that we in our desperation have tried in this country.

But such policies cannot even be considered, let alone tried, by Britain and the U S. There is a long *laissez faire* tradition to overcome, and if a government like the present Labour one dares go against it, there are still

powerful political forces, particularly in industry and finance, to cope with. The post-war situation in the western countries has been highly inimical to trade and financial restrictions.

So Fowler has not been very daring in his proposal; on the contrary, it is the result of despair regarding the possibility of correcting the balance of payments by means of unilateral measures. Even the present interest equalisation tax has evoked much opposition from American industries and from friendly countries like Britain and Australia. How much bigger the furore would be if the tax were extended to bank loans abroad!

However, the most that can be expected from an international monetary conference is some extension of international credit, and extension of short-term credit will not help the U S much. The essence of short-term credit is that it has to be repaid in a short period, and it cannot, therefore, be used to finance a continuing payments deficit. Even long-term credit becomes inappropriate if the deficit lasts as long as the Indian one has; short-term credit simply does not help, except in an emergency holding operation.

This is what Giscard d'Estaing, the French Finance Minister, has been saying for the last three years, and he has said so again in response to Fowler. He has laid down two preconditions to a conference. First, the present system should be improved, which chiefly means that the U S should liquidate foreign dollar holdings by repaying them in gold. This is a frankly nationalistic position, but that cannot be a criticism of it: it is unfair that Americans should be able to buy European securities and assets for dollars while Europeans must pay in gold for their purchases in the U S. Unfair, that is, if one does not believe that a dollar is as good as gold.

Second, there should be some agreement on the principles of monetary reform, which means basically agreement on the division of the burden of adjustment between debtors and creditors. Having been a persistent creditor for the last seven years, France insists that debtors should correct their own payments deficits by internal means. The United States was also a persistent creditor during the last War, and in 1944 it insisted on an IMF in which cards were stacked against the debtors. It can hardly complain now if France has stolen its mantle.

States and Planning

LIKE Chief Ministers of other States, Ajit Prasad Jain, who is Governor of Kerala, was speaking up for the interests of the State which is temporarily in his charge when he said in Trivandrum on Friday last week that States should have the right to decide inter-sectoral priorities for allocation of investment under the Plans according to their requirements. Though he did not say what they were, there are apparently differences between the Planning Commission and the Kerala administration over distribution of the investment proposed in the State's Fourth Plan and over the projects to be included in it. Jain is anxious that Kerala's views on these matters should be accepted by the Planning Commission. This immediate and limited purpose he has formulated into a general principle of planning—that the States' and not the Planning Commission's should be the final decision on how the investment in the State Plans should be distributed under different heads and on different projects.

The Kerala Governor's proposal, in the form in which it is made, is plainly silly. Planning is not just fixing investment targets; much more it is deciding a pattern of investment on the basis of priorities established to achieve desired economic and social objectives. Over half the proposed public sector outlay in the Fourth Plan is allocated to the States and Union Territories. Is it proposed that in respect of this part of the outlay there should be 14 different plans or more (why should the Union Territories be denied the privilege?) with different sectoral priorities decided independently by each State?

However, if one ignores the Kerala Governor's exact words and instead considers the spirit in which his remark was probably made, it is difficult not to agree with him a little. Kerala is not the only State that is dissatisfied with the Planning Commission's dispensation. What the protracted bouts of bargaining between the Planning Commission and the States, which we have witnessed in recent months, and the expressions of disaffection by spokesmen of the States underline is that even today, after the experience of formulating and implementing three Five-Year Plans, no satisfactory procedure has been evolved to secure the effective participation of the States in the planning process. No expert planning

bodies have been set up in the States to formulate plans which are technically viable, consistent and complete and not just a string of programmes and projects which add up to an impressive outlay total. (The lack of planning organisations in the States, incidentally, makes the Kerala Governor's suggestion that the States should decide their own investment priorities even sillier than it would be otherwise.) As it is, the State plans are prepared with the minimum of contact and consultation with the Planning Commission; and after they are ready the main use they are put to in discussion between the States and the Commission is to horse-trade and bargain over the aggregate outlay figure. The plans themselves are never closely examined, which under the existing arrangements is perhaps

no great loss considering, first, the quality of the State plans formulated mainly by administrative officials and, secondly, the fact that without a live liaison with the States the Planning Commission has not the necessary knowledge of local needs and problems.

If, with his recently-gained experience of dealing with the Planning Commission over Kerala's Fourth Plan, A P Jain had drawn attention to these problems, he would have served some purpose. As it is, he was perhaps only playing to the gallery; one gets the impression that if instead of being Governor of Kerala, he had been a member of the Planning Commission, he would have been taking the States to task for wanting to depart from the priorities laid down by the Commission.

Census Publications

I HAVE read with great interest your comment and A Mitra's letter on the subject of census publications in the issues of July 3 and 17, respectively. Mitra's letter is very encouraging indeed. In particular, the consumers of census data will heartily welcome the proposal to attach a branch of the Publications Division to the Registrar General's Office.

It is not quite clear whether Mitra's comparison of the publication record of the last Indian census with that of other countries relates only to the number of volumes published. The 1961 census of Pakistan, which relied largely on hand-sorting, had, in fact, published all of its basic data by about the middle of 1963 in six census bulletins; and by the end of 1964, the main national, provincial and district census reports were also out. It is my impression also that almost all the tables based on the 1960 census of U S A, which uses the most up-to-date mechanical equipment, were published by the end of 1963. Of course, the differences in (i) the size of the population, (ii) the number of territorial units for which the data are tabulated and published, (iii) the scope of the tabulation programme, and (iv) the level of mechanisation severely limit the validity of such comparisons. But unless Mitra's assertion relates only to the number of census publications, I have strong doubts whether it is tenable.

Now, as was noted in your comment, the 1961 census has been uni-

que in its scope. I am an admirer of the quality of its output as well as of its richness. When one hears of delays in its publications, one may point to the experience of the United Kingdom where the general report on the 1951 census was published only in 1959. Besides, many who complain about these delays seldom give more than a cursory glance to the census volumes when they came out. But at least genuinely interested students would benefit a great deal from better speed in the publication of census data; and perhaps the necessary printing facilities, etc, need to be planned on a much larger scale than has been done so far.

As for other things, one is not really convinced about the value of an official report for each State or Union Territory. It is doubtful whether one needs to refer to the general state of scholarly enterprise in this country to appreciate the point here. It is certainly true that we are indebted to the past census reports for their laudable contribution to both demographic and/or socio-economic research in the country or, more correctly, in the entire sub-continent. But the demographic expertise in the country has increased markedly during the past decade or so. India is often said to be a major exporter of demographers who occupy responsible positions and do competent work in international institutions or in the public services of foreign countries. Further, there are reports that the Demographic Advisory Committee of the Government of

India has made grants for special demographic studies of each State within the country. Such studies are bound to rely greatly on the census data and while they may not actually be "re-hashes" of the State reports which are yet to be published, the common source of much of the empirical material will inevitably involve a good deal of avoidable duplication. The best course of action, under the circumstances, would probably be to bring out, instead of the State reports, one or two special volumes of papers contributed by State census officials who may thereby communicate to interested scholars and posterity the insights gained by them in the course of their work. Such an approach will further expand the scope for stimulating scholars to work on various demographic and non-demographic topics, and a vigorous dialogue between academic personnel and the technical branch of the administration, such as has been encouraged by the Office of the Registrar-General, will be advantageous for the country.

PRAVIN VISARIA

Bombay,
July 21.

Village Industries

The author of the Weekly Note "Village Industries in the Fourth Plan" published in our issue of July 3, 1965, writes:

SUBHASH Chandra Sarker's letter (July 17, 1965) is more weighty in invective than in economic argument. Discussion would be possible if he would provide facts and figures about capital invested, value added, employment generated and surplus created in the village industries. Whatever criterion of economic efficiency one chooses, one will draw only one result. Of course, no discussion is possible if Sarker is going to judge the efficiency of investment by counting every paise of income without counting the rupees that are sunk. As to the marketability of products of village industries also, the dispute may be settled if he were to produce figures of the quantity produced and the quantity sold. Purchase of village industry products by certain people for fanciful reasons does not create a mass market. It is revealing that Sarker cites the instance of "prestige publications of renowned companies as well as the match boxes used by them". He could have also mentioned Ministers' homes being furnished in top quality khadi!

Peace-Makers Divided

(From Our London Correspondent, recently in Helsinki)

THE World Congress for Peace, National Independence and General Disarmament, held in Helsinki from July 10 to 15, brought together 1,470 participants representing popular organisations from 98 countries on all continents, and 17 international organisations. The last Congress for Disarmament and Peace was held in Moscow in 1962 and when the present Congress was called nearly a year ago, the sponsors thought of it essentially as a Congress for reaffirming and reorganising the work for peace throughout the world. In the event, of course, the actual war situation in Vietnam meant that this present Congress was clearly dominated by the situation in Vietnam which was considered as even more urgent than the general discussion of peace. The Congress, however, also took into account other threats to peace, particularly those created by the growth of weapons of mass destruction, as well as the general economic state of the divided world in which the gap between the wealthy nations and the poor ones far from lessening, has increased notably in these last years, creating a situation which is fast becoming unbearable.

A notable feature of the Helsinki Conference was the decision to reduce to a minimum general statements in plenary sessions, and to concentrate on the work of detailed discussion and Commissions. There were in all seven Commissions, the first dealing with the question of Vietnam; the second with the liberation of peoples still under colonial domination, maintenance of national sovereignty and its defence against encroachment, apartheid, racism and violation of human rights; the third with nuclear weapons and disarmament; the fourth with elimination of the vestiges of the Second World War; the fifth with economic sovereignty of nations and the freedom for them to develop their own pattern of economic development and trade and international co-operation; the sixth with social and economic consequences of the arms race; and the seventh with the creation of an atmosphere favourable to peace, as well as the practical considerations of the reform of the United Nations.

Professor Bernal, the Chairman of the Presidential Committee of the World Council of Peace, said in his opening address:

"After the great movements of liberation at the beginning of this decade, we are now witnessing a definite neo-colonialist counter-revolution showing itself all over the world from Korea to the Congo and Brazil. Strong bases of the old colonialism still exist in South Africa, Rhodesia, Portuguese Africa, and military dictatorships, old and new in Paraguay, Peru and other states of Latin America with U S support. Until these bases are removed, as well as the thousands of U S military bases around the world, there can be no secure peace. People must be led to understand the real world situation and so resolve to act to change it in the interests of their own safety and future.

"But we cannot claim that this situation is yet really widely understood. Represented at this Congress are people who take a wide variety of attitudes, even on the nature of the Vietnam war. They range from those who are calling for active support for the South Vietnam National Front for Liberation and the Democratic Republic of Vietnam to those who are actuated by reasons of humanity to ask for negotiations to stop this brutal war, but who still imagine that one can look impartially on the two contestants. It is very unlikely that any here actually support U S aggression in Vietnam."

The pity is that the peace movement still remains divided, and during the Helsinki Conference, there were still signs of the clash between the Russians and majority view, and the minority view held by China, supported vociferously by the Albanians, the Indonesians and one of the rival Japanese delegations. The Chinese, of course, wished to give the impression that the Russians are revisionists, and by concentrating on questions like disarmament and nuclear bans are, in essence, selling the pass to the Americans. The Chinese and their supporters wanted an outright condemnation of "United States aggression". Indeed they believe that until imperialism is wiped off the face of the world, there is no hope for peace, and to discuss or even think of anything else is a complete waste of time. The real duty of the peace movement is to fight imperialism. The Chinese lost no chance to insult and provoke the Russians who, however, behaved with considerable moderation.

There were, therefore, a number of clashes which, of course, caught the headlines. After a protest at the opening session led by an Albanian delegate who demanded that leaders of all delegations should be allowed to speak at the plenary session, eventually it was agreed to permit delegates to speak at a late plenary session, and at this a number of delegations including the Chinese and the Indonesians were permitted to put forward their own points of view.

India sent a large delegation of nearly 100, led by K D Malaviya. As a result of the size of the delegation, India was represented on each of the seven Commissions, Malaviya himself being attached to Commission 5 dealing with the economic sovereignty of nations, economic development of trade and international co-operation. At the plenary session he spoke on the contribution made by non-alignment to efforts for peace and national independence.

The Conference itself was opened in the presence of the Finnish President. Finland is pre-eminently a non-aligned country, and the President has devoted a considerable part of his work to the development of peaceful relations between Finland and the people of different countries. The last Peace Conference held in Helsinki was in 1955 — a period of international detente very different from the situation to-day.

A number of distinguished writers were present including Ilya Ehrenburg, the Chilean poet Pablo Neruda who made one of the most moving speeches at the Conference, Mulk Raj Anand and Jean Paul Sartre, who, in a brilliant speech introduced the resolution on Vietnam. Perhaps one of the most impressive speeches was that made by the delegate from the South Vietnamese Liberation Front. Nothing could have conveyed more poignantly and with more dignity the actual situation in South Vietnam to-day. During the session, a public meeting was held in Helsinki on July 10 which was designated "Vietnam Day".

One of the interesting features of the present Conference was the large American delegation. At a plenary session of the Conference, Carlton Goodlet the chief U S delegate, made

a powerful indictment of U S imperialism and its policy in Vietnam. He said that the U S peace movement would fight to make the U S Government enter into negotiations with the South Vietnam National Liberation Front, and was firmly convinced that joint action could put an end to the threat to world peace that has developed in South East Asia. He also proposed that the Helsinki Conference should send a peace council mission to Peking, Hanoi, the South Vietnam National Liberation Front, Washington and the United Nations. At the end of the speech, Goodlet received a standing ovation from the Conference, with the exception of the Chinese who remained resolutely seated and took no part in the applause.

After all the fireworks and the disagreements during the Conference, it was good to see that, on the last day of the session, the resolution on Vietnam was passed without any opposition and the second resolution covering a *tour de horizon* of imperialist aggression and neo-colonialism, as well as the situation in Europe and the necessity to ban nuclear weapons, was passed practically unanimously.

As J D Bernal pointed out in his closing speech, the resolution which the Congress passed on the subject of the Vietnamese liberation struggle was undoubtedly its most important action, and would not remain a mere resolution: "It should crystallize much of the activity which is spontaneous in almost every country of the world against the atrocities, the gross unfairness and the sheer folly of the Vietnam war." The Congress based its essential decisions on the fundamental right of the Vietnamese people to national independence and called for a stop to external military aggression. Dealing with the question of the refusal of the people of Vietnam to negotiate with the American Government to end the war, J D Bernal pointed out: "It is on this question that the only really serious difference of opinion which occurred at the Congress has turned. The refusal to negotiate seemed to shock even some of the most determined opponents of U S aggression, both in America and Britain. All should understand by now the meaning of this refusal. It is not because negotiation is rejected, but the conditions for fruitful negotiations do not yet exist". It was for this reason that the Congress was unable to accept the genuine and well-intentioned sugges-

tion from the U S to send delegates from the Congress to the countries involved. This would have had the same negative and confusion effect as previous efforts in this direction.

Bernal, who is relinquishing his post for reasons of ill health, said in conclusion: "What we need now is more and more people and more work for peace from each person. We

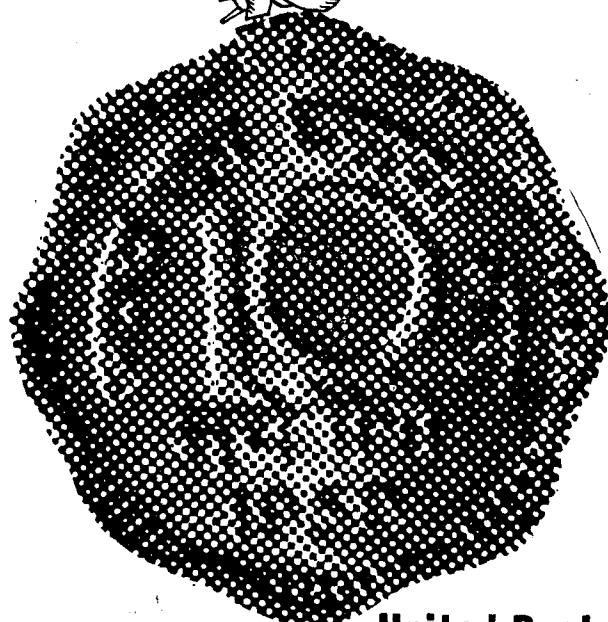
have to enlarge all the movements for peace and at the same time educate people at least to see that their differences in this struggle are not as important as their common objectives. The objectives of the Congress are more than the mere securing of a state of peace, vital though that is. Peace without the end of injustice and exploitation will be a bitter mockery".

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LETTERS FROM SOUTH

Krishna Menon in Kerala

THERE are strong indications that Krishna Menon may get deeply involved in Kamaraj's plan to give the Congress in Kerala a new look and a different orientation. Observers in the State had noted his active campaigning during the recent elections. Their hopes or forebodings, as the case may be, seemed to be confirmed when he gave days of his time to attend a seminar to commemorate the death of the late President of Kerala Pradesh Congress, C K Govindan Nair. It is true that Govindan Nair had been a close personal friend who had stood by him in his dark days. But the unusual patience displayed in quietly listening to speeches, much of which he may not have understood and almost all of which were far from intellectually entertaining, obviously had some political motivation. Krishna Menon did not deny his interest in the future of the Congress in Kerala when questioned, though he did not affirm that he intended taking it over.

Kamaraj's Support

In this case there is, however, a clear possibility of marriage of desires. The Congress in Kerala has absolutely no leader of any standing in the State, to say nothing of one who commands the least attention outside. Krishna Menon has no mass base which is localised or organised to add weight to his undoubted qualities of leadership and his reputation. If Kerala had Krishna Menon and he had Kerala, the feeling is that both could go places quickly.

What gives this speculation a good deal of plausibility is the interest that Kamaraj has shown in both the concerned parties as well as in their coming together. The Congress President has been close to Krishna Menon for quite some time. He was among those who supported Menon, gave him a platform and ostentatiously appeared on it together with him at the time when Menon's popularity was at the lowest ebb. At the same time during the days when the Syndicate was powerful he was not able to give him a berth in the Working Committee or to press for his inclusion in the Central Cabinet. Krishna Menon's folly in flirting with Morarji Desai at the moment of succession only further estranged the two. Yet they kept in touch and the turn of events has brought them closer once again.

Kamaraj now realises that his former Syndicate colleagues now regard him as one of the biggest obstacles in their attempt to completely take over the High Command. Atulya Ghosh wants the Presidentship while Sanjeeva Reddy is feeling his way towards a rapprochement with Morarji Desai. Moreover, his genuine desire that the Congress should start moving again in the direction of radicalism—he calls it radical socialism—has only evoked hostility from those who helped to build the consensus at the time of Shastri's installation. He knows that the invitation extended to him by the Central Communist Party of the Soviet Union to visit Moscow in his official capacity has made him even more suspect in their eyes. With his feel for the popular mood he realises that it is not at all safe to look complacently at the Congress success in the bye-elections and to conclude that the masses are satisfied with the *status quo*. He knows that, to say the least, they will be neutral spectators should a determined Right minority act firmly and upset the applecart. It was no sudden compulsion that made him contribute an outspoken foreword to H D Malaviya's book about the danger from the Right.

Fight for Control of States

At the same time he seems to be convinced, as Nehru was before him, that it is only the Congress which can deliver the goods in India. Not only does he see no alternative to this ramshackle, creaking and amorphous body, but he also does not, as yet, visualise the need for the Congress or the radically oriented within it to seek allies or to build joint fronts. He feels that if there is to be any united front to ensure advance in the direction of socialism, it should be within the Congress. But the basis has to be laid by a rallying together of like-minded persons within the ruling party to frustrate the plans of the Right to achieve a monopoly of control over the State. Hence, his keenness to get Krishna Menon out of the rarefied realm of foreign affairs and into the thick of provincial politics.

Kerala is, however, a rather difficult State in which to try this experiment. It is still the one State in the Indian Union which has a clear, progress alternative to the Congress. The split in the Communist Party did

great damage to this prospect and dampened the radical spirits in the State but by no means extinguished them. In recent months there has been a growing trend towards united action by the two CPs, including a most important decision to share power in an united peasant organisation. The C P I's peasant march from Cannanore in the north to Trivandrum in the extreme south and its active cooperation in the petition campaign of the C P (Marxist) to secure the release of detenus has meant a degree of joint campaigning which augurs well for the future of both the parties but restricts the scope for any radical reorientation of the Congress in the State.

Progress or Power?

The central dilemma that will confront Krishna Menon, should he decide to plunge into Kerala politics, is whether he should make the Congress strive for progress or for power. Unfortunately for the Congress these are two conflicting aims at the present time. If there is to be any tangible radical advance in Kerala it will have to come, for the present at any rate, under the aegis of one or another of a left united front which will firmly oppose both the official as well as the dissident Congress. If the official Congress, no matter who leads it, wants to stem the tide and win a Ministry its only course will be to try to bring together a communal conglomeration of the Catholic bishops, Nair chieftains and a few Ezhava showboys. It will have to come to terms with the dissidents and to some kind of working agreement with the Muslim League. This might still do the trick in 1967 should the two C Ps again fly violently apart. But it will mean the end of any hope of a radical Congress and frustrate the progressive intentions of Krishna Menon.

At the same time the official Congress in Kerala is so rotten and so much an organisation of careerists that it is rather difficult to imagine its continued significant existence when its leadership will aim to lead it into the wilderness of so-called constructive opposition. Already President's rule has seen the flight of some of the top Congress leadership into various private jobs and firms. This could become a fullscale exodus should Krishna Menon plump for progress

and not immediately for Ministerial power. Moreover, his vicious enemies in the High Command would pounce on any such development to deliver the *coup de grace* against him, holding him responsible for any Communist success. Would Kamraj then be able to hold back the anti-Menon crusaders or would he throw him to the wolves? Yet, if Krishna Menon does decide to act with courage, it will not enti-

Vizag as Site for Fifth Steel Plant

—An Andhra View

CVH

THE best and most appropriate way of looking at the Report of the British-American Steelworks for India Consortium (BASIC) on the location of the fifth steel plant at Visakhapatnam is not to look at it from a political angle. Narrow local interests apart, what should determine the siting of a major national project like the steel plant is whether or not satisfies some essential criteria. The issue has to be examined from the point of view of the relative advantages and disadvantages of the particular place. If Visakhapatnam does fulfil all the necessary conditions, and is otherwise found suitable, it will indeed be setting a dangerous precedent to yield to political pressures and set aside impartial expert opinion.

That BASIC's preference for Visakhapatnam over Hospet, Salem or any other site caused disappointment in Mysore and to a certain extent in Madras is understandable. If their recommendation had been otherwise, it would have caused similar disappointment in Andhra. What is important, therefore, is to consider the issue with a certain objectivity and to view it from the standpoint solely of the appropriateness of the choice.

It is evident that the facility with which a large steel plant can be established at Visakhapatnam and the decided advantages it possesses over other places tilted the scales in its favour. The Anglo-American Consortium took note of the fact that Visakhapatnam is a deep-water port. This will facilitate, as the work on the project advances, import of metallurgical coal and after the plant goes into production export of the finished product at a lower cost than would be the case if the plant were located inland.

rely be due to high principles or altruism. Intellectual brilliance and the reputation achieved in the Security Council are obviously not enough in the powerscramble in the Congress. Some kind of mass base is a *sine qua non* of his political survival. And Kerala is the only place where this can be secured. It cannot, therefore, be ruled out that lively days are ahead for this frustrated State.

Elucidating this, the Report points out that Belgium, France, Japan, the United Kingdom and the United States have recognised the increasing importance of the flexibility which plants situated at deep-water ports provide. As the other Indian plants, all of which are now located inland, expand, a coastal plant would retain the flexibility to change over to all or part imported coking coal, thereby relieving the increasing coal demands on Indian coal mines, washeries and the railway system. Such a plant would also be most favourably situated for import of other raw materials required from time to time. Besides, it would encourage coastal shipping which could provide an alternative transportation system for the pig iron and other semi-finished and finished products to important coastal markets. According to the Consortium's estimates, a saving of about Rs 11.72 crores will be achieved in the cost of transport of mining equipment and other materials to the plant site.

Visakhapatnam is also likely to secure financial support from private investors from Europe and the United States more readily because of these deepwater port facilities. This could well become a deciding factor in ensuring speedy implementation of the project so that the country would benefit from its production by the end of the Fourth or the commencement of the Fifth Plan. The variable cost of the project at Visakhapatnam and at Hospet are approximately equal, says the Consortium report; but taking into account the fact that the D B K railway will be in operation in the next few years, these costs may also be actually lower in case of the Visakhapatnam site.

For Andhra Pradesh, the recommendation has naturally considerable significance. Establishment of a major

steel plant within the State amounts to a recognition of the claim, repeatedly advanced by the State Government and the public of Andhra, that the State should have its due share of the public sector projects that are set up under the Centre's auspices. It will help redress inter-regional imbalances and the backwardness of Andhra Pradesh in economic development. Andhra Pradesh is known to lag behind the southern States in particular and other States in general in industrial progress. The steel plant will help utilisation of raw materials like coal and pig iron available in the State and of other facilities that are being provided for setting up industries, some of which can be developed as ancillaries to the steel mill.

But the Consortium's recommendation has still to become the firm decision of the Union Government. The decision is expected in the next two months or so, after the Union Steel Ministry has completed their preliminary studies and consulted the various official agencies of the Centre about it. Meanwhile Sanjeeva Reddi, Union Steel Minister, has avoided expressing any opinion, lest it be misunderstood that he favoured Visakhapatnam because he is from Andhra.

While Andhra Pradesh is happy over the recommendation, there will be genuine regret here if the steel plant turns out to be an element of discord among the southern States. It is gratifying that the Mysore Chief Minister, S Nijalingappa, while expressing disappointment at the preference given to Visakhapatnam, has suggested that another plant, a small one, should be set up at Hospet, which can be expanded later on. The Madras Industries Minister, R Venkataraman, has also put forward a proposal for a medium-sized steel plant at Salem as part of the State's Fourth Plan and not in competition with either Visakhapatnam or Hospet.

Anticipating political opposition to the Consortium's recommendation, Sanjeeva Reddi attempted to disarm possible critics by stating at Hyderabad that even if the fifth steel plant scheduled for the Fourth Plan was set up in Visakhapatnam, it need not rule out other plants in other States — for example, at Hospet or Salem. These sites can be considered during the next Plan, especially the one at Hospet, which is the Consortium's second choice after Visakhapatnam, and its first if the decision is finally in favour of an inland site.

The Durable Joint Family

Andre Beteille

Some Aspects of Family in Mahuva by I P Desai; Asia Publishing House, 1964; pp xii+239, Rs 18.00.

I P DESAI examines the pattern of family relations in a small coastal town in Gujarat and raises certain questions regarding the proper approach to the study of changes in family structure in contemporary India. His own approach is directed by the interest to find out how far the joint family system is breaking down and his conclusion seems to be that the evidence does not permit one to say that there is any fundamental change.

The author rightly draws attention to the shortcomings of studies based exclusively on censuses in which common residence is viewed as the only defining principle of the family. He argues that one has to go beyond the residential unit because mutual obligations of a very important kind quite frequently out across the household. One has to study not only what kinds of people live together but how people feel and act towards each other whether or not they live together. One has also to take into account the development of cycle of the family because the change from joint to nuclear families is not always irreversible.

Classification

The study uses a twofold classification of households. There is first a classification based on the internal composition of the household and then another which takes into account the kinds of relations maintained with kins and affines who may be living separately. The second classification adopts a "scale of jointness", using three sets of factors, common residence, joint ownership of property and the fulfilment of mutual obligations. These factors exist either singly or in combination and the "highest degree of jointness" is of course found where all three elements coexist, although a household which is residentially nuclear may show a "high degree of jointness" due to the presence of other elements.

The first part of the book deals with certain conceptual problems. Nuclearity and jointness are in the author's view to be understood not

simply in terms of frequency distributions but also in relation to the norms and values of the society as a whole. As a residential group, the nuclear unit comprising parents and unmarried children is perhaps common to every society, and was certainly present in traditional India. But even in a society where nuclear households outnumber joint ones, the latter may be considered the ideal. The "norm of jointness" which was a characteristic feature of traditional Indian society still plays an important part in Mahuva. And it is here, Desai will argue, that nuclear households in Mahuva differ from structurally similar units in Western countries.

No Evidence of Decline of Joint Family

But has there been any weakening of the "norm of jointness" in Mahuva itself over the last several decades? There seems to be very little evidence to suggest a positive answer. One cannot even say whether there has been any significant increase in recent times in the proportion of nuclear families. What one can say from the data brought together by the study is that the transformation from joint to nuclear family is very often reversed over a period of one or two generations. British anthropologists working in Africa have used the concept of developmental cycle with striking effect, and it is a pity that Desai merely indicates that such a process also operates in Mahuva without providing a clear picture of its mechanics.

Having shown in the first part of the book that jointness and nuclearity cannot be understood simply in terms of frequency distribution, the author proceeds to examine in the second part the relations between the degree of jointness and various other social factors such as religion, caste, occupation and education. The conclusions are on the whole negative. The norm of jointness is common to Hindus, Jains and Muslims. Again, the results of the study indicate "the probability that there is no relationship between the status of the caste and jointness" (P 80). There seems to be some rela-

tionship between jointness and occupational patterns, families governed by traditional occupational relations showing a higher degree of jointness.

While Desai deserves praise for having drawn attention to a number of important problems, the manner in which he has done this leaves very much to be desired. Concepts and categories are used with deplorable laxity and the author's prose is likely to try the reader's patience severely. Quite apart from an almost cheerful indifference to the rules of grammar and syntax, some of the statements appear to be entirely misleading. One wonders why so little care was taken to put the matter into presentable form.

For reasons not made very clear, households comprising married brothers, their wives and unmarried children (Type II b) are defined as being not joint but nuclear. Yet the author himself has some misgiving about this and says, "The type II-b is not joint because of the criterion of generation, but they are, *really speaking*, joint households. But we have put them in the category of nuclear for the sake of logical consistency" (p 35, my italics). Again, a few pages later, "Now type IIb according to our definition includes relatives who do not add to generation depth and therefore we do not call this type joint. *But really speaking they are joint*" (p 42, my italics). And, then, almost in the same breath and with a certain smugness, "This is the trick that the definition does" (p 43). Indeed! We would prefer Desai not to play such tricks on his readers.

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H R Chaturvedi

Social Welfare in India: Mahatma Gandhi's Contribution. by Ammu Menon Muzumdar, Asia Publishing House, 1964; pp XV+179, Rs 12.50.

SOcial work education began about thirty years back in India. Since then the number of institutions imparting social work education have rapidly multiplied. But the development of social work literature has been far too inadequate. In fact there is very little of literature which social work can claim its own. Most of the available literature is in the nature of survey of social welfare programmes. There is hardly any writing on the subject where attempt has been made to clarify social work concepts or to discuss its tools and techniques suitable to Indian conditions. In the available literature for instance one finds a good deal of confusion about the concepts of social work and social welfare. In fact, a good many times these two concepts are interchangeably used. There is also little of organised literature describing the socio-cultural conditions in which social work has grown in this country.

Pioneering Effort

In such a situation Dr Muzumdar's book is a pioneering effort in social work literature. Muzumdar has clearly defined the concept of social work and developed a framework to study social welfare programmes for Harijans, women and rural people. She has very aptly named her book 'Social Welfare in India'. The book is organised in three parts. In the first part itself she has traced the socio-cultural and political forces which gave rise to various reform movements finally culminating in the development of the concept of modern social work. This section of the book would be very helpful to all social work students in analysing and understanding various conditions in which social work has grown in this society. In this section she has also dealt with, in considerable detail the impact of Gandhi on both the growing concept of social work and on social welfare programmes in India. While describing Gandhi's leadership qualities she discusses Max Weber's theories of leadership in some details. One may find such a discussion a little out of place.

In the second section she has given a lucid account of various social welfare programmes for Harijans, women and rural people. She has done well to explain the circumstances which led

Gandhi to concentrate his attention on these aspects of welfare.

Professional Approach

In the third part she has tried to bring out Gandhi's contribution to social welfare programmes as they evolved and stabilised in his times and subsequently in the post-independent India. She has established that Gandhi's approach was similar to that of the professional social worker. She has remarked that Gandhi prepared the ground for the establishment of the profession of social work in India. She has also mentioned that Gandhi used social work methods like case work and group work. In this way she has made a few bold statements which should really stimulate further writings on the subject.

Social welfare programmes and the underlying principles and methods guiding them are evolved and stabilized in a society in response to the socio-cultural economic needs of its people. Thus a meaningful discussion

on social welfare programmes in a country should be rooted in its historical past. Muzumdar has really fulfilled this object in this book by devoting almost one-third of it to tracing the socio-cultural conditions in Indian society.

Muzumdar's pre-occupation with searching for meaning in the past does not, as may be ordinarily expected, give rise to an ethnocentric bias. In fact she attempts a possible synthesis between the Western concept of social work and the Indian experiences. She has, therefore, clearly acknowledged that it was our contact with the west which deeply influenced our social thinkers of the 19th and 20th centuries as also the reform movements and subsequently our social welfare programmes.

In many ways this book is a departure from available writings on the subject and as such would prove to be of great value for the students and teachers of social work as well as for the practitioners in the field.

OFFICIAL PAPER

Export Talk

Export Promotion: Report of the Northern India Conference on Export Promotion: The Indian Institute of Foreign Trade, New Delhi, 1965.

THIS Report serves two important purposes: first, it presents a comprehensive review of the problems facing export products of the northern region; and, secondly, it brings out the main recommendations of the Conference for finding practical solutions to these problems. The Conference decided that the northern region should be able to contribute at least Rs 20 crores to the increase of Rs 60 crores in the country's exports in the current year over 1964-65.

The Conference brought together representatives of industry and trade from Punjab, Delhi, Rajasthan and UP; officers from the Ministry of Commerce; State directors of industries; and officers from institutions connected with the export effort. It was inaugurated by the Union Commerce Minister. The total attendance was about 700; nearly 250 delegates participated in the deliberations of the ten Working Groups, into which the

Conference had been divided. The deliberations had as their objective greater production of export goods and creation of larger surpluses for export abroad.

The ten Working Groups studied problems relating to (i) export assistance; (ii) quality control; (iii) export publicity and exhibitions; (iv) engineering and electrical products; (v) chemicals and plastics; (vi) handlooms and handicrafts; (vii) leather and leather manufactures; (viii) textiles; (ix) processed food products and (x) sugar. Their reports were discussed in the concluding session of the Conference. A notable feature of the Conference was the setting up of an Operational Committee which would pursue the recommendations with the concerned authorities for implementation.

Export Assistance

The Conference made some useful suggestions in respect of export as-

THE ECONOMIC WEEKLY

sistance. It considered it necessary to remove all restrictions on, and disincentives to, Indian exporters to help them compete freely in foreign markets, and to view export promotion as a measure of economic progress. A major problem faced by the Indian exporter is the uncompetitiveness of his product owing to high costs of production and the attraction of home market as against the market abroad. Any promotional measure must, therefore, be directed to make Indian goods more competitive abroad. Against this background, the Conference discussed a broad spectrum of problems which included export assistance and incentives, quality control and pre-shipment inspection, export publicity, participation in exhibitions and trade fairs abroad.

The Conference noted the vital role export assistance schemes have played in increasing exports. It emphasised the need for a reasonable degree of stability in these schemes and wanted the quantum of assistance ensured on a long-term basis so that individual manufacturers could plan their export programmes with certainty and confidence. Some of the specific proposals that emerged from the deliberations of the Conference were: (1) setting up of Delhi as a Dry Port to enable the northern region exporters to dispatch goods directly through the clearing agents; (2) granting foreign exchange, up to a specified percentage of the f o b value of exports, for use only in market studies and export publicity by the exporters; (3) adequate warehousing facilities at a nominal charge at ports for goods consigned for export; and (4) granting recognition through suitable rewards in the shape of flags, lapel buttons, certificates of merit, etc, for outstanding performance in exports.

Engineering Products

The Conference made a detailed study of a number of export items from this region. It found that, of the total export of engineering goods amounting to Rs 19.5 crores in 1964-65, the share of the northern region came to about Rs 1.5 crores. In view of the progress achieved so far it felt that exports from northern India could be rapidly increased, and the target for 1965-66 was fixed at Rs 3 crores.

The prospects of promoting exports of other commodities from this region were also considered. These included chemicals and chemical products, textiles, handicrafts and handlooms, pro-

cessed foods and sugar. Targets were fixed for each of these for the current financial year.

On the whole, it is an interesting and clearly presented report and it gives a comprehensive review of the problems faced by exporters from the

northern region. The Report should provide the stimulus for much-needed further thought and study in this field. There can be no doubt that exporters not only from the northern region but also from other regions will find it highly useful.



n towards progress...

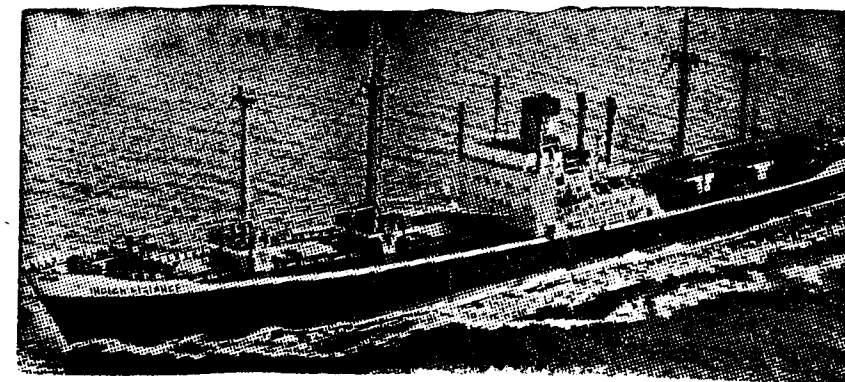
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Congress versus Swatantra

A Bye-Election to the Orissa Assembly

Pranab Mahapatra

This paper analyses voting behaviour as revealed in a bye-election to the Orissa State Assembly from a constituency forming part of an erstwhile princely State.

In Orissa the opposition of the former princes had kept the Congress at bay in every election till the mid-term election of 1961. In this election the Congress, under a new and dynamic leadership, had won a majority of seats in the Assembly, enabling it to form a stable Government in the State for the first time since Independence.

The constituency studied here has always returned a non-Congress member to the Assembly—even in the 1961 election when the general trend in the State was so favourable to the Congress.

In the 1965 bye-election the Congress was opposed by the Swatantra Party which was the Ganatantra Parishad under another name. The analysis of voting in the bye-election result attempted here seems to indicate that broad national issues—alleged Congress socialism versus the alleged feudal-capitalist support base of the Swatantra Party; planning versus free enterprise—on which the Congress laid much emphasis did not influence the electorate at all. What did was the personality and acceptability of the candidates, the standing of the leaders of the two parties and the local traditions, affiliations and interests of this remote constituency.

THIS paper analyses voting behaviour as revealed in a bye-election to the Orissa State Assembly from a constituency, part of an erstwhile native State. Prior to Independence this area was not a part of British India and had not, therefore, seen democratic elections. The principality of Keonjhar was merged into Orissa in December 1949 and the first election there held in 1952.

On June 27, 1965 Keonjhar went to polls to elect a member to the Orissa Legislative Assembly in a bye-election caused by the death of the sitting member, Janardan Bhanj, of the Swatantra Party, the main opposition in the Assembly (hereafter referred to as O L A). Bhanj was elected to the O L A in the mid-term election in June 1961. The bye-election was thus held four years after the mid-term elections in which the Congress Party won a striking success gaining 81 out of 144 seats to secure an absolute majority and formed a stable government in the State for the first time after Independence. The mid-term election brought into limelight the emergent leadership of the youthful, vigorous and flamboyant ex-pilot industrialist, Biju Patnaik, who overtly challenged the then veteran Congress leadership of H K Mahatab. The position of the Congress Party after the 1957 Elections was truly precarious; it first tried to form a Government by wooing the members of the Jharkhand Party and Independents, but when this failed, it formed a coalition with the main Opposition Party, the Ganatantra Parishad. The coalition government faced rough going from the beginning and finally collapsed after 21 months.

Keonjhar was one of the States under the Eastern States Agency. It

had an area of 3,216 sq miles. The whole area after merger into Orissa in 1949 formed a separate district of the State. The population in 1951 was 588,441 and in 1961, 743,315. In the 1952 Election the district had three double-member constituencies and returned 6 members to O L A. Each of the three sub-divisions, Sadar, Anandpur and Champu with slight modifications formed a double-member constituency. In the 1961 mid-term election the constituencies were bifurcated and delimited to single-member ones. Thus Keonjhar Sadar was broken up into Keonjhar and Telkoi and the latter was reserved for scheduled tribes. The Keonjhar (General) Constituency, comprising Sadar P S but excluding two gram panchayats and Ghatgaon P S, came into being in 1961. This includes Keonjhar town known as the Keonjhar-garh which is the headquarters of the district. The Collector and other district executive and judiciary officials are stationed there. There is a district hospital and a Mining School in the town. The palace of the ex-ruler is situated here. There is an old temple of Baldeoji in the town. Keonjhar-garh is connected on the south to the Jajpur-Keonjhar Road Railway Station on the Howrah-Madras main line by a 74-mile black topped road. This road connects Keonjhar-garh with Champua (a sub-divisional headquarters) the Bardil-Joda Mining complex, and also with Chaibasa, Chakradharpur and Ranchi in Bihar State. Besides this major road there is a ghat road to Telkoi, which is being re-built as a National Highway, and another road connects it to Mayurbhaj.

Keonjhar as a whole is a backward area except for the rich mineral belt to its north-west, now known as the

Bardil-Joda-Kiriburu complex. Prior to merger, there was only a single all-weather road bisecting the district from north to south. The population includes a large number of scheduled tribes; among other castes, the chasas (cultivators) predominate. There are a few prosperous Muslims in the area. The river Biatarani and its tributaries flow across the district, originating in the hills at Gomukhi.

Ex-Rulers Dominate

The constituency has both urban and rural characteristics. In the rural parts the tribals constitute nearly 35 per cent of the population. The total population of the constituency is nearly 100,700 with an area of 500 sq miles. The urban-rural breakdown of population is roughly: urban (municipal area), 20,000; rural, 75,700. The tribal content of the population includes Rajkuli Bhuiyans, Bhuiyans, Gonds, Juangs, Mundas and Kolhs. The economy of the constituency is agricultural and cultivation is backward. The urban population consists mostly of Government servants, lawyers and traders. There are practically no industries.

In the 1952 General Election this area formed part of a double-member constituency with one general seat and one seat (now Telkoi) reserved for S Tribes. The size of the electorate was more than a lakh. Out of it, 52,771 voted at the elections, the first in the history for the area. The Ganatantra Parishad (G P) organised by the ex-rulers of erstwhile princely States was the main rival of the Congress in Orissa and naturally dominated in the former princely States. In 1952 the G P did not contest the general seat in this constituency. An independent candidate, L N Bhanideo, brother

of the Raja of Keonjhar, popularly known as Chotrai Sahab, won the seat. The Congress did not contest the general seat either. The G P supported Bhanjdeo who was opposed by a socialist candidate.

Bhanjdeo secured 51 per cent of the votes polled. The Congress had no organisation in the area and it was the G P which had swayed the electorate in this as in other ex-princely State areas. The change to regular administration had introduced many complications and there were inevitable delays in disposal of public grievances. These were exploited by the G P. The Congress was identified with the maladies of the administration. The over-whelming majority of the independent candidate supported by G P was thus the manifestation of popular apathy to the changes introduced and of basic adherence to the traditions of the princely order.

The picture had not changed materially in five years, by the time of the 1957 General Election. Though Congress had extended its organisation to the area, it was still in a rudimentary stage. The glamour of the princely order had not died down. Some mine-owners, no doubt, supported the Congress, but there had been labour troubles in the mining belt of Bardil resulting in a police firing which had its echo in Keonjhar-garh and was exploited by G P.

This time a kinsman of the Raja, Janardan Bhanj, was the G P candidate for general seat. The sitting member, Bhanjdeo, had preferred to contest the Parliamentary seat. G P was opposed by Congress, Jharkhand and independent candidates. The Congress polled 21.7 per cent of the votes polled, whereas G P and others secured 78.3 per cent, G P alone securing 47.9 per cent. Janardan Bhanj retained this seat in the Assembly till his death.

A New Congress Leadership

In the 1961 mid-term elections the Congress had been transformed under the leadership of Biju Patnaik. I Bhanj was the G P nominee who was opposed by a Congress candidate and 5 independents. Keonjhar was now a single member constituency. Out of the total electorate of 46,802, only 11,418 (nearly 25 per cent) voted. The returns were as follows:

G P	:	4,657
Congress	:	3,078
Others	:	3,683

Congress secured only 27 per cent of the votes while the others secured

73 per cent and G P alone polled 47.7 per cent.

G P retained its fortress against the onslaught of the Congress and in spite of the general trend favourable to it in the State as a whole, the Congress failed to carry this constituency. This showed that the feudal elements had not lost their hold on the people. It also reflected the fact that the district Congress organisation had yet to grow roots in the area.

In April 1965 the sitting member, J Bhanj, died, necessitating a bye-election. It came immediately after the publication of C B I report on the charges of corruption against the Orissa Congress leaders. Much capital was made out of it by the opposition parties as also by dissidents within the Congress. Patnaik had been made to resign from Chief Ministership under the Kamaraj Plan and his successor Mitra had also to resign under rather unhappy circumstances. The publication of the C B I report and the publicity it had received all over the country had tarnished the image of the flamboyant leadership of Orissa Congress. The Opposition and the dissidents in the party sought the intervention of the Centre to remove the existing leadership and to order an enquiry commission like the Das Commission appointed to enquire into charges against Kairon. Prior to the C B I report, the three-month long students' agitation had shaken the Congress Government.

Significance of Bye-Election

Against the background of all this turmoil it was inevitable that the bye-election in this constituency acquired a special significance. It was taken up as a challenge and counter-challenge by the Congress and the opposition. Therefore, although four bye-elections to O L A had taken place since 1961, two in Ganjam, one in Sambalpur and one in Cuttack district, such a keen contest had not been seen. Preparations for the election were begun early. The choice of candidate was a difficult one for both the Congress and Swatantra. The Congress finally nominated Bankim Das, an M A, LL B, a former journalist, and an associate of Biju Patnaik for several years, when the reported offer to a member of the Raj family was not accepted. Swatantra chose Karunakar Pradhan, a local lawyer. It was a straight contest between Congress and Swatantra.

The election campaign of the Congress was formally inaugurated by the

party President Kamaraj who visited the constituency in the course of his tour of Orissa in the first week of June 1965. Biju Patnaik, Orissa Congress Chief, and Chief Minister Tripathi accompanied Kamaraj. The essence of the Congress strategy was to appeal the electorate to reject the feudalistic approach of the Swatantra Party so that awakening and development could come to this hitherto underdeveloped constituency. The Opposition interpreted this as a threat to the electorate to choose Congress or to remain underdeveloped. The other preoccupation of the Congress campaign was with rebutting the charges of corruption against Congress leaders and with overcoming the unpopularity resulting from the students' agitation and publication of C B I report. The challenge was accepted by Patnaik, Routrai (Home Minister) and Pani (P C C Chief). They camped at Keonjhar for three weeks. Besides, there was an influx of M L As and M Ps from various parts of the State and all Ministers of the State Government except the Chief Minister and a couple of his colleagues camped in the constituency. The result was a vigorous campaign uncommon for an Assembly bye-election.

On the other side, the elaborate Swatantra campaign was led by P K Deo, M P, (the Maharaja of Kalahandi). They had also mustered most of their M L As and M Ps, except R N Singhdeo (Maharaja of Patna) who was ill. An eminent writer politician, Nityanand Mahapatra, canvassed for Swatantra. The P S P remained neutral.

Hitherto neglected villages in the hills were visited by leaders, and the hill-paths echoed with the sound of automobiles. It was alleged by both the parties that the other was using intimidating tactics. Swatantra leaders sent telegrams to the Election Commission complaining that the Government machinery and State publicity media were engaged by the Congress Party.

Polling, however, took place in a quieter atmosphere; in fact, only 35 per cent of the electorate exercised their franchise, which was very poor considering the vigorous campaign. The Congress candidate was defeated by 1,818 votes. Nearly a thousand votes were declared invalid. And so once again the Congress could not penetrate this citadel of the Swatantra Party.

The reasons for this may now be briefly examined. The Congress candidate, Das, was a stranger to the area.

His father was an employee of the Raja who had a few years earlier settled at Keonjhar with his family. The candidate himself had been educated outside the region and with his high academic degrees had joined journalism and later turned to service under Biju Patnaik. He was not well known to the people. Unfortunately he was identified as a protégé of Patnaik with very much to his own credit. The Raj family gave their support to the Congress and Chotrai who is now a Congress M P actively helped the election, but this could not counter-balance the above factor. The Swatantra candidate, Pradhan, is a local lawyer and had an advantage over Das.

Congress Candidate a Stranger

In the Congress recovery in the 1961 mid-term election to the Assembly in 1961 and in the 1962 General Election to Lok Sabha, Biju Patnaik had played the crucial role, but at the time of the Keonjhar bye-election he was under a cloud, as a result of the publication of the C B I report. And, at the most inopportune moment, an American plane landed at Bhubaneswar and as a chance accident Patnaik helped it to land in a dark night. Many stories were circulated associating Patnaik with that incident and his opponents made much capital out of it. Oriya dailies circulated various interpretations of this episode, which were widely told to the electorate.

P K Deo, a master of election tactics, exploited Congress drawbacks to the fullest extent. Congress workers were alleged to have been surreptitiously won over by him. He also emphasised the traditional respect for the princely order among the people. He had tribal workers to mix with the tribals and speak to them in their dialect which had a psychological impact. By contrast, the deluge of ministers who lived in bungalows and circuit houses in pomp with their official retinues and moved in cars did not give a good account of the Congress to people. As opposed to it, Swatantra leaders moved in the villages and spent nights with the people which rebutted Congress propaganda against their aristocratic sympathies. It was admitted by Congressmen themselves that booths which were left in charges of ministers showed poor results while those manned by ordinary workers did well. Of the 44 booth the Congress polled a majority of the votes in about 40 per cent.

Besides the Congress organisation had no roots in the area and its paid workers mobilised for the occasion were mostly opportunists who came only for the money without any conviction or sincerity and at the earliest opportunity changed their colour. Swatantra workers on the other hand were sincere and devoted, and their campaign was worker-oriented rather than leader-oriented. The unpopularity of the D C C President and the circumstances attending his recent removal from the office of the president of the Zilla Parishad counted against the Congress. Congress dissidents, it is alleged, helped the Swatantra Party covertly though the latter deny this.

Another important factor was the proposed Aradia river valley project. River Aradia, a tributary of Baitarani, flows within a few miles from Keonjhar and under the proposed project nearly 65 villages would be submerged. An investigation had already been conducted and the submergible area was demarcated by the Public Works staff which convinced the people that the project would come soon and they would be displaced. They were not convinced by the Ministers' assurances that the project was not included even in the Fourth Plan. As a result these villages solidly voted for Swatantra.

In urban areas vote was equally

divided between Swatantra and Congress. In many hill tribe booths Congress polled more votes but among the plain tribals Swatantra won. The influential chasas (Pradhans) favoured Swatantra because of the Government's land reforms measures which affected their interests. However, in this constituency caste did not play any major role through the scheduled castes perhaps preferred the Congress out of their feeling that the Congress had emancipated them from exploitation.

In spite of much hard work, expense and painstaking electioneering and a flood of V I Ps into the constituency, the Congress could not succeed in the bye-election. Obviously, the electorate did not measure the lofty ideals of a socialistic pattern of society of the Congress as against the feudalism-capitalism of the Swatantra Party. The voters did not understand the distinction between public sector and private enterprise; between planned development, and private enterprise; nor did they bother much about the country's international relations. These great issues and causes did not apparently influence the voting behaviour; what did was the personality and acceptability of the candidates, the standing of party leaders, and the traditions, local affiliations and interests in this remote constituency.

Bank of America in Spain

PERMISSION to participate in a new investment bank in Madrid has been received by Bank of America (International), New York subsidiary of the Bank of America. Approval has been granted by Spanish authorities and the US Federal Reserve Board to establish the investment bank as a joint venture with Banco de Santander, one of the leading banks in Spain operating 140 branches in the country. Bank of America (International) will also acquire joint ownership in an existing Madrid commercial bank currently owned by Banco de Santander. Spain's booming economy and the substantial incentives offered by its government to new investments provide great opportunities for an investment bank.

The new bank, Banco Intercontinental Espanol, with head office in Madrid, will have authorised capital of 500 mil-

lion Pesetas (\$8,350,000). Under existing regulations it may open up to three branch offices in Spain. It is planned that a branch will be opened in Barcelona shortly after establishment of the bank. Bank of America (International) will have 50 per cent equity in the venture.

The primary function of investment banks in Spain is to promote and participate in new industrial and agricultural enterprises, stimulate private initiative and collaborate in the extension of term financing. Such banks may accept certain deposits, grant term loans, and issue certificates of deposit or debentures.

Acquisition of an interest in the commercial bank in Madrid will enhance the European operations of Bank of America (International) and the parent Bank of America.

Size, Technology and Economics A Study of the Indian Cotton Textiles Industry

J C Sandesara

It is commonly held that small industrial units are labour-intensive and large industrial units capital-intensive; that small units have lower productivity per worker, lower wage per worker and also lower surplus per worker; and that they have higher output but lower surplus per unit of capital.

Since labour-intensity is held to be characteristic of small units, it is also held almost as a corollary that labour intensive technology has lower productivity, lower wages and lower surplus per worker; and that it has higher output but lower surplus per unit of capital than capital intensive technology.

These hypotheses are here tested with reference to the Indian Cotton Textiles Industry.

[The writer acknowledges his gratitude to M M Dadi, I S Gulati, V N Kothari, D T Lakdawala, B V Mehta and C H Shah for their comments on the draft of this draft of this paper.]

THIS paper is divided in four parts: part I sets out the hypotheses and the scope of the paper; part II presents the broad outline of the approach; part III consists of the analyses, and part IV comprises of the conclusions, their limitations and implications. The basic tables are presented in the Appendix.

I The Hypotheses

It is commonly held that small industrial units are labour-intensive and large industrial units capital-intensive. That is, the former use less capital per worker than the latter. It is furthermore held that small units have lower productivity per worker, lower wage per worker and also lower surplus per worker; and that they have higher output but lower surplus per unit of capital than the large ones.

Since, as noted above, labour-intensity is held to be immanent in small units, it is also held, almost as a corollary, that the labour-intensive technology has lower productivity per worker, lower wage per worker and also lower surplus per worker; and that it has higher output but lower surplus per unit of capital than the capital-intensive technology.

This writer is currently engaged in an empirical examination of these hypotheses with reference to Indian manufacturing industries. This larger study, under preparation now, may take about a year in publication. Meanwhile, an opportunity is being taken here to present the results of the enquiry into the Cotton Textiles Industry not only because of its topicality but also with a view to provoking comments and discussion since some of the results obtained are such as challenge the notions commonly held.

II The Approach

The enquiry is based on the Census of Indian Manufactures for the years 1953-58.

The Census is conducted with the factory as the unit of enumeration. It is confined to the units registered under the Factories Act, 1948 and employing 20 or more workers on any day and using power. The Censuses for the years 1953-58 give data on the coverage of factories, capital and labour employed, output produced, wages, etc, and value added by size of factories as denoted by the number of persons employed—the size-groups being: below 20, 20-49, 50-99, 100-249, 250-499, 500-999, 1000-1999, 2000-4999, and 5000 and above workers.

On the basis of relevant data given for these size-groups, we have worked out capital-labour, output-labour, wages-labour, surplus-labour, output-capital and surplus-capital ratios. While for the detailed connotation of the terms used reference should be made to the Census, the following may be permitted even in this short paper.

The term capital is used for total productive capital employed—working and fixed together; the term labour for the average number of persons employed; the term output for value added; the term wages for salaries, wages and other benefits or privileges, all as defined in the Census. The term surplus is defined to cover the residual of value added after wages are deducted.

The data are presented in three tables. Table 1 gives the rank correlation coefficient between size and (a) technology (i.e. capital-intensity). Table 2 gives the rank correlation coefficient between size and (b) output-labour, (c) wages-labour, (d) surplus-labour,

(e) output-capital and (f) surplus-capital ratios. The data to the left in Table 3 give the rank and those to the right the product-moment coefficient correlations between technology and each of these five characteristics. The basic tables are presented in the Appendix.

III The Analyses

(A) Size and Technology

The hypothesis tested here is that size and capital-intensity are positively associated, that is, small units are labour-intensive and large units capital-intensive.

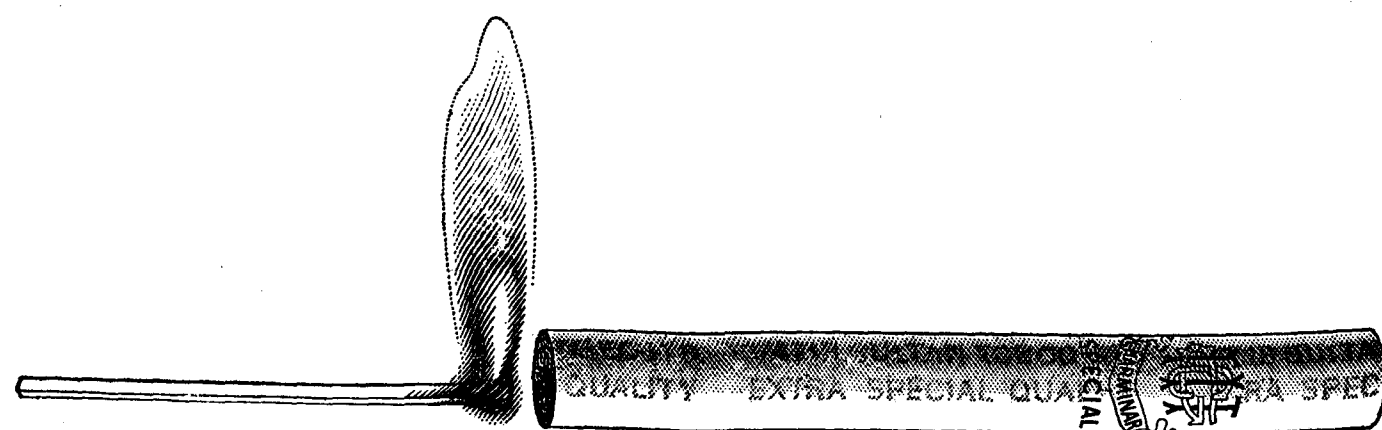
The data for the years 1953-58 do not lend any support to the hypothesis of positive association. In fact, they may be taken as an indication that size and technology are negatively associated; that is, small units are capital-intensive and large units labour-intensive.

It would be seen from Table 1 that the correlation was negative for all the six years. The value was less than the critical value, having a minus sign, at the 2.5 per cent level of significance, for three (1953, 1954 and 1957) out of six years. Here the hypothesis of independence is rejected at the 2.5 per cent level of significance against the

Table 1: Value of the Rank Correlation Coefficient between Size and Technology, 1953-58.

Year	Value
(1)	(2)
1953	—0.83
1954	—0.73
1955	—0.57
1956	—0.63
1957	—0.82
1958	—0.52

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alternative that there is negative association.*

* Readers not conversant with statistical reasoning may find the following note helpful.

The critical value of the rank correlation coefficient to be used in testing the hypothesis of independence, at the 5 per cent level of significance, against the alternative hypothesis that there is association (either positive or negative) when $n = 9$ (as in the present case) is .68. The hypothesis is tested in the following manner:

$$\begin{aligned} \text{Pr (either } r \leq -.68 \text{ or } r \geq +.68) &= .05 \\ \text{Pr } (r \leq -.68) &= .025 \\ \text{Pr } (r \geq +.68) &= .025 \end{aligned}$$

To elaborate: If r is less than or equal to $-.68$ or greater than or equal to $+.68$, the hypothesis of independence is rejected at the 5 per cent level of significance against the alternative hypothesis that there is association (either negative or positive). If r is less than or equal to $-.68$, the hypothesis of independence is rejected at the 2.5 per cent level of signi-

ficance against the alternative that there is negative association. If r is greater than or equal to $+.68$, the hypothesis of independence is rejected at the 2.5 per cent level of significance against the alternative that there is positive association.

(B) Size and Economic Characteristics

The hypotheses tested below are that (i) size and (b) productivity per worker, (c) wage per worker and (d) surplus per worker are all positively associated; (ii) size and (e) output-capital ratio are negatively associated; and (iii) size and surplus-capital ratio are positively associated.

The rank correlation coefficients were consistently positive for all the six years in all the five cases. It would be furthermore observed from Table 2 that the value was greater than the critical value, having a plus sign, at the 2.5 per cent level of significance, for all the six years for output-labour and output-capital ratios; for three years (1953, 1954 and 1955) for wages-labour ratio; and for two years each (1954 and 1955) for surplus-labour and surplus-capital ratios. Here the hypo-

theses of independence are rejected at the 2.5 per cent level of significance against the alternative that there are positive associations in these cases.

The data above seem to support the hypotheses of positive association between size and (b) productivity per worker, (c) wage per worker and (d) surplus per worker; and (f) surplus per unit of capital. But the evidence above does not support the hypothesis of negative association between size and (e) output-capital ratio. In point of fact it may be taken as suggesting positive association between size and output per unit of capital. Thus, small units can be said to have lower productivity, lower wage and lower surplus per worker; and lower output and lower surplus per unit of capital than large ones.

(C) Technology and Economic Characteristics

The hypotheses now tested are that (i) technology and (b) productivity per worker, (c) wages per worker and (d) surplus per worker are all positively associated; (ii) technology and (e) output-capital ratio are negatively associated; and (iii) technology and (f) surplus-capital ratio are positively associated.

The rank correlation was consistently negative for all the six years in all the five cases. The value of the coefficient was less than or equal to the critical value, having a minus sign, at the 2.5 per cent level of significance for five years (i.e., excepting 1955) for the output-capital ratio; for three (1953, 1956 and 1957) for the output-labour ratio; for two years (1956 and 1958) for the surplus-capital ratio; and for one year (1953) for the wages-labour ratio. Thus here too, the hypotheses of independence are rejected at the 2.5 per cent level of signi-

Table 2: Value of the Rank Correlation Coefficient between Size and Economic Characteristics, 1953-58.

Year	Output-Labour Ratio	Wages Labour Ratio	Surplus-Labour Ratio	Output-Capital Ratio	Surplus-Capital Ratio
(1)	(2)	(3)	(4)	(5)	(6)
1953	.98	1.00	.58	.98	.63
1954	.98	.92	.73	.98	.80
1955	1.00	1.00	.70	1.00	.98
1956	.92	.53	.35	.85	.47
1957	.98	.52	.48	.90	.57
1958	.93	.57	.18	.73	.35

Table 3: Value of the Coefficients between Technology and Economic Characteristics, 1953-58

Year	Rank Correlation Coefficient					Product-Moment Correlation Coefficient				
	Output: Labour Ratio	Wages-Labour Ratio	Surplus-Labour Ratio	Output: Capital Ratio	Surplus-Capital Ratio	Output: Labour Ratio	Wages-Labour Ratio	Surplus-Labour Ratio	Output: Capital Ratio	Surplus-Capital Ratio
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1953	-.87	-.83	-.60	-.87	-.66	-.69	-.58	-.95	-.48	-.76
1954	-.43	-.50	-.40	-.82	-.53	-.91	-.33	-.96	-.36	-.82
1955	-.60	-.57	-.35	-.57	-.58	-.74	-.57	-.80	-.76	-.86
1956	-.70	-.16	-.48	-.93	-.68	-.69	+.22	-.28	-.80	-.45
1957	-.78	-.42	-.33	-.95	-.44	-.87	+.19	-.51	-.40	-.62
1958	-.63	-.38	-.27	-.95	-.77	-.42	-.45	-.78	-.81	-.51

ficance against the hypotheses of negative association in all these cases.

Except in the case of wages-labour ratio where it was positive for two years (1956 and 1958) though negative for the other four years, the product-moment correlation was consistently negative for all the six years in the other characteristics.

The value of this coefficient was less than the critical value, having a minus sign, at the 2.5 per cent level of significance for five years (ie excepting 1958) for the output-labour ratio; for four years (1953, 1954, 1955 and 1958) for the surplus-labour ratio; and for three years each for the output-capital (1955, 1956 and 1958) and surplus-capital (1953, 1954 and 1955) ratios. Thus, here again the hypotheses of independence are rejected at the 2.5 per cent level of significance against the alternatives of negative association.

Thus the data above do not support the hypotheses of positive association between technology and (b) productivity per worker, (c) wages per worker and (d) surplus per worker; and (f) surplus per unit of capital. On the other hand they may be taken as suggesting the hypotheses of negative association in all these cases. The evidence on the relationship between technology and (e) output-capital ratio seems also to support the hypothesis of negative association. Thus, in an overall view, the evidence may be taken to suggest that the labour-intensive technology has higher productivity, higher wage and higher surplus per worker; and also that it has higher output and higher surplus per unit of capital than capital-intensive technology.

IV Conclusion, Their Limitations and Implications

(A) Conclusions

The above analyses may be taken as tending towards the following conclusions:

- (1) Small units are capital-intensive and large units labour-intensive.
- (2) Small units have lower productivity, lower wage and lower surplus per worker; and also lower output and lower surplus per unit of capital than the large ones.
- (3) Labour-intensive technology has higher productivity, higher wage and higher surplus per worker; and also higher output and higher surplus per unit of capital than capital-intensive technology.

Appendix : Basic Tables

Table A-1: Capital-Labour Ratio by Size, Cotton Textiles Industry, 1953-58

Size (as denoted by the number of persons employed)	Capital-Labour Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Less than 20	29,108	42,201	8,585	9,921	40,367	25,129
20-49	6,236	4,663	4,091	4,222	4,282	3,045
50-99	3,881	3,357	3,210	3,541	7,085	6,497
100-249	4,767	4,941	4,052	5,812	6,714	8,674
250-499	3,920	4,567	4,525	4,152	5,277	6,334
500-999	3,987	4,009	4,416	5,151	5,354	5,286
1000-1999	2,160	3,135	3,243	3,647	4,229	4,494
2000-4999	3,350	3,418	3,353	3,623	4,027	4,278
5000 and above	3,199	3,317	3,034	3,248	3,815	3,875
All	3,440	3,420	3,351	3,648	4,174	4,473

Table A-2: Output-Labour Ratio by Size, Cotton Textiles Industry, 1953-58.

Size	Output-Labour Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Less than 20	-1,127	-1,240	298	889	-95	-394
20-49	529	781	1,013	1,167	1,167	1,507
50-99	1,275	1,072	1,032	1,756	1,419	1,532
100-249	605	1,305	1,305	1,338	1,559	1,467
250-499	1,299	1,738	1,524	1,722	1,433	1,687
500-999	1,469	1,864	1,864	2,047	1,605	1,592
1000-1999	1,701	1,848	2,002	2,003	1,728	1,857
2000-4999	2,146	2,092	2,265	2,324	1,901	2,177
5000 and above	1,942	2,105	2,404	2,227	2,384	2,290
All	1,926	2,003	2,194	2,207	1,954	2,060

Table A-3: Wages-Labour Ratio by Size, Cotton Textiles Industry, 1953-58

Size	Wages-Labour Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Less than 20	679	762	603	1,599	1,466	722
20-49	706	733	694	757	839	829
50-99	735	678	706	674	1,181	2,028
100-249	787	793	815	803	778	715
250-499	915	912	902	909	976	993
500-999	984	1,041	966	1,076	1,132	1,165
1000-1999	1,335	1,288	1,238	1,290	1,386	1,499
2000-4999	1,511	1,524	1,496	1,585	1,651	1,698
5000 and above	1,518	1,498	1,575	1,669	1,754	1,737
All	1,425	1,411	1,413	1,497	1,566	1,588

Table A-4: Surplus-Labour Ratio by Size, Cotton Textiles Industry, 1953-58

Size	Surplus-Labour Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(3)	(5)	(7)	(7)
Less than 20	-1,806	-2,001	-305	-710	-1,561	-1,116
20-49	-177	48	320	256	329	679
50-99	540	393	326	1,082	238	-491
100-249	-182	512	491	534	780	747
250-499	384	826	621	812	457	694
500-999	485	822	898	970	473	427
1000-1999	346	560	764	714	342	358
2000-4999	636	568	769	739	250	479
5000 and above	424	607	829	608	629	553
All	501	592	782	711	388	472

Table A-5: Output-Capital Ratio by Size, Cotton Textiles Industry, 1953-58.

Size	Output-Capital Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Less than 20	-.04	-.03	.03	.09	-.002	-.01
20-49	.08	.17	.25	.24	.272	.49
50-99	.328	.30	.231	.50	.20	.24
100-249	.13	.26	.322	.23	.23	.17
250-499	.331	.38	.34	.41	.271	.27
500-999	.37	.46	.42	.40	.30	.30
1000-1999	.48	.59	.62	.55	.41	.41
2000-4999	1.30	.61	.68	.64	.47	.51
5000 and above	.61	.63	.79	.70	.62	.59
All	.56	.58	.65	.60	.47	.46

Table A-6: Surplus-Capital Ratio by Size, Cotton Textiles Industry, 1953-58.

Size	Surplus-Capital Ratio					
	1953	1954	1955	1956	1957	1958
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Less than 20	-.06	-.05	-.04	-.07	-.04	-.04
20-49	-.03	.01	.08	.060	.076	.22
50-99	.139	.1010	.10	.31	.03	-.07
100-249	-.04	.1036	.12	.09	.12	.09
250-499	.098	.1807	.14	.1956	.086	.109
500-999	.12	.21	.20	.188	.088	.080
1000-1999	.097	.1785	.24	.1957	.080	.079
2000-4999	.19	.17	.23	.204	.06	.11
5000 and above	.13	.1829	.27	.187	.16	.14
All	.15	.17	.23	.19	.09	.11

Note: More than two decimal points occurring in Tables A-5 and A-6 in some columns are for a clearer ranking.

The trouble with the small units, it would seem, arises not because they have paucity of capital, but possibly because they suffer from a plethora of it! For the small units are found to be capital-intensive.

(B) Limitations

These conclusions are to be considered with reference to their context. In the first place, they are for the Cotton Textiles Industry. Secondly, they are based on the analyses of data for six years, 1953-58. And thirdly, they are confined to factories employing 20 or more workers on any day and using power. It is only fair to emphasise here again that the smaller units, or the units which one would like to label as really small (such as the completely manual units — the handspinning or the handweaving type — and the small power-based workshops employing not more than 19 workers on any day — the powerloom type) are not covered by our source.

Since these conclusions are based on the analyses of the census data, the limitations of the latter would naturally plague the results. Some of these are: use of the actual output data; valuation of capital as per books of the units; relating capital stock as at the end of the year instead of at the mid-year date with the output or its divisions; arbitrary method in arriving at surplus; limited reference period of six years only; and exclusion of the really smaller units from the coverage of the source. It is not possible to discuss in details the influence of all these on our conclusions. It may however be noted that our conclusions portray only a relative picture; and the relative position will remain undisturbed if the factors concerned influence the size-groups in a uniform manner and/or in an equal measure. The influence of these limitations is being examined in the larger work referred to above. By way of an interim note, it may be added that the tone and the tendency of these conclusions are not likely to be much disturbed.

(C) Implications

How can we explain our results? And what is their significance for economic policy?

The large-sized units reveal a use of resources superior to or more economical than that in the small-sized units. Possibly, the organisational economies or the economies of scale as such, arising out of bulk buying and selling, easier availability of finance and on more favourable terms, better supervi-

sion and management, and superior entrepreneurial ability are more important than the technological economies or the economies arising out of employment of capital-intensive technology. In a word, the technological economies are perhaps not so sensational, or perhaps do not accrue in as great a measure in practice, in this industry at least, as may be commonly thought. The large units are possibly headed by entrepreneurs how very effectively combine factors of production as is reveal-

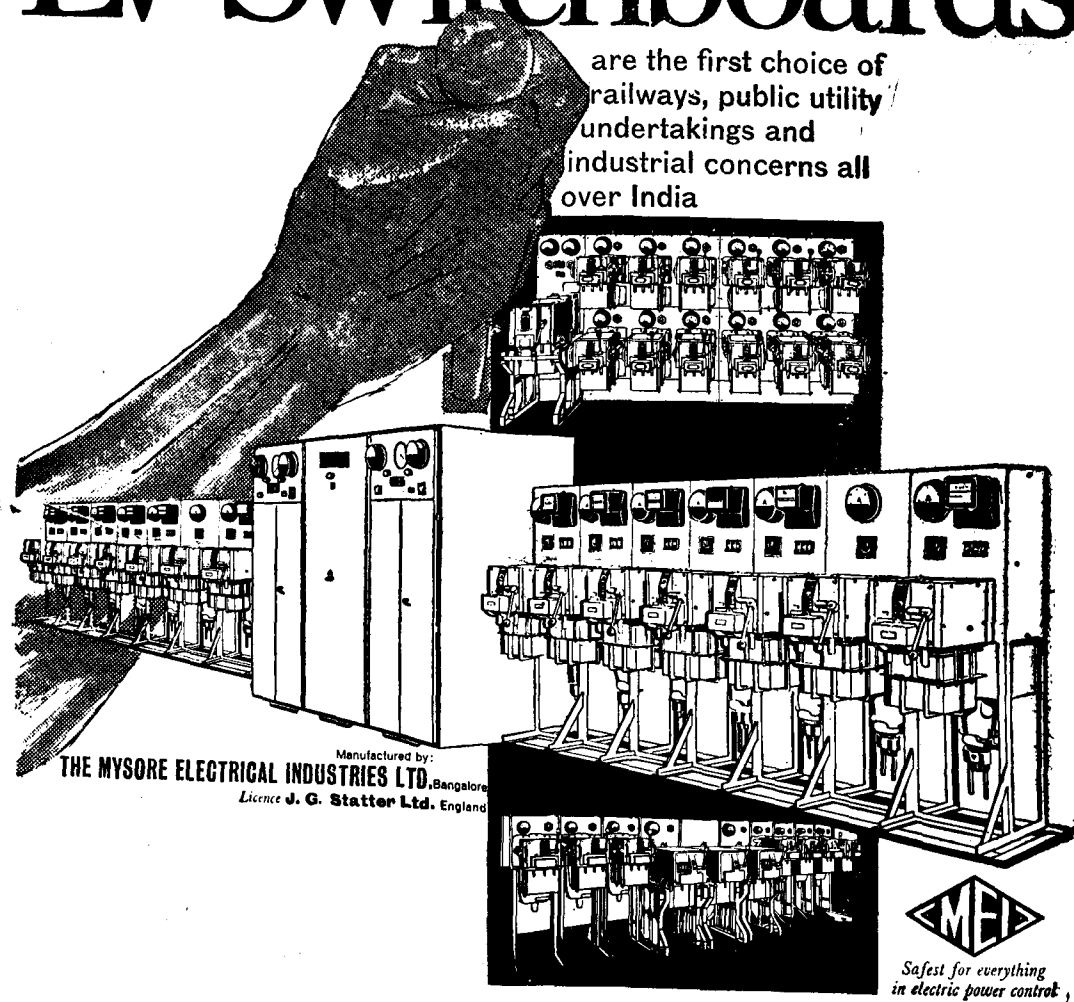
ed by our results. The crucial factor which could possibly explain our results may well be the factor of enterprise.

Secondly, the underlying assumption of the public policy of promoting small industrial units in a country like ours, seems to be that such units use capital, the scarce resource, sparingly, and labour, the plentiful resource, abundantly in the sense that they embody a technology which produces more output and employs more labour per

unit of capital than the large units. This assumption is not borne out by our data. Perhaps the case appears to be quite the contrary. Such virtues as are claimed or tacitly assumed for the small units are to be found precisely in large units! To the extent our conclusions are valid, such a policy would be tantamount to promoting those which should be penalised, and penalising those which should be promoted. Surely, the large units do seem to deserve a new and better deal.

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Agricultural Growth in Madras, 1949-50 to 1960-61

T Ramakrishnan Rao

An attempt is made here, first, to estimate the rates of growth of agricultural production in Madras during the period 1949-50 to 1960-61, for the different crops as well as for the different districts.

Second, the association of rates of growth of production with the rates of increase in acreage and yield is examined.

Finally, it is investigated whether extensive cultivation and higher yields are associated with faster rates of growth in production.

[This is part of a larger study of "Agricultural Development in Madras State" being conducted by the author at the Agricultural Economics Research Centre, Madras.]

IT is well known that Madras has a good record of agricultural development in the three Plans. There are many facets of agricultural development. In this paper, development or growth is defined in the restricted sense of increase in production. Aggregate production is a composite concept: Production is aggregated over space and over crops. In order to examine the variations in the level of development, 10 districts (the smallest homogeneous area for which data is available in Season and Crop Reports) in Madras State (Kanyakumari, due to lack of time series data and Nilgiris because of its unique Cropping Pattern are omitted) and 10 major crops or crop groups (Paddy, Cholan, Ragi, Cumbu, Minor Cereals, All Cereals, Pulses, Sugarcane, Groundnut and Cotton) grown in these districts are studied.

This study seeks, first, to estimate the growth rates in agricultural production, district-wise and crop-wise; second, to examine the association of growth rates in production with rates of increase in acreage and yields; and,

finally, to investigate whether extensive cultivation and higher yield levels are associated with faster rates of growth in production.

A linear growth area for the period under study is assumed. The formula used is given below:

$Y_{ijt} = a + b_{ij} x_t$ where Y_{ijt} is the production index of the i^{th} crop in the j^{th} district in the t^{th} year. X_t is the time factor ($t = 1$ to 10 years) and b_{ij} is the j^{th} district. Production index is calculated for each year with the average of the first three years as the base. The problem of autocorrelation in time series and the possibility of slight upward bias in the production indices based on three-years' average are acknowledged. However the period under study is short and the linear equations approximate a fairly good fit.

The estimated growth rates of production are given in the Table 1. Cholan, Cumbu, Ragi, Minor Cereals, Pulses and Cotton register low or negative growth rates in most of the districts. Rates of growth in Rice, Sugar-

cane and to some extent, Groundnut are noticeably high (>10) in a majority of the districts. This seems to have been achieved to a certain extent by a sacrifice in the rates of growth in the production of Cumbu, Ragi and Minor Cereals. It is a welcome feature that the growth rates are high in these important cash crops which are evidently more profitable.

Among districts, Ramanathapuram shows spectacular increase in its growth rates in all except three crops. The low growth rates are for Cholan, Ragi and Cotton. Chingleput, North Arcot and Salem get the second rank. The production increases are mostly in Rice, Sugarcane and Groundnut. The third rank districts, viz, Coimbatore, Thanjavur and Tirunelveli, record high growth rates in Sugarcane. The stagnant districts are Madurai and Tiruchirappalli. South Arcot registers negative growth rates in as many as 6 crops.

Some of the reasons for the high growth rates in production are increases in irrigated area, intensity of cropping and better management. The index

Table 1: Growth Rates of Production 1949-50 to 1960-61

District	Rice	Cholan	Cumbu	Ragi	Minor Cereals	All Cereals	Pulses	Sugarcane	Groundnut	Cotton	Number of Crops with Growth Rates		
											>10	<10	-ve.
Chingleput	21.92	-6.40	-3.36	0.04	-7.42	16.04	1.37	28.71	18.22	-1.38	4	2	4
South Arcot	14.31	-6.54	-5.20	-3.38	-1.33	5.86	5.08	-0.73	-0.04	2.60	1	3	6
North Arcot	22.54	0.91	-4.52	0.06	-2.43	11.40	4.47	13.84	5.87	48.63	4	4	2
Salem	20.24	14.51	-1.51	4.60	3.51	9.35	4.78	4.32	2.12	24.48	3	6	1
Coimbatore	31.96	3.46	-0.40	-1.13	0.10	6.97	4.01	10.60	4.49	6.44	2	6	2
Tiruchirappalli	5.77	2.40	1.34	-2.07	1.76	3.56	0.28	2.70	2.07	8.47	-	9	1
Thanjavur	4.99	56.90	-7.21	1.00	4.54	4.95	-3.55	30.66	3.26	-13.70	2	5	3
Madurai	8.14	3.46	4.07	-1.23	2.83	5.45	4.33	4.55	10.58	4.63	1	8	1
Ramanathapuram	23.14	0.74	14.46	5.48	11.02	12.85	16.81	25.98	15.00	4.69	7	3	-
Tirunelveli	9.09	2.20	6.11	0.24	1.44	7.13	4.87	24.94	24.92	1.17	2	8	-
Number of Districts with Growth Rates	<10	4	2	1	—	1	3	1	6	4	2		
	>10	6	6	3	6	7	8	3	5	6			
	-ve.	—	2	6	4	3	—	1	1	2			

of intensity of cropping is almost constant. The increases in irrigated area achieved by Ramanathapuram, Coimbatore, North Arcot, Salem and Chingleput districts (in descending order) are worth mentioning. Growth in production is associated with acreage and yield per acre growth rates. The increase in production has been achieved mainly through an increase in acreage. For four main crops — Rice, Sugarcane, Groundnut and Cotton — which showed high growth rates, production rates and acreage rates (calculated in an identical manner as for production) were correlated by ranking the districts in order of the magnitude of the rates. Similar procedure is followed for yield levels.

It could be easily seen that production and area are highly correlated in all the districts. On the other hand, the low correlation, which is not statistically significant at 5 per cent probability level establishes the fact that area and productivity are not generally correlated. Thus most of the growth in production is due to area increase only and this makes a strong case for intensive cultivation with improved practices.

Finally, the hypothesis that extensive cultivation and a high level of yields are conducive to a higher rate of growth in production is examined. When a crop is taken to be "established" in a district (like rice in Tanjore and Cotton in Coimbatore), a steady increase in production could be expected. Similarly, high levels of yields are usually associated with better cultivation practices and increasing awareness and acceptance of modern methods of cultivation among the already enlightened farmers could be expected.

So rank correlation coefficients have been worked out for the four crops for production growth rate, percentage of area under the crop and yield level during 1949-50 and are found to be not significant. The hypothesis is not strictly borne out by the facts. Reasons may be marginal and submarginal lands being brought under cultivation with low yields; Stagnation or saturation at the present level of low yields even among the districts with comparatively higher levels of yield might be another cause for this phenomena.

In conclusion, it is seen that most of the growth in agricultural production in Madras State over the decade 1949-50 to 1960-61 can be attributed to the high income yielding crops, viz, Paddy, Sugarcane, Groundnut and Cotton,

which together account for 52 percent of the total cropped area in the State. Ramanathapuram ranked first in its growth rates followed by Chingleput, North Arcot and Salem. Production increase has been mainly brought about

by increase in area rather than through higher yield levels. High growth rate in production is not necessarily associated with higher levels of yield and greater area under cultivation of the crop.

Table 2: Rank Correlation Coefficient

Crop	Production and Area	Production and Productivity	Area and Productivity
Rice	0.94 (H.S.)	0.47 (N.S.)	0.33 (N.S.)
Sugarcane	0.95 (H.S.)	0.33 (N.S.)	0.19 (N.S.)
Groundnut	0.96 (H.S.)	0.56 (S)	0.41 (N.S.)
Cotton	0.87 (H.S.)	0.47 (N.S.)	0.10 (N.S.)

H S — Highly Significant (1% level)

S — Significant (5% level)

N S — Not significant (5% level)

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Why Export Receipts Lag Behind Exports

Some Possible Explanations

Jagdish Bhagwati

I WAS rather surprised to find you writing tangentially ("Panic Measures", July 3, 1965), without critical comment, about the widespread and popular contention that the import entitlement schemes are responsible, *via* over-invoicing and advance entitlements, for the apparent discrepancy between recorded exports and export receipts of over Rs 84 crores during 1964-65.

I must confess that I have not yet seen any official pronouncement or evidence concerning this alleged discrepancy, although the figure and the explanation are being widely bandied about. The matter is of great interest from the economic point of view and also from the viewpoint of its implications for the entitlement schemes' future; hence, I shall accept, for the sake of proceeding further with the argument, that there is indeed a discrepancy of this order and that it is significantly larger than the normal (if any).

The discrepancy *cannot* be explained by over-invoicing of exports. Over-invoicing leads to a discrepancy, *not* between exports (declared and effected) and export receipts, but rather between *declared* exports and *actual* exports. Once the exports have been declared, albeit at an inflated value, the rules require that the corresponding "earnings" be brought into the country and surrendered to the Reserve Bank. From this point of view, therefore, over-invoicing has nothing at all to offer by way of explaining the alleged discrepancy between declared exports and receipts.

Nor is it possible to condemn the system of advance entitlements (presumably now removed) for this discrepancy. The defaults and delays on the executed bonds explain only the delays in *effecting* exports, *not* the alleged discrepancy between recorded exports and receipts.

While these popular explanations are fallacious, it is possible to think of several possible explanations which can account for the discrepancy. I proceed to list the most likely ones below:

(1) It is known that *fictitious* firms have disappeared, in zari and pepper for example, after securing their entitlements. Now, where the firms secured *advance* entitlements, and the

firms disappeared prior to effecting exports, there cannot be any effect on the alleged discrepancy at all. Where, however, the firms disappeared *after* effecting exports, there would be a shortfall in receipts below recorded exports. Surely, however, this phenomenon cannot explain more than a tiny fraction of the alleged discrepancy. Moreover, it should be noted that whereas entitlement schemes (owing to their subsidy implications) certainly enhance the profitability of such frauds, these can occur even in the absence of these schemes whenever there is any significant incentive for anyone to take capital abroad in an illegal manner.

(2) Another practice, which appears to have been recently detected, is the destruction of the GR form at the Customs by bribing the clerks. Since this form has to be sent on by the Customs to the RBI, whereupon the latter proceeds to enforce the exchange rules governing exchange earnings, destruction of the form means that the RBI does not come to know of the export transaction at all! While this practice is ingenious, and the drive against black money recently may have made it worth pursuing with considerable bribery, it is unlikely to account for a significant fraction of the alleged discrepancy; also, it is wrong to blame entitlement schemes for this malpractice.

(3) Perhaps the most likely explanation, and one which needs to be looked into closely before conclusions are drawn for trade policy by the authorities, is a swing of trade credits against India. If the *average* lag between exports and receipts is three months for example (the *maximum* being six months, with exception for certain sales of capital goods), then a lengthening of this lag by even a month could conceivably account for a discrepancy of around Rs 60 crores on our present export level. (The exact effect on the time-profile of receipts vis-a-vis exports, of such a shift, is fairly complex to work out in practice, although the well-known work of Bent Hansen on the subject of foreign exchange credits and swings therein has clarified the theoretical position considerably.) This lengthening of the lag may well be expected when devaluation is expected, or in-

terest differentials have moved in favour of foreign holdings; and so on.

(4) While some of these standard explanations may well have been valid as from the last quarter of 1964-65, there are at least two interesting ways in which the lengthening may have occurred in India as a result of the entitlement schemes as then in operation. Let me take the less important one first. If over-invoicing has indeed been going on in any significant manner (as it is almost certain to have, what with the discount on the rupee for illegal transfers being rarely above 35 per cent at any Centre during 1961-65 and the *de facto* subsidy on f.o.b. export value in most schemes, *via* entitlements, being significantly above that), it is possible that the lag may have increased owing to over-invoicing, through the resulting delays in finding unauthorised exchange *and* a possible tendency on the part of over-invoicers to put off buying the unauthorised funds until the very end (thereby saving on interest costs).

(5) I should guess, however, that a more important cause of the lengthening lag is to be found in the fact (assuming that I am correctly informed about the relevant procedures) that entitlements have been related to, and exports recorded as of, the date of the *shipping bill* whereas the receipts have to be surrendered to the RBI within six months of the date of *shipment*. Now, if the lag between the dates of the shipping bill and the shipping increases, the average lag between shipment and receipt remaining unchanged, there is a *de facto* lengthening of the lag between the dates of the recorded export and the receipt therefrom. There seems to be evidence of this having happened during 1964-65. Whereas the "normal" lag between the shipping bill and the shipment used to be around 7-10 days, with the maximum possibility of 21 days, this lag seems to have stretched out to an average of over three weeks during 1964-65, owing partly to congestion at the ports but largely to the desire on the part of exporters, keen to get their entitlements, to have their shipping bills executed at the earliest.

Of course, there may even be more

mundane explanations such as a go-slow policy on the part of RBI computing staff, leading to illusory short-falls in receipts, though this seems quite extraordinary and unlikely.

If what I have argued above is correct, then it is wrong to condemn the entitlement schemes for the alleged discrepancy between recorded exports and receipts (except in the sense suggested in explanations (4) and (5), the latter of which is, again, remov-

able by reform of the procedures). While I wish to stress this, so that the entitlement schemes are not considered defective for the wrong reasons, I would like to disclaim to defend them as necessarily the ideal method of subsidising exports. I have read I S Gulati's recent paper on these schemes (*The Economic Weekly*, May 22, 1965) with very great interest. It seems to me, however, that Gulati would have us replace one

"arbitrary" rule of (*de facto*) subsidies by another. He also seems to accept the government's tenuous contention that the rule is to fix the entitlements at twice the value of import content. Nor do I find him persuasive when he bases his economic analysis squarely on the implicit assumption that the entire entitlement is a social cost. Both the *real politik* and the economics of the entitlement schemes seem to me rather more complex than that.

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AROUND BOMBAY MARKETS

Impressive Rally

Wednesday, Morning

DALAL STREET staged quite an impressive recovery last week, with several leading counters making good the losses suffered in the preceding week. To mention a few important names, Century which had been sold down to Rs 512 towards the close of the previous week were up again at Rs 543 by the week-end; National Rayon rallied from Rs 374 to Rs 395, Standard Mills from Rs 408 to Rs 437, Telco from Rs 224 to Rs 236, Hindustan Motors from Rs 16 to Rs 16.68, Scindia from Rs 13.96 to Rs 14.48, Tata Chemicals from Rs 18.60 to Rs 19.20, Indian Iron from Rs 24.96 to Rs 25.70 and Tata Steel from Rs 148.50 to Rs 155.25. Scarcity of fresh offerings, short covering, replacement buying, renewed fresh bull support — all these contributed to last week's recovery in equity prices. Activity continued to be mainly professional and the turnover was generally poor; it was only near the week-end that the market presented a somewhat lively appearance.

Since last week's decline had brought the market extremely close to its year's low, it was not altogether unexpected that the market should receive some professional support around this level. But the recovery was not induced by technical consideration alone. There were other factors which greatly aided market sentiment. The import policy for actual users, though vague in certain important respects, was considered to be less stringent than what had been widely feared. The stock market seemed particularly impressed by the Finance Minister Krishnamachari's promise that as much of rupee resources and aid as possible would be utilised for the import of raw materials and components to supplement the limited supply that industries would be entitled to under the stringent import policy. TTK's categorical statement ruling out devaluation and moratorium on foreign debt payments in order to tide over the foreign exchange crisis were well received in market circles. New Delhi's decision to continue all the export promotion schemes subject to some changes and the announcement of tax credit to 22 commodities including some traditional items, had also a steadying effect on market sentiment.

The Finance Minister's statement that a greater sense of discipline and

determination required for dealing with the critical foreign exchange position must be reflected continuously in the budgetary and credit policies, indeed in the shape and the size of the Plans for development has been widely welcomed on the interpretation that since the Government has belatedly realised that the nation must live within its means the size of the Fourth Plan will be suitably cut down thereby avoiding serious strains on the economy. Only about a week ago the stock market had been shaken by the National Development Council's hint about a possible supplementary budget for raising additional resources in the current year itself.

While the Finance Minister's decision to promote external solvency through a greater sense of discipline and determination will be welcomed, the stock market bull needs the reminder that if these are to be reflected in the budgetary and credit policies there is little prospect of any relief in the tax burden and/or relaxation of the credit squeeze. If the tax burden is not reduced and credit gets scarce and costlier, it will be difficult for the stock market to push its way up in a big way. Even as it is, despite all the talk about the slump in the stock market, the average yield on equities cannot be regarded as attractive when compared with the prevailing structure of interest rates and the return obtainable from investment outside the stock market.

OILSEEDS

Prices Remain High

THE bullish fever has not subsided with reports of highly beneficial rains from almost all the groundnut producing areas in the country. Nor has TTK's categorical statement scotching devaluation rumours had any noticeable effect on the market. Oilseeds prices continue remarkably firm around the highest levels of the season and the strength in the spot material has been even more marked than in futures. With prices all the time above the maximum limits set for the week, official dealings in futures have remained suspended for quite a few weeks. But this has neither put an end to unofficial transactions nor to the rising trend in prices. Cas-

tor September and linseed September are currently quoted around Rs 97 and Rs 119 (per quintal) as against the maximum limits of Rs 92 and Rs 113.30 respectively; in a rising market, the weekly limits keep rising week by week. Bulls continue to dominate the scene, the penal margins notwithstanding. In the spot market, groundnut oil has been quoted between Rs 28.50 and Rs 29.25, linseed oil between Rs 24.50 and Rs 25 and castor oil between Rs 19 and Rs 19.25 — all per 10 kgs. With mustard oil quoted around Rs 32.50 (in Delhi) and coconut oil quoted around Rs 48.50 there seems no prospect of any important decline in groundnut oil prices. Strange as it might appear, the price of coconut oil has been inflated mainly by the exorbitant profit charged by the State Trading Corporation on the sale of copra, which works out to around Rs 2,200 a tonne in terms of oil. Even on mutton tallow, imported under P L 480, the STC is known to be making a profit of about Rs 500 a tonne. As against the landed price of about Rs 1,300, mutton tallow is being sold by the Corporation at around Rs 1,800. Prices cannot be expected to come down when a Government body chooses to make such fantastic profits. Prices of coconut oil and even of mutton tallow do have a bearing on the general price trend in vegetable oils — edible as well as non-edible.

Since official trading in oilseeds futures has been at a standstill for quite some time, the market authorities have decided to start trading in new crop hedge contracts. It is not that speculation has any useful economic function to perform; the market has to be kept alive because quite a large number of people are engaged in this vocation — the business of fluctuations. The first hedge contract in respect of both castor and linseed will be April instead of March. April is said to have been preferred to March with a view to facilitating delivery of goods because of the larger flow of goods during this month. While no margin has been proposed in respect of castorseed, margin at the rate of Rs 1,000 per 10 tonnes will become payable by bulls in linseed when the price moves beyond Rs 105 per quintal. Cottonseed will attract margin of Rs 500 per 10 tonnes when its price rises above Rs 58. The weekly price range of fluct-

tuations — applicable only in a rising market — will be Rs 4 for linseed, Rs 3 for castor and Rs 2 for cottonseed. These weekly ceilings will become operative only beyond Rs 80 for castor, Rs 95 for linseed and Rs 54 for cottonseed.

Policy for Groundnut Extractions

New Delhi's decision to continue the existing export promotion schemes and the announcement of tax credit facilities has left the oilseeds market cold because the export of groundnut oil and vanaspati continues to be banned and oilseeds, oils and oilcakes do not figure among the 22 commodities to which tax credit has been extended. The export trade is, in fact, shocked by the drastic change in export policy for groundnut extractions. The press note issued by the Commerce Ministry says: "In order to better regulate the quality and improve shipping facilities, exports of deoiled groundnut extractions will be made only by manufacturing units, e.g., the solvent extractions units licensed under the Industries Act or such solvent extraction units as are working under approval of the Small Scale Industries Organisation. These units can export deoiled groundnut cake as per their annual production. Quality control and pre-shipment inspection measures on these extractions are also being enforced. This procedure and policy will come into effect for shipments of deoiled groundnut extractions on and after October 1, 1965."

The view is widely shared among informed observers that the new policy will adversely affect the export of groundnut extractions which is making an extremely valuable contribution to the country's foreign exchange earnings. Even now there is no discrimination or disability attached to the manufacturers exporting directly. But only a few choose to export on their own; the others prefer to export through the established shippers. Selling abroad is a highly specialised job, requiring considerable experience, resources, connections and efficient organisational set up. And not many manufacturers can qualify for efficient export performance. It is therefore surprising that the Government should have decided to allow export of groundnut extractions to be conducted only by the manufacturers, particularly when the country is in desperate need of boosting exports anyhow. Even recognised export houses are being denied the export of groundnut extrac-

tions. It is common knowledge that a considerable amount of export business is done on the basis of charter freight. Manufacturers will find it difficult to get together in order to avail of this facility. Informed observers feel that the national interest has been sacrificed with a view to benefiting certain big manufacturers of groundnut extractions who have also been engaged in export business. It is difficult to say how the elimination of established shippers from this trade will effect the prices that Indian groundnut extractions might realise in overseas markets. Odds are that the overseas buyers will be able to outwit the Indian manufacturers-exporters.

Money and Banking

Thursday, Morning

CREDIT conditions during the week to July 21 were comfortable in the Bombay short-term money market. Demand for funds remained unchanged and with ample supplies borrowers were able to get their requirements fairly easily. The rate of interest was maintained around 4 per cent during the major part of the week, though some business was transacted at 3½ per cent as well.

Aggregate deposits of the scheduled banks during the week to July 9 increased by Rs 2.85 crores to Rs 2728.07 crores, according to the latest

BUSINESS NOTES

Tata Oil Mills

JR D TATA, Chairman, Tata Oil Mills Company, in his annual statement circulated to shareholders with the accounts for the year to March last, says that in spite of repeated representations submitted by the industry over the years, the Government has chosen to continue, and in fact further extend, its misguided policy of discrimination against the power operated sector of the soap industry. Whereas the excise duty on laundry bar soap manufactured in the organised sector of the industry has been stepped up by Rs 30 to Rs 216 per tonne, the duty on soap produced by the non-power operated sector of the industry ranging between Rs 93 and Rs 159 per tonne has been withdrawn. Consequently, not only has the production of laundry soap in power-operated units declined during the last two years, but the consumer has been deprived of the better soap.

Tata has expressed regret that Tata-Finlay, in which Tata Oil Mills has an

weekly statement issued by the Reserve Bank. Bank credit, however, declined by Rs 4.61 crores to Rs 2072.30 crores. Contraction in credit was mainly under advances against inland bills. Investments in government securities advanced by Rs 14.99 crores to Rs 745.66 crores. Borrowings from the Reserve Bank declined by Rs 13.77 crores to Rs 54.90 crores. Money at call and short notice increased by Rs 6.95 crores to Rs 67.37 crores.

Balances held abroad increased by Rs 4.54 crores to Rs 9.40 crores during the week to July 16 according to the Statement of Affairs of the Reserve Bank. Foreign securities, however, remained unchanged at the previous week's level of Rs 68.35 crores. Notes in circulation declined by Rs 34.05 crores to Rs 2655.29 crores. Central Government deposits fell by Rs 12.15 crores to Rs 65.28 crores but State government's deposits were slightly higher by Rs 30 lakhs at Rs 17.49 crores. Deposits of the scheduled banks at Rs 125.11 crores showed a decline of Rs 20.79 crores. Loans and advances to governments increased by Rs 12.52 crores to Rs 56.74 crores. Advances to the scheduled banks contracted by Rs 28.51 crores. Investments of the Reserve Bank at Rs 291.62 crores showed an increase of Rs 15.09 crores over the previous week.

investment of Rs 34 lakhs, has not yet lived up to the earlier expectations in both its packet tea and instant tea divisions. In particular, packet tea operation has faced considerable resistance in its efforts to break into a consumer market virtually monopolised for decades by two powerful foreign firms in which the pattern of consumer taste and preference has been established over nearly 70 years.

The setback in the packet tea division could be fairly quickly made up from the profits from the instant tea division once the latter got fully under way. Here again, however, unexpected difficulties have been encountered. There has been a delay in the completion of the factory. It was possible for the company in June last to overcome the teething troubles and make a stable product of the exacting quality and specifications required by the American market for which it has been primarily destined. Meanwhile, the

elaborate programme of planning and marketing of the tea in the US, including intensive market testing, has been held in abeyance and is expected to be resumed in the next few weeks, too late to launch the product on the American market this summer. The purpose of Tata Oil Mills' investment in this venture was two-fold: sharing in an ultimately profitable operation and earning revenues in the form of selling commission for which purpose it had acquired its sole selling agency. Neither of these two sources of revenue has materialised so far and the selling agency agreement has been terminated through mutual consent from April 1, 1965.

Although the management would be on the look out for further opportunities for branching out, for the time being Tata Oil Mills is back in its original field where activity is characteristically marked by high volume and low profit margins. But the current year's operations are expected to show some improvement. The new solvent extraction plant at Tatapuram is now in regular production. The erection of the synthetic detergent plant in Bombay has been completed, and trial runs were started in May last. After some delay due to the late arrival of the boiler plant, the Ghaziabad factory started operations in September 1964, and is now on a regular production schedule of laundry and toilet soap and crude glycerine.

Indian Iron

THE Board of Indian Iron and Steel Company has proposed to pay a final dividend of 9.5 per cent, making a total of 17 per cent for the year to March 1965, the same as in the previous year. Last year, the company had raised distribution by one per cent which constituted a special cash bonus. But this year the bonus element has been merged with the dividend itself. The share markets reacted favourable to the dividend news as was reflected in a small gain in the price of the share immediately after the announcement.

A brief preliminary statement from the company shows that the gross profit, which had risen sharply from Rs 12.52 crores to Rs 15.91 crores in the preceding year, has recorded a small set-back of Rs 47 lakhs at Rs 15.44 crores. Looking to the year's production performance, however, this small fall in gross earnings appears insignificant, because the output of salable

steel recorded a decline of seven per cent.

Of the profit, depreciation has taken away Rs 6 lakhs more at Rs 4.46 crores and with the tax liability demanding Rs 67 lakhs more at Rs 4.54 crores, the after-tax profit has shown a visible dent, having declined by Rs 1.20 crores to Rs 6.44 crores. As before, the preferential dividend requires Rs 0.18 crore and equity dividend Rs 2.11 crores. The net appropriations to reserves have, therefore, been reduced from Rs 5.35 crores to Rs 4.15 crores. The shareholders, however, have the satisfaction that even then the dividends are very adequately covered by earnings, and the company's financial position is excellent and has been gathering strength year after year.

Colour-Chem

AFTER having established an unbroken record of a strong growth both in sales and profits, since the company started production, Colour-Chem has suffered a set-back in earnings in its eighth year which ended on March 31, last. The year's sales turnover is not disclosed in the preliminary statement released by the company, but it shows gross profit down by more than six per cent and net earnings nearly 25 per cent lower than the previous year's levels. The dividend rate is maintained at Rs 16 a share, subject to tax, against the previous year's entire tax-free distribution. The dividend cover has come down from 3.45 times to 2.58 times.

According to the preliminary statement, gross profit is lower at Rs 158.78 lakhs compared to Rs 169.37 lakhs a year ago. After charging depreciation of Rs 15.66 lakhs (9.36 lakhs) and providing for development rebate reserve Rs 4.57 lakhs (0.56 lakh) and for taxation Rs 87 lakhs (90.50 lakhs), the directors are left with a net profit of Rs 51.55 lakhs, against Rs 68.95 lakhs, of which the proposed dividend demands Rs 20 lakhs (same). General reserve is allocated Rs 25.75 lakhs (41 lakhs), dividend equalisation reserve Rs 5 lakhs (8 lakhs) and gratuity reserve Rs 0.78 lakh (0.52 lakh).

Kirloskar Oil Engines

AS was anticipated by its Chairman a year ago, Kirloskar Oil Engines has once again come out with good results. According to a preliminary statement from the company for the year to March 1965, sales turnover has ex-

panded by 20 per cent to Rs 6.77 crores and gross profit has advanced by 27 per cent to Rs 1.24 crores. Even though depreciation has taken up more at Rs 21.75 lakhs (16.17 lakhs) and taxation Rs 56.50 lakhs (46 lakhs) and allocation to development rebate reserve is only a shade lower at Rs 3.67 lakhs (3.79 lakhs), equity earnings are about 40 per cent up at Rs 38.34 lakhs against 27.60 lakhs previously, after providing the same amount of Rs four lakhs for preferential dividends. The ordinary dividend is maintained at Rs 16 a share to demand Rs 9.60 lakhs (same), and the cover is strengthened from around 2.9 times to four times. In order to finance further expansion, the directors have proposed a rights issue at par in the ratio of five-for-twelve to raise additional capital of Rs 25 lakhs.

Firth Sterling Steel

OF all the tool and alloy steel projects licensed so far, Firth Sterling Steel Company of India would be the first to go into production. But the management apprehends that when the company begins production it is likely to meet a severe competition in the market as a result of the large quantities of high speed steel allowed to be imported against various credits. A representation is, therefore, being made to the Government not to allow imports of finished items. Meanwhile, the construction of the factory is completed, and the machinery of the first phase is under erection. The second phase of the project will be completed with the installation of the rolling mill that has been ordered from the US. The mill machinery is expected to arrive some time in the middle of the next year.

The total project cost is expected to rise considerably over the original estimates due to the imposition of the 10 per cent regulatory duty on imports. Moreover, it has now been decided, as far as possible, to import all new machinery owing to certain difficulties involved in obtaining re-conditioned machinery as was originally planned. The additional cost involved is being worked out, and is proposed to be met by a further assistance from IFC. During the year to March 1965, the company has shown a loss of Rs 0.35 lakh. Together with the previous loss, the total loss comes to Rs 0.98 lakh to be carried forward. An expenditure of Rs 2.67 lakhs incurred during the year has been transferred to "expenditure under construction account."

Tata Engineering and Locomotive Company Ltd

Statement of the Chairman Shri JRD Tata

THE following is the statement of Shri J R D Tata, Chairman of the Tata Engineering and Locomotive Company Limited, for the year 1964-65.

To the Members,

While the Company's operations during the year showed material progress over the previous year, they could have been substantially better had it not been for the troubles which arose on the labour front at Jamshedpur to which a reference has been made in the Directors' Report. Internal rivalries within the recognised Union which have split the ranks of our labour force, brought down standards of discipline and productivity and affected production. In fact, during the month of December 1964, the Company was compelled to shut down the plant for two weeks. The position at the moment shows some signs of improvement and it must be earnestly hoped that the situation will return to normal and better conditions will prevail during the current year.

2. During the year, the gross block of the Company increased by Rs 8.7 crores mainly in connection with the current expansion programme of the Automobile Division on which Rs 15.6 crores have already been spent. The first stage of this expansion has been completed and capacity for production at the rate of 18,000 vehicles per year, or 1,500 per month, has been established. In fact output in excess of this rate was achieved during the latter part of the year under review. Thus the large capital expenditure incurred during the last two or three years has begun to show appreciable results and an increase of 28% in turnover was achieved during the year together with a proportionate increase in profits despite rising costs of raw materials and bought-out components.

3. The final stage of the expansion for 24,000 vehicles per year is under way. The second A I D Loan Agreement for \$ 11.8 million has been finalised and orders for the requisite plant and equipment are now being placed. Additional capacity is also being set up for the production of Tata-PEH excavators for which the demand continues to be very good. This product

is already the second largest contributor to the turnover of your Company.

4. The improved profits for the year have made it possible for the Company to maintain the dividend on Ordinary Shares at 14½% on the increased capital without having to draw upon reserves as was necessary during the past two years. The allocation of Rs 16 lakhs to deferred taxation reserve was considered necessary by your Directors because the depreciation charged in the accounts, in accordance with the principles in force in your Company, was lower than that calculated under income-tax rules. The resulting tax saving this year will be made up by higher tax payments in future years for which the deferred tax allocation is intended to provide.

5. Prospects of further substantial progress in the current year were bright until the recent suspension of imports as a result of the foreign exchange crisis hit us without any prior notice. Since April 1965, the Company has received no import licences whatever for essential raw materials and supplies; neither has it received any indication as to when shipments will be resumed. The Company cannot hold excess stocks of imported raw materials and components in order to provide a cushion for an unforeseen major break down in supplies both because the rate of imports is closely regulated by Government and because of lack of finance. As a result, the cessation of imports for the whole of the first quarter of the current year has compelled us to cut back on production with effect from June 1965. Even if import licences for our full requirements for the year are issued in the near future, it will not be possible to make fully up for such loss of output and the production of vehicles during the current year is not likely to exceed materially that achieved in the past year while the incidence of depreciation and interest will increase substantially.

6. Such a situation is not only a source of great disappointment to us all but it also involves a serious loss to the country far transcending our own, for apart from Telco, the present foreign exchange crisis affects all manu-

facturing industries which require imports of materials from abroad. Thus, manufacturing facilities established by us and others at great cost remain partly unutilised.

7. While planning is recognised as a necessary instrument of rapid economic growth in a country in which scarce resources have to be allocated on a careful order of priority, sound planning requires that imbalances within the economy be foreseen and prevented as far as possible. The shortage of various kinds facing a number of industries today has arisen largely from the failure to back up the rapid increase in their capacity with a corresponding expansion of sources of indigenous raw materials and components, as a result of which additional capacity installed at heavy cost to the economy is only partially utilised.

8. The present situation in our own Company is a typical illustration of this state of affairs. When the current expansion of our Automobile Division capacity from 12,000 to 24,000 vehicles per annum was undertaken at the instance of Government as part of the overall expansion of the Automobile industry in the Third Plan, Government were fully aware of the requirements of special steels and other materials essential to the operations of the new facilities. Yet, at the end of the Third Plan and over ten years after we began to make commercial vehicles, virtually none of the special steels incorporated in our vehicles are made in the country or likely to be made for some years.

9. Instead of creating large additional industrial capacity which cannot be fully utilised due to paucity of foreign exchange or of indigenous raw materials, the logic of industrial planning should in fact allow, at the very outset, for some margin in raw materials and time—in raw materials, to ensure that the plant, when installed, is kept fully utilised, and in time, to allow for unexpected delays.

10. The high cost of borrowing has, as you will observe from the accounts, greatly increased the interest charges paid by your Company. The regulatory additional duty of 10% on the value

of all imports, indiscriminately on capital as well as current account, has increased our capital and production costs. During the current year your Company alone will have to pay almost Rs 2 crores more as a result of this new impost. Recently, a new measure requiring the deposit of 25% of the value of imported raw materials and components has been announced. This will impose yet another burden on the strained finances of the Company and industry generally.

11. Your Company has been conscious of the need to make vigorous efforts to earn as much foreign exchange as possible by exporting its products. Thanks to the assistance of our associates, Messrs Daimler-Benz, the export orders during the current year have increased significantly. The value of exports already made and of firm orders on hand exceed a crore of rupees. We have every hope that before long we shall be able to secure a sizeable export market for our products.

12. In view of the wide public interest evinced in the small car project and press reports about the possibility of your Company undertaking it, I would like to clarify the position as far as we are concerned. To your Company which has made a success of the production of commercial vehicles, the manufacture of a passenger car would be a logical extension of our existing operations and your Directors have therefore maintained their interest in the possibility of such a project being entrusted to Telco. In May this year, having ascertained that the Government of India might be willing to consider such a possibility, we held discussions in Germany with our partners, Messrs Daimler-Benz, to ascertain the feasibility of producing in India a suitable model of the DKW car manufactured by Messrs Auto Union which has been for some time a 100 per cent subsidiary Daimler-Benz. As a result of recent developments, however, Daimler-Benz no longer hold a controlling interest in Auto Union. Our discussions revealed that as a result of the altered circumstances and for other reasons, it would be neither desirable nor feasible for your Company to undertake the production of any model of the DKW. We have therefore had reluctantly to inform Government that we are not in a position to put forward a scheme for the manufacture of a small passenger car.

13. From recent newspaper reports, it would seem that the project is likely to be shelved for the present owing

to the current economic situation and foreign exchange crisis. While there is therefore no possibility of your Company entering the field of passenger car manufacture in the near future, your Directors will continue to keep the matter under review and hope that sooner or later the day may come when the Company will round off and diversify its operations by entering the passenger car field. With the continued industrialisation and economic development of the country and in view of our enormous population, it is clear that a large expansion in the production of passenger cars must be undertaken sooner or later. When that time comes, your Company, with its large resources and experience in the field of commercial vehicles, will be in an exceptionally favourable position to take part in such a development. I can only hope that circumstances and Government policies will then make it possible for us to do so.

14. Causes for rejoicing are so rare these days that I must refer to the gratifying landmark in the history of our Automobile Division, which we passed on the 3rd of June this year when our 100,000th Tata Mercedes-Benz vehicle came off the assembly line. As a token of our Company's appreciation of the support and loyalty which it has consistently received from users of our vehicles, we made a gift of the 100,000th vehicle at a special function at Jamshedpur to the Montgomery Co-operative Goods Transport Society, New Delhi in exchange for the oldest T M B truck on the road. This was despatched to its owners on the 4th November, 1954, and has since then given trouble-free and profitable service for about 500,000 miles. We can take justifiable pride both in the number of vehicles we have produced and in their high quality and productivity.

15. The production of our 100,000th vehicle brings into focus the progress achieved, in the face of innumerable difficulties and obstacles, since the beginning of the Automobile Division a little over ten years ago. In that period we have produced equipment worth Rs 356 crores, and saved about Rs 105 crores in foreign exchange; we have paid Rs 37 crores in wages, Rs 76 crores in taxes, excise and customs duty; distributed Rs 10 crores in dividends; invested Rs 40 crores into the business. Apart from the direct employment we have created for 15,000 people, a million or more people have obtained their livelihood from the 100,000 vehicles and other products we have

sold in the last 10 years. Last but by no means the least, we have created technical and managerial skills of the highest order, amongst the most scarce and valuable assets in a developing country.

16. We may therefore look back with some satisfaction on these ten years of achievement, progress and service to the country. To all those who have contributed to the success of this great undertaking, to our staff and workers, to our collaborators and our dealers we owe a deep debt of gratitude.

17. While we do not propose to rest on our oars after we complete our current expansion projects and will look for further opportunities of profitable and constructive expansion, I may assure you that we shall not overlook the need to digest our present programmes and to consolidate our resources in labour and managerial skills and in finance.

18. While we must be prepared for a temporary setback in the current year due to the cut back in our production, we shall by 1967 have established in Telco an incomparably strong, versatile, resourceful and self-sustaining engineering base. Subject only to uncertainties in regard to Government's future policies and the general economic situation in the country, our ability to produce and sell such a large volume of products of the highest quality should not only ensure the continued profitability of our operations and the financial security of our Company but also our ability to take full advantage of any rewarding opportunity that may offer itself for further growth in the years to come.

19. Before closing my remarks, I would like to record our deep regret at the passing away of one of our ablest and most loyal officials in the person of Mr V Srinivasan who was the Chief Accountant of the Company in Bombay for nearly nineteen years until his death in May this year. Your Directors have placed on record their deep appreciation of his invaluable services and devotion to duty.

20. On behalf of the Directors and on your behalf, I would like to express my thanks and appreciation to the Company's workers and staff who, under the leadership of Lt Gen S D Verma, our General Manager, have made possible the results achieved during the year in the face of innumerable difficulties.

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

Index Of Industrial Production

(Base: 1965=100)

Items	March	Febru- ary	January	March, 64
GENERAL INDEX				
Seasonally adjusted	189.2	184.6	185.1	173.2
Crude	191.2	179.9	187.7	175.0
Mining and quarrying	189.4	174.5	178.1	176.7
Coal	180.5	164.2	167.4	168.3
Manufacturing	186.0	175.7	183.3	170.5
Food manufacturing	159.0	151.5	157.1	149.7
Wheat flour	356.0	355.4	353.8	298.9
Sugar	346.7	352.2	373.0	...
Tea	23.1	16.8	20.7	19.1
Salt	159.0	79.3	53.7	207.7
Textiles	128.0	128.7	132.8	124.9
Spinning, weaving and finishing of cotton textiles	120.5	124.8	124.0	...
Cotton spinning	140.9	133.8	144.2	...
Weaving of cotton textiles	112.7	121.4	123.1	...
Mill sector	96.1	91.8	97.5	...
Decentralised sector	157.6	201.4	192.8	...
Spinning, weaving and finishing of wollen textiles	114.6	111.0	113.3	131.9
Spinning, weaving and finishing of textiles from silk and synthetic fibres	201.6	199.9	194.6	207.4
Spinning, weaving and finishing of jute manufactures	135.1	117.1	126.2	130.0
Chemical and chemical products	257.6	229.1	243.1	222.8
Basic industrial chemicals	402.2	374.7	392.3	361.4
Heavy organic chemicals	450.4	398.6	417.1	408.9
Synthetic resins and plastics	596.5	612.9	640.3	624.6
Dye-stuff	179.5	179.9	182.5	171.9
Fertilisers	324.6	245.4	271.9	235.8
Paints varnishes and lacquers	178.1	172.4	181.2	177.6
Soap	156.9	138.2	150.0	160.7
Matches*	149.6	129.7	135.8	94.6
Non-metallic mineral products	244.1	224.5	238.8	220.4
Structural clay products	264.5	245.6	258.2	207.0
Glass and glass products	178.3	173.9	174.3	181.2
Pottery, china and earthenware	354.3	340.7	368.0	282.1
Cement	214.5	191.7	206.3	207.1
Base metal	294.5	258.6	282.4	263.4
Iron and steel	308.6	268.7	297.0	263.4
Pig Iron	357.3	308.5	265.0	324.4
Finished Steel	386.4	329.3	337.3	328.0
Copper smelting and rolling mill products	152.7	143.2	76.3	180.8
Aluminium	410.4	366.1	409.2	392.9
Brass	221.2	217.4	208.3	190.4
Metal products	225.4	226.0	220.7	237.0
Bolts, nuts, screws, nails, springs, chains etc	196.0	196.5	186.2	165.9
Hand tools and small tools	584.1	603.8	596.7	531.8
Metal products not classified elsewhere	193.7	192.7	187.8	214.1
Machinery except electrical	564.4	456.6	470.8	392.7
Internal combustion engines	512.9	454.0	483.8	350.8
Industrial machinery	679.5	511.0	523.1	466.9
Commercial office and household machines	402.3	346.8	359.1	275.5
Sewing Machines	309.9	290.2	322.8	85.7
Electrical machinery apparatus, appliances and supplies	333.0	306.1	329.6	285.0
Power transformers	491.3	438.1	482.9	338.6
Electric motors	507.7	428.8	415.1	343.1
Electric cables and wires	356.0	330.3	376.6	319.9
Batteries	191.1	191.7	209.6	189.9
Electric Lamps	221.1	209.6	285.1	364.2
Radio receivers	375.4	328.2	328.4	307.2
Transport equipment	245.8	217.1	217.8	219.0
Railway wagons	171.2	153.2	155.8	163.7
Motor vehicles	284.1	257.2	251.6	258.8
Motor Cycles and Scooters	809.5	714.3	760.2	648.2
Bicycles (complete)	260.1	211.1	217.8	211.4
Electricity	320.6	293.1	313.0	280.7

* The statistics relate to six 'A' class units only.

BANKING RETURNS

Reserve Bank	July 16	July 9	June 18	July 17, 64
1. Note Circulation	2655.29	2689.34	2706.41	2478.87
2. Rupee Coins	2379.72	93.46	93.05	103.18
3. Deposits				
(a) Central Govt	65.28	77.42	52.99	53.74
(b) Other Govts	17.49	17.17	14.80	18.45
(c) Banks	131.28	114.05	102.38	110.10
(d) Others	243.51	228.41	181.19	190.27
4. Foreign securities	68.35	68.35	70.00	89.46
5. Balance abroad	9.40	4.46	9.47	6.00
5. Rupee securities	2379.72	2414.72	2438.07	2186.44
7. Investments	291.62	276.53	199.25	259.03
8. Loans and advances				
Govts to	576.4	44.22	80.84	21.12
9. Other Loans and advances	180.54	210.53	216.96	147.71
Scheduled Banks	July 9	July 2	June 11	July 10, 64
1. Aggregate Deposits (net)	2728.07	2725.22	2670.16	2409.80
Demand (net)	1364.97	1376.16	1317.66	1167.61
Time (net)	1506.68	1499.03	1467.16	1355.00
2. Cash in hand	72.42	76.97	71.30	60.78
3. Balances with the Reserve Bank	106.42	98.97	93.68	105.31
4. (2)+(3) as % of (1)	6.56	6.46	6.18	6.89
5. Borrowing from Reserve Bank	54.90	68.67	107.75	.48
(a) Against usance bills and/or promissory notes	.89	1.14	37.92	...
(b) Others	54.01	67.52	69.83	.48
6. Advances	821.21	1806.97	1774.31	1535.21
(a) State Bank	1451.64	449.24	449.38	327.42
(b) Others	1369.57	1347.73	1324.93	1207.79
7. Bills discounted				
(a) Inland	173.42	193.78	246.35	166.32
(b) Foreign	77.67	76.16	73.93	62.93
(c) Total	251.09	269.94	320.28	229.25
(i) State Bank	24.87	30.23	38.66	20.87
(ii) Others	226.12	269.71	281.62	208.38
8. (6)+(7) as % of (1)	75.21	76.21	78.44	73.22
9. Investment in Govt Securities	745.66	730.67	722.90	676.01
10. (9) as % of (1)	27.33	26.81	27.07	28.05



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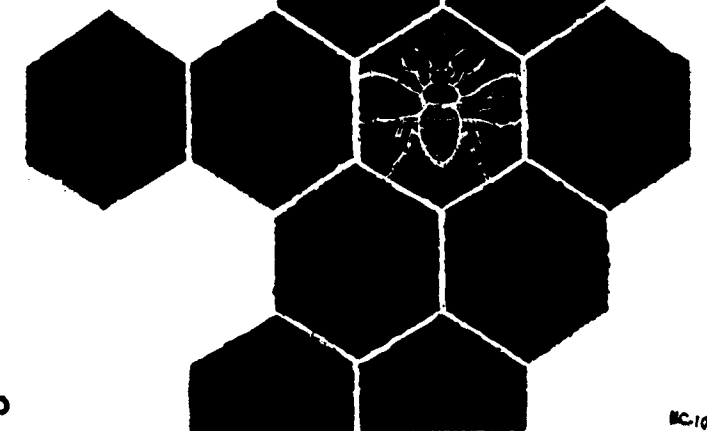
is another two-phase expansion programme to double annual production to 2 million tonnes of ingot steel. We intend first to introduce the latest techniques, and balance our existing plant and equipment to increase output by 30%. We hope next to look around and decide on the shape of phase II. Our planning will ensure that each phase complements the other with the lowest possible investment costs for the country.

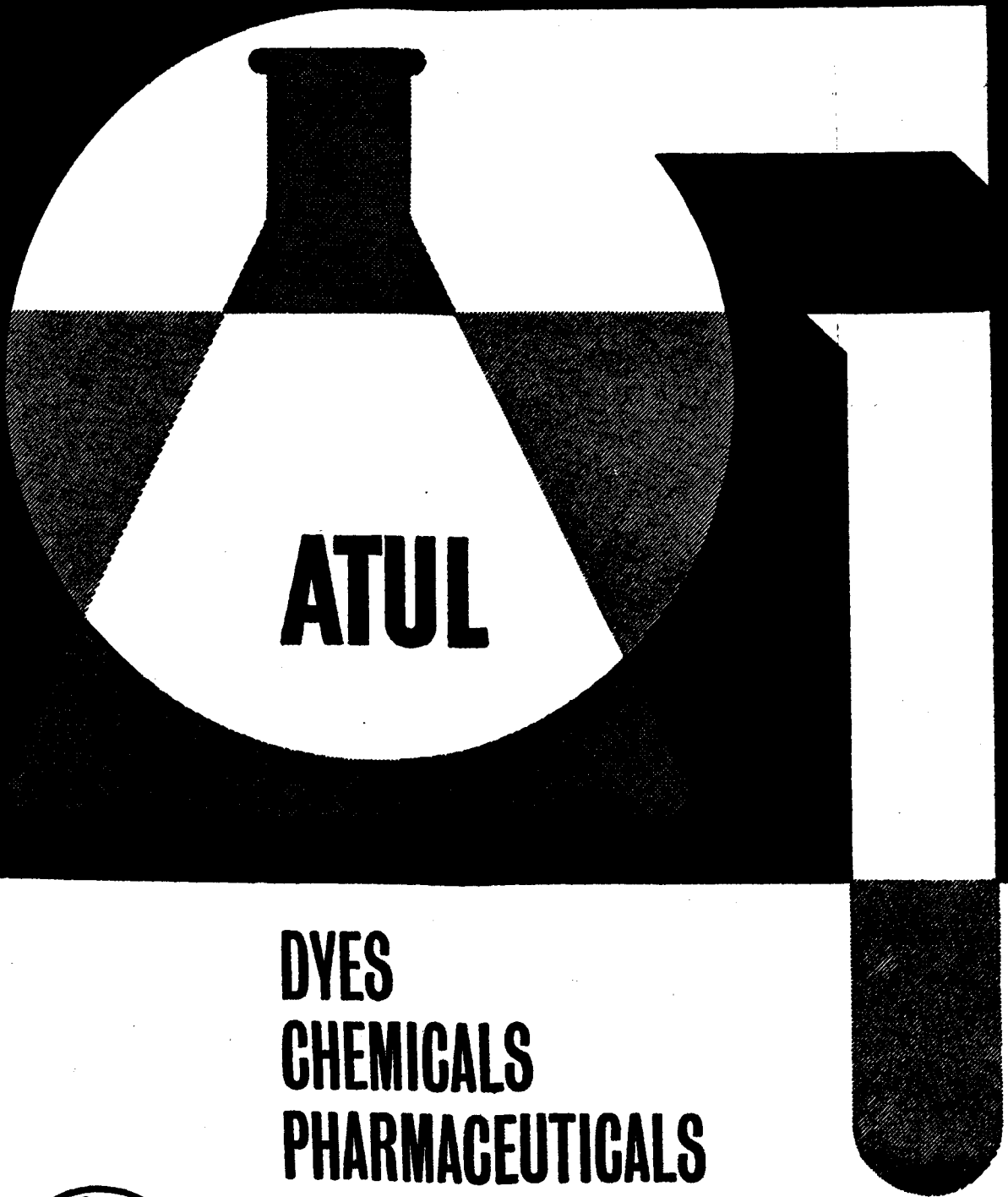
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THE ECONOMIC WEEKLY

JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

HOW ASIAN, THE ASIAN BANK ?
SURPLUS FLOWS IN INDIAN ECONOMY
INDIAN POLITICS : A HOPEFUL VIEW
BANGALORE AICC AND AFTER

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Managing Director

THE ECONOMIC WEEKLY

Vol XVII No 31 July 31, 1965

EDITORIALS

Congress Is Like That 1187
How 'Asian', the Asian Bank? 1188

WEEKLY NOTES

What Do These Figures
Mean?—New Winds among
Tories—PL 480 Burden
Made Heavier—Maldives:
Independence and After—
Misuse of Import Control—
Is There an Alternative?—
Emphasise Motivation, Not
Means 1189

LETTER TO EDITOR

Plan Size and Profits 1192

CAPITAL VIEW

Bangalore and After 1193
— Romesh Thapar

LETTER FROM SOUTH

Why Mysore Is Angry 1194

FROM THE LONDON END

Struggle for Tory Leadership 1195

BOOK REVIEWS

Regulated Movement of Indian
Politics 1197

— Jawid Laiq

A Textbook of Development 1199

— S K Nath

SPECIAL ARTICLES

Istanbul Agreement on Re-
gional Co-operation: Review
of the First Year 1201

— Satya M Rai

Surplus Flows in a Dual Eco-
nomy: A Case Study of
India 1205

— Yoginder K Alagh

AROUND BOMBAY MARKETS

Equities Drift Lower 1211

BUSINESS NOTES

Tata Engineering—Unit Trust
of India—Hindustan Lever
—Bayer (India)—Dhranga-
dhra Chemical—Cellulose
Products—New Standard
Engineering—EID-Parry 1212

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Congress Is Like That

IT had been widely believed and emphatically given out from knowledgeable circles that the Bangalore session of the AICC would be a stormy one, that there was seething discontent within the party, that this would find vociferous outlet and that there would be head-on collisions among the leaders, many of whom are in the State Ministries, not only over the many inter-State disputes but even on the outstanding question before the country today of a unified all-India food policy. Overshadowing all these, however, was the Kutch cease-fire agreement. Large sections of the rank and file of the Congress party violently opposed what they regarded to be an abject surrender and the aggrieved were spoiling for a fight with the High Command. The growing resentment against the High Command, it had been expected, would be pin-pointed in the sharp opposition to the resolution for allowing a second term of office to the Congress President and Secretaries, setting aside the very wise resolution, passed at the Hyderabad session some years ago with the active support of Pandit Nehru, directing that there should be no second term of office for them. And in the last few days before the AICC meeting the Goa issue had come up in a big way, but not South Viet Nam, despite what had been happening there: the escalation of the war with the liberation forces and against the sovereign state of North Viet Nam which has been subjected to increasingly severe bombing and the use of American forces in ever-increasing numbers as combatants. No, not Viet Nam, but it was Goa which had aroused popular passions. It was Mysore's violent protest on the Goa question and the black flag demonstration which greeted Lal Bahadur Shastri on his arrival that laid the setting of the AICC session.

Was it then that the AICC was too preoccupied with the country's internal problems to pay any attention to Viet Nam, prudently deciding that turning a blind eye on Viet Nam was not too high a price for foreign food and foreign aid?

Not even that. Food and foreign exchange or foreign aid were both shelved. The Central Food Minister made a statement that by August 15 a unified food policy would be settled. The Finance Minister circulated a note to the members of the Working Committee on the economic situation and on the Fourth Plan which was not even discussed at the AICC. Curiously enough, even the Kutch agreement which was guaranteed to draw fire was for that very reason kept out of the debate. The subject was treated generally in Shastriji's address to the AICC for the very prudent reason that once a formal resolution was moved, it would be difficult to avoid an open clash in view of the sharp divergence of views. In his general review of the international situation which scrupulously avoided any mention of Viet Nam, the Prime Minister only incidentally dealt with the Kutch dispute. The absence of any criticism of his statement can now be construed as an endorsement by the party of the Government's position.

There were hard-hitting speeches and much airing of grievances at the beginning of the session. A little blowing off of steam does nobody any harm. The session was conducted with an adroitness, not unlike that of an experienced and wise board of directors managing a stormy shareholders' meeting. The AICC concerned itself almost exclusively with internal party matters and with the problem of setting its own house in order. The High Command got an almost unanimous vote of thanks in the resolution extending another term to the President and the Secretaries of the Congress, if considered necessary. Morarji's was the lone voice of opposition but it was an opposition which he prudently, and for obvious reasons, did not press to a division.

This is not to under-estimate, however, the importance or gravity of the problems which the session sought to deal with. One was that of inter-State harmony, on which a resolution was carried to the effect that all efforts must be made to settle inter-State disputes by mutual negotiations and in cases where such efforts do not succeed, the Government of India should set up appropriate machinery for a speedy and final settlement of the disputes. The other resolution was on organisational unity; to resolve faction fights among Congressmen, it was recommended that the Working Committee should

constitute a panel, out of which the President may appoint boards to settle all differences.

Whichever way one may look at it, one may still ask what was there so very special about the Bangalore session? It has always been like this. The rank and file may let off a little steam but the Congress leaders know that in the end they come round and, as always, the High Command has its way on all the issues. What does make a difference, and this is what lends significance to Bangalore, is the support the High Command gained for itself, and for its members. For, a second term of office means just that. This comes at a time when Lal Bahadur's own position had not been secure beyond doubt. It now is. The Syndicate or triumvirate no longer rules. It is now Lal Bahadur and Kamaraj and the earlier evidences which suggested a lack of accord between the two, as on the language question or on the size of the Fourth Plan and its con-

How 'Asian', the Asian Bank?

NOTHING could be more misleading than the reports appearing in the Indian Press, some of which are obviously inspired from New Delhi, that the Asian Development Bank will have an Asian bias and will have a majority Asian vote and that "this will be in striking contrast to the World Bank, which has an American accent and an Atlantic bias" (*Indian Express*, July 23).

This unfortunately is not the true position and a look at the shape of things to come suggests that the bank and its operation will be completely dominated by the USA through her friends in Asia like Japan, Thailand and Australia. Right at the very start the bank has got off on the wrong foot and wool is being pulled over the eyes of the Asians. This will be very clear from the progress of the proposal so far.

Until recently the Americans were very cold in their attitude towards the Asian Bank. At the meeting of the ECAFE in March in Wellington, the American delegate made a statement in which he expressed considerable doubt that such a bank will really help, and he made the US offer of any capital subscription to the bank conditional upon the Asian members raising a substantial part of the capital themselves first. The representative of the

comitant, a greater devolution of economic powers and functions to the States, are now to be definitely discounted.

The analogy cannot be drawn from the record of political parties in parliamentary systems elsewhere that party conferences lack much significance as a guide to future government policies on the ground that the Prime Minister and the Cabinet are accountable to parliament alone, and to no outside body, not even to the party conferences. For that situation to arise the Prime Minister and the parliamentary party have to attain the requisite status. The inference may not be unwarranted from his handling of the Bangalore session that Shastriji is now coming up to that status, if he has not already achieved it. And he has done so by his own technique of quiet diplomacy, working through compromise and conciliation, rather than by facing up to problems and attacking them boldly.

World Bank doubted whether the bank would be able to add any fresh capital to what was already flowing into the area and this statement drew an angry rejoinder from the Executive Secretary of the ECAFE. The Japanese, too, until last year were very doubtful about the wisdom of setting up such a bank and their spokesmen made no secret of it that Japan would prefer to set up a separate Japanese Development Bank.

All this suddenly changed when President Johnson made his somewhat dramatic announcement that US will put a billion dollars aside for providing assistance to South-East Asia in an effort to show to the world that Americans could also hold up the carrot while wielding the big stick in S E Asia and appointed the former President of the World Bank, Eugene Black, as the administrator of this Fund. At this point US economic policy in South-East Asia underwent a sea change all of a sudden. Soon after this, Walter Rostow, the State Department's top economic planner paid a fortnight's visit to Japan where, among other things, he discussed with members of the Planning Agency in the Government of Japan the joint role of USA and Japan in the economic development of S-E Asia. This was followed by the visit of a high-powered Japanese Economic Mission

which spent a couple of weeks in Washington. Eugene Black paid a special visit to a meeting of the Asian Bank Consultative Committee in Bangkok and offered \$200 million out of the \$1 billion Fund towards the capital of the Asian Development Bank, without any prior condition that Asians raise their own contribution first. The Japanese delegate in the Consultative Committee developed overnight a lot of warmth for the Asian Development Bank and even the Thai delegate struck a very enthusiastic note in sharp contrast to his earlier reservations. Thailand is also wooing Malaysia to form a bloc with itself so that Malaysia and Thailand may act together within the counsels of the Bank.

The emerging strategy for the bank is thus becoming quite clear. Out of the proposed \$1,000 million capital of the bank, about \$500 million is to be raised between Japan, USA and America's "Asian" cousin, Australia. With the help of other countries like South Korea, South Vietnam, Philippines and Thailand, and Malaysia being also drawn into this constellation, a solid block of \$600 million will be under one control—USA-Japan control. The rest of Asia—India, Pakistan, Burma, Ceylon, Afghanistan, Nepal, and Iran—will contribute and, therefore, control voting strength of less than \$400 million, with India's share at about \$90 million as against Japan's quota of \$200 million. India will in this case be in a permanent minority along with the bloc of countries other than those in the Pacific area. USA and Japan with all the smaller countries in the Pacific area which are virtually US allies will dominate the bank's management, even though they may offer India and Pakistan a few glittering but ineffective positions on the bank's management staff!

India's position in the Asian Development Bank will not be as good as it is in the World Bank. In the World Bank, India's share capital is significantly larger than that of Japan and India appoints a permanent director, not an elective one. This position of pre-eminence has been sought to be challenged by both Germany and Japan in recent years but neither has succeeded in obtaining a larger voting strength than India's. India's role in the World Bank, though presumably based on the volume of capital subscription, of which only 18 per cent is paid in US dollars and the rest in local currency but also to its national in-

come, population, size and such other factors. On these grounds India's position as a shareholder in the World Bank rests on considerations other than its contribution in foreign exchange. Such a position was secured for India by the British who argued the case for India when the World Bank was first established.

Now in the case of the Asian Development Bank, where we are arguing our own case, it is sad to find that we have not been able to secure for India a position comparable to what we have in the International Monetary Fund and the World Bank. Here Japan acting jointly with the USA will have the predominant voice. It is now common

knowledge that a Japanese will be the first President of the Asian Bank and even his name is not much of a secret. India will have to take whatever position is offered to it by the Japanese and the Americans and will at no time be able to mobilise enough voting strength to neutralise any policy stand jointly taken by the USA and Japan. This position of inferiority is being accepted for India with open eyes by the Government of India and its civil servants, who play the role of bankers and do not even care to grasp the basic issues.

In the case of the African Development Bank which came up well ahead of the Asian Development Bank, the

Africans successfully resisted the temptation of having their bank dominated by non-African powers. But as it is emerging, there is little that is Asian about the Asian Development Bank. India which supported this project with considerable enthusiasm at all stages is being relegated to an ineffective minority position and is hardly aware of what it is doing to harm its future role and stakes in the World Bank and the International Monetary Fund. For, in the counsels of the World Bank and the Fund Japan can now turn round and challenge India's position by citing and using its own pre-eminent position in the Asian Development Bank!

Weekly Notes

What Do These Figures Mean?

THE figures of targets of and achievement in employment are among the statistical curiosities of planning in India. It is, of course, entirely understandable that liquidation of unemployment should be given its due place of importance among the objectives of planning and also that attempts should be made to measure the progressive impact made on the problem by the plans. The conceptual problems of measurement of employment and unemployment are well known. The National Sample Survey has established that the number of persons without work and actively seeking work at any time constitute a negligible proportion of the working force. Unemployment really takes the form of less than full-time work for those capable of working and the only way of measuring it is by estimating the frequency distribution of persons according to degrees of underemployment. This approach was found too complicated by the planning authorities in the country who took recourse to a method of calculation which yields figures of the number of employed and unemployed persons. The result is that all figures of targets and achievement appear completely meaningless though, as one is never told exactly how the underemployment figures are translated into figures of unemployment, they never get challenged by anybody.

There seem to be three stages in the calculation of unemployment figures. First, the addition to the labour force during a plan period is calculated on the basis of population growth. With this part there can be

no quarrel. Next, some figures are produced purporting to be the employment potential of the plan in terms of persons to be employed additionally. Presumably certain crude sectoral employment-outlay ratios are used. What empirical basis these ratios might have is not known. For one thing, in most branches of the economy empirical data relate to total amount of labour time employed, not to the number of persons employed. Second, very little information is available about the labour time employed usefully in such sectors as agriculture and the services. All the same, a target of 3.5 million additional employment in agriculture was cheerfully set for the Third Plan (without counting employment generated through the rural works programme) and even more cheerfully now it is claimed (on what basis?) that this target is going to be fulfilled. No doubts are felt by official statisticians on account of the non-fulfilment of physical targets of production in agriculture. Not that employment in agriculture ought to be proportional to output, but to what is it considered proportional and why? The third stage of the calculation concerns employment actually created. One understands the proportions of fact and fiction in this calculation if one considers the official statement that there will be a shortfall of one million in the Third Plan employment target which was 14 million "new jobs". The anticipation that 13 million "new jobs" will be actually created in the Third Plan is based on the direct evidence that in the public sector and in industrial units employing 25 or more persons in the non-agricultural private sector employment had gone up by about 1.5 million by the middle of the Third

Plan and that by the end of the Plan the figure might reach 4.5 million. Another 5 million employment opportunities are assumed to be generated in the small industries and the services sector and another 3.5 million in agriculture — both these on the basis of no evidence one can think of!

One indication of the calculations underlying these "estimates" being meaningless is that they seem to be quite insensitive to other aspects of the performance of the economy. The figure of 13 million "new jobs" likely to be created in the Third Plan was arrived at as early as in the latter part of 1963. All the evidence about the performance of the economy since then appears to have necessitated no change at all in the estimate. The fact that these figures do not really mean anything at all to even the planners and policy makers is seen from the very different interpretations of them by Cabinet Ministers themselves. In August 1963 the then Planning Minister, G. L. Nanda, spoke despairingly of the ever-widening gap between target and achievement in employment in different sectors, and confessed his ignorance about how the gap could be bridged. It was hopeless to expect, according to him, that the proportion of the agricultural population to the total would shrink from 70 per cent to 60 per cent during the 15-year period up to the end of the Fifth Plan. However, T. T. Krishnamachari, on the basis of exactly the same data, expressed in November 1964 the hope that by the time the Fifth Plan was implemented unemployment would cease to exist. And more recently in January of this year the present Minister of Labour, Sanjivayya, spoke heroically about what was to be done to attain the

"objective of providing employment to all work-seekers by the middle of the next decade" and thought it possible "to reduce the proportion of working force dependent on agriculture to around 60 per cent by 1976"

New Winds among Tories

AFTER a long holding operation, Alec Home has resigned the leadership of the Conservative Party and Heath has been elected leader.

The succession has a number of striking features. For one thing, this is the first time in the history of the party that a leader has been elected by ballot. This can be said to be an unwitting achievement of Macmillan; if he had not blocked a democratic selection of the leader last August, the method of selection would not have become a live issue and Home might not have had to promise a ballot. But more significantly, the ballot reflects the social disintegration of the ruling circle in the party. Until very recently, the honorary character of full-time party jobs had kept them in the hands of men of means; and among them, those who went to Eton and Harrow maintained a social homogeneity which ensured inbreeding of the leader.

This time there was not a single Etonian or Harrovian among the chief contenders. Heath, Maudling, Power—these were all outsiders. Further, they had all made their mark in something besides politics. So within a year the party has gone over from the dynastic principle to choice by merit. The change cannot but have a grave influence on the balance of power within the party. We might expect dynastic power to decline. Its decline was portended even when Macmillan defied Salisbury over Rhodesia in 1963. Now men of the dynasty are inconspicuous even on the back benches.

It is also possible that struggles within the party might revolve more around principles and issues and less around personalities. The preoccupation of the party with Macmillan in his last years and with Home in the past few months is well known; Heath is unlikely to give rise to such speculation and intrigue. On the other hand, the conflict between the reformist tendencies represented by MacLeod and the *laissez-faire* doctrines expounded by Powell might have a greater chance of reaching the party rostrum. Such a development will make the party less of a subject of gossip and render it more amenable to discussion. For the next few months, however, both gossip

and discussion must be stilled, for the foremost goal of the party will be to force and win a general election.

PL 480 Burden Made Heavier

THE hurried exchange of notes between USA and India for the sale of one million tonnes of PL 480 wheat to us has some surprising features. Amidst recurrent official claims about generally good crops it is odd that the need should have been felt for such an emergency arrangement. But then we know that neither the government's long-standing programme of building up buffer stocks nor this year's procurement campaign has made the expected progress so far.

The other feature of the arrangement is a bigger surprise: the US government has made the related terms less generous than before. Half the total imported wheat comes in American ships; now for the first time India will have to pay the freight charges in foreign exchange. Previously 80 per cent of the sale proceeds of the wheat were made available to the Indian Government for development purposes; now the percentage has been lowered to 75. The proportion retained by the US has been used for such purposes as covering the expenses of her various missions in India, giving loans to American firms here, giving aid to other countries like Nepal and Burma, and selling rupees to American tourists. It has recently been reported that the USA now wants to intensify such uses of her soft currency holdings in the under-developed countries. In a very real sense the 25 per cent of the price of the imported wheat that the USA uses in this way represents a loss of foreign exchange that we might have earned otherwise. Hence it is wrong to consider PL 480 wheat as entirely free.

And there are other and less obvious costs. Of the share of the sale proceeds (80 per cent) that used to be given to the Indian Government only half was in the form of grants; the other half used to be in the form of loans. This latter amount is the property of the US Government—even though it can use this amount only on projects the Indian Government agrees to. Moreover, since this amount earns interest in one form or another, it has been growing. According to a rough estimate made in 1962, the various rupee holdings of the US Government were expected to amount to about one-fifth of the total Indian money supply by the end of the Third Plan. It was

further estimated that if the arrangements for the disposal of these funds (partly as loans instead of totally as grants) were to remain unaltered, then in another two to three decades they might roughly amount to one-third of the Indian money supply. "Money supply" is a hazy concept; so these estimates are necessarily exceedingly rough. Yet they do show that a part of the PL 480 funds (the part which is given to India as loans) has been accumulating in a way which might in the long run raise serious problems of liquidation through either a transfer of resources from here to the USA or their belated final use in India.

It was for such reasons that the present Chief of US AID mission in India, John P Lewis, had recommended in his book ("The Quiet Crisis in India") that in future PL 480 agreements a larger proportion of the sale proceeds should be given to India as grant and that even the old agreements should possibly be renegotiated to incorporate this provision. But the recent exchange of notes about the one million tonnes of wheat—while a new PL 480 agreement is being negotiated for the next year, under which India is requesting for 6 million tonnes of wheat and 200,000 tonnes of rice—provides that no part of the 75 per cent of the sale proceeds which will be given to the Indian Government will be in the form of it will now all be a loan. We can only hope that this is a temporary aberration and that our negotiators will not let such a provision be included in the new agreement.

Maldives: Independence and After

THE British-protected sultanate of the Maldiv Islands became a sovereign nation on July 26. This group of 2,000 islands of which only 214 are inhabited, situated 400 miles south-west of Ceylon, achieved independence at the price of allowing the continuance of a British base on the island of Gan till 1986. The Sultan, Mohammed Farid Didi, had demanded independence as far back as 1958 in return for the re-establishment of a Second World War airfield at Gan. Negotiations broke down and by a remarkable coincidence a revolt led by Abdullah Afif Didi broke out in the southern Maldives where Gan is situated. The Sultan accused Britain of inspiring the revolt in order to pressurize him into agreement about the base. A year later Abdullah Afif's United Suvadive Islands Government dissolved itself. The British re-started negotiations. The

outcome, after several years of wrangling, is freedom for the Maldives with the proviso of continued British military presence on the island of Gan.

For the time being both parties to the agreement are content. This state of tranquility is, however, unlikely to last for more than a short time. Nationalist sentiment is gathering strength for a showdown against the British as well as the feudal oligarchy of the Sultan. The British are unlikely to come to terms with nationalist sentiment as Gan is a vital refuelling base for British military planes flying to Malaysia and the Far East. As long as Britain retains her defence commitments in Malaysia she will have to maintain her base on Gan at all costs unless she builds a base in the Seychelles or some other group of islands in the Indian Ocean. If the Anglo-American plan "to fill the power vacuum" in the Indian Ocean or the "Nuclear Umbrella" plan materializes then it is quite possible that Gan will be converted from a staging post into an air base for nuclear bombers. If this happens only the gods will be able to save the Maldives from becoming another little unwilling pawn in the game of big-power politics.

Misuse of Import Control

THE cut in the import quota for books to 37½ per cent of last year's imports betrays thoughtlessness as well as an illiterate habit of mind in the Ministry of Commerce. In the absence of quality control, imports of books of scientific and literary merit will bear the brunt of the cut while fast-selling cheap fiction will continue to be sold in heaps on our pavements. Apparently the latter constitutes the staple reading of our policy makers. The selection of books displayed in our best bookshops is poor even in comparison to bookshops in Beirut; now the government is stepping in to reinforce the sluggish ways of our booksellers and reading public.

The common arguments regarding the balance of payments and import substitution have no application to books. Books constitute less than a four-hundredth part of our imports; there are far more harmless, painless and effective ways of reducing imports. And imports substitution of knowledge will be hampered rather than encouraged by the reduced imports, for the discovery of knowledge is a skill that has to be learnt from example.

Hope that the cut in quota will help Indian publishers is misplaced. High cost of paper as well as the small market will continue to inhibit the publication of foreign books in India, while books published by Indian publishers simply are not close enough substitutes for foreign books to benefit from the restrictions. The only beneficiaries will be the subsidiaries in India of foreign publishing houses. They have raised the exchange rate for pricing the books imported by them to 90 paise per shilling and there is a prospect of further rise to a rupee a shilling. So much for the import cut that is to defend the values of the rupee.

Compared to the effect of the import cut, that of the 25 per cent import deposit is even more immediately catastrophic. Let alone the paperwork generated in making out invoices for the exact value of books to be imported including their postage and other costs and in the issue of receipts by the Reserve Bank (perhaps this would be considered an achievement in our paper-ridden country); the system imposes responsibilities on foreign publishers which they have no interest in fulfilling. It is only as a matter of convenience to prospective buyers that publishers give out approximate prices and dates of publication in book lists, they neither commit themselves to either nor send out notifications on publication. Now, however, an Indian importer needs to know the exact price to be able to calculate the import deposit. Since the price becomes fixed only on publication and as the importer would be disinclined to let his working balances lie idle longer than is necessary in the Reserve Bank, he will tend to order books only after he knows that they have been published. This is not only much less convenient than the present system wherein importers keep running accounts with publishers and let them know their requirements early, it will also increase the delay in getting books from abroad.

Import restrictions are very powerful investment in the efforts to manage our parlous payments; they are both necessary and useful. In the case of books, however, they are being perniciously misused.

Is There an Alternative?

A correspondent writes:

WOULD it be a bad thing if the starting of Fourth Plan projects is delayed by a year or two, as demand

ed by the World Bank and other members of the Consortium? The demand has not been made that blatantly. It is couched in more positive language: the Consortium will give adequate aid for completion of Third Plan projects and for bringing their production to capacity level; project aid would be confined to the setting up of balancing projects. Aid for Fourth Plan projects would be considered after this consolidation is satisfactorily completed—and sufficient care has been taken of agriculture and public enterprises. Had India been a creditor in this kind of situation, it would have imposed the same—or stiffer—terms. The creditors are within their rights to demand that full value be recovered for their money; whether and when they do so loudly or diplomatically is up to them to decide.

The choice before India was either to have a strategy and pattern of development which minimised dependence upon foreign aid and investment with all that it implies in terms of consumption restraints and the political and administrative capacity to carry it out or to maximise such dependence for a couple of decades in the hope of reducing it substantially later. We chose the latter course, which has run into trouble principally due to two reasons. Creditor countries were misled by the analogy of the Marshall Plan into believing that aid to under-developed countries was a temporary shot in the arm and are now disillusioned to find that it is a very long-term proposition in which things get worse before they have a chance to get better. At our end, avoidable mishaps and delays have tended to give the impression of impaired credit-worthiness with understandable consequences.

Leaving aside the heroic statements about a Rs 22,500 crore Fourth Plan, the fact is clear that its real size has been greatly whittled down by price inflation and that its physical components are still uncertain in terms of magnitudes and pattern as is the ability to achieve them. There can be no sanctity about the figure of 22,500 or the sector-wise targets when long delays in attaining them are taken for granted all the time. Widespread cynicism has now taken away the popular appeal which targets were supposed to have; that does not make targets useless or meaningless but it takes the shine off them. Targets are meaningful in terms of timely achievement at reasonable cost and in terms of inter-sectoral balances; to the extent these

qualities are tarnished, targets cease to impress people at home and abroad.

The upshot of all this is that since we are unlikely to be able to change our strategy and pattern of development to minimise dependence upon foreign aid, we have really no alternative but to settle down to such phasing of the Fourth Plan as would enable us, in the first two years, to realise the full benefits of past investments and to realise them in such a manner as to reduce the demands on foreign exchange in future years. To some extent this would come about automatically because greater production of intermediate and capital goods and food would obviate imports. It is quite possible that if this policy is carried out properly it may help fulfilment of the original long-term targets of investment more easily. In any event, a phased plan of this nature would be better than a large plan on paper and then exposing it to spasmodic and *ad hoc* cuts which would upset the entire balance of the plan.

Emphasise Motivation Not Means

THE country celebrated a family planning week from July 15 to 22 with promoting the use of intra-uterine contraceptive devices (IUCD) as the main goal. While in the country as a whole the campaign to propagate IUCDs was restricted to urban areas, with an adequate contingent of doctors Maharashtra has decided to take it to rural areas as well. During the same week, the Federation of Obstetrics and Gynaecological Societies of India sponsored in Bombay, a three-day International Medical Seminar on Modern Contraceptives which was inaugurated by the Union Health Minister. Earlier, there was a report from Lucknow that under the auspices of the Public Health Service Department of the Central Government, a researcher discovered a herb, *Butia Monosperma*, to be effective as contraceptive, if used with some other seeds.

For quite some time now there has been much talk of a "crash programme" to lower the birth rate. But one wonders whether in our frantic search for a solution to the problem of rapid population growth, we are not clutching at any straw that comes our way. Official policy seems to change emphasis frequently. The rhythm method was in vogue during the First Plan period. Later the emphasis shifted to foam tablets and the like. The

draft outline of the Third Plan marked the beginning of emphasis on vasectomy and now we are out to promote IUCDs as the final solution to our problem. There is no doubt that the country must take advantage of the latest advances in contraceptive techniques; the emphasis on propagating IUCDs is, therefore, most welcome. But sometimes one does get the impression that a sense of balance is lacking.

It seems to be forgotten that before propagating this method or that, what has to be done is to create the motivation for family limitation. Specific techniques are less important because even a less efficient technique such as *coitus interruptus* can lead to a significant drop in the birth rate if it is adopted by a sufficiently large segment of the population, as the experience of some Western countries bears out. Our mass-media are still to evolve an effective programme to take the "gospel" of family planning to the millions in the rural areas and it is in this sphere that the crash programme must make a dent. Similarly programmes to impart sex education to those who will soon enter the reproductive ages are virtually absent — a lacuna which increases every year the number of uninitiated persons who must be contacted by the special family planning workers.

Incidentally, the Bombay seminar on modern contraceptives reportedly produced a consensus against the adoption of abortion as a means of family planning and against its legalisation, seeing in it "certain inherent dangers" which the seminar thought should be made plain to the people. International experience in the Scandinavian and Eastern European countries seems to suggest that the dangers of legalising abortion can be exaggerated and that, in any case, these dangers are not "inherent". It is possible to legalise abortions only in certain areas; and it can be permitted only in cases which satisfy certain conditions. Its main role can probably be to mitigate the complex problems arising in cases of accidental pregnancies, occurring despite the use of contraceptives—including the IUCDs. Thus abortion need not necessarily be adopted only as a full-fledged part of the family planning programme; yet it will have a vital role to play in family planning under certain restrictive conditions. It is to be hoped that the committee appointed to study various aspects of legalising abortion will take an objective view of the problem.

LETTER TO EDITOR

Plan Size and Profits

I ALWAYS read Romesh Thapar with interest but must he make such sweeping generalisations?

In your issue of July 10 he asserts that "anti-planners are mobilising behind the slogan of consolidation to blunt our development effort which they see as a growing threat to the *status quo* of privilege and profit" I do not know what he means by this but if he is equating big plans with low profits and *vice versa*, he is quite wrong.

Businessmen have known for a long time that big plans mean big profits. Only our bright economists and statisticians have had to wait for Mahalanobis and Co's dismal report on income distribution to discover that the present pattern of plan expenditure has led to greater inequality in incomes. Romesh Thapar might usefully refer to your issue of July 3, 1965, in which Ashok Rudra has pricked some of the bubbles in K N Raj's vast apologia delivered at Nalanda. "The obvious conclusion to draw", says Rudra "is that the incremental income has been distributed more unequally than the average income, which implies a change in the income distribution towards greater inequality. This is also one important aspect of the 'performance and prospects' of the Indian economy."

There is little doubt that a bigger plan will increase rather than reduce the trend towards inequality. One reason for this is that a big plan will almost certainly be implemented more inefficiently than a small one and Thapar must know that in an inefficient and non-competitive milieu it is the relatively better organised and efficient people—like businessmen—who tend to corner all the profits. No sir! Romesh Thapar must really think twice and come up with more convincing reasons as to why the business community is opposing the 'growth maniacs' in Yojana Bhavan.

On the available evidence, therefore, 'privilege and profit' have little to lose and a great deal to gain by big plans, even if the country goes to the dogs. Or is it that the rich and the privileged care for the country too?

J DUBASHI

Delhi,
July 15.

CAPITAL VIEW

Bangalore and After

Romesh Thapar

THE blue sky is now visible over Delhi. The monsoon has arrived. The green is breaking through the parched shrubs. The dust has settled. But the atmosphere of the Capital is anything but refreshing. We are living with a heap of crisis, and there doesn't seem to be anyone around with the guts to attempt to sweep them away. So, like local soothsayers, we are waiting for the stars to turn auspicious.

Morarji's Friends Abandon Him

The Bangalore session is as good a peg as any to hang the events of the past fortnight. To begin with, Morarji Desai is probably the most disappointed man in the Congress Party today. Plying his charkha three hours a day, with plenty of time to meditate upon the erosion of his role ever since he was 'Kamarajed', Morarji Desai had planned rather thoroughly to challenge the established leadership of Lal Bahadur and his friends. His technical objections to permitting Kamaraj another term as president of the party were designed to test his strength for a major collision which he believed would force the formation of a dedicated and principled opposition to the ruling group within the party. But all his plans went awry. In Bangalore, he stood almost alone. Even his closest allies faltered when the moment of challenge arrived.

Prime Minister Lal Bahadur is no chicken. As I have always said, he is most skilled in handling the unprincipled tussles which now dominate the Congress Party. This skill he brought into play when Morarji Desai made known his order of battle. The ambitious Atulya Ghosh was persuaded by fellow-conspirator S K Patil to withdraw from the presidential contest with the loaded argument that a contest would be exploited by Morarji Desai to push Jagjivan Ram, or even Vijayalakshmi Pandit if the situation warranted. Atulya Ghosh had also been made more than ordinarily receptive by a carefully encouraged threat to his leadership of West Bengal Congress from the Congress organisation in the Midnapore district.

Mrs Pandit Kept Out of AICC

As soon as this gambit had paid off, Lal Bahadur watched with mounting

amusement the embarrassed antics of Orissa's Patnaik and some of his supporters, like ginger-grouper S N Misra, who were opposed to a second term for Kamaraj. He had earlier neutralised the Uttar Pradesh and Bihar factions. It appeared to the ordinary observer that Morarji Desai would have to hold his ammunition for another day. But Lal Bahadur was taking no chances. Vijayalakshmi Pandit had asked to be nominated to the AICC. Lal Bahadur was only too willing to oblige. However, he left for Bangalore without making the nomination, but after permitting the rumour that Indira Gandhi had vetoed the nomination!

According to the political gossips in the Capital, Lal Bahadur had good reason to keep Vijayalakshmi Pandit far from the AICC. He had been informed, it is said, that Morarji Desai was planning a desperate counter-move to stun the ruling group. Vijayalakshmi Pandit would be mobilised to attack the idea of a second term for Kamaraj, and would at the same time be presented as a possible presidential candidate. Lal Bahadur would have to oppose Nehru's sister. Indira Gandhi would perhaps play the neutral. There would be embarrassment all around. A situation would be created very similar to the one on the eve of the elections within the Congress parliamentary group when Vijayalakshmi Pandit had to be persuaded to withdraw.

Morarji Desai refuses to accept the general opinion that his political fortune is at its nadir. His speech at the AICC session may be dismissed as the double-talk of a cornered politician, but he sees it as the beginning of the revolt against the dead conformism which prevails in the AICC and which he, among others, had done so much to perpetuate in the past. However, it is clear that he will have to move beyond peripheral sniping at this or that policy if he wants to create major repercussions. At the moment, the operation has all the flavour of a gang-up for squeezing tickets out of the ruling group, tickets for men opposed to the guiding principles of Jawaharlal Nehru's policies. Even the Congressmen who support Morarji Desai see it as nothing more and nothing less.

It will be political wilderness for those who oppose the Congress Esta-

blishment unless they thrash out a plan which makes sense in terms of the crisis which confronts the country. Tough postures are not enough, for they tend to make them appear irresponsible despite the supposedly fearless and upright stand of their leader. Morarji Desai's attempt to enunciate an approach to policy-making through pompously-worded (or ghost-written!) newspaper articles creates the kind of reaction which he least expects.eldom has a man been so badly advised. Or are these the inner voices he hears when spinning the charkha?

Need for a Right Wing

I say this because many knowledgeable observers in the Capital would like to see the emergence of a coherent right wing in the Congress Party. This would provide a healthy foil for those in the Centre and on the left who now wish to make the party face up to the massive problems which the country will face during the next crucial decade. These problems cannot be tackled by the in-fighting expertise Lal Bahadur has exhibited in dealing with those who would dislodge him. Something more fundamental is demanded, together with bold and inspiring leadership. A whole people have to be lifted from their wretched state. And yet policies have to be implemented not by *diktat* but by persuasion. The task looks forbidding.

Returning from Bangalore very much in the saddle, Kamaraj will have to knuckle down to this job. The state of tension and demoralisation in the various departments of the GOI and among the factions into which the leadership is divided call for close co-ordination between the ministerial and organisational wings of the ruling party. Confidence has to be created—and it will not be created if the leadership continues to trot out generalities of the kind it used for rejecting suggestions that India's currency be devalued to salvage the economy and restore its health. At no point has the public been educated on the issues involved. If the World Bank is in error, let us prove it conclusively. The way the debate is being conducted suggests that the Ministries which now envelope us with rules and regulations—often self-defeating—are loth to open the door to doubts which might des-

stroy their extraordinary power. And, ironically, the debate is not joined by our economists. Something must be done to spark the controversy. This feeling prevails within an important section of the Cabinet, too. Then, perhaps, we may get at some of the facts which are denied to us.

The Prime Minister has been 'thinking aloud', as he calls it. This rather strenuous exercise has persuaded him that we need a 'pause'. Apart from the fact that the stratagem appears to have become Lal Bahadur's panacea for all ills, national and international, we have been asking ourselves: a pause from what? The question is important, or else we may soon find ourselves justifying our innate fatalism, our helpless wait-and-see attitudes.

TTK's Clash with Planning Commission

This aspect of our crisis is underlined as Finance Minister Krishnamachari begins again to run away from his commitments to the Fourth Plan—and, of course, to influence others to do likewise. The 'pause', a popular word among our politically lazy leaders, could well put the country into reverse gear. Pauses be damned. We need to get at the practices which are paralysing our administrators and managers, killing initiative, breaking the spirit and halting the drive of those who have not succumbed to the 'babus' who would have us perish so long as their 'system' remains intact.

The Finance Minister never thinks aloud. He cannot afford to for the stock markets would topple! But when he does attempt to intervene we are astonished by the lack of positive ideas, the lack of precision. Is this how we hope to ease the paralysis which threatens the economy? Devaluation or no devaluation, a great deal has to be done to change our methods, our organisation and the way we tackle problems. We do not seem to have imbibed a single new idea in running our affairs ever since the British left us.

The Prime Minister sensing the developing conflict between Planning Chief, Asoka Mehta, and TTK, is not yet sure what line he should take. He knows, instinctively, that this conflict could have deep political repercussions within the party and outside. He will, however, have to take a final decision on his return from Yugoslavia. Wherever you go in the Capital today—that is, beyond the furtive groups of flatterers and fixers—the same anxious questions recur: What are they wait-

ing for? When will they act? How long can we remain as we are? 'Who will give a lead? Why are we so helpless? Probably, this is the mood in the States, too.

To Make the Leadership Move

Occasionally, even President Radhakrishnan is compelled to needle the government with a provocative speech. We in the Capital see it as an attempt to make the leadership move. In the present situation, this is all to the good. We need a ferment of thinking, even though some, like General Cariappa, get so enthused that they suggest the need for a presidential regime between now and the general election in 1967!

LETTER FROM SOUTH

Why Mysore Is Angry

IT was rather strange that the decision to hold elections to determine Goa's future should have provoked Mysore to wrath. Nobody in that State very seriously believes that there is even a ghost of a chance that Goa will ever integrate with it. The claims of conquest in the past are extraordinary, to put it mildly. As the Maharashtra Chief Minister quipped, in that case his State could lay a claim to Delhi! There can be a case for not disturbing the *status quo* in Goa—indeed, that is one of the issues to be decided if the elections do take place—but if Goa is to be integrated with another State, the only legitimate claimant can be Maharashtra.

The burst of emotion, one imagines, had very little to do with Goa directly. The anger was more against Chavan than Lal Bahadur and more at not being consulted than at not gaining Goa. For quite some time now Mysore has been feeling that it is being taken too much for granted by the Centre. It feels that after the initial spurt of industrial investment around Bangalore, nothing else has come its way for years. Very recently, the British-American Steel Consortium report giving preference to Visakhapatnam as the site of the fifth steel plant was a rude shock. Nobody believed that it was merely a technical opinion. Everybody thought that Sanjeeva Reddy had made it clear to the Steel Mission how much easier the ultimate construction arrangements would be for them if they were negotiating with a pleased Minister rather than an irate one. With

Indeed, if a few opinion-makers and commentators are jolted into realising that we must continuously explore ways of resolving our crises, much will have been achieved. The Establishment in India is small. A penetration here or there can crack the conformism and break the cliques which paralyse action.

The Bangalore session of the AICC never addressed itself to the real problems. It was content to play around with the animosities over Goa and the tussles between the States. These side-issues assume prominence because the fundamental challenges are ignored.

And so, we wait—surprisingly enough, patient as ever!

such political pressure Hospet stood no chance.

Belgaum is another element in Mysore's anger with Maharashtra. Mysore knows quite well that it cannot cling on to Belgaum for ever. The consistent electoral victories of the Eikikaran Samiti have made it clear that one day the town and most of the surrounding area will have to be handed over to Maharashtra. This would mean a further loss of prestige and a fair amount of income, considering Belgaum's importance as a military and railway centre. If any territorial readjustments with regard to Goa are made an electoral issue—and that too fairly soon, as a matter of crisis—then who knows when Chavan and Naik will insist on some kind of a referendum in Belgaum and Karwar? However unjust it may be on Mysore's part to want to cling on to linguistically dissimilar territory, its fears can be understood.

Then, one has to take into consideration the internal situation in the Congress as well as in the main opposition party, the PSP. Some dissident Congressmen set up a rival party only a few months ago. Their allegation is that Nijalingappa is so corrupt that he, would have been thrown out a long time ago were it not for his servility before Shastri and Kamaraj. The actual language used is far more disrespectful and uncomplimentary towards all the persons involved. Inside the Congress there is the Hanumanthayya group which has always maintained the closest links with the Morarji Desai cabal. They are not only virulently

opposed to the present Mysore ministry but ceaselessly propagate that the country is not safe in Shastri's fumbling hands. Their charge is the familiar one that none of the Prime Minister's decisions are really his own. It is almost invariably the decision of the one who has shouted the loudest and where sonic pressure cannot be judged there is the famous consensus, which almost always means everything to everybody. In the Goa decision, following upon the Visakhapatnam report, they thought they had a wonderful opportunity to pull down the prestige of both the Prime Minister and the Chief Minister. Nijalingappa's threat of resignation rather pulled the carpet from under their feet.

The PSP opposition is really hard to demarcate from a dissident Congress group. In this it is true to its origin.

FROM THE LONDON END

Struggle for Tory Leadership

ALTHOUGH the struggle for the leadership of the Conservative Party has been going on behind the scenes ever since Sir Alec Douglas-Home's appointment as the compromise candidate after the Blackpool debacle, Sir Alec's announcement that he was relinquishing the leadership of the Party certainly came as a surprise to most observers. Indeed, only a little while before, Sir Alec had been saying that he intended to lead the Party to victory in the next election. A number of factors finally decided Sir Alec's mind, among them the National Opinion Polls which rated his performance, as opposed to that of Wilson, so low. That, coupled with the dissatisfaction and unrest within the Conservative Party and the general belief, though never too openly voiced, that the only hope for the Party was a change of leadership, must have convinced Sir Alec that now, if ever, was the time to retire gracefully from his position and set in motion the new method of electing the leader of the Party—a method which had to be created largely to wipe away the most unfavourable impression which had been created by the way in which Sir Alec himself had been selected. The fact that Harold Wilson had recently announced, quite categorically, that there would be no autumn election, must have prompted Sir Alec to feel that in the circumstances, this would give

It has neither the vision nor the cadres to engage the ruling party on economic issues or on ideological-political grounds. It can only bank on parochialism and the general popular belief (more justified than not) that every Congress Minister is corrupt. For the Congress Ministry it is not too difficult to call the PSP's bluff on the latter count as many of its leaders have far from savoury reputations. And as for parochialism, Nijalingappa has now demonstrated that Mysoreans can find him as vociferous as the next person.

All this excitement created exactly the right atmosphere for the AICC meeting. Kutch, foreign exchange, food, Fourth Plan size—all these seem to be passing out of the consciousness of most Congressmen. They are left to chance, to counter-vailing pressures from the American or the socialist

the new leader time to play himself in before the election actually took place.

While many people have commented on the fact that nothing has become Sir Alec's political career so well as his manner of leaving it, and have pointed out that he is the first Conservative leader in living memory who voluntarily decided to retire in the public interest, the political correspondent of the *Times* points out quite rightly that the full truth is that Sir Alec is the first Conservative leader in peacetime to have been driven out by a Labour leader. "Sir Alec's resignation is now the bravest feather worn in Wilson's cap during the nine months of his Prime Ministership. Almost single handed Wilson forced a large part of the Conservative Party, in and outside Parliament, to accept that Sir Alec would never be a match for him as a leader in the Commons or in the country; and once he saw that plain, Sir Alec brushed aside his advisers and resigned".

After the appalling scenes at the Blackpool Conference in 1963, the Tories are determined to behave like gentlemen, in public at any rate, despite the private backbiting and pushing for place that has been going on. The new method of electing the Party leader requires that at the first ballot, the successful contender has to win by a 15 per cent lead over all other candidates. If no candidate obtains

camps and to the "very intelligent" advisors and civilians. All that matters is that the final decisions taken should not irritate too many people too much and too soon. So long as popular nerves are not ruffled too much the local Congress bosses could not care less. And so it turned out that at the meeting of the highest policy-making body of the ruling party national problems figured only marginally. And the people of Bangalore, at least the more restive sections, demonstrated their anger over Goa and not over national bankruptcy or the looming food crisis. Kamaraj's re-election is, of course, only to be welcomed but unless he goes out of his way to build a group around a programme he will not be more than a powerful machineman. He has yet to make the transition from bossdom to leadership.

this lead, a second ballot will be held where an overall majority for any one candidate will be sufficient. The 15 per cent lead will not be required. If there is a deadlock on the second ballot, a third ballot will be held immediately. Only the top three candidates from the second ballot will appear, and voters will have to cast a second as well as a first preference. The candidate with the fewest first preference votes will be eliminated, and the second preferences of his supporters will be distributed among the other two so that a victor will finally emerge.

This article is written before the first ballot on Tuesday (in which Edward Heath was chosen leader—*Ed*). There are now three contestants for the post, of whom Edward Heath and Reginald Maudling have been in the running for a very long time. Indeed, Maudling was one of the possibilities in 1963, but his flat and unemotional speech at Blackpool ruled him out at that time. Both Heath and Maudling are said, at the moment, to be neck to neck, with the odds a little in favour of Reginald Maudling because of rumours that it was the plot of Heath's supporters during the 1922 Committee meeting to push their own candidate, which finally forced Sir Alec's hand. At one time it was thought that it would be a contest between Maudling and Heath who represent very much the new public

image that the Tory Party wishes to present, as opposed to the old "grouse moor" image, although their personalities are so completely different. However, a new element has entered the struggle in the form of Enoch Powell who has now come forward as the third candidate. This makes it likely that no decision will be reached in the first ballot and a second may become necessary.

Enoch Powell is a very different kettle of fish from both Heath and Maudling. He has sometimes been described as the keeper of the Conservative Party's conscience. Powell has his own particular spartan brand of free-enterprise theology. It is understood that Powell agreed to stand for nomination because of his high-principled desire to allow the Party to vote on his brand of conservatism. Personally he is a man of great probity. He resigned with Thorneycroft and Birch. He is, however, a believer in almost undiluted *laissez-faire*. He is entirely opposed to any kind of incomes policy and certainly to all kinds of planning. He believes that unfettered private enterprise is the best solution, and that the man in Whitehall is almost invariably wrong. On other matters, however, he is to the left of many Conservatives, as evidenced by his speech on Holi and his views on the abolition of the death penalty. His brand of conservatism has been labelled "Powellism" and it is understood that he has won many converts among the younger MPs. Of course, some senior Tory backbenchers are upset by this intervention which they feel will only delay the question of the leadership and undo the good that the new democratic open election procedure could have brought. Indeed, some of them believe that his candidature may be the equivalent of "Gold-waterism" in British politics.

The two favourites, however, remain Heath and Maudling, and although newcomers may enter the field if the first ballot proves unsatisfactory—possible candidates may include Thorneycroft, Selwyn Lloyd and Quentin Hogg—it does seem likely that eventually either Heath or Maudling will be elected.

It is difficult to judge the exact support that both these candidates at the moment command. It is known that in the industrial North, Heath is much more popular because of his hard-hitting methods and his indomitable energy. Many believe that he would be the ideal opponent of Wilson in the

House of Commons, and that someone with his cut and thrust would be a better choice Labour leader than the amiable Maudling. Although both candidates stand for modernisation, many believe that Heath is the more purposive of the two and would get more things done. They point, for example, to his success in pushing through the Resale Price Maintenance Act against strong opposition. They believe that what is needed is a Prime Minister who is strong enough to take action, however unpopular, since if Britain is to emerge from the economic doldrums it is necessary that very unpopular measures will have to be taken. Because of the very nature of his personality, Heath inspires fervent admirers and bitter enemies, whereas the image projected by Maudling is much amiable and easy-going. It is said that behind Maudling, together with the Tory ladies who see in him a more cosy image. Both men have connections in the City. Heath is a director of the merchant bankers, Brown Shipley, while Maudling is a director of Kleinwort Benson. Heath's appeal is mainly to the young up-and-coming professionals and white-collared folk, while Maudling's appeal is to the women and the establishment. Some believe that Maudling with his deceptive soft-sell approach will get better results for big business. Again, Maudling has the advantage of being married and leading a happy family life, whereas Heath is a bachelor (though one of England's more successful Prime Ministers was the younger Pitt who himself was a bachelor!)

While Maudling gives the impression of someone who is perhaps more experienced and can take a wider long-term view than Heath, he does not give the same impression of uncompromising zeal and energy, or the picture of an activist who will do all he can to achieve results, and many believe that what the Conservative Party needs, particularly in view of the difficult economic situation ahead, is an active, zealous uncompromising leader who will be able to take unpopular actions and will have the energy and drive that is necessary to see them through. Maudling's term as Chancellor of the Exchequer in 1964, by economic standards, was certainly a disaster. Although the balance of payments deficit was known to be devastatingly large in relation to Britain's reserves, Maudling did nothing to arrest the domestic boom or stop the external outflow of funds. Heath is more popular among

foreign bankers who hold Maudling responsible for the large deficit Britain built up during his period as Chancellor of the Exchequer.

While last minute canvassing for votes is going ahead, there is no doubt that the choice the Conservative Party is now facing is indeed a 'fundamental one'. While it is true that Sir Alec was never a success as Prime Minister, and that his resignation gave the Stock Market a shot in the arm, the present election is of crucial importance to the Conservative Party since the man who is elected at this ballot, particularly if he is one of the younger candidates, will be the leader of the Conservative Party for perhaps some 20 years. It is, therefore, essential that the new leader must, in view of Britain's present economic situation, have a firm understanding of economic problems, and not, like Sir Alec, rely on matchsticks to understand these. He must also be able to match the supreme professionalism of Harold Wilson and stand up to the cut and thrust of parliamentary debates. In many respects, from the Tory Party's own point of view, the wisest choice would perhaps be Edward Heath.

Calico Mills

THE Polyvinyl Acetate plant of Ahmedabad Manufacturing and Calico Printing Company, commonly known as Calico Mills, was commissioned in February last. According to the 85th annual report of the directors, the emulsions and solutions of PVA and copolymers placed on the market conform to the same quality standards as those of the well-known brands of the company's technical collaborators, Vinyl Products of the UK. Another significant feature of the company's working during the year to March last was that it was able to expand exports by 15 per cent to Rs 2.2 crores. It had the distinction of being the largest exporter of cotton textiles to the quality-conscious market of West Germany.

The company secured from ICICI a loan of Rs 24 lakhs in foreign currency to meet the foreign exchange component of the capital expenditure of the Trychlor-Perchlor-Ethylene project. Plant and machinery for the project was ordered during the year. In spite of higher costs, the company was able to increase profitability as a result of the sustained efforts of the management.

BOOK REVIEWS

Regulated Movement of Indian Politics

Jawid Laiq

The Government and Politics of India by W H Morris-Jones; Hutchinson and Co, 1964; pp 236, 15s.

THE constant dilemma faced by those who write on Indian politics is how to present a coherent and comprehensible view of a complicated and often very confusing political scene without falling into the trap of basing their analyses on unproven assumptions or facile generalisations. It is refreshing to find that Morris-Jones has taken deliberate care to avoid this trap. He overcomes the dilemma by viewing Indian politics as an inter-action of 'government' and 'movement' within a 'mediating framework'. 'Government', as understood by him, means mainly the British Indian bureaucracy before Independence; after Independence the term implies the entire personnel and machinery of administration and development from Cabinet Minister to Block Development Officer, from Planning Commission to public corporation. 'Movement' implies the independence movement based largely on the struggle of the Indian National Congress to oust the British Raj. After 1947, 'movement' comes to mean the political forces at work within and outside the Congress Party as well as those emanating from social and economic divisions, such as caste, which act as informal political pressure groups. 'Mediating framework' connotes the institutional restraints imposed on both 'government' and 'movement' by the Constitution, the parliamentary system and the judiciary.

This approach is both novel and undogmatic. Indian politics is not tailored to fit any existing formulae. Economic development is not the only arbiter of political stability in India. Nor is caste the presiding deity of all political motivations. The political sociologist finds his 'behaviourist' approach going berserk, for sample surveys remain just samples which do not fit into any general pattern. Thus the most effective approach to analysing Indian politics has been the "seminar" method—collecting essays on different topics, each written by a specialist. An excellent product of this approach is Park and Tinker's "Leadership and Political Institutions in India". The other method is for the

same author to write a series of connected essays. This is the method that Morris-Jones follows, though it must be said that his book is more than a collection of essays. He has neatly tied up the different topics he discusses into a thought-provoking and eminently readable book.

The first chapter, 'Some Legacies', contains some acute observations. "It is in more than one sense that the new India inherited government...it inherited a widely held sentiment regarding the importance of there being a government. This is not as usual as it sounds; it is not difficult to think of new States which have suffered grievously by the absence of such sentiment." But the obvious corollary to this sentiment is left unsaid. Does not the common attitude also go along with it that the government is responsible for doing everything for everyone? Too much energy is wasted on pressurising the government to get things done instead of more profitably using these energies to solve one's own problems.

In the second chapter, 'Politics and Society', the consequences of Westernisation are thoughtfully explained. "So long as alien rule prevails, the impact of Westernisation on the political system is well-nigh complete whereas the impact on society is partial and uneven. This at any rate is the Indian experience. The incoherence of polity and society is fully disclosed only with the start of an Indian polity. Moreover, in such a polity the incoherence is unstable and from both sides forces move in to establish consistency. This is the process which gives rise to many of the fascinating features of Indian politics today. It also provides a strong and special reason for believing that without attention to social forces the study of such politics is peculiarly partial and misleading." This conflict of cultures leads to political activity being conducted at three levels or in three languages: the language of modern Western politics, the language of traditional politics and the language of saintly politics. The language of traditional politics "is the language of a

host of tiny worlds... the little worlds of *jati*, not *varna*. However, *jati*, an essentially local group, has been able to throw out links to its 'opposite numbers' in neighbouring localities; caste begins to manifest itself as regional rather than local, increasingly independent and competitive in relation to other castes rather than interdependent and co-operative, and as an organised association rather than a natural social group." The language of saintly politics is in a quantitative sense relatively unimportant. It is a normative language used as an ideal which ought to be followed by those who practise the politics of the other two languages. The figure that represents this idiom is Vinoba Bhave, the 'Saint on the March'.

Speaking of saints one cannot help but feel that what India needs is perhaps a man who speaks in the language of saints but whose ideals are not 'saintly' but modern, rational and dynamic. Perhaps such a leader could arouse sufficient charisma in a nation notoriously and fervently attached to saints and lead them out of their traditional apathy into a new dynamic one. This role seems to be beyond the capabilities of the present leadership or of any foreseeable alternative leadership. So it remains a digression into rather cloudy regions.

Talk of ideals leads one to that bane of Indian politics, corruption. Much of what we call corruption is nothing more than a confusion of values in the eyes of Morris-Jones' original analysis. "The behaviour which the traditional language holds to be irresponsible is for the modern idiom responsible and that which the modern regards as improper is for the other the very opposite". Distrust in relations between people strikes Morris-Jones as a common feature of Indian life. This seems to be accurate observation. "In the courts a man in India is innocent until he is proved guilty, but in social and political life the position tends to be reversed... If we understand the character of caste, this is hardly surprising, for its little

worlds of mental attitudes and styles of behaviour."

Economic development and national integration are among the issues discussed in the third chapter, "Events and Issues Since 1947", which deals mainly with events. The discussion is largely a statement of facts, little else. One did expect some illuminating insights into the *rationale* of economic development and its effect on society. The facts stated are sketchy; figures and statements would have been useful here but have been left out.

There is a short but effective section on the Planning Commission in the next chapter, "Government". Morris-Jones sees the Planning Commission as a primary force in smoothening Centre-State relations and promoting co-operative federalism. He admits that the Planning Commission is often an arena for conflict, but conflict that is constructive as it ultimately balances the interests of the different units of the federal structure, resulting in 'bargaining federalism'.

'Political forces', the fifth chapter, is the most enlightening part of the book. The *raison d'être* of the Congress Party is particularly well explained. Congress is seen as 'a great educator'. "Its election ideology and shifting centrist policies are not great handicaps to the performance of its task as the instructor of new recruits to this modern political process. Thus a dominant party is a unifying agent not merely in the obvious 'horizontal' sense in which it holds together a range of opinions and interests but also in the important 'vertical' sense that it brings into contact and interpenetration all levels of politics from the most sophisticated to the most simple and traditional". This and the rest of the well reasoned section on the Congress Party will restore the confidence of most of those who have come to be alarmed about the vagaries of the Congress. There is also a good review of politics within the Congress.

The other political parties are sketchily treated. Political forces at the village level, on the other hand, are concisely and competently examined. Local politics in the shape of Panchayati Raj is regarded with optimism. "Panchayati Raj will step up mobility and competitiveness in rural politics... these new elected bodies will by increasing political competition assist peaceful social revolution...the old

village leaders will be replaced to some extent by abler men from lower social ranks aided by radical parties."

The sixth chapter, 'The Ordering Framework', deals with the political institutions and the Constitution, Parliament, law and the courts. The central idea of this chapter is that government and politics has been channelised into working in an orderly fashion by the restraining effect of these institutions. These imported institutions have not only been altered in their functioning by the pressures of Indian society but they in turn have also succeeded in influencing some segments of society with their own ideals.

The negative role of the intelligentsia comes in for well deserved criticism in the last chapter, 'Tendencies and Ideas'. "The educated middle-class citizen of India was the spearhead of the nationalist movement in its early days and was hardly displaced by any of the consequences of Gandhi. They are in its great measure being bypassed and left behind by the new politics of bread and butter. Yet they remain the commentators, the articulate ones—the journalists, teachers, and publicists. Little wonder that the great positive changes take place unnoticed, while the air is filled with cries of lamentation and anger from the non-participating intelligentsia... The distaste and frustration they feel colour profoundly the picture of Indian politics as presented to all who stand outside it." 'Non-participating' is the key word in the author's diagnosis of the frustration of the intelligentsia and this will be widely endorsed. Carping, cynical criticism has become a way of life among the intelligentsia who are almost exclusively urban. Yet they are not willing to take the risk of participating actively in resolving issues. This is well illustrated by the lack of serious research on the political and sociological behaviour of village communities. This does lead to the sad conclusion that barking dogs seldom bite.

If there is cause for indignation about the negativism of the intelligentsia there is not sufficient cause for alarm about the general complexion of Indian government and politics as Ronald Segal in "The Crisis of India" would have us believe: "The disease from which the Kuomintang collapsed has already infected Congress. It is a far cry from the one-time chaos of Nanking to the present-day splendours

THE ECONOMIC WEEKLY

of New Delhi. But the alarm has begun to sound." Has it? One is more inclined to agree with Morris-Jones that there is no need to sound the alarm as both the country and the Congress Party are going through a perplexing but all the same fairly orderly and systematic period of growth towards maturity.

In this otherwise competitive study, there are two surprising omissions: the role of the army and of foreign relations as they affect the internal politics of the country. Despite some omissions, however, "The Government and Politics of India" is much more comprehensive than "an introductory guide" as modestly claimed by the author. There is also an excellent bibliography at the end.

After a volley of sensationally dire or rosy predictions from others, it is comforting to be assured by the cool and balanced judgment of Morris-Jones that "The combination, the containment in peaceful inter-penetration, of these diverse and in principle competitive languages of politics is the great achievement of political life in independent India. Vast social and economic changes are being accomplished steadily and without obvious drama and are being accommodated and digested by and within a political structure which is successfully flexible, 'politically multi-lingual'... The main point to be emphasised is that it is in itself a signal achievement of the Indian polity that it has, over a relatively short period, acquired definable change and form—stability not in the sense of a stationary state but in the sense of regulated movement."

Note

¹Ronald Segal in "The Crisis of India", like many others, gives the impression that without an accelerated rate of economic development there is bound to be a drastic political upheaval.

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A Textbook of Development

S K Nath

Economic Development by Charles P Kindleberger (second edition); McGraw-Hill Book Co, New York, 1965; pp xvii + 425; Price \$ 8.95

KINDLEBERGER'S second edition of his textbook of economic development is a greatly improved introduction to the subject. While the structure of the book is the same as before, the contents of some important and controversial chapters have been changed; a new chapter summarising the more prominent growth theories has been added; R S Eckaus supplies a useful appendix on Development Planning; and at the end of each chapter there is a selective bibliography with notes.

The most marked change is in the chapters where the role of the market mechanism is compared with that of government planning in promoting economic growth. Some western economists hold the view that the market mechanism — provided it can be made to work "smoothly" (exactly how that is to be done is never spelt out) — is capable of promoting quite rapid growth in the underdeveloped countries, and that government planning is either irrelevant or a hindrance. However, in underdeveloped countries the major economic problems are not confined to avoiding inflation and fluctuations in employment, and preventing a recurring deficit in the balance of payments, but also include the basic problem of changing a large stagnant and tradition bound economic system into a rapidly expanding one. In such countries, a great deal of economic activity needs to be generated in a rather short time, so that the repercussions are widespread and important; and since the inelasticities of supply of the various factors of production are significant, without proper planning, balancing and phasing there could easily be unnecessary waste. Moreover, there are important economic activities in most economies where private and social returns differ. Examples are: investment in power, transport, irrigation, education, health, and the first few industrial units in a backward region, etc. These investments form a substantial part of the new economic activity in an underdeveloped country.

The chapters of the first edition dealing with these problems were confused; now they have been thoroughly revised, and Kindleberger clearly argues for balanced development plan-

ning in underdeveloped countries. This is a great improvement — particularly when one recalls that new textbooks on economic development are still being written which perpetuate the old confusions on these problems (cf E Enke, "Economics for Development").

Perhaps one needs to add an important footnote about the administrative aspects of fairly extensive government planning, controls and inducements coupled with fairly widespread private enterprise. Few students of the performance of the Indian economy over the last 13 years would argue that there are not serious problems concerning the operational feasibility of a mixed economy in an underdeveloped country. Whether these administrative problems justify a dilution of the mixed economy towards less government planning, controls and inducements or towards less private enterprise is largely an empirical question (with inevitable and weighty political ingredients) which is in urgent need of investigation and debate in India.

The new appendix by Eckaus is a lucid introduction in about 20 pages to different forms of planning. It briefly describes what is so far theoretically possible and actually practicable in this field. The forms of planning covered are progressively disaggregated: project planning, which is used in some form or another by almost all countries and is particularly suitable for such underdeveloped countries as have almost no statistics and very limited administrative resources; macro planning, which relies on overall capital-output and saving ratios and is very commonly used but has obvious limitations as far as the problem of proper sectoral balances and phasing are concerned; and lastly multisectoral planning models, which are the most suitable for co-ordination and are capable of different degrees of disaggregation to be chosen according to the availability of data and the requisite personnel as well as the purpose of planning. The method of analysis used for these models is input-output accounting; brief expositions are provided of its simpler and somewhat more complex forms.

One particular merit of Eckaus' exposition is to emphasize the distinction between consistency and optimality: consistency only demands that

the various parts of a plan should be so balanced as to avoid unnecessary excess demand or supply in any sector; optimality demands that a plan should be the best possible (or the most economical) in achieving certain specified social targets with the given constraints within a certain stretch of time. A number of plans (for the same social aims) may be consistent, but only one of them will be optimal. Hence the need for a country to formulate more than one plan for the same aims and compare them for their optimality. Moreover, often the social aims — particularly their relative importance or what might be called the relevant constraints — are only dimly recognised even by the policy-makers. A clearer perception of the relative importance of such things often requires a comparison of different consistent plans working out the implications of alternative social objectives — not in the form of pious hopes or ultimate aims, in which case there would hardly be any disagreement about them, but as embodied in Plans for the next five years or so. Unfortunately, as Eckaus points out, such a comparison of alternative plans seldom taken place anywhere. "More typically, the making of one plan absorbs all the energies of the available technicians and is the focus of attention of all the entire political process. It is subjected to partial revision and compromises, the implications of which are not fully explored. This concentration on preparing a single plan without alternatives is partly the result of devoting inadequate resources to the planning effort. Finally, the economic analysis necessary for rational planning is itself still at an early stage of development and has not yet been fully understood".

The first edition contained some discussion of only the Harrod-Domar model, but in this edition there is also something about the Ricardian model, the Kaldor model, and the recent empirical investigations of factors responsible for growth. As in the first edition, there is a useful chapter introducing the problems in the choice of techniques, and a detailed chapter examining the role of foreign trade in economic development; after discussing the various theories which have

been put forward in this respect, the correct conclusion is reached that the role which foreign trade can play depends on the external and internal circumstances of a particular country, which must always be investigated. All in all, when the cheap Asian copy of the second edition comes out,

Kindleberger's book will perhaps be the best textbook on economic development available to Indian students at a reasonable price.

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Istambul Agreement on Regional Co-operation Review of the First Year

Satya M Rai

The Istambul Agreement on Regional Cooperation for Development emphasises Cento's loss of significance. Among the three countries who concluded the Agreement in 1964—Pakistan, Iran and Turkey—there is a realisation that they have gained little from their military entanglement with the US which has, at the same time, cost them their prestige in the Afro-Asian world. The disillusionment of Cento countries with their Western allies and their desire to project their national aspirations through independent political and economic systems was thus responsible for the Istambul Agreement.

For Pakistan, however, the Agreement is something more than that. Since its inception, Pakistan has suffered from a small power complex vis-a-vis India. She realises that in South Asia she cannot hope to build up a sphere of influence of her own because of the presence of India. But allied with the Persian Gulf countries, to whom she is bound by common religion, she changed her position from that of a small power to that of a bigger power.

Whatever the objectives of the participating countries, the progress of the Istambul Agreement needs to be carefully studied. As an experiment in regional co-operation it deserves to be welcomed and may hold many lessons for similar experiments in other parts of Asia.

ON the occasion of the first anniversary of the Istambul Agreement on Regional Co-operation for Development (RCD) which fell on July 22, 1965, President Ayub Khan, the Shah of Iran and President Kemal Gursel of Turkey, extolled the success of RCD in their three countries and expressed confidence that it would make further progress. In view of the importance of the Pact, not only for the Persian Gulf countries and Pakistan, but for any regional arrangement in South Asia, it is important to review the progress made under RCD during the first year and the prospects for the future.

RCD was established on July 22, 1964 by a joint statement by the Heads of States of Iran, Pakistan and Turkey issued in Istambul. In the post-war years the world has witnessed a general trend towards regional cohesion. The emergence of the Arab League, the Organisation of African Unity, the Alliance for Progress and the European Economic Community is evidence of this trend. RCD, according to its sponsors is, similarly, the reflection of the natural desire of the people belonging to the "non-Arab and Turko-Persian culture" to get together in a regional arrangement.

The idea of confederation or common arrangement among the Muslim countries can be traced back to the time when Pakistan was created in 1947. Both Jinnah and Liaquat Ali Khan talked about closer relations with the Muslim countries. At the Commonwealth Prime Ministers Conference in 1949, Liaquat Ali Khan said:

"The natural and religious links, the common culture and the identity of common outlook that exist between our people will stand the strain of will stand the strain of the people

of Muslim countries and many a test and will, am sure, prove a stabilising factor in Asia."

Prime Minister Feroze Khan Noon and Abdul Kayum Khan of N W F P raised the slogan of confederation among the Muslim countries. Motamar-e-Alam-e-Islamic (World Muslim Conference) organised its two sessions in 1949 and 1951, which were attended by nearly 17 countries. The International Muslim Economic Conference, held on November 25, 1949, was attended by 18 countries in which the Finance Minister of Pakistan, Ghulam Mohammad, urged the Muslim countries "to develop a system of collective bargaining and collective security."

Despite all these efforts, the idea of confederation could not be carried through as nationalism in most West Asian countries was defined in modern secular terms and they could not appreciate religion being given preference over other factors. Pakistan's image also, because of its entanglement with the West, had been considerably tarnished before the African and Arab countries who were engaged in an anti-imperialist and anti-colonial struggle. Besides, these countries had very good relations with India and they refused to be involved against the latter in the name of Muslim unity.

After being rebuffed by Arab countries by Egypt in particular, Pakistan turned towards the countries of the Persian Gulf for some kind of economic organisation. The opportunity offered itself, when Turkey, Iraq, Iran and Pakistan became members of the Baghdad Pact on February 24, 1955, (later named CENTO after the exist of Iraq).

The organisation of RCD at a time when all the three countries continue

to be members of CENTO and when within CENTO itself the emphasis has shifted to economics, has evoked considerable interest. The reasons lie deeper than the dream of the three countries to harmonise their national interests. It is true that ten years of experience in a military organisation has convinced them that unity cannot be imposed from without but that it must grow from within. These countries, therefore, while continuing to get benefits from the economic aid being given by the U S A and Great Britain towards CENTO affairs, (approximately \$33 million by U S A and £850,000 per year by UK) also want to build up an independent economic system based on the pattern of industrial specialisation.

The RCD is, thus, neither an offshoot of CENTO nor is it antagonistic to the latter. It is the product of the political sagacity of its organisers, particularly President Ayub Khan. Turkey to start with was not keen to get involved in an Asian arrangement. According to Ayub, he told the Turks: "however much they wanted to be part of Europe, they would never be accepted as equals by Europeans, while the new organisation offered them a chance to be 'first class Moslems and first class Turks'."

Furthermore, RCD suited the new neutral posture of Pakistan. It could make Pakistan more acceptable to the Afro-Asian countries, help to appease China and Indonesia and could besides be used to exert pressure on the West. Since November 1962 the United States has extended military aid to India and Pakistan has repeatedly complained that it was grossly unfair to treat an allied country and a non-aligned country on an equal footing. Disgruntled Pakistan expressed its resentment by

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intensification of its diplomatic activity with socialist and Afro-Asian countries. RCD is also the result of this particular trend during the period. Bhutto has complained that the Western powers were giving massive military and economic aid to the non-aligned nations to the detriment of the members of military alliances; the aligned states were, therefore, forced to forge regional arrangements outside military pacts.⁵

The R C D thus, emphasises the fact that CENTO has lost its former significance. There is also a feeling in these countries that they have gained little from their military entanglement, but have lost much of their prestige in the Afro-Asian World. Commenting on the Istanbul Agreement, President Ayub said it had become necessary because there were big and small countries in Asia. If countries like India and China become ambitious in terms of territorial or economic expansion they could pose a danger to the smaller countries like Pakistan, Burma, Iran and Turkey. It was therefore, necessary for the Muslims of this region to come together for mutual security.⁶

It is also believed by Pakistan that the focus of international affairs has shifted from the Middle-East to South-East Asia. While the West is convinced that the Soviet Union will not disturb the *status quo* in the Middle East, they are more worried about the Chinese upsetting the equilibrium in South-East Asia, as the present events in Vietnam show. Turkish and Iranian fears of the Soviet Union are also receding and both of them are now engaged in improving relations with the latter. Soviet Union has agreed to give technical assistance to Turkey, Pakistan and Iran. On the other hand, anti-Western currents are visible in Turkey on the Cyprus issue.

The disillusionment of CENTO countries with their Western allies and the desire to project their national aspirations through independent political and economic systems has been responsible for the creation of R C D. For Pakistan, however, it is something more than that. Since its inception, Pakistan has suffered from a small power complex *vis-a-vis* India. She also realised that in South Asia, she cannot hope to have any sphere of influence because of the presence of India. But if it allied itself with the Persian Gulf countries it changes its position from that of a small power to that of a bigger power. This aspiration has been

unwittingly expressed by Aslam Siddiqi:

"Pakistan is almost a Persian Gulf power and is extremely well placed to influence developments in this region."⁷

II

The political intentions of the leaders of the R C D, however, are based on the possibility of developing a common economic system on the basis of E C M. The main idea behind the R C D is to pool economic resources, to help offset the adverse effects of Western cartels on developing economies in this region and to increase the collective bargaining power of the R C D countries *vis-a-vis* the E C M and E F T A and to reduce dependence on foreign assistance and foster self-reliance. In order to see whether these objectives are not too ambitious, it is necessary to examine the economic potentialities of this region.

The region encompassed by the R C D has a total area of 12,93,000 square miles—Turkey 3,00,000, Iran 6,28,000 and Pakistan 3,64,000—and a total population of nearly 150 million. The natural resources of the region in foodgrains, other agricultural crops, minerals, especially in iron ore, petroleum and natural gas are quite impressive. But all these countries are industrially backward and lack capital and technical know-how for future development.

The sponsors of R C D, however, believe that the region's natural resources can best be tapped through joint planning on a regional basis. It is true, they say, that the economies of the three countries are not altogether complementary, but they can increase economic exchanges by expanding trade, developing communications, evolving a common policy for the marketing of goods and launching joint industrial ventures.

The Regional Planning Council and Ministerial Council of the R C D has laid down the following economic programme for R C D:

- to establish a joint Chamber of Commerce and Industry;
- to establish a joint shipping line in which Pakistan's share will be 50 per cent, Turkey's 35 per cent and Iran's 15 per cent;
- to establish a joint airline;
- to administer a technical assistance programme.

The R C D in addition plans to undertake joint purpose enterprises in

19 different industries, start post, telegraph and telecommunication offices on the borders of the R C D nations, reduce air surcharge on letters and draw up new agreements to promote tourism and expand the operations of banking and insurance institutions. It is also planned to facilitate exchange of information, create liaison between radio organisations and revive cultural ties to strengthen the sense of unity among the R C D member states.⁸

The R C D insurance centre was opened at Karachi on July 4 with the object of integrating the insurance markets of R C D countries. It is believed that it has all the potentials of becoming an important and influential element in the world insurance and re-insurance market. The R C D Chamber of Commerce and Industry is also expected to start operation shortly. This Chamber will, *inter alia*, establish common showrooms and promote the exchange of lists of importers and exporters of those items which can enter the trade of three countries. Studies will also be conducted for expanding the trade of manufactured goods including electric goods, glass and glassware, cutlery, trucks and buses and cotton textiles. The Regional Co-operation for Development Trade Committee held its meeting on July 7 and considered, among other things, the report of the study group on trade appointed by it in December. According to a PPA report, an RCD shipping venture will be launched in January 1966 with its headquarters at Islamabad. In addition to handling the trade of the three countries, it will operate on the USA route and develop intra-regional trade and trade with north Africa. Besides promoting trade, the new service will benefit Muslim pilgrims—a reflection of the religious element in R C D.

It is also suggested that a R C D import-export bank should be established to facilitate expansion of trade as "without these facilities trade would be treated on bilateral footing between the three countries, and the possibilities of triangular trade would remain frustrated." Agha Ghouse, Economic Adviser of the Pakistan Chamber of Commerce, suggested that the proposed bank should support the establishment of joint industrial ventures in the three countries, whose products would have a growing market within the region. If the commercial banks of these three countries could pool their resources and form the proposed bank, it could ultimately, according

to him, undertake financing of the region's major exports to foreign countries.

III

Many ideas, thus, have been discussed, but RCD is yet in its formative stage. According to the *Economist*, it is apparent that the three countries are finding co-operation for development "none too easy". Some people in Pakistan had earlier expected an agreement on petro-chemicals, defining areas in which each of the countries would specialise, but the subject did not even find a mention in the joint communique of the Ministerial Council meeting held in March, 1965. Evidently, it was found difficult to reconcile national industrial aspirations with RCD activities. Here the difficulties that the E C M is facing are a pointer that all will not be smooth sailing within RCD.

Of the three countries, Pakistan is the most anxious to make the R C D succeed. "As a nation with large industrial aspirations, it sees better prospects for the sophisticated capital-intensive ventures it envisages if markets can be shared. This sharing is intended to be based on an agreed pattern of industrial specialisation."¹ Pakistan believes that the smaller countries of Asia have a "very bleak future" unless they get together and form cohesive groups to resist the pressure of the continent's three large powers: Russia, China and India.

Whether the joint schemes envisaged by RCD will ever materialise, it is difficult to say yet. The three countries lack the necessary capital. Who will then finance these projects? The West, committed to CENTO which initiated and financed the unified communication system and other joint plans will not like to finance the RCD schemes which overlap those of CENTO. These countries may approach the Soviet Union, but to what extent the latter agrees to commit itself is a question which needs further investigation.

RCD is not an exclusive club and as to who else should be associated in it, there seems to be difference of opinion. While Iran and Turkey do not attach much importance to religion and the former actually asked India to join it, Pakistan is anxious to associate Afghanistan, Malaysia and Indonesia because they belong to the Muslim world. Pakistan will naturally be opposed to India becoming a mem-

ber, for then her very purpose in creating RCD will be defeated.

The RCD has also evoked different reactions among different nations. The Arab countries as well as the West have viewed it with distrust; correspondingly, China and its supporters have welcomed it. Its activities, however, need to be watched and studied carefully. In case it is able to break the hold of the West on these countries and enables them to pursue policies more in keeping with national and regional interests, it deserves to be welcomed by all developing countries.

Notes

¹ Quoted by Aslam Siddiqi, "Pakistan Seeks Security", Lahore, 1960, 87.

² *Ibid* pp 89.90

³ Zubeida Hasan, "Iran, Pakistan and Turkey — Regional Co-operation for Development", *Pakistan Horizon*, 17: 3, 1964, 278.

⁴ Quoted from "Pakistan-Iran-Turkey: Where CENTO Ends?" *The Econo-*

mist, London, March 27 1965, p 1374.

⁵ *Dawn*, Karachi, July 24 1964.

⁶ Ayub Khan, "Foreign Relations" *Pakistan Horizon*, 18:1, p 10.

⁷ Aslam Siddiqi, *op at* p 36.

⁸ It is interesting to note that almost all these activities have been undertaken by the CENTO. For instance, "Standardisation of agricultural products, mutual assistance for prevention, investigation and repression of infringement of customs laws, easing of formalities in connection with exit and entry visas, customs inspection of tourist baggage and temporary importation of cars" are measures adopted to promote intra-regional trade under CENTO.

⁹ —, *Dawn*, Karachi, 6 July 1965. 1965.

¹⁰ Agha M Ghouse, *The Pakistan Times*, April 18, 1965.

¹¹ *The Economist*, *op cit*.

Surplus Flows in A Dual Economy A Case Study of India

Yoginder K Alagh

The literature on economic growth of underdeveloped economies, both theoretical and empirical, is increasingly emphasising the importance of a transfer of surplus from a Traditional agriculture Sector (primarily and household production) to a Modern Sector (Primarily industrial).¹ An attempt is made in this paper to analyse these flows for the Indian economy.

It is suggested here that holding and purchasing of financial claims by the household sector on the modern sector is a counterpart of surplus flows between these sectors. Apart from income and agricultural output, we find that these flows are inversely related to relative price movements between the household and modern sector. It is suggested, with some inferential empirical evidence, that investment behaviour might be influencing relative price movements and through them surplus flows.

EXISTING analyses of surplus flows in the Indian economy either try to work with rural savings estimates or make some estimates of the agricultural surplus in terms of marketable foodgrains. As we see below, the statistical basis of such studies is extremely tenuous and in any case, these estimates are not necessary for estimating inter-sectoral surplus flows.

The rural savings estimates used are generally those of The Reserve Bank of India.² Time series estimates of savings of the household sector or incorporated business have deficiencies all over the world,³ but the Indian data are particularly poor, especially in the estimates of rural housing, and capital formation in the farms; the time series estimates being based on projections of the blow-ups estimated from a cross-section survey for one year.⁴ The agriculture surplus data, is either some non-comparable data on market arrivals in some selected agricultural markets released by the Directorate of Economics and Statistics of the Ministry of Food and Agriculture, or some isolated and irregular farm studies.⁵

The upshot, however, is that in the studies of surplus flows from the Traditional to the Modern Sector, estimates of savings which are used *within the traditional sector* are not needed. When we are concerned with intersectoral flows we can legitimately ignore savings invested within a sector. We can, therefore, conveniently drop the suspicious parts of the savings estimates i.e. rural and urban housing and rural capital formation. Direct estimates of the marketable agricultural surplus are also unnecessary for our immediate purpose. Some simple accounting relations can illustrate these two propositions.

Let us conceive of a three sector economy. There is a Modern Production

Sector (which we will call M), which includes organized industrial production both in the private corporate sector and the government sector (ours is a mixed economy). The Traditional Production Sector (which we will call T) consists of agriculture and small scale businesses. The third sector is the Traditional Consumption or Household Sector (which we call C), in which we include all household consumption. (The emphasis is added to explicitly indicate that all consumption is placed in the household consumption sector, there being no modern consumption sector. This simplification seems appropriate for our purposes). Let us now examine the interrelations between these sectors in a simple framework.

M Sector gets its labor from C and raw materials from T. It might also use its own profits for investment. Its output in turn goes to C as industrial consumer goods and government services, or to T as small tools and intermediate products or is used-up as capital goods within M itself.

Thus:

$$(1) L_1 + W_1 + P = Q_T + Q_C + I_1$$

where L_1 = Labor flow from C to M
 W_1 = Raw materials flow from T to M

P = Profits from M used in the Sector itself

Q_T = Industrial output flow from M to T

Q_C = Industrial output flow from M to C

I_1 = Investment within M.

The T Sector gets its labor from the C Sector and intermediate products from M and its output is used as raw materials in M, or wage-goods in C, or for investment purposes within the Sector itself. So:—

$$(2) L_2 + Q_T = W_1 + W_2 + I_2$$

where in addition to Q_T and W_1

L_2 = Labor flow from C to T

W_2 = Wage Goods sent from T to C

I_2 = Investment in T.

The C Sector sells its labor services to M and T. The income it gets is either used as consumption (of either industrial goods from M or agricultural goods from T) or is saved. These savings may alternately be considered as purchase of claims on the production sectors. Thus:—

$$(3) Q_C + W_2 + S = L_1 + L_2$$

where, in addition to Q_C , W_2 , L_1 and L_2
 S = Savings of C or purchase of claims on M and T.

Adding up equations 1, 2 and 3 and clearing similar terms and rearranging gives us

$$(4) S + P = I_1 + I_2$$

or investment in the economy as a whole ($I_1 + I_2$) is financed by savings in C and reinvestment of profits in M (which is equal to $S + P$). We can also rearrange (4) as

$$(5) S - I_2 = I_1 - P$$

or the deficit on investment account in M (or $I_1 - P$; where $I_1 > P$) is financed by a flow of surplus from C (after meeting the investment requirements of T).

We have already indicated that S may also be looked on as purchase of claims on M (which we may call S_1) and on T. We can, therefore say that:—

$$(6) S = I_1 - P = S_1 - I_2$$

S_M , as it can be seen, excludes investment within T, and it is the crucial flow of savings from the traditional to the modern sector which is the central

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subject of this paper. It can also be shown that S_M is equal to the net flow of real resources from the traditional sector (now including both T and C or traditional production and the consumption sector) to the modern sector. Adding up equations (2) and (3) gives us:

$$(7) S - I = (W_1 + L_1) - (Q_T + Q_C)$$

Using equation (6)

$$(8) S_M = (W_1 + L_1) - (Q_T + Q_C)$$

$(W_1 + L_1)$ measures the flow of raw materials (from T to M) and labor (from C to M) from the traditional to the modern sector; while $(Q_T + Q_C)$ is the flow in the opposite direction. $(W_1 + L_1) - (Q_T + Q_C)$ is therefore the net flow of real resources. In other words the financial claims of the household consumption sector on the modern sector, are equivalent to the flow of real resources from the traditional to the modern sector.

The purpose of this exercise above is to suggest that in studying surplus flows in a two sector economy we are concerned only with net flows (and can, therefore ignore savings of a particular sector reinvested within it; and again the statistics on purchase of financial claims by the traditional sector from the modern sector also estimate the net flow of real resources from the traditional sector to the modern sector. These are important considerations if a selective use is to be made of available statistical material in India, for estimating such flows.

The Problem and the Statistical Estimates Used

The purpose of this paper is to examine the factors that influence the flow of net surplus from the traditional household sector to the modern industrial sector in the Indian economy. We postulate the initial hypothesis that these factors are the income available to the traditional sector, or alternately and more specifically the important and fluctuating component of output in the household sector i.e. agricultural output. In addition the movement of relative prices between the two sectors could be another factor influencing net surplus flow between them and finally investment in the modern sector itself could have a modified type of Keynesian accelerator or more appropriately a Hirschman type of Backward Linkage Effect, raising output and savings, through an induced movement in the Traditional Sector.

The analysis is still at a highly aggregative level though more detailed than earlier one sector studies.

The estimates of net surplus flows from the Traditional Household Sector to the Modern Sector were constructed from the Reserve Bank of India's saving estimates of the household sector (in constant prices) from 1950-51 to 1962-63.⁶ These savings estimates include savings in the form of cash holdings, net bank deposits, insurance policies, provident funds, net claims on the government sector, corporate and co-operative shares and securities and savings in the form of physical assets in the household sector. As was indicated earlier, the last component of household saving (i.e. physical assets which includes rural housing and farm capital formation) are more guesses than statistical estimates, but as equation (6) indicates, the net surplus flows (S_M) are calculated after deducting investment within the traditional sector (I_2) from the total savings

of the household sector (S). We, therefore, deduct, the estimates of savings, in the form of physical assets in the household sector, from the total savings, to arrive at our estimates of Net Surplus Flows (S_M) in constant prices, in Table-1 (Statistical Appendix). In other words, we are not using the weak components of the Reserve Bank of India's savings estimates. Again as equation (8) indicates S_M is also an estimate of net flow of real resources from the household to the modern sector.

One of the independent variables or factors influencing S_M is the income available to the household sector. The nearest statistical approximation to Disposable Income in India are the estimates of Private Income issued by the Central Statistical Organisation.⁷ These exclude income accruing to the government sector from net domestic product at factor cost, but include national debt interest and other transfer payments to the private sector

Table 1: Net surplus Flows, Agricultural Output and Private Income in India from 1950-51 to 1962-63.
(in 1949-50 prices)

Sources :	Net Surplus Flows from Household to Modern Sector (in Rs crores)*	Private Income (in Rs abja)*	Index of Agricultural Output
Year			
1950-51	17.9	89.15	95.6
1951-52	19.8	91.54	97.5
1952-53	41.0	95.52	102.0
1953-54	79.6	101.38	114.3
1954-55	329.3	103.87	117.0
1955-56	404.9	106.38	116.8
1956-57	311.4	111.46	124.3
1957-58	309.4	110.52	115.9
1958-59	315.6	118.17	133.5
1959-60	355.4	120.70	130.3
1960-61	392.6	129.37	139.7
1961-62	420.6	133.07	141.4
1962-63	427.4	136.08	137.2

* crores = 10 million; abja=100 million

Sources :

- (1) Net Surplus Flows from household sector are from "Estimates of Saving and Investment in the Indian Economy: 1950-51 to 1962-63", Reserve Bank of India Bulletin, March 1965, Table IV, p 325. These estimates are estimates of saving of the household sector minus savings in the form of physical assets.
- (2) Private Income Statistics are from Government of India, Cabinet Secretariat, C S O, "Estimates of National Income". The estimates in current prices were deflated by the National income deflator for constant price estimates. National income deflator = Money Income $\times$ 100. Real Income
- (3) Agricultural Output Index is from Government of India, Ministry of Food and Agriculture, Department of Economics and Statistics, Agricultural Situation of India, August 1964, p 514.

and also earned income and net private donations from abroad. We deflated the estimates of private income at current prices, by the implicit national income deflator to arrive at the estimates of private income in constant prices. (Table 1).

Alternately to Private Income, we also decided to use Agricultural Output as an independent variable. The reasons for this were twofold. First agricultural output formed a major part of output in the household production sector. Second fluctuations in agricultural output have long been considered a strategic influence on the Indian economy, particular on important variables like surplus and savings,⁸ and also on the rate of economic growth (the latter because agricultural income forms half of the nation's income). The estimates of agricultural output used was the Directorate of Economics and Statistics of the Ministry of Food and Agriculture's Index of Agricultural Output, which is now prepared from output series corrected for changes in reporting area. (See Table 1).

An exciting suggestion has always been that relative price movements affect surplus flows in the Indian economy. The price of agricultural goods, for example, would affect input costs for the industrial sector and determine factor incomes generated by the household production sector. Prices of manufactured goods, on the other hand, are costs of intermediate products to the household production sector and, of consumer goods to the household consumption sector. It is sometimes suggested that due to non-monetisation and other institutional conditions, relative price movements, are not important in an economy of the Indian type. This is a hypothesis which can be subjected to empirical testing, and the type of influence that relative price movements exert, examined. Recognising the importance of relative price movements in determining net inter-sectoral surplus flows, still leaves the problem of the choice of relevant price indices. We chose a weighted index of food prices and industrial raw material prices as our Index of Household Production Sector Prices (P_H), and the Index of Manufactured Goods prices as our Index of Modern Industrial Sector Prices (P_M).

$\frac{P_H}{P_M} = P_R$ (or Relative Price Movements) was constructed as our ratio of household sector prices to modern

sector prices, to be used as a variable determining S_M (See Table -2).

Finally, as we have indicated earlier, we wanted to examine the hypothesis that investment in the modern sector induces surplus flows from the traditional sector. This entailed construction of estimates of investment in the private corporate and government sector of the Indian economy. The earlier estimates were those by Sastry and Antony.⁹ Estimates of government capital formation are available from the national income estimates, but the estimates for the private corporate sector have to be constructed. The private corporate sector in India consists of (i) Public Limited Joint-Stock Companies, (ii) Private Limited Companies, (iii) Foreign Companies. Sastry and Antony had used the Taxation Enquiry Commission's estimates on capital formation in Public Limited Companies for 1947-51 and the Reserve Bank of India's estimates from 1951-56. They then assumed that the Private Limited Companies added 20% and Foreign Companies 18.5% of the capital formation of Public Limited Companies to total corporate capital formation. Total corporate capital formation, thus arrived at was deflated by the Index of Wholesale Prices to arrive at estimates of corporate capital formation at constant prices. Our problem was twofold. First the Sastry estimates had to be updated (till 1962-63), and second an

effort was to be made to improve them. From 1956-57 to 1962-63, we took the Reserve Bank of India's sample studies of finances of Public Limited Companies, Private Limited Companies, and Foreign Companies, and blew up the sample estimates of capital formation according to the percentage of total paid-up capital the sample firms contributed. Sastry and Antony had done this only for public limited companies.¹⁰ The estimate of total corporate capital formation thus constructed is in two parts—assets and inventories. To obtain estimates in constant prices we deflated the assets component by the Index of Machinery and Transport Equipment prices and inventories by the Index of Raw Material Prices.¹¹ This gives us the estimate of total corporate capital formation in constant prices. (See Table 3).

The Statistical Results

We estimated the influence of our independent variables in determining S_M by simple linear regression. The results are, therefore, subject to the limitations of the assumptions of the linear regression model.¹² The violation of some of these assumptions, however, would show up in some of the properties of the estimates and tests on them (as we will see below) e.g. multi-collinearity would lead to high standard errors of the estimates of coefficients and autocorrelation

Table 2: Index of Relative Price Movements between Agriculture and Industry in India from 1950-51 to 1962-63. (All prices are wholesale price indices 1952-53=100)

Year	Food Prices Weight=504	Raw Material Prices Weight=155	Index of Agri- cultural Prices P_H	Index of Manu- factured Goods Prices P_M	Relative Price Movements Ratio $P_R = \frac{P_H}{P_M}$
1950-51	110.0	141.0	118.00	119.0	.9923
1951-52	111.0	141.5	118.15	118.0	.9928
1952-53	100.0	100.0	100.00	100.0	1.0000
1953-54	100.1	107.4	101.81	100.7	1.0110
1954-55	82.1	94.6	85.04	100.1	.8496
1955-56	86.6	99.0	89.52	99.6	.8988
1956-57	102.3	116.0	105.52	105.6	.9992
1957-58	106.4	116.5	108.78	108.2	1.0054
1958-59	115.2	115.6	115.29	108.1	1.0065
1959-60	119.0	123.7	120.11	111.3	1.0792
1960-61	120.0	145.4	125.97	122.8	1.0258
1961-62	120.1	142.6	125.39	124.6	1.0159
1962-63	123.5	135.3	126.28	129.5	0.9834

Source: Reserve Bank of India Bulletins, Statistical Appendix. Table on Index Numbers of Wholesale Prices by Groups and sub-Groups.

could be detected by the Durbin-Watson statistic.¹³ (The latter test shows lack of autocorrelation in residuals in our equations).

The results of our study, for the period 1950-51 to 1962-63, were as follows:

$$(9) S_M = 205.05 + .10Y - 10.68P_R \\ (336.04) (.013) (3.505)$$

$$R^2 = 0.83$$

where, in addition to S_M and P_R Y = Private Income in constant prices (as defined earlier). The co-efficients of the independent variables are significant at 99% levels of significance apart from the constant term which is insignificant. The Y co-efficient indicates that the propensity to transfer S_M out of additional income accruing to the household sector, is .10, (holding P_R constant). This seems a reasonable estimate.

The relative price coefficient is significant, but shows a minus sign. This would indicate that if the index of manufactured goods prices rises by 1 point relative to agricultural prices, the flow of resources to the modern sector increases by Rs 10.68 crores (1 crore = 10 million). This result indicates a responsiveness to price behaviour in the surplus flow movements in the economy, but not along lines that traditional economic theory would make us expect. Since agriculture is the predominant part of the household production sector, traditional economic reasoning would have us believe, that as the terms of trade moved in favour of the household sector; or P_R rose, S_M would increase. But our result indicates the opposite. As P_R rises, S_M falls. This behavioural pattern has also been noted in the Indian context by earlier studies. We will examine the explanations, already given, and then suggest an alternative hypothesis; together with further statistical evidence to support it.

Some Indian economists have argued that the marketed surplus of food-grains in India is inversely related to price movements.¹⁴ This is done on the basis of two process of reasoning, both of which smack very strongly of Neo-Classical Friedman-Patinkin monetary theory. One suggests that subsistence farmers have a unit elasticity demand for cash. Farmers do not have a money illusion. As the terms of trade move against agriculture, money savings rise, although real savings ("Real Balances held") are constant. Conversely if terms of trade in

favour of the agricultural sector money savings fall.¹⁵ Our evidence does not support this reasoning, because the inverse relative price relationship in equation (9) is not for money but real savings.

The second process of reasoning argues that farmer's cash requirements are fixed and, therefore, his own consumption is a residual. Thus if terms of trade move against the household production sector, S_M will rise and conversely, if terms of trade move in favour of it S_M will fall. Then it is argued that "under these conditions a change in prices brought about by an exogenous shock will be accentuated by the inverse relationship between price and marketable surplus."¹⁷ (emphasis added). Instead of leaving the whole structure to be set off by an exogenous shock, we propose to suggest some further explanations, and then verify them statistically; but before doing this it might be appropriate to indicate that if we use agricultural output instead of Y as an independent variable, the results of equation (9) are not significantly changed:—

$$(10) S_M = 15.73 + 9.75 Q_A - 9.37 P_R \\ (339.79) (1.26) (3.46)$$

$$R^2 = 0.83$$

where the new term Q_A = Index of Agricultural Output. Q_A performs as well as Y as an independent variable. This equation indicates that holding P_R constant, S_M rises by Rs 9.75 crores as the Index of Agricultural Output increases by 1 point. This corroborates Professor Raj Krishna's earlier results, from more limited data.¹⁸

Continuing the main thread of the argument, instead of the Neo-Classical explanations of savings behaviour, given above, we would like to suggest that investment may be the factor determining both relative prices and savings flow.¹⁹ The mysterious exogenous shock referred to above may be the investment pressure due to economic planning. In an economy with supply bottlenecks and a relatively long gestation period for investment projects, the implementation of investment projects in the industrial sector would create inflationary pressures within this sector and turn relative prices in favour of the modern industrial sector in the short run (be-

Table 3: Investment in Corporate and Government Sector in India 1949-50 to 1961-62.
(Rs crores in constant prices)

Year	Corporate Capital Formation	Investment Inventories	Government Capital Formation	Investment Administration	Total Corporate	Total Govt
1949-50	88.00	45.23	—	—	133.23	—
1950-51	75.27	92.58	177.41	86.44	167.85	263.85
1951-52	106.45	—27.56	203.22	89.83	78.89	293.05
1952-53	105.00	—30.00	186.00	117.00	75.00	303.00
1953-54	141.23	20.48	212.37	134.39	161.71	346.75
1954-55	180.20	54.96	280.20	177.45	235.16	457.65
1955-56	273.19	162.62	356.70	236.75	435.81	593.45
1956-57	238.25	150.37	462.62	215.57	388.62	678.19
1957-58	286.59	75.88	593.13	209.41	362.47	802.54
1958-59	243.88	7.96	591.34	218.77	251.84	810.11
1959-60	177.38	38.11	391.58	241.67	215.49	633.25
1960-61	200.68	128.57	384.82	286.63	329.25	671.45
1961-62	230.60	107.84	546.95	331.73	338.44	878.68

Sources: Corporate Capital Formation and Inventory Formation figures from 1949-50 to 1955-56 are from *op cit* Sastry and Antony. They are corrected by Index of Machinery and Equipment and raw material prices respectively. Estimates from 1956-57 to 1961-62 are taken from Reserve Bank of India Company Finance Studies of Public Limited, Private Limited and foreign companies. The sample figures of capital formation and inventories are blown up by percentage of total paid-up capital in company sector, covered by the particular study. Estimates in current prices are corrected for price changes as above. The government figures are from *op cit*, "Estimates of National Income". Current price series are again deflated by Index of Machinery and Equipment for capital formation and by wholesale price index for administrative capital formation.

fore the additional output due to this investment is produced). The period of analysis for our model is the short run, viz: one year, and in India the average gestation period for investment is placed between two to three years. We are also envisaging an economy in which an attempt is made to keep investment at a high level. It might also be insisted here that we are talking of a relative price movement. In the absolute sense prices of both sectors may rise. The increase in investment may, however, in the short run, also attract more resources from the household sector. Pressure on traditional sector prices may be kept down partly by utilisation of surplus labor. In this scheme, therefore, relative price movements and investment both operate in the same direction in determining surplus flows, and relative price movements become a proxy variable. In the above example a movement of prices against the agricultural sector (which is the same as a movement in favour of the industrial sector) leads to an increase in S_M . We are suggesting that I (or investment in the modern sector) is a crucial link. Conversely, if I goes down, relative prices will move against industry or in favour of agriculture in the short run, but S_M will fall because of lack of demand—explaining the inverse price relationship indicated above. More complicated and also more realistic sequences of interaction between agricultural output, investment in the modern sector, and relative price movements can be posited, but their statistical verification, is not possible within the limits of the single equation analysis conducted in this paper. We can only provide inferential support for our relatively simple hypothesis. It was estimated that:

$$(11) S_M = -634.15 + .73Y + 0.34 I_{-1} \\ (.20) (0.26)$$

$$R^2 = .72$$

where the new variable I_{-1} is investment in the modern sector lagged by one year, and alternately,

$$(12) S_M = -714.69 + 7.47Q_A + 0.32 I_{-1} \\ (1.85) (0.24)$$

$$R^2 = .75$$

There is a difficulty in equation (11) to the extent of multicollinearity between Y and I_{-1} . Of course, this problem does not exist in equation (12) because agricultural output is not determined by investment in the modern sector. To a great extent the problem is obviated in equation (11) also, because agricultural output de-

termines Y to a large extent, and also the gestation period of investment projects in India is on the average much higher than one year, which is the period of our analysis. The constant terms are again insignificant, but the other coefficients are significant (the Y and Q_A coefficients at 99 per cent levels, and I_{-1} coefficients at 90 per cent levels). R^2 in equations (11) and (12) is not as high as in equations (9) and (10), but is still reasonably high. There is therefore, some indication, that I_{-1} is an alternate variable influencing the determination of S_M , rather than P_R .

Further adding I_{-1} to equations (9) and (10) does not seem to improve the regression to a great extent, because,

$$(13) S_M = 295.06 + 0.08Y - 10.66 P_R \\ + 0.33 I_{-1} \\ (0.01) (3.15) (0.18) \\ R^2 = .86$$

and,

$$(14) S_M = 137.06 + 8.22 Q_A - 9.57 P_R \\ + 0.34 I_{-1} \\ (1.38) (3.08) (0.18) \\ R^2 = .86$$

Again the constants are insignificant, but Y , Q_A , P_R and I_{-1} are significant (I_{-1} again only at 90 per cent levels). The addition of I_{-1} to equations (9) and (10) only improves R^2 from .83 to .86, but the substitution of I_{-1} for P_R , in the same equations, still keeps R^2 at quite high levels (.72—.75). Of course, if the P_R and I_{-1} coefficients in equations (13) and (14) had turned out to be insignificant, our case would have been strengthened, because this would suggest a high degree of multicollinearity between the two variables in determining S_M —but this is not actually the case.

Conclusion

We have in this paper suggested that holding and purchase of financial claims by the household sector on the modern sector is a counterpart of surplus flows between these sectors also. We have then examined the factors that influence these flows. Apart from income or agricultural output, we find that these flows are inversely related to relative price movements between the household and modern sector. We have, with some inferential empirical evidence, suggested that investment behaviour might be

influencing relative price movements and through them surplus flows.

Notes

¹ For some recent works see John C H Fei and Gustav Ranis, "Development of the Labor Surplus Economy", also D W Jorgenson, "The Development of Dual Economy", *The Economic Journal*, June 1961, pp 309-34, and W H Nicholls, "The Importance of an Agricultural Surplus in Underdeveloped Countries", *Journal of Political Economy*, March 1963, pp 1-29. Recently there has been a rather intense and fairly sophisticated empirical debate on these issues in India. References are cited below.

² For the latest series see "Estimates of Savings and Investment in the Indian Economy", *Reserve Bank of India Bulletin*, March 1965, pp 314-333.

³ For the difficulties in the US data see Irwin Friend and Stanley Schor, "Who Saves", *Review of Economics and Statistics*, May 1959, pp 223-296, and Franco Modigliani and Alberto Ando, "Hypothesis of Saving Behaviour", in Friend and Jones (ed) "Consumption and Saving", Volume 2, pp 49-174.

⁴ For further elaboration of the weakness of the RBI data see K N Raj, "The Marginal Rate of Saving in the Indian Economy", *Oxford Economic Papers*, February 1962, pp 25-36.

⁵ See for example Raj Krishna "The Marketable Surplus Function for a Subsistence Crop — An Analysis with Indian Data", *Economic Weekly*, Annual Number, February 1965, pp 309-320. Raj Krishna has done pioneering work in this area, but the statistical basis of the above cited study came in for consistent criticism (See April 17 and May 15, 1965 issues of *Economic Weekly*). The *Agricultural Situation of India* also published studies based on similar statistics.

⁶ *Op cit*, Reserve Bank of India Bulletin, March 1965, p 325.

⁷ Government of India, Central Statistical Organisation, Department of Statistics, "Estimates of National Income 1948-49 to 1962-63," p 8.

⁸ See Wilfred Malenbaum, "Prospects for Indian Development", pp 245-246, for earlier indications to this effect.

⁹ N S R Sastry and K A Antony, "Capital Formation in the Corporate Business Sector in India", in V K R V Rao, *et al.*, (ed), "Papers on National Income and Allied Topics", Volume 1, pp 159-171.

¹⁰ Their contention that the ratio of paid-up capital to capital formation is far apart in Private Limited Companies and foreign companies, than in Public Limited Companies does not seem to be corroborated by later statistics.

¹¹ The same deflation procedures were employed for the 1950-56 estimates given by Sastry and Antony in current prices.

¹² J Johnston, "Econometric Methods" p 107. A limitation of all the studies on India cited below, is that the analysis, is not in terms of a system of simultaneous relationships. This is a shortcoming this study is subject to also, although an attempt has been made to widen the number of independent variable.

¹³ *Ibid*, Chapters 7-8.

¹⁴ For a recent quantitative study corroborating this viewpoint, and review—the earlier literature see T N Krishnan, "The Marketed Surplus of Foodgrains—Is it Inversely Related to Price", *Economic Weekly*, Annual Number, February 1965, pp 325-28.

¹⁵ See A M Khuro, "Reflections on Redistribution of Income, Wealth and Opportunities in India, 1950-60", *Enquiry*, pp 80-82.

¹⁶ *Op cit*, T N. Krishnan.

¹⁷ *Ibid*, p 327.

¹⁸ *Op cit*, Raj Krishna. He makes marketable surplus a linear function of agricultural output.

¹⁹ This is in tune with the spirit of post Keynesian growth theories e.g. Joan Robinson and Nicholas Kaldor; although our hypothesis has to be modified to suit the scarcity aspect of Indian conditions.



THE GREAT EASTERN SHIPPING COMPANY LTD.

AROUND BOMBAY MARKETS

Equities Drift Lower

Wednesday Morning

DALAL STREET last week struggled in vain to move beyond its previous week's high. Though some of the popular scrips such as Century, National Rayon and Hindustan Motors, did strike new highs they were unable to pull the entire market up and later these shares also shed all their gains. Net changes over the week were small but losses predominated. The turnover was a little better but activity continued to be entirely professional and interest was very selective. Equities drifted lower mainly due to lack of support. Selling was seldom heavy. The market's performance could have been worse but for the highly encouraging corporate news. Hindustan Motors, Indian Dyestuff and Gwalior Rayon stepped up their dividends and Cellulose Products declared a maiden dividend. There were a few other companies which reported an increase in their earnings. But the good corporate news merely discouraged selling; bulls were in no mood to be aggressive.

The stock market did take some comfort from Finance Minister Krishnamachari's note on the economic situation prepared for the AICC session as it contained the assurance of a "realistic assessment of resources" in deciding on the size of the Fourth Plan and of modifications in credit restraints on a selective basis should that be considered necessary to stimulate production. But the stock market did not take kindly to TTK's earlier observations in Bombay that the market had a tendency to "gamble" on all types of rumours and that while the revival of capital-market had a place in the country's economic development there were other priorities like the need to augment foreign exchange resources and to fight inflationary pressures which had to be attained to first. "Capital market finance is important, but if it does not come, we will find substitutes", said TTK. Shri Krishnamachari's views will be widely endorsed, outside the stock exchange community, of course. The capital market cannot be revived without restoring health and vitality to the economy. The capital market is in bad shape because the country's economy is under serious strains. Dalal Street's main worry, however is the progressive decline in the volume of speculative business over the years, the tremendous growth of the corporate sector notwithstanding.

OILSEEDS

Wide Swings in Prices

NEW crop oilseeds contracts made their first official appearance on July 22. Linseed April opened at Rs 112 (per 100 kgs) and after rising to Rs 113 it dropped sharply to Rs 106.50 the same day. It shot up to Rs 116 on July 26 but was down again at Rs 109 the next day. Castorseed April started at Rs 90 (per 100 kgs), rose to Rs 92.50, eased quickly to Rs 88.75, advanced again to Rs 93.25 but dropped sharply Rs 87.75. Trading in cottonseed January commenced at Rs 53 but the contract rose quickly to Rs 57 and held firm around Rs 56 most of the time.

The start has indeed been very exciting. For never have new season's contracts been quoted so high right in the very beginning and rarely, if ever, have prices fluctuated so widely as they did last week. There have been occasions in the past when linseed futures did not fluctuate by the last week's range—Rs 9.50 per 100 kgs., that is, Rs 23.25 per 250 kgs which used to be the basis of quotation for the hedge contract in the past—in the entire season.

Nobody perhaps need bother much about the up and down movements in the new crop contracts as they affect only the fortunes of professional speculators. Since both linseed and castorseed crops have yet to be sown, it would be foolish to make any assessment of the new crop prospects. Current prices of new crop contracts are being influenced mainly by the prevailing spot prices. It is not possible to explain satisfactorily the wide swings in futures in terms of the week's news. All that one can say is that while bulls are taking their inspiration from the remarkable strength in the spot material, bear operations are based mainly on the generally satisfactory weather reports from nearly all the oilseeds producing areas; at present, weather is of particular significance only for the groundnut crop.

In view of the facility to transact business in new crop contracts, outstanding positions in linseed September and castor September contracts are being squared up at mutually agreed rates—Rs 117.25 for linseed and Rs 95.25 for castor. The rates fixed for squaring-up outstanding positions suggest that bulls have had an upper hand

in the matter; these rates are higher than the maximum prices permissible for the week when the decision was taken. With prices keeping well above the maximum limits set for the week, official trading in futures (current crop contracts) has remained suspended for many weeks.

Neither reports about very favourable weather in nearly all the groundnut producing areas, nor the control of credit against security of oilseeds in order to discourage utilisation of bank credit for speculative built-up of stocks, has had any visible impact on the trend of spot prices. Nor has the market taken any serious notice of the vanaspati manufacturers' reported decision to abstain from buying groundnut above certain specified rates—Rs 2,700 a tonne in Bombay. This is presumably because not many manufacturers are strictly observing the self-imposed restraint. The spot market continued to display remarkable strength last week. Groundnut oil was marked up to Rs 31.50 (per 10 kgs) and linseed oil was bid up to Rs 28.25—new high levels for the season. Near the week-end, however, prices suffered a small setback in sympathy with the sharp decline in futures induced mainly by heavy upcountry selling.

Export houses did not report any fresh important business. Overseas quotations, both for groundnut extractions and cottonseed cake, showed a moderate improvement, which in turn imparted strength to oilcakes prices here. Prospects of putting through very substantial business in groundnut extractions on a forward business are said to have been adversely affected by the change in the Government's policy permitting export business to be conducted only by the manufacturers from October which marks the beginning of the new groundnut season.

COTTON

Prices How High

COTTON prices continue to be quoted well above the statutory ceilings. Since unofficial premiums range up to Rs 150 per candy, quite a few varieties are quoted higher than even the revised ceilings for the new season (1965-66). And judging from the easy manner in which business is being transacted one wonders whether there really exists any kind of control over cotton prices. The open violation of

the price control order reflects very poorly on the authorities entrusted with the task of administering control. But then who bothers. How unfortunate!

The cotton mill industry protests, no more against the rise in price above the statutory ceilings. And that is not about all. It is really intriguing that while, on the one hand, mills continue to seek concessions by way of liberal financial accommodation to meet the burden of mounting stocks of cloth and yarn, on the other hand, they keep accumulating cotton at prices well above the statutory ceilings. At the end of May, mills had with them 22.93 lakh bales of cotton-18.82 bales of Indian cotton and 4.11 lakh bales of foreign cotton-the highest figure not only for the current season but for a much longer period of time. Apparently, mills wish to have as much cotton as they can possibly afford to keep, the price factor being only a secondary consideration.

Of course, the mills' attitude is not understandable. Consumption of cotton is going up steadily with the increase in spindleage. And there is nothing to suggest that cotton production will keep pace with the industry's growing requirements. During the first nine months of the current season—September to May—mills have consumed 48.15 lakh bales—42.33 lakh bales Indian and 5.82 lakh bales foreign—as against 45.61 lakh bales, comprising 41 lakh bales Indian and 4.61 lakh bales foreign cotton, during the same period last season. As the 1964/65 cotton crop has been smaller than in the preceding season, the current season which ends on August 31 is likely to finish off with a reduced carryover.

Though the export policy for the new season has yet to be made known, it is taken for granted that export will continue to be allowed freely. There have already been reports about fair amount of business in Bengal Deshi having been negotiated with Japan.

Money and Banking

Thursday, Morning

CONDITIONS in the Bombay short-term money market were more or less unchanged during the week ending July 28. Demand continued to be moderate, though lower than in the previous week. Supply of funds was well held around the previous level. Interest rates were maintained around 4 per cent but after clearing transactions were done mostly at 3½

per cent. Rates in the Calcutta call money market were between 4½ and 4¾ per cent. Some lots were reported to be transacted at 4 per cent as well.

During the week to July 9 there was a net contraction in bank credit by Rs 9.61 crores to Rs 2,062.69 crores, yet the figure of outstanding bank credit is higher by Rs 321.45 crores than at the corresponding time last year. Contraction during the week was effected mainly under advances against inland bills. Deposits on the other hand have increased by Rs 23.41 crores to Rs 2,751.48 crores. Investments in government securities were higher by Rs 19.22 crores at Rs 764.88 crores. Borrowings from the Reserve Bank decreased by Rs 28.51 crores to Rs 26.39 crores.

Total notes in circulation during the week to July 23 declined by Rs 47.98

BUSINESS NOTES

Tata Engineering

WHILE planning is recognised as a necessity for rapid economic growth in a country, wherein scarce resources have to be allocated on a careful order of priority, sound planning requires that imbalances within the economy be foreseen and prevented as far as possible. The shortage of various kinds facing several industries today has arisen largely from the failure to back up the rapid increase in the capacity with a corresponding expansion of sources of indigenous raw materials and components as a result of which additional capacity installed at heavy cost to the economy is only partially utilised.

Citing the present situation in Tata Engineering and Locomotive Company in this context, J R D Tata has said in his Chairman's statement circulated with the company's annual report for the year to March last that when the current expansion of the automobile division capacity from 12,000 to 24,000 vehicles per annum was undertaken at the instance of the Government as part of the overall expansion of the automobile industry in the Third Plan, the Government was fully aware of the requirements of special steels and other materials essential to the operations of the new facilities. Yet, at the end of the Third Plan and over ten years after the company began to make commercial vehicles, virtually none of the special steels incorporated in the company's vehicles are made in the country or likely to be

crores to Rs 2,607.31 crores, according to the Statement of Affairs of the Reserve Bank. Foreign securities remained unchanged at the previous week's level of Rs 68.35 crores, but balances held abroad were lower by Rs 2.16 crores at Rs 7.24 crores. Rupee securities were lower as well at Rs 2,329.72 crores by Rs 50 crores. Deposits of the Central Government showed an increase of Rs 22.43 crores at Rs 87.71 crores. State government deposits were lower, however, by Rs 92 lakhs. Scheduled bank deposits were also lower by Rs 16.31 crores at Rs 108.80 crores. Loans and advances to governments at Rs 61.54 crores showed an increase of Rs 4.80 crores. Scheduled bank borrowings are lower by Rs 10.98 crores at Rs 15.50 crores. Investments showed an increase of Rs 19.68 crores at Rs 311.30 crores.

made for some years. Tata has rightly pointed out that instead of creating large additional industrial capacity, which cannot be fully utilised due to paucity of foreign exchange or of indigenous raw materials, the logic of industrial planning should in fact allow, at the very outset, for some margin in raw materials and time.

Since April last, TELCO has received no import licences whatsoever for essential raw materials and supplies; neither has it received any indication as to when shipments will be resumed. As a result, the management has been compelled to cut back on production with effect from June 1965. Even if import licences for full requirements for the year are issued in the near future, it will not be possible to make up fully for such loss of output, and the production of vehicles during the current year is not likely to exceed materially that achieved in the past year.

The company has completed the first stage of expansion and established capacity for production at the rate of 18,000 vehicles per annum. During 1964-65, the output of TMB vehicles rose by 25 per cent from 12,800 to 16,025. The final stage of expansion for 24,000 vehicles per annum is under way. The second AID loan agreement for \$11.8 million has been finalised, and orders for the requisite plant and equipment are now being placed. Additional capacity is also being set up for the production of

Tata-P & H excavators for which there is good demand. The company is concentrating on the production of a selected number of standardised items of pulp and paper machinery. The manufacturing capacity established for such machinery has yet to be fully utilised, because the paper industry continues to be so depressed that few companies, if any, are implementing their expansion plans.

The production of the metre-gauge steam locomotives increased by 11 to 68 during the year. Under the current five-year contract for the delivery of 325 locomotives, the company has supplied 241 locomotives to the Government upto March last, and the balance is to be delivered over the next 1½ years. The company has agreed to deliver a further and final lot of 200 locomotives during the Fourth Plan period. With the installation of the new forging equipment to be secured under the second AID loan, the requirements of forgings for the increased output of TMB vehicles will be entirely met from the forge division.

The first stage expansion of the alloy iron foundry to meet the increased requirements of the automobile division was completed, and the output of alloy iron castings increased by nearly 25 per cent. Further expansion of this foundry is in progress. The implementation of the new project to be established at Poona for the manufacture of large press tools and complex dies has been hampered by the non-receipt of foreign exchange for the import of the special purpose machinery.

Unit Trust of India

BY declaring a maiden dividend of 6.1 per cent for the year to June 1965, Unit Trust of India has fulfilled its assurance to the unit holders of a tax-free return of six per cent. The gross income of the Trust has amounted to Rs 1.53 crores, after deducting the net loss of Rs 1.48 lakhs incurred on sales of Government securities. The initial capital of the Trust was Rs 5 crores, unit capital raised from initial sales from July 1 to August 14 was Rs 17.38 crores and from unit sales at a premium thereafter was Rs 1.76 crores. The gross income has been distributed between initial capital and unit capital in the ratio the former bore to the latter as at the end of June last, that is, Rs 32 lakhs to initial capital and Rs 1.21 crores to the unit

capital. After deducting expenses of Rs 6.06 lakhs at five per cent of the income allocated to unit capital, the net amount available for distribution to unit holders comes to Rs 1.15 crores. This could yield a dividend of 6.14 per cent, or 61.4 Paise per unit of Rs 10, but the Trustees have decided to distribute a round sum of 61 Paise per unit, and carry forward the balance.

R S Bhatt, in his Chairman's statement to the contributors to the initial capital of the Trust and Unit holders, has said that the investible funds were at the disposal of the Trust for a maximum period of 10 months only, and the rate of income distribution compares favourably with the return on similar types of investment. Since the increase in the Bank Rate on February 17, the pattern of yields has moved upwards and the Trust will have the opportunity of earning a higher rate of return on fresh investments. The Trust, therefore, hopes that it will be possible to improve the overall return which would be reflected in the income distribution to the unit holders for the current year.

The Trust had initially invested a fairly substantial amount in Government securities, but gradually switched over to other types of securities as investment opportunities occurred during the course of the year. The Trust's funds have been invested in securities of about 250 sound companies which include securities regarded as "blue chips". The bulk of investible funds amounting to 99.2 per cent is invested in companies which are on regular interest or dividend paying basis. The remaining 0.8 per cent has been invested in growth stocks of 19 companies, all of which have gone into production and hold out prospects of capital appreciation. In view of the downward movement in prices of debentures, preference shares and equities, there has been a slight depreciation of 1.6 per cent in the market value of investments of the Trust over their book value as on June 30 last. The Board of Trustees is making arrangements for ways and means to reduce the impact of such depreciation on the prices for sale and repurchase of units.

Hindustan Lever

A PRELIMINARY statement of Hindustan Lever's working results for the first half of the current year shows a 13 per cent rise in sales turnover from Rs 33.21 crores to Rs 37.41 crores and an over 81 per cent jump in profit before tax from Rs 1.54

crores to Rs 2.79 crores despite lower margins due to the rising costs of raw materials and increased wage bill. The overall trading results reflect the benefit of a reduced loss as a result of the continued ban on export of edible oils. With the provision for taxation demanding a substantially higher amount of Rs 1.74 crores, against Rs 82 lakhs, the after-tax profit is Rs 1.05 crores compared to Rs 72 lakhs in the corresponding period of 1964. The directors, however, state that in estimating the tax liability, no account has been taken of the various tax credit certificate schemes in the absence of details thereof.

In the previous full year ended December last, the company's sales realisation was Rs 61.87 crores on which it earned a pre-tax profit of Rs 3.74 crores and an after-tax profit of Rs 1.65 crores. The results of the second half of 1965 are likely to be affected by an increase in the export loss, since exports are essential to the company for earning import entitlements for the import of necessary raw materials from abroad.

Bayer (India)

SPEAKING to newsmen in Bombay some time ago, E Graef, Managing Director of Bayer (India) Ltd, stated that about 15 per cent of our total food output worth Rs 1,000 crores was being destroyed by pests every year and, even if half of it was saved, the country could be self-sufficient in food. Citing the effectiveness of pesticides in raising food availability, Graef said that Japan, despite a growing population, could stop rice imports during the past two years through plant protection measures.

Engaged in the manufacture of insecticides, weedicides, fungicides and pharmaceuticals for the past seven years, Bayer (India) is putting up a new factory at Kolshet near Thana in Maharashtra to produce annually 1,903 tons of rubber chemicals, 250 tons of Ethyl Parathion and 200 tons of Methyl Parathion on the basis of recipes evolved by the internationally known laboratories of Farbenfabriken Bayer AG, Leverkusen, West Germany, the company's foreign collaborators. Parathion, which the company proposes to manufacture, is playing a vital role in reducing crop losses. The construction work on the site is in progress, and the proposed expansion is expected to be completed by the middle of 1966. The full annual capacity of the plant is likely to be reached within

three years of commissioning the plant.

Meanwhile, due to the heavy expenses incurred in respect of the expansion programme during the transitional period, the company has earned a small net profit of only Rs 0.40 lakh in the year to March last compared to Rs 3.51 lakhs a year before, after providing Rs 1.52 lakhs (Rs 1.14 lakhs) for depreciation, Rs 0.11 lakh (Rs 0.15 lakh) for development rebate reserve and Rs 1 lakh (Rs 6.80 lakhs) for taxation liability. Together with the sum of Rs 0.21 brought forward from the previous year, there is a total of Rs 0.61 lakh for disposal out of which Rs 0.50 lakh (Rs 2.50 lakhs) have been transferred to general reserve.

Dhrangadhra Chemical

A NOTHER good year has been experienced by Dhrangadhra Chemical Works enabling directors to lift dividend for the third time in succession by two per cent to 12 per cent. According to a preliminary statement, sales during the year to March last have risen by 12.5 per cent to Rs 5.56 crores following a nearly 17.8 per cent increase in the production of caustic soda. The gross profit has moved up a little faster registering an advance of 13.7 per cent to Rs 1.50 crores. The profit could have been still better but for loss of production due to two major power restrictions imposed by the Madras Electricity Board and numerous shut-offs resulting from voltage fluctuation. Moreover, the profit has been arrived at after providing an additional outgo of Rs 6 lakhs on account of dearness allowance and bonus to employees.

Of the aforesaid profit, depreciation has absorbed Rs 55.47 lakhs (Rs 54.61 lakhs), taxation Rs 5.50 lakhs (nil) and development rebate reserve Rs 56 lakhs (Rs 40 lakhs). As before, preference dividends require Rs 4.68 lakhs, and out of the equity earnings of Rs 28.15 lakhs (Rs 32.51 lakhs) ordinary dividend demands Rs 12.90 lakhs compared to Rs 10.75 lakhs. General reserve, which received Rs 23 lakhs in the previous year, is strengthened by a further transfer of Rs 16 lakhs.

The company's liquid chlorine plant is expected to go into production soon. A scheme for the manufacture of Tri Perchloroethylene has been undertaken with the technical collaboration of a reputed Japanese firm. Besides, it is intended to take up a phased pro-

gramme of rehabilitating the soda ash unit at Dhrangadhra.

Cellulose Products

A FAIR improvement has been recorded by Cellulose Products of India in the year ended March 1965. According to a preliminary statement, the company has earned a gross profit of Rs 19.31 lakhs compared to Rs 13.95 lakhs a year ago, following rise in sales from Rs 38.69 lakhs to Rs 61.45 lakhs. The directors have provided for depreciation Rs 7.01 lakhs (Rs 5.53 lakhs), for taxation Rs 2.10 lakhs (Rs 0.10 lakh) and for development rebate reserve Rs 3.78 lakhs (Rs 3.96 lakhs). A sum of Rs 6 lakhs is allocated to general reserve to which no amount could be transferred in the previous year. The directors have deferred decision on dividends, which, if recommended, would be paid out of the general reserve. Last year, the company cleared arrears of preferential dividends upto the year ended March 1963.

The company's straw and grey boards plant and the pulp plant, which began trial runs in February last, are expected to achieve the rated capacity of 3,600 tonnes per annum by the end of 1965. The sodium monochloroacetate plant reached the full capacity of 360 tonnes per annum in March 1965. A further improvement can be expected in the company's performance in the current year.

New Standard Engg

A LL-ROUND good progress has been achieved by New Standard Engineering Company in its manufacturing operations. In particular, progress has been impressive in the manufacture of pneumatic hammers and forges. The blow room department has produced a large number of blow room lines, and the manufacture of cranes has been fairly satisfactory with the target of supply for the current year placed at 40 units. The construction of the Goregaon foundry has progressed further, and this year production of castings is expected to be more than doubled. Indrabator Ltd, a company managed by N S E, has already begun production of shot blast equipment at its Goregaon works, and has also secured orders worth Rs 20 lakhs.

During the year to March last, the company's sales turnover reached a new peak of Rs 3.08 crores compared to Rs 2.40 crores in 1963-64 and Rs 1.83 crores in 1962-63. As against this, the gross profit moved up at a faster

pace rising from Rs 26.88 lakhs to Rs 42.71 lakhs. Of this, depreciation has taken up Rs 14.76 lakhs (Rs 10.09 lakhs), taxation Rs 6.25 lakhs (Rs 5.70 lakhs) and development rebate reserve Rs 7.57 lakhs (Rs 1.03 lakhs). The directors have recommended payment of unchanged dividend of 10 per cent. The transfer to general reserve has been stepped up from Rs 2.75 lakhs to Rs 5.50 lakhs.

E I D-Parry

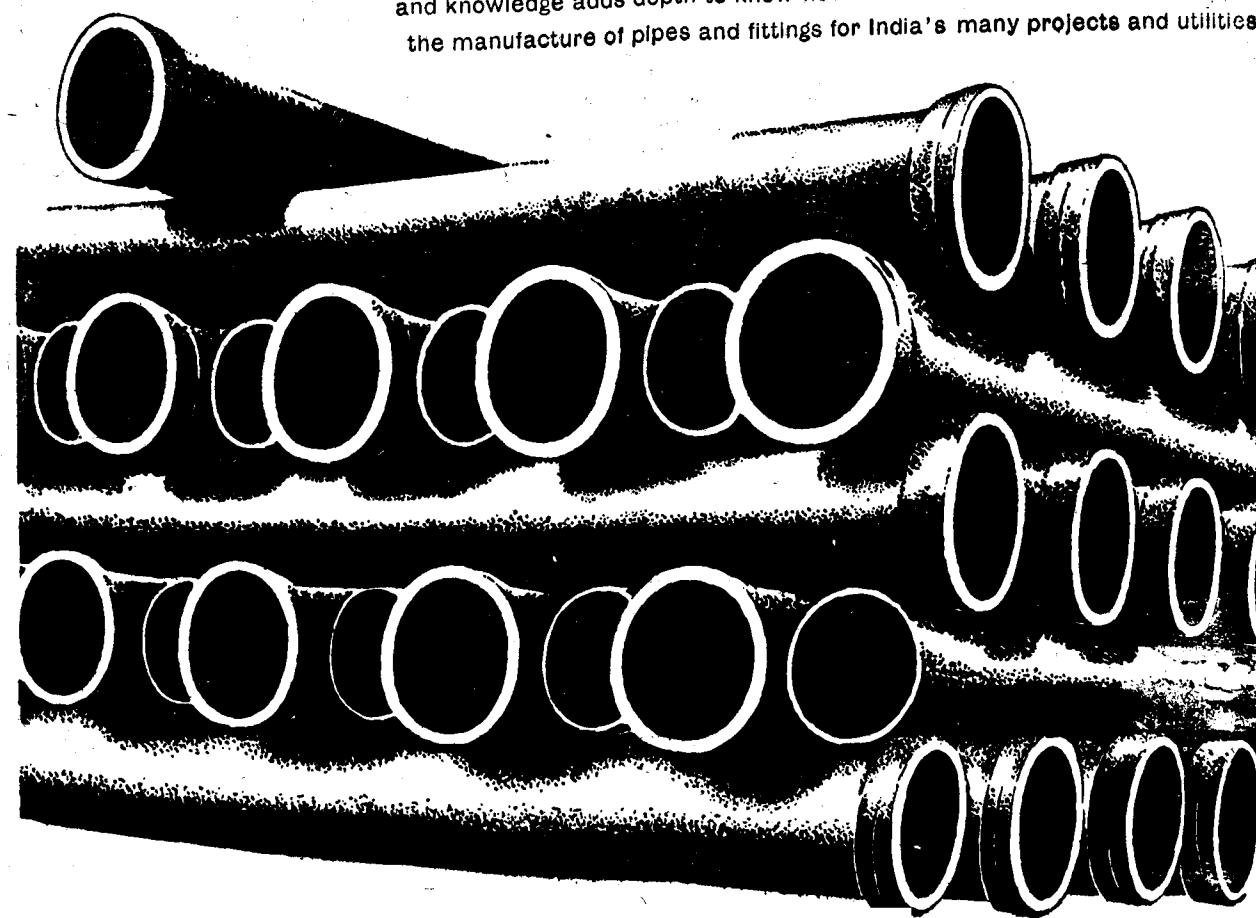
THE interim report released by EID-Parry for the first half of the year 1964-65 shows all-round good progress. The group's profits before tax for the period upto end-March at £439,915 are 75 per cent higher than those for the corresponding period last year. The main factors that have led to the better results were the increase in sales of 16 per cent and improved performance of the Ennore factory and the Ceramic Division at Ranipet. The sales of spirits and carbonic acid gas as also of chemicals have continued at a satisfactory level. Most of the initial problems in stabilising production in the Ceramics Division having been overcome, the sales and profits have considerably improved. Sales of all fertilisers have been higher than in the previous year. In particular, sales of mixtures and superphosphates have recorded more significant increases.

The Ennore factory production during this period was 16,875 tonnes of which 12,834 tonnes were sold as against 7,263 tonnes produced and 4,548 tonnes sold during the corresponding period of the previous year. This production may be considered quite satisfactory in view of the fact that the plant had to be shut down on a few occasions due to various factors such as power failure, boiler inspection, plant overhaul, etc. Crushing for the 1964-65 main season began on November 16, 1964 and upto March 31, last, 2,67,534 tonnes of cane were crushed and 23,584 tonnes of sugar produced with a recovery rate of 8.82 per cent. This compares with 2,52,890 tonnes cane and 23,048 tonnes sugar produced at a recovery rate of 9.12 per cent in the corresponding period last year. The lower recovery was due mainly to adverse climatic conditions.

The directors have declared an interim dividend of seven per cent, the same as in the previous year. They hope to maintain the total dividend for the year at the previous level.

IT NEEDS YEARS OF EXPERIENCE...

to make pipes durable enough to serve generations. Our vertically cast pipe foundry makes cast iron pressure pipes up to 48" diameter—and larger, on special order. The two spun pipe foundries—among the best in the East—make centrifugally cast pipes from 3" to 30" diameter, to an annual capacity of 160,000 tonnes. Prosaic details perhaps, but what's more important—at Kulti experience marches with nearly a century of tradition, and knowledge adds depth to know-how to make it an incomparable asset in the manufacture of pipes and fittings for India's many projects and utilities.

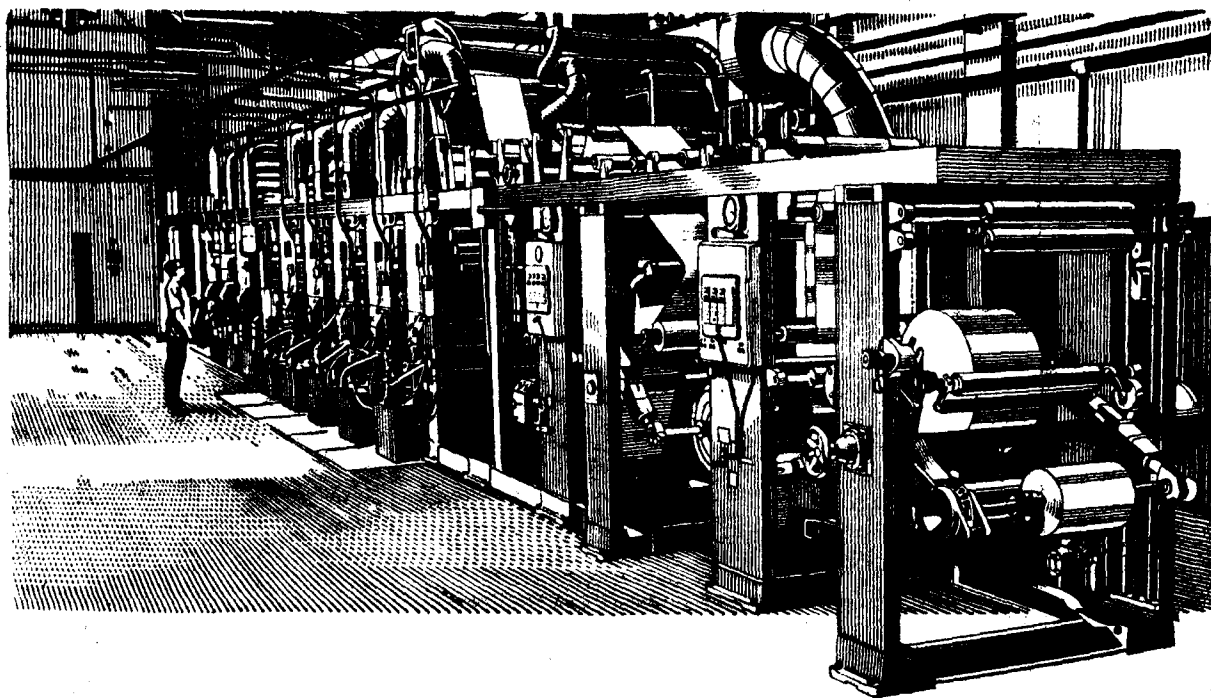


IISCO
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PLANNING AND
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THE INDIAN IRON & STEEL COMPANY LIMITED ONE OF THE MARTIN BURN GROUP

IC-107A

THE 12TH "FIRST" IN 61 YEARS OF PIONEERING 8 COLOUR ROTOGRAVURE PRINTING ONE OF THE LARGEST PRESSES IN ASIA



One of the largest rotogravure presses in the East, made by James Halley & Sons Limited, a Baker Perkins company, is now installed in the Calcutta factory of India Foils Limited, a Tube Investments subsidiary. The press will shortly be in production, printing both .009 mm

gauge unsupported, and laminated Aluminium Foil at speeds up to 600 ft. per minute, enabling India Foils to offer a wider range of highest quality Al Foil printed packaging for home and export markets.

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1954—Flexographic Printing and single colour coating on Al Foil.

1955—Lamination and Embossing.

1956—Al Foil Bitumen/Kraft Lamination for mass packaging of Cigarettes.

1958—Rolling of Container Sheet.

1958—5-colour Rotogravure printing on Al Foil.

1958—Waxing for Confectionery and Heat-seal Biscuit wraps.

1959—Bangle Foil, now a flourishing export Cottage Industry.

1959—Al Foil Polythene laminates for Pharmaceutical strip-packaging

1965—8-colour Rotogravure printing on Al Foil.

FACTS ABOUT THE HALLEY

95 ft. superb engineering — Extended Drier for varnishing and coating under tropical conditions — Electronic print registration controls — Automatic viscosity controls — Flying Splicers for changing reels "on the run" — Mobile units for high-speed job change-over — Syncroscopes for on-the-spot inspection

PERFORMANCE OF THE HALLEY

High speed top quality rotogravure printing in eight colours or, alternatively, two jobs of 5 and 3 colours may run simultaneously.

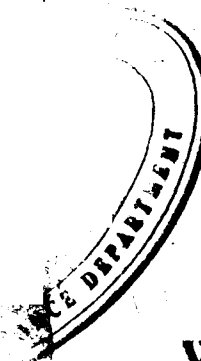
INDIA FOILS LIMITED

(Incorporated in Great Britain)
CALCUTTA BOMBAY MADRAS NEW DELHI



THE ECONOMIC WEEKLY

ANAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS



WITHOUT AID, IF NEED BE
POLITICAL ECONOMY OF INDIAN PLANNING
GROWTH STAGES AND AGRICULTURAL POLICY
WHO OWNS OUR NEWSPAPERS?

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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FACE OF KULTI



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HC-108

THE ECONOMIC WEEKLY

Vol XVII No 32 August 7, 1965

EDITORIAL

Without Aid, If Need Be 1215,

WEEKLY NOTES

Labour's Immigration Act —
Steel Twins — Lament for
Textile Machinery — Statis-
tical Picture of Education —
Aid Prospects — Let's Let
the Hiltons In 1217

LETTER TO EDITOR

PL 480 Once Again 1220

CAPITAL VIEW

The Jungle and the System
— Romesh Thapar 1221

BOOK REVIEW

Political Economy of Indian
Planning
— Ashok Rudra 1225

SPECIAL ARTICLES

In Defence of Food Zones 1223

A Seminar on Priorities 1224

Ownership of Daily News-
papers in India 1227

Growth Stage Theories and
Agricultural Development
Policies
— Vernon W Ruttan 1231

What Is Holding Up Rural
Housing
— S K Iyer 1235

AROUND BOMBAY MARKETS

Despondency Pervades Dalal
Street 1237

BUSINESS NOTES

Tata Steel — Indian Iron —
Mukand Iron — Machinery
Manufacturers — Gwalior
Rayon — Indian Dyestuff —
Indian Organic — Ruby
General 1239

FROM THE CHAIR

Indian Iron and Steel Com-
pany Limited 1244

Tata Iron and Steel Company
Limited 1247

CURRENT STATISTICS 1249

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Without Aid, If Need Be

THE country has passed through difficult periods in the last three years —the Chinese aggression, recurrence of poor food crops and acute food shortage, especially in the last year. What has happened during the last three months to change the atmosphere from that of difficulties boldly faced and mistakes frankly admitted followed by resolve to prevent their recurrence into one of abject surrender and defeat? The food crisis of last year in retrospect appears to have done some positive good. For there are hopeful indications of facing the problem squarely, based on the recognition that for years to come, food production will remain susceptible to unpredictable fluctuations and that without relaxing the efforts to reduce the dependence of our agriculture on the vagaries of the monsoon, the necessary institutional changes and organisational efforts will also be made in order that a more equitable distribution can be ensured.

It was not even a month ago that Asoka Mehta was speaking hopefully of breaking through the poverty barrier into a period of sustained and assured growth, undeterred by price rises, frankly admitting that the present pressure on prices might persist for the next ten years and that this was a necessary price to pay if the country wanted to achieve sustained and assured growth. It was also only a month ago that the committee of the National Development Council reached an unanimous decision about the additional resources which would have to be raised by the Centre and the States for the Fourth Plan and had also agreed—so ran the press reports—that to pave the way for the mobilisation of resources of the required magnitude, supplementary budget should be introduced by both the Centre and the States during the current financial year. But now the task, it is made out, is that of resource-based and not of need-based planning. How far can any under-developed country go if it bases its aspirations on free, existing resources? Why this new gospel at this late stage, after all these years of planning? What has happened in the meanwhile that those who should know better seem to be losing their nerve and succumbing to the spirit of defeatism which seems to have overcome them? Even the foreign exchange crisis, never far, has not grown any worse.

Speculations raised by the probings by the Monetary Fund and the World Bank about the possibility of the devaluation of the rupee has been effectively scotched by the Finance Minister. But the other speculations which revolve round the pressure for devaluation persist and have by no means been laid to rest, that of the offer of generous short-term aid on the condition that it would be exclusively for maintenance imports to revive the economy and the further condition that there is to be a pause from planning and consolidation for a year before any further development were taken up. In fact, subsequent developments tend to confirm rather than rebut them. On the same day that TTK denied rumours of devaluation, the Prime Minister allowed himself the liberty of thinking aloud in favour of a year of consolidation. From that point onwards followed a series of pronouncements and reflections. S K Patil told a Bombay audience that there had to be a holiday from planning "just to stop for some time and think anew". Lal Bahadur Shastri directed the Planning Commission to prepare an one-year-plan in order to pull the economy out of the present stagnation. Since then there have been closed door meetings of the Planning Commission about the one-year-plan which is expected to be considered at the full meeting of the Commission scheduled for the 8th of this month.

Sensing what was in the air, J R D Tata came out in favour of staggering the Fourth Plan over a period of seven years with limited expenditure in the first two years. The President of the Indian Chamber of Commerce and Industry, S L Kiroloskar, went one better with the recommendation that since the system of "totalitarian" planning had failed, the country should go in for indicative planning of the French type. Planned recess and concentration on agriculture and machine-building now hold the field. A defeatism, the like of which the country has not known in the last fifteen years of economic vicissitudes, has seized the top leaders. What the people at large

think about it or how they will react to this counsel of despair, it may not be difficult to imagine. But the rank and file of the Congress who are supposed to be in touch with the people did not communicate their views at the AICC. They do not even seem to have any views at all on such subjects, judging from the proceedings of the Bangalore session. There seems to be a conspiracy in the air for scuttling the plan and for frustrating the fifteen years of developmental effort pursued with perseverance, if not always with persistence, vigour and energy.

By rapid stages, the country has been presented with what looks like a *fait accompli*, in the last few days or weeks. No final decision may have been reached yet, but there is little room for doubt about what it is going to be. A series of pronouncements and statements, one more dramatic and damaging than the other, has followed in quick succession, unfolding a consensus among the leadership in the Government and the ruling party. The consensus is on the futility of planning and development, on the merits of sliding back all along the line, of a sudden halt and a retreat which at this stage can only lead to a rout.

The States will not tax agriculture and antagonise the largest single group of political supporters of those who started back-sliding from the time of run State politics. The Centre had the last budget, choosing the easy path of winning cheap popularity with minor tax concessions in preference to the unpopular fiscal measures that were needed to contain the inflationary pressures. But lost opportunities in raising resources are not the Centre's worst failure. Far more grievous has been its inability and unwillingness to attack and overcome the administrative and organisational weaknesses which have obstructed progress and prevented adequate returns being obtained from the very substantial investments that have gone into public undertakings in recent years. The latest from Nandaji who wants a shift in Plan priorities from heavy industry to food, cloth, edible oils and cement, pin-points this, his "admission" that less than two years at the Home Ministry have brought home to him the glaring inadequacies of the administrative system of which he was not aware during his long years in the Yojana Bhavan! Why not change the administrative system, instead of giving up the pursuit of self-reliant growth and development?

Nothing has happened in the last

three months which could not have been foreseen by the Finance Ministry and guarded against in time. There is nothing to warrant this defeatism, all these counsels of despair. In the life of a nation there are periods when it must pass through stress and strain. The thing to do in a situation like this is not to run away from it or to give up in despair but to face it coolly and with firm determination. Nothing has happened to call seriously into question the basic structure of the plans. Nor can the objective of self-reliant growth be given up by a people sunk in abject poverty whose only succour lies not in easy short-cuts but in changing the economic and social structure that condemns them to poverty and is bound to keep them down for ever.

The first step necessary to restore confidence and fight defeatism is to take the country into confidence. If this is done, people themselves will have the good sense to realise that the situation is not beyond repair and that it can be rectified by well directed effort to overcome the weaknesses in the economy. Since the foreign exchange crisis is the immediate provocation for all this talk of retreat any other factor, in creating a psychology of defeatism, let us get down to the bottom of it. Let us face it that the progress of import substitution which should have contributed most to self-reliant growth has been disappointing so far. This is not because the programme itself is misconceived but its execution has been half-hearted, slack and halting, particularly in the area of heavy industry, heavy electricals, and chemicals, including fertilisers. Far from suggesting that these programmes need to be given a lower priority, these are, on the contrary, the programmes to be given an even higher priority and executed with the utmost speed and despatch, particularly if foreign exchange is today the major constraint.

Indications have not been wanting for some time past that the attitude in the West in regard to foreign aid has been undergoing a marked change. The enthusiasm for it, arising from the illusory and misleading experience of the Marshall Aid, has been visibly wanting. Marshall Aid was for the rehabilitation of fully developed economies temporarily damaged by war. The problem of developing economies, on the other hand, is that of a wholesale transformation, of structural changes, which is a different proposition altogether. There is a growing

weariness in the minds of aid-givers and if the truth has to be told, complacency and helpless dependence—which is quite the opposite of the spirit of self-reliance aid was expected to foster—in the minds of aid-receivers. Though our plans are directed, rightly and effectively, to self-reliant growth, aid has militated against the growth of the spirit of self-reliance.

If aid ceases to be as freely available as in the past, we have to gird up our loins and face it. That should be a blessing in disguise, for the challenge will have to be met and the country will thus be roused from its present mood of despondency to the requisite high pitch of effort. Foreign aid was welcomed because it promised development without too much sacrifice. After three five-year plans, if the present leaders are not prepared to face the prospects of doing with less aid, there are others to take up the challenge.

Foreign exchange, however, is by no means the only constraint. In fact, paradoxically enough, it is the easiest one to get round, with the help of foreign aid. More difficult to surmount are the domestic ones, such as that of facing an electorate barely two years hence, without the show of a reinvigorated economy even though it be no more than a flash in the pan. Then there is the embarrassing business of raising resources in the crucial pre-election year. Is it then any wonder that the brave talk of supplementary budgets, though it came from a committee of the National Development Council, failed to raise any echo and is no longer heard of?

There is an obvious way out, though it may not be an easy way. That is to take the bull by the horn and request the aid-givers, if they are halting and reluctant, not for any fresh aid. The foreign exchange already committed for the Third Plan and left unutilised at the end of it can see the country through. All that needs to be done is to ask for a suspension—moratorium is a word which the Finance Minister does not seem to like—of the repayment and service charges which will fall due in the next Plan period and the total of which will amount to the unutilised part of the aid already committed. A hard decision, perhaps the hardest ever in fifteen years of planning, has to be taken. It is fatally defeatist for the country to go on pretending even though not believing that the decision can be shelved.

Labour's Immigration Act

THE Labour Government's new restrictions on immigration only go to prove an old political adage: idealism is a luxury which is incompatible with responsible government. In 1962 the Conservative Government passed the Commonwealth Immigration Act in the teeth of Labour opposition. In 1963 and successive years when the time came to renew the Act, the opposition became less and less vociferous and finally Labour endorsed the Government's policy. However, Labour did continue to maintain that immigration was best controlled, not by the rigid enforcement of a discriminatory Act, but by "informal" methods arrived at in consultation with other Commonwealth governments. It is indeed an irony of fate that in 1965 a Labour government should (after due consultation) impose a far harsher immigration law than was conceived of only three years ago by the Conservative Government.

The new Act takes effect immediately; the number of employment vouchers will be stabilised at 8,500 per year, of which 1,000 per year will be temporarily allocated to Maltese citizens. Moreover, since Category C vouchers (for unskilled workers) will be discontinued entirely—none have been issued anyway since September 1964—Britain is in fact accepting only skilled workers, who are sorely needed in their own countries. Given the restrictions on employment vouchers, a similar harshening of the rules concerning immigration of dependents was to be expected. The withdrawal of the concession admitting children aged 16-18 to join a parent and children under 16 to join other relatives is defended on the grounds that it was being used to bring in young workers without employment vouchers. That cases of individual hardship may occur through the break-up of families has been recognised by the Government; the adopted solution is to give the Home Secretary yet another set of discretionary powers. It would have been better to have regulations concerning the immigration of these young people—for instance, requiring a declaration that they have lived as members of the family for a certain number of years.

In Category A and Category B the controls are simply being tightened and the numbers lowered. In Category

A (people with a specific job to go to) no Commonwealth country will be allowed more than 15 per cent of the vouchers issued, in order that permits may be evenly distributed between member-nations. The nature of distribution of vouchers among the three categories pin-points the main worry of the British Government, namely integration. Immigrants in Category C are more difficult to absorb into the community than those in the other two categories. By and large, immigrants in Categories A and B are literate and English-speaking; hence the difficulties of integration are considerably lessened. They tend not to settle in those areas where there are large numbers of immigrants, with a shortage of houses and other facilities and where racial tension breeds easily. Moreover, since Category C immigrants are always coloured (whereas a fair proportion of the other two categories are not), the Government clearly hopes that the new Act, by reducing the number of coloured immigrants, will help to prevent the increase of racial tension in Britain.

The Government intends to take firm steps to prevent evasion of immigration regulations, even going so far as to require some Commonwealth citizens to register with the police. Since most countries have this regulation in respect of all foreigners, the British Government is not too restrictive to demand it of a few potentially undesirable Commonwealth citizens. The proposals for more intensive health checks can only be welcomed in the interests of all.

The new Act is bound to shake the faith of many Commonwealth citizens in the integrity of the Labour Government. When Labour (under Gaitskell) opposed the Immigration Act of 1962, they knew about the problems of over-crowding, racial tension and integration. These problems have not particularly worsened in three years, yet at election time the Labour party moved only to the point of recognising the necessity for "informal" controls with consultation. That they failed to inform their electorate that immigration controls in their present form had come to stay was a clear piece of hypocrisy.

The new Immigration Act has finally put the seal on the myth that Britain is the mother country opening her arms to all comers from the Com-

monwealth, whatever their race or creed. She has taken her position along with Canada and Australia, who, incidentally, could reverse their immigration policies with great benefit to themselves. In fact, the Labour party of Australia, which is not in power, has deleted the 'White Australia' clause from its manifesto. The need for any Immigration Act in Britain is a sad reflection on her history as a colonial power. Since she failed miserably to improve living standards in her colonial territories, even over decades, while she herself became wealthy, now some of her ex-subjects want to flock to her, rather than stay in their own countries, in order to achieve a decent life for themselves. The ultimate solution—which will take many years yet to achieve—lies not just in controlling immigration and promoting a true multi-racial society in Britain, but in raising life in the developing Commonwealth countries above the level of a grim unending battle with poverty.

Steel Twins

THE heads of the two private steel companies appear this year to have co-ordinated their statements to shareholders rather well. There is no overlap of content between the two statements. J R D Tata has spoken of expansion during the Fourth Plan, Biren Mookerjee of colliery development, specifications of tested steel and stock accumulation. Tata has once again expressed himself strongly against a 16½ mn tonne target for carbon steel for the Fourth Plan which is based on the belief that serious consequences would follow from the slightest gap between supply and demand for ordinary steels; he would prefer a diversion of investment to special steels and steel-using industries, which result in more valuable production and employment potential per rupee of investment. This plea notwithstanding, the company has accepted the Government's latest informal advice to double the capacity at Jamshedpur from 2 to 4 mn tonnes during the Fourth Plan, provided the problem of finance, return to shareholders, and availability of raw materials, transport and power are satisfactorily solved. This would bring the plant to the ultimate maximum capacity and overcome the permanent objection to its earlier one million tonne expansion proposal, which was rendered uneconomic by

the excess capacity built into the strip mill. The processing of this project will require considerable time. With the preliminary clearance of this project and with a similar go-ahead signal for Indian Iron, the private sector is assured of an honoured place in the Fourth Plan steel programmes which, its merits apart, should help improve the climate for aid from the Consortium. In the Fifth Plan period, only Indian iron can conceivably expand by a further million tonnes or so since Tata would have exhausted the physical space available for expansion.

Disappointment was in store for Sir Biren this year. One furnace in his plant had an unusual and rare kind of breakdown and the average ash content of coal which he thought had reached the peak level of 18.76 per cent went up further to 19.55 per cent. His company's project at Channalla and in the adjoining region to raise 1 mn tonnes of coal has made satisfactory progress; the World Bank had given a loan for this project at the beginning of the Third Plan. The new standard specifications laid down for steel give room for dangerous use of inferior qualities for structural works and mixing of qualities in trade stockyards. The practice adopted by the steel plants of building up large inventories of finished goods through the year and then liquidating them in a hurry before the end of the accounting year is imposing an avoidable strain on the transport system and also leads to uneven supplies to consumers. Sir Biren could have added that this practice strains the banking system too

Lament for Textile Machinery

MORE than a hundred years after the establishment of the cotton mill industry, the availability and quality of domestic textile machinery remains extremely unsatisfactory. The Fourth Plan requirement of mill machinery is estimated at Rs 337 crores, of which the Indian Cotton Mills Federation claims that domestic suppliers can provide only Rs 125 crores;

machinery entitlements under the export promotion schemes would allow the import of Rs 55 crores worth of machinery, leaving a gap of approximately Rs 160 crores. The figures of domestic production given in the table below indicate stagnation if not decline and considerable under-utilisation of capacity. How has this disturbing situation come about?

The mills complain of obsolete models, long delivery periods, non-adherence to delivery schedules, unsatisfactory performance and woeful lack of after-sales service. The Birla group, which is the leading manufacturer of textile machinery and also has a large interest in cotton mills, has entered a counter complaint of lack of orders, which is confirmed by the production statistics for 1964, but is unable to explain the reasons for lack of orders. Obviously mills prefer to depend upon import entitlements and Japanese credits for their replacement and expansion programmes even at the risk of slowing down the programmes. That this controversy should have come out in the open tells its own tale: the patience of mills is exhausted while the machinery manufacturers are tied down to obsolete models under their collaboration agreements and have enjoyed their monopolistic position too long to improve their quality and selling policies to suit mill requirements but now feel that import entitlements and Japanese credits have eroded their protected shelter.

In a free market economy, machinery manufacturers would have either gone out of existence or been pushed into a concerted attempt at modernisation. Though the big stick is practically absent, the attempt of ICMF to persuade Government to accept a larger foreign exchange liability is clearly aimed at prodding the machinery manufacturers into improving their production and selling performance. This prodding has its limits, defined by the severe shortage of foreign exchange and the political influence of business groups which are well en-

trenched in machinery manufacture. The country is, therefore, likely to get the worst of both the worlds: more foreign exchange would be spent and machinery manufacture will remain inefficient. The problem is too serious to be left in this state. A thorough expert investigation of the machinery industry is called for to put it on a sound basis.

Statistical Picture of Education

THE Education Ministry has this week released through the Press Information Bureau a mass of statistics to highlight the progress of education since Independence (see the "Current Statistics" pages of this issue). Naturally, there are today more schools and colleges and more boys and girls (still far fewer girls than boys though) are flocking into them. We had in 1946-47, 1,72,661 primary schools, 12,843 middle schools and 5,298 secondary schools. Today, we have close to 4 lakhs primary schools, 78,000 middle schools and 27,000 secondary schools. A closer examination of these impressive aggregates reveals the gaps between our requirements and our achievements.

As education is a State subject, the bulk of expenditure on education is borne by the States. While the Central Government contributed 45.3 per cent in 1946-47, today its share is only around 7.3 per cent; the States today put up 65.5 per cent of the total expenditure. All public bodies together provide 79.3 per cent, the rest coming from private sources. Thus education has certainly been taken over as the responsibility of the public sector but how near are we to the goal of universal, free, compulsory primary education? The proportion of population of age group 6-10 enrolled in classes I to V has risen from 35 per cent in 1946-47 to 77.8 per cent in 1965, but of these a sizeable number drop out after a year or two so that of the 10-year olds hardly 43.2 per cent reach class V, the minimum level of some sort of elementary education. Of the age-group 11-13, while in 1946-47 only 9 per cent attended school, today 31.7 per cent do; in the next higher ladder, the 14-16 age-group, however, only 16.8 per cent are able to reach the high school or higher secondary level.

These aggregate percentages hide considerable discrepancies between urban and rural sectors and between the sexes. Girls' education lags very much behind. In the rele-

vant age-groups, 21.7 per cent reach class V, 12.5 per cent complete middle school and a mere 6 per cent high school.

Technical and vocational education at the school level is still marginal: for every 24 students that crowd the general schools, only one takes technical training in our 650 vocational schools.

Finding out how well we are being educated is harder. There can be no precise measurement; however, one can use some rough indications like the pupil-teacher ratio, the qualifications of teachers and the equipment available in schools. The pupil-teacher ratio has grown unfavourable at all levels. There are not enough teachers to go round. On the other hand, the available teachers are apparently better qualified. Only 64.1 per cent of our primary school teachers were trained nineteen years ago and about 90 per cent of them were not even matriculates. Today 70 per cent of them are trained and about half have completed matriculation. In the middle schools, too, trained teachers now form 70 per cent of total and only 36 per cent are under-matriculいたes as against nearly 62 per cent in 1946-47. But what is startling is that even in our high schools some 8 per cent teachers have less than matriculation level education, though this proportion has been reduced from 17.4 per cent.

As for equipment, almost the only equipment our schools seem to have to boast of are teachers. At the primary level, 90 per cent of the total expenditure goes towards teachers' salaries; at the middle and high school levels the proportion is slightly lower, but still very high. Taking all levels, the proportion of expenditure on buildings, libraries, laboratories, etc. (breakdowns are not available) has increased slightly.

A final point of interest: fewer girls than boys may be educated but proportionately more educated girls than boys educate others. The proportion of women teachers has been increasing over the years.

Aid Prospects

THE Development Assistance Committee of the OECD has just published its report for 1964 on international aid. It reveals several grounds for concern. Up to 1962 new commitments of aid were each year much greater than disbursements: but

in 1963 while disbursements increased further, new commitments actually declined, with the result that "aid in the pipeline" had been reduced to \$ 667 million from \$ 1,476 million in 1962. Thus though the recent acceleration of disbursements is heartening, new commitments must also pick up speed.

In 1963 there was some softening of lending terms by the aid-giving countries. The percentage of loans carrying interest rates of 5 per cent or more fell from 70 in 1961 to 40 in 1962 and then to about 30 in 1963. Over the same period the percentage of loans with less than 3 per cent interest rose from 19 to 40. However, these concessions were offset to some extent by a decline by a few percentage points in the relative share of grants in total aid. During 1963 the USA accorded grace periods of 10 years for more than half of its new lending, but the report suggests that there were indications that the US terms of lending would not be made any softer. In 1963 the UK also introduced a new provision for waiving of all interest payments during the initial years of some loans.

Nevertheless, the burden of debt charges on the developing countries has been rising, and if this trend is not reversed it might soon result in seriously diminishing the net flow of aid. In view of this, the Development Assistance Committee (DAC) has recommended that aid-giving countries should provide a high proportion of their aid on favourable terms—i.e., either as outright grants or as loans with long maturities (25 years or more) at less than three per cent rates of interest. It is further recommended that the average grace period on loans should be seven years.

During 1964 the actual outflow of aid from the rich to the poor countries was slightly greater than in 1963; but the new bilateral commitments entered into by the DAC member countries during 1963 were 5.9 per cent below those of 1962. The contributions of these countries to the multilateral agencies have also been declining; they reached a peak (\$ 811 million) in 1961, but declined to \$ 602 million in 1962, and then further to \$ 396 million in 1963. Again, the increase in 1963 in government-guaranteed net export credits with maturities in excess of five years was less than the increase in 1962 by \$ 36 million.

Thus there are signs of slackening. The DAC claims that no case of decrease was due to any policy decisions in the country concerned to cut back its aid operations: rather, it thinks the causes have been largely procedural. Perhaps it is true; let us hope it is true. But there is no doubt that there is some disappointment in the aid-giving countries with the results achieved so far in the under-developed countries. Our case for more aid really depends on how well we use the currently available aid; and in India at least there has been some evidence of obtaining aid for a project and then losing all interest in ensuring that it is a running success. **Let's Let the Hiltons In**

A recent visitor to Puerto Rico writes:

THE proposal to have the world-wide-known hoteliers, the Hiltons, to manage and operate a chain of hotels in India has been hanging fire for over a year now. A coalition of ideologically diametrically opposed groups, with Indian hoteliers on the one extreme and left communists on the other extreme, is putting up a stiff fight against the proposed move.

Political overtones aside, the proposal is being opposed on the following grounds: (1) Hiltons are not required to participate in the capital outlay; (2) the proposal to pay one-third of the gross annual profit to the Hiltons is rather generous; and (3) the period of lease, viz 50 years, is too long.

Let us see to what extent the objections are valid. It is true that the Hiltons won't be spending a pie on capital outlay and this raises genuine questions about the degree of their involvement in the enterprise. At the same time, it should not be overlooked that the proposed agreement does not seem to guarantee any level of profit whatsoever to the Hiltons. Only if the hotels make profit, the Hiltons will get one-third of it. Moreover, it appears that the current outlays will be met entirely by the Hiltons out of their own funds. In other words, the circulating part of the capital will be provided by the Hiltons. It is not true, therefore, that the Hilton's involvement in capital will be zero.

As regards Hiltons' share of profits, i.e., one-third, the knowledgeable among hoteliers must know that the Hiltons have gone into other under-developed countries on far more generous terms. In Puerto Rico, Jamaica and Trinidad, Hiltons have been guaranteed one-half of gross profits and that too free of income-tax for the

Capacity and Production of Textile Machinery

	1962		1963		1964	
	Production	Capacity	Production	Capacity	Production	Capacity
(1) Blow room lines	10	24	16	66	15	66
(2) Cards	1,498	2,976	1,590	2,976	1,938	3,130
(3) Ring frames	1,571	3,252	1,890	3,852	2,134	5,366
(4) Plain looms	5,360	8,520	1,802	8,520	2,609	8,520
(5) Auto looms	496	5,700	3,382	5,700	1,610	5,700

first 10 to 15 years. In India, on the other hand, they are evidently prepared to accept one-third of the gross profits *subject to income-tax at 65 per cent* payable by foreign companies. This reduces the Hiltons' effective share to less than one-seventh of the gross profits.

Finally, is the period of lease too long? It is very difficult to answer this question one way or the other. But the fact that the Hiltons, and not the Government, are asking for a long lease does show their genuine interest in making a success of the proposed enterprise.

Having dealt with the objections, let us now take a look at how similar

arrangements have worked in other countries. In Puerto Rico, the Carib Hilton was built by the Government in the early 1950's. The Government has already recovered the full capital outlay and is since 1963 investing its share of the profits, which currently runs at around \$2 millions a year, in the industrial development of the island. During this period tourist traffic in Puerto Rico has increased several fold and a large number of foreign hoteliers have come in entirely on their own. It is this dynamic impact of a chain of hotels with international reputation that should be the most important consideration in India too, if the challenge of tourism is to be effectively met.

and came to the conclusion that because the Special Securities are held outside the banking system and because the *ad hoc* Treasury bills have been retired, there is no impact on money supply. These two authors were responsible for setting up the model for analysis of money supply. The Reserve Bank and the Government are blindly following that model. Both should now probe that analysis further in the light of the comments made above.

The official economists also failed to note that the draft on the food stocks for sale to the public is not continuous. There are sharp seasonal variations in drafts on food stocks kept with the Government. It is common knowledge that in the post-harvest season, drafts would be small while during the lean season the drafts on the Government's stocks would be heavy. Thus there will be sharp variations in the cash inflows to Exchequer. I need not analyse the impact of these variations in cash inflows on the money supply.

BASHURI GHOSH

Calcutta
August 2.

Corrections

Size, Technology and Economics

In the article "Size, Technology and Economics" by J C Sandesara published in our issue of July 24, the following printing errors need to be corrected:

P 1173, line 17, '>' should be '<'
" line 19, '>' should be '<'

P 1174, table A-2 column 7, item 3, '1,532' should be '1,537'

P 1174, table A-2, column 7, item 4, '1,467' should be '1,462'

P 1174, table A-3, column 7, item 2, '829' should be '828'

P 1175, table A-5, column 4, item 3, '231' should be '321'

The errors are regretted.

Commonwealth Common Market

The book "Commonwealth Common Market—A Proposal" by K Venkatarigiri Gowda which was reviewed in our issue of June 12 (p 946) is published by Messrs Rao and Raghavan, Mysore, and not Asia Publishing House. The error is regretted.

CAPITAL VIEW

The Jungle and the System

Romesh Thapar

ANYTHING is possible these days.

Modern saints, or *babas*, dressed in red raw silk, with hair curled in elaborate coiffures, belch and nod. Congress leaders, in the finest khadi *kurtas* and pyjamas, finger the charms given them by their astrologers and soothsayers even as they attempt to tinker with the problems of economic survival. The men of the Finance Ministry, in their dactron suits studying the unpredictable tactics of TTK, mouth the philosophy of the CPI as their debate with the World Bank gets warmer and warmer. And Prime Minister Lal Bahadur, who creates instant charisma like instant coffee the moment he crosses the frontiers of India, relaxes aglow with his trail of triumphs. Small wonder that we appear complex to friend and foe alike.

Within a few days we will be celebrating that therapeutic moment when power was transferred to our hands. Already, minds are ranging over the eighteen years since 1947 and marvelling at the changes which have taken place—yes, even at the level of the hovels where the bulk of socialistic (*sic!*) India still lives. The changes, visible and otherwise, have been quite significant, despite the banalities of the forums of 'democratic research' and the anguished cries of the captains of profitable industry who would have us believe that this progress has been built upon their sacrifice and suffering. The seed has indeed been sown for profound transformations, but this August an attempt is being made to destroy the seed.

The attack develops from several directions. Some speak of a 'pause', the 'need for consolidation', for a 'plan holiday' and almost lend support to the call for the extension of the fourth five-year plan into a seven-year effort embodying a two-year 'pause' (whatever that may mean). There are others who would persuade us to temporarily halt our efforts to industrialise so that we might concentrate on agriculture, for they prefer not to see how industry and agriculture are inter-locked in our dream to unshackle ourselves from dependence on others, to stand on our own feet. Production targets are challenged. Aid is denied or tied. Foreign exchange earnings are clipped through prices, incen-

tives, profits and perjury. Devaluation is advanced as the answer, but is firmly opposed, on the radio and in the press.

A whole people are stricken with confusion. A crisis of confidence, say the sophisticated apologists of the present drift. But the more one goes into this business, the more one is convinced that the core of the problem is never mentioned, never in all its dimensions—that we have created, unconsciously at first, but now wilfully, a jungle of bureaucratic rules and regulations based upon pre-August 1947 practice which has literally choked the implementation of the five-year plans by concentrating paralysing power at the highest points, particularly within the Finance Ministry which holds the purse-strings, and denying the initiative of vital decision-making at lower levels of administration and organisation. An army of pen-pushers, including specialists-turned-bureaucrats, push the nation deeper and deeper into a mesh of meaningless, repetitive, barren controls.

The 'System' Has Many Protectors

So many vested interests have been created that although everyone in the Capital agrees that we are trapped in this jungle no one is prepared to order its cutting down, its clearance. This is true of the state of affairs which prevails within government—and even outside, where positions of patronage and influence are sought in order to remain active and effective. The 'system', as it is referred to by those dealing with it, is so ramified that a few days ago the Union Home Ministry was compelled to blacklist 300 (yes, three hundred!) representatives of business houses in the Capital whose job it is to keep the files moving with or without the greasing of various cogs in the GOI. Whose files will move now? Only those who can get at the higher ministerial and bureaucratic echelons?

Whether it is the Finance Ministry or the World Bank, the ruling party or the opposition groups, the bureaucrats or specialists, creative workers or cranks, everyone is convinced that the system which is protected by this jungle of rules and regulations must go if the country is to revive and develop the energy to meet the chal-

lenges which are forming. Unfortunately, those who batten on the system defend it passionately as the 'institutional frame-work of our socialistic society'. And those who would destroy it, chatter unrealistically about returning to 'the free play of the market'. Where are the men working at the problem of providing a healthy administrative set up for what, in our conditions, has to be a planned society? If they are at work, they are not heard.

All the current controversies belong to the jungle and the system it protects. Secretive bureaucrats notwithstanding, the World Bank has been harping on this theme for a long time. Now this body feels that it has the upper hand and can intensify the pressure to force devaluation of the rupee—to some 50 per cent of its present value, to begin with—by the simple expedient of making clear that there will be no aid until a fairly fundamental reorganisation is carried out. In fact, a substantial untied loan is offered if devaluation is agreed to and steps are taken to free the flow of imports which have to be very large even to service the estimated forty per cent of industrial capacity which is believed to be lying unutilised. Demanding a reform of administrative and managerial procedures, confident that devaluation and increased productivity would make Indian exports competitive, the World Bank calls for a bigger Fourth Plan and a bigger taxation effort.

As you can well imagine, the policy-makers in the Capital have been startled by the vehemence of the criticism and its all-embracing character. Suppressed anger is quite visible in official circles. It is felt that an attempt is being made deliberately to exaggerate the crisis and to put through suspect remedial measures which would pulverise economic planning, and even open the public sector to stock market operators. Suspicions become convictions when the feeling spreads that India alone is being singled out for this kind of one-sided attack, an attack which carries the implied threat that further aid-giving will be dependent on how far India adjusts to the thinking of the World Bank.

Significantly enough, endless dis-

LETTER TO EDITOR

P L 480 Once Again

I READ the weekly note "PL 480 Once Again" in your issue of July 17, 1965. The last three lines of your commentary tacitly support what the Reserve Bank and Government economists have all along asserted, viz, PL 480 transactions do not affect money supply. To pin-point where and how the official economists have gone wrong and to facilitate discussion, I quote below the relevant extract from the Reserve Bank of India *Bulletin* article "Effects of the United States Commodity Assistance to India on Money Supply" by D R Khatkhate and V V Bhatt:

"When the food is imported, Government makes payment to the US Embassy by selling *ad hoc* Treasury bills to the Reserve Bank; thus the net bank credit to the Government and hence money supply increases by an equivalent amount. However, since the US Embassy invests these funds in special securities, the Government gets back the amount paid to the US Embassy and with these funds retires the *ad hoc* Treasury bills held by the Reserve Bank. Thus the initial expansionary impact on the net bank credit to the Government and money supply would be offset and the food imports would have no impact on the net bank credit to the Government and on money supply".

You will notice that one cannot quarrel with what has been said by the official economists in the first part of the above quoted paragraph. In the second part of the paragraph, the

official economists have committed an egregious blunder. I shall show how and why they have gone wrong.

Reserve Bank first creates credit in favour of Government against the issue of *ad hoc* Treasury Bills. Reserve Bank at the behest of the Government debits the Government account and credits the US Embassy account. Again when the US Embassy invests in special Government Securities which are *held outside the banking system*, Reserve Bank debits the US Embassy account with it and transfers the amount to the credit of the Government account, because the Government has sold Special Securities to the US Embassy. In this process, Reserve Bank's liability to the US Embassy is extinguished. Therefore, on the assets side, the Reserve Bank finds surplus assets in the form of *ad hoc* Treasury bills because it has received sale proceeds of special securities tendered by Government. It is thus forced to retire the surplus *ad hoc* Treasury bills. If it does not do so, it would have earned equivalent profit and the Government would have got back this profit at a later date in any case. Thus like a chameleon, *ad hoc* Treasury bills change their colour and take the form of Special Securities. The official economists failed to consider the fact that the Reserve Bank's indebtedness to the US Embassy is created cash and its retransfer to Government is also created cash. They, therefore, mistakenly directed their attention and the attention of the public to the retirement of *ad hoc* Treasury bills

cussion goes on in the Finance Ministry as to whether the arguments of the World Bank should be controverted through the media available to the G.O.I. Of course, it is not intended directly to drag the World Bank into a public controversy; only issues are sought to be debated. The hesitation in the Finance Ministry arises from the fear that public controversy will explode many myths and legends, even expose the closely guarded jungle of rules and regulations, and the system which battens on it, to ridicule and contempt. This is, in fact, the heart of the problem—devaluation or no devaluation. If we had the political leadership to tackle the problem, the World Bank would perhaps also revise its ideas—for, there are differences of approach within the World Bank too.

But bureaucratic power has become so concentrated, and encrusted by powerful private vested interests, that it will require almost an upheaval within the ruling party to force through an energetic programme of administrative, managerial and procedural reform. Such a reform, while liberating the decision-making faculty at various levels, would also have to restore the policy-making initiative to the Centre which very often these days is reduced to preparing agendas for meetings of parochial Chief Ministers. The task looks forbidding, but, is there any escape? The entrenched bureaucracy seems to wallow in the belief that business can continue as usual. This is sheer madness.

We have already entered that phase of bureaucratic decadence where unchecked power is being used to harass those who have no 'godfather'. We call it corruption, but it is rapidly taking on vicious forms. Politically, whether in a democratic or authoritarian society, this means that an explosive situation is beginning to mature. The urchin goondaism witnessed in Calcutta, the communal clashes at the smallest provocation in various towns, the growing impatience with those who throw their weight around, all point to an infection which threatens the health of our society.

In a sense, August is an appropriate month for organising correctives to the practices which we have built up over these eighteen years of freedom, practices inspired by the colonial attitude and behaviour of an alien ruling elite. The jungle of rules and regulations must be thinned out, cleared if possible—and then the system it protects will stand exposed for what it is. This is the pre-requisite for ending the crisis which makes nonsense of so much of what we do. And it need not mean a surrender of socialist commitments.

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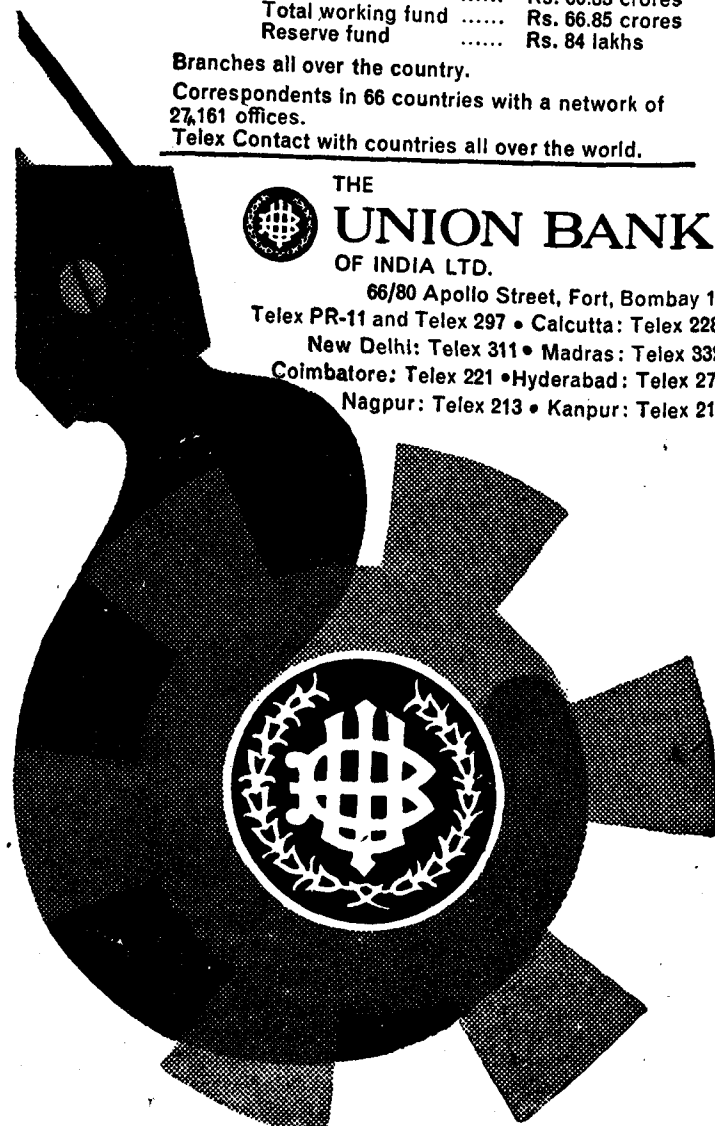
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In Defence of Food Zones

A SIMPLE argument against the food zones is that they restrict the area of operation of private trade and consequently their opportunities for profit. If one accepted that the objective of policy should be to put profits in private trade's way, this argument would be unanswerable. This is not, however, the argument that one hears. What one hears is that the system of zones has prevented a national approach to the food problem and the evolution of a national food policy. This argument needs examination.

In his note of dissent to the report of the Agricultural Prices Commission, released this week, Raj Krishna, one of the members, argues for abolition of the single-State zones for rice. He opposes restrictions on movement of rice on two grounds: first, the zonal system increases the commitments of the Central Government to supply foodgrains to the deficit States; and, second, it prevents the overall shortages of foodgrains being shared equitably among the different States.

To take the first argument: Should the primary objective of food policy be to keep down to the minimum the Government's commitments? One would have thought that the Government's commitments were what it took on itself depending on what it wanted to do. To put the argument in the form that any policy or arrangement which increases the Government's commitments should be, on that score, rejected is perverse. If shortages occur, prices rise and people go without food, can the Government be absolved of responsibility on the ground that free private trade is allowed and it had itself taken on no specific commitments to supply foodgrains? The Food Minister played this trick at the height of the food crisis last year when he joined in, and indeed led, the general chorus of accusation against private traders who were after all trying to make the best of a heaven-sent opportunity which the Government had thrown in their lap. The Government must not be allowed to get away with this trick again; it must be made to accept specific responsibilities in respect of distribution of foodgrains. Action to gain command of the necessary supplies to fulfil these responsibilities should follow and not the other way round. The quantity of foodgrains that the Gov-

ernment can procure is not something fixed. The Government can gain control of varying proportions of the total marketable surplus by following different policies. It is these policies which should be changed so as to meet the Government's commitments.

Equalisation of Prices or Supplies?

Coming to the other argument: need the restrictions on private trade under the zonal system prevent equitable distribution of the overall shortages, favouring the surplus States and penalising the deficit States? According to Raj Krishna, the main criterion "of equity in inter-regional distribution of food has to be the minimisation of price differentials" and this, he thinks, would be best achieved by free private trade across the country.

Given the inter-regional and inter-personal differences in distribution of purchasing power, equalisation of prices cannot reflect equalisation of the real burden of shortages either between regions or between different sections of the population. The real measure of equal distribution of scarcity would be (rough) equalisation of the physical quantities available per head of the population. And in this respect what has been the experience with food zones? This is what the Agricultural Prices Commission has to say on the subject:

"As a result of procurement and allocation operations of the Government, the inter-State differences in per capita availability of foodgrains have been considerably reduced. The co-efficient of variation of per capita net production of cereals in 1965 as between different States was 29.5 per cent. As a consequence of transfers from surplus to deficit States effected by the Central Government, the co-efficient of variation of per capita availability of cereals was reduced to 15.0 per cent. Reduction in inequalities brought about in the case of rice and wheat was also substantial. The co-efficient of variation came down from 105.7 per cent to 67.8 per cent in the case of rice and from 264.0 per cent to 96.2 per cent in the case of wheat. Thus, it is not true that the surpluses in the better-off States have not been shared by the deficit States in 1965 under the Single-State Zones.

"The result of the programme of planned procurement and distribution on Government account likely to be achieved in 1965 compares favourably

with that achieved during the period 1961-65, when foodgrains movement was relatively free. The co-efficient of variation of per capita availability of cereals in 1965 would be 15 per cent as compared to 17 per cent during 1961 to 1963."

Of course, nothing is said here about inter-personal differences in availability of cereals within States. Without arrangements to control distribution it cannot be assumed that inter-personal differences have also been reduced. But at least the Agricultural Prices Commission has found proof that banning of private trade and procurement and movement by the Government has narrowed differences in per capita availability between surplus and deficit States. This is basis enough to argue that overall shortages of foodgrains are less unequally distributed without free private trade than with it.

The argument is strengthened if it is considered that the food zones scheme has been most imperfectly implemented so far. The rationale of the system requires Central planning of procurement and distribution in terms of a national food budget. As the Prices Commission recommends, "immediate steps should be taken to make a realistic assessment of the surpluses and deficits of foodgrains—separately for wheat, rice and coarse grains—for each State on an objective basis and draw up a comprehensive National Food Budget."

To sum up, the system of food zones—imperfectly as they have worked so far, hampered by parochial political pulls and administrative half-heartedness—has led to more equitable inter-regional distribution of cereals than in the past under free private trade. Obviously, then, efforts should now be directed at, not scrapping the system and restoring free private trade, but strengthening it by getting the States to accept a national food budget which would objectively estimate the surpluses of surplus States and the requirements of deficit States. The resultant equalisation of inter-State distribution of foodgrains can be converted by a policy of rationed distribution into equal inter-personal distribution, which should be the objective of food policy in the present context when shortage of foodgrains is expected to continue over the next many years.

—A Correspondent

A Seminar on Priorities?

By a Seminarist

A NEW class of people is slowly emerging in the country. For want of a better word, we can but call them 'seminarwallahs'. There is an aura of irresponsibility about seminars. One knows that there will be a 'background' paper or papers which some donkeys—maybe research students desperately anxious to propitiate the supervising professor or a few lower-rung journalists hard-up for some extra money—have slugged out and the organisers will have circulated a neatly-mimographed agenda mostly consisting of clichés and banalities: the strain has therefore been taken out of participation. One can safely accept invitations to seminars: the paraphernalia is by now stereotyped. If you cannot get hold of a Cabinet Minister or a member of the Planning Commission to 'inaugurate' your seminar, somebody from the US embassy or consulate will always be available. The so-called discussions will be generously interlarded with luncheons and dinners; at the concluding sessions, the Press will be called in for an euphoristic briefing, and you will be moving on to your next seminar.

There is an exchange of purchasing power for what passes for scholarship, and therefore, in the speculative environment, one does not want to burn one's fingers by clinging too long to what one possesses. Seminars are ideal for quick unloading of 'knowledge'. Who knows, by tomorrow somebody may beat you to the game and the market-value of your 'knowledge' may turn worthless. It is this neurosis which impels university dons in the United States to churn out a book every twelve months. Still, books have to be written, and do call for a minimum of intellectual effort. Seminars, on the other hand, have only to be organised. There need not be even a faint correlation between one's ability to organise a jamboree and the quality of one's intellect. On the contrary, a man of intellect may happen to be a man of conscience. Conscience is an unfortunate attribute for a 'seminarwallah' to have.

One should not perhaps take the whole of it out on the university people: till recently, they were not accustomed to high living, and the glitter of lush food, air-conditioned lodging and easy lure is difficult for them to resist in the prevailing atmosphere. After all, in this degradation of morals which seminars foment and represent,

our civil servants too have contributed in their own modest fashion. The task of economic development has led to the enunciation of the myth of 'interaction'—how can the country progress without the intellectuals and the bureaucrats 'interacting' amongst themselves? Seminars are just the thing for busy civil servants who are nonetheless hell-bent on commingling with the citizenry and profiting from the 'feedback'. Also, a seminar is merely one step beyond an inter-departmental committee, and the civil servant does not often even feel the transition.

Of course, in the absence of American foundations and PL 480 money, seminars could not possibly have proliferated in this country, at least, not in the present amplitude. This is another aspect of the rubbing-off effect one hears of. Seminars are a phenomenon of affluence; they represent the tertiary sector of intellectual pursuit. An over-affluent economy can stave off crises only by creating new service occupations: whomever superior technology displaces from material production get absorbed in such occupations. In the United States, a certain proportion of the academic people have to be continuously diverted, on a revolving basis, to seminars and seminar-like occupations so that equilibrium might be maintained.

But both history and economic logic emphasise one point: the base for material production must enlarge first, and it is only when the primary and secondary sectors of the economy have reached the stage of maturity and consolidation, that the tertiary sector of services would start expanding. By definition, a service sector will have to serve other sectors; it will be without an occupation till the other sectors have not come up.

In India, it would seem, we are determined to lop off the inconvenient stages of the historical-economic process. There are wide gaps in our primary and secondary stages of education. Technical and engineering schools fall woefully short of the requisite number; laboratory apparatus and equipment are missing; the universities lack able and effective teachers; the quality of textbooks at all levels and in almost all subjects is deplorable. Deep calls to the deep, and an existing low standard of liberal as well as scientific education is an enticement to a progressive lowering of standards. There is no question that the basic

infra-structure is missing; the service industries nonetheless keep on springing on Indian soil. Never mind whether we have already succeeded in enlarging the 'material' base, let us reverse history, and have the service activity first. This has happened in this way because we have gradually allowed our educational planning to slip out of our hands and into the hands of foreign advisers and donors of funds. The latter, all honourable and well-meaning men, have imported their cultural model—the concept of seminars has thus become the *tour de resistance*.

It could be argued that, after all, the money belongs to the foreigners and, beyond a point, we can have but little say in the matter whether they should use it to foster a dozen seminars on 'motivations of development' or 'change-agents' and such like topics, or use it to buy equipment for our workshops and technical schools. But the pattern set has second-order effects which may be altogether pernicious, and which is why it is necessary to question the bona fides of the pattern itself. Seminars beget other seminars, unwholesome notions lead on to still more unwholesome notions. In the melee, genuine scholarship tends to get shelved, the 'bread-and-butter', relatively unsophisticated, but immensely more important and fundamental, issues of education are blotted out. If this process continues for a while, the priorities of national educational planning are bound to get irrevocably distorted.

A final point. The vast sums which the US Agency for International Development is spending on organising seminars and summer parleys and orientation courses in this country come out of the PL 480 block of currency. On top of derailing the nation's priorities, therefore, the expenditure of these sums—let it be said—has also an inflationary impact on the economy.

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BOOK REVIEW

Political Economy of Indian Planning

Ashok Rudra

Planning in India: Achievements and Problems by Ajit Roy; National Publishers, Calcutta, 1965; pp 523, Rs 30.

CURIOUS things have kept happening to the Indian economy since the first year of the last decade. There are practically no economic experts—official or non-official—who have not been caught by surprise again and again by many of the developments that have taken place. There have not been any forecasters who could forecast, say, the current year's foreign exchange crisis or the last three year's crisis of agricultural production. But these are only the latest crises which happen to be fresh in our mind. Has the last 14 years of planning not been a succession of unforeseen crises rather than a series of planned advances? We have all been, in each case, wise after the event, but did not have any better idea of the next event that was to throw us off our balance. This lamentable situation is a result of a fact that nobody has as yet undertaken a thorough-going analysis of our post-war social and economic experience from the standpoint of political economy.

I dare say that to be really satisfactory, to provide us with an analytical model that could be used to anticipate and understand events as they take place, one will have to work with such Marxian categories as "classes" and "class conflicts." Marxism is not exactly fashionable in this country at the moment and to say that the poverty of political economy in India is a result of the poverty of Marxism in India is to risk one's reputation in the academic world. This prejudice against Marxian analysis is born largely out of ignorance of the Marxian concepts,—an ignorance shared by both Marxists and non-Marxists; it is also a reaction to the extremely poor examples of such analysis that Indian Marxists have provided so far.

A class according to Marx is a group of economic individuals who are relatively homogeneous from the point of view of their economic interests objectively defined in terms of their legal relations with respect to the instruments of production. Between members of two classes the conflicts of interest are to be more important than the conflicts of interest among members of the same class. There need not be any immutable classes. For different analytic purposes one may work out different schemes of classes. Marx him-

self used a simple two-class model of political economic analysis, just as he used a simple two-sector model to analyse the process of economic growth. The fact that this simple two-class model is often found inadequate to analyse the dynamics of a complex modern society does not condemn the approach: the Harrod-Domar model or the Mahalanobis-Feldman model is not to be regarded as useless because they do not serve the same purpose as the dynamic Leontief model or a multi-sector programming model. When it comes to analysing a particular society during a limited historical period, the two-class model has to be discarded in favour of a more sophisticated model involving a larger number of classes suitably defined on the basis of the same principles. Marx himself gave examples of such adaptation of his model when dealing with particular historical problems (e.g. his analysis of the Commune of 1881). The task was left to the political economists who followed him to develop and improve upon his method, but unfortunately it was never taken up. The approach, however, remains as valid as ever—if one is trying to understand the economic and social problems given rise to by the business of renting out residential accommodation, the class approach suggests a division of the persons involved into two categories, the landlords and the tenants and what can be more reasonable? The definition of the classes in this particular problem is simple—it is much less so in more complicated problems; but one has not even tried the application of sophisticated analytical tools to the problem. Thus, I fancy, it should be possible to apply the statistical technique of discriminatory analysis to the definition of classes.

It is necessary to define classes and identify class conflicts before we can understand what is happening to the Indian economy as it is only in terms of classes that we can try to understand the policies adopted by the government and the reactions to it of the different private economic decision-makers. While every single question about the Indian economy can be analysed in these terms, it is extremely important that two in particular are posed and answered before anything

else is taken up. The first concerns the Indian state: what class interests does the Indian state represents more than others and what is the mechanism of class interests affecting state policy? Answer to this question is necessary if we are to understand the extent to which the public sector is laying the foundations of a socialist society by relatively weakening the private sector and the extent to which it is strengthening and building up capitalism by supplying the needs of the private sector. The second question concerns Indian agriculture: what classes and class conflicts have emerged as a result of the land reforms among the population deriving their income from agriculture? Which are the classes that are investing in agriculture and have promoted the increase in production that has taken place during the plan period? How much more of advance in agricultural productivity can be expected within the framework of the present class structure in agriculture and the size distribution of holdings? It is because we have not posed the problem in these terms up to now that it has not been possible to have any understanding of the factors that have caused the agricultural crisis of the Third Plan period. Is this stagnation on the production front nothing more than a phase in the weather cycle? Or can we say that the potential of development of the present set-up—i.e., the present holding structure as well as class structure—is nearing exhaustion and that further technological and financial inputs would yield returns only at a rapidly diminishing rate?

Ajit Roy is no armchair Marxist: he is an active participant in the struggle for socialism in this country and at the same time he is among the very few such activists who have devoted years of painstaking work to serious research in problems of political economy. His earlier book on monopoly concentration in the Indian economy was of a pioneering nature. It is, therefore, natural for a reader acquainted with the author's background to expect that here at last was the Marxian analysis of Indian economic growth that one has been waiting for. It may not be too severe a criticism of the book to say that in this

expectation the reader will be disappointed.

As a matter of fact the book has turned out to be quite a readable and useful critical account of planning in India. The historical and documentary part of the book is ably put together and a teacher giving a course of lectures on planning will find it useful to be guided by its chapters. But the very comprehensive character of the book has resulted in the analytical part falling short of one's expectation. Whether the author intended to write a text book or not, content and style of the book is highly textbookish; while facts and figures are faithfully and systematically presented, the author is cursory in his treatment of the more critical and controversial issues. Thus, on the agrarian question the author describes the present situation as one of a struggle between two alternative paths—the so-called American path and the Prussian path—but devotes no more than three pages to its discussion! Where are the facts and figures that would make his hypothesis appear plausible and why not any attempt to indicate, on the basis of factual evidence, where, how, why and to what extent which line is getting more established and with what consequences? Again, discussing the public sector the author indulges in such bald statements as:

"The second category of state projects is formed by the hydro-electric schemes, the steel plants, fertiliser factories, machine tool manufacture, etc. These projects were undertaken to help the private sector, including big business, to expand quickly as the former strengthen and extend the infra-structure on which the edifice of private capitalist industrial complex can expand."

This proposition deserve to be thoroughly investigated, not just stated and one expected that Ajit Roy's book would consist precisely of such investigations.

Another example of cursory treatment of matter calling for deep probing is the author's statement that the country will enter the phase of "technological take off" by the end of the Fourth Plan. This is too optimistic a view based on a neglect of the persisting character of the problem of import substitution. The author's suggestions (on page 342) regarding mobilisation of domestic resources are also of the nature of slogans: whether nationalisation of banks would enable the public sector to control the private sector more effectively or render

the private sector's influence on the public sector more compact and pervasive is very much an open question. Two crucial chapters of the book, those on monopoly concentration and the public sector, are reproductions of certain earlier published works by the author. As such they remain not quite integrated into the main stream of argument of the book.

A further illustration of the author's shyness to get into the deep waters of class analysis is that he talks most of the time of the "Indian bourgeoisie" and the "ruling class" without stopping to define their coverage and without worrying about the degree of heterogeneity that may be expected within this broad class. Can we really

get any insight into the problems of Indian political economy if the conflicts within the class called the bourgeoisie are all overlooked? The discussion of the public sector ends by giving the name of "State Capitalism" to the public sector in India, but to spelling out the particular features and shades of class relations covered by the term the author devotes no more than a mere half page!

Despite all the deficiencies that one can point out the book deserves to be welcomed as a useful addition to the collection of books on Indian planning. One must, however, record a protest against the extremely high price set for the book, especially so in view of the poor paper and binding.

THE INDIAN IRON AND STEEL COMPANY LIMITED NOTICE

NOTICE is hereby given that the Annual General Meeting (being the Forty-Eighth Ordinary General Meeting) of the Company will be held at the Registered Office, No. 12, Mission Row, Calcutta, at 3 p.m. on Friday, 3rd September, 1965, for the following purposes:

1. To receive and adopt the Audited Accounts for the year ended 31st March, 1965, and the Directors' and Auditors' Reports thereon.
2. To confirm the payment of interim dividend for the year ended 31st March, 1965 on the Ordinary Share Capital as declared by the Board of Directors on the 9th February, 1965 and to declare a final ordinary dividend in respect of the said year. The final dividend, if sanctioned, will be paid on and after the 3rd September, 1965.
3. To appoint a Director in place of Mr Gokul Chand Bangur who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr Sachindra Chaudhuri who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. Subrata Kumar Ghose who retires by rotation and is eligible for re-appointment.
6. To re-appoint Auditors and fix their remuneration.

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

By Order of the Board
MARTIN BURN LIMITED
F G Liversedge
Managing Director
Managing Agents

Registered Office:
12, Mission Row,
CALCUTTA-1
4th August, 1965

Ownership of Daily Newspapers in India

Five industrial groups, namely, Goenka, Sahu Jain, Birla, Andrew Yule and Karnani, occupy a predominant place in the ownership of daily newspapers in India. In addition, there are some 11 major newspaper groups, in the sense that their controlling interests had practically no interest in industrial activities. Whether one takes only the five industrial groups or all the 16 groups, concentration of ownership of daily newspaper circulation is very high.

This article is concerned with (a) listing the leading chains-cum-groups in the daily press, and (b) examining their share of total circulation.

At the end of 1963, India had nearly 7,800 newspapers and periodicals. Of these 4,570, for which data are available with the Registrar of Newspapers, had a total circulation of 20 million. The total number of dailies was 503; the circulation of 345 dailies, for which data are available, was 5.6 million.

The Registrar classifies newspapers (including both dailies and periodicals) under common ownership in three broad categories:

- (a) *Chains*: More than one newspaper under common ownership from more than one centre.
- (b) *Groups*: More than one newspaper of the same title, language and periodicity under common ownership from the same centre.
- (c) *Multiple units*: More than one newspaper of the same title, language and periodicity under common ownership from different centres.

These categories overlap in the sense that particular organizations of newspapers, say, the *Times of India* embraces all the three categories: it publishes five dailies, and seven periodicals from Bombay ('group') and two of the dailies are published simultaneously from Bombay and Delhi

Table 1: Number and Circulation of Dailies, by Language in 1963

Language	No of Newspapers	Total Circulation ('000)
1 English	47	1,452
2 Hindi	86	764
3 Assamese	1	7
4 Bengali	4	303
5 Gujarati	28	441
6 Kannada	22	174
7 Malayalam	26	613
8 Marathi	29	536
9 Oriya	5	75
10 Punjabi	8	46
11 Tamil	24	688
12 Telugu	9	177
13 Urdu	44	260
14 Bilingual	4	22
15 Multi-lingual	1	neg
16 Others	7	21
Total	345	5,579

Table 2: Multiple Units of Dailies 1963

Name of Daily	Centres of Publication	Circulation	
		Centre	Total
English (1) Indian Express*	Bombay	75,000	295,000
	Delhi	58,000	
	Madura	55,000	
	Madras	27,000	
	Vijayawada, Chittoor	80,000	
(2) Times of India*	Bombay	138,000	180,000
	Delhi	42,000	
(3) Statesman	Calcutta	103,000	127,000
	Delhi	24,000	
(4) Hittavada	Nagpur		13,000
	Bhopal		
Hindi (1) Navbharat Times*	Delhi	97,000	139,000
	Bombay	42,000	
	Calcutta	36,000	53,000
	Bombay	5,000	
(2) Vishwamitra*	Patna		46,000
	Kanpur	12,000	
(3) Nav Bharat	Jabalpur, Bhopal, Indore, Raipur and Nagpur		24,000
(4) Nav Prabhat	Indore, Bhopal, Ujjain, Gwalior and Agra		
(5) Navajyoti	Jaipur and Ajmer		16,000
(6) Dainik Bhaskar	Ujjain and Bhopal		8,000
(7) Jagran	Rewa and Bhopal		6,000
(8) Lokmanya	Nagpur and Calcutta		n a
(9) Jugadharma	Nagpur, Jabalpur and Raipur		14,000
Gujarati (1) Jai Hind*	Rajkot and Ahmedabad		42,000
Malayalam (1) Mathrubhumi	Kozhidoke and Ernakulam		146,000
Marathi (1) Maratha* (2) Tarun Bharat* (3) Nav Sandesh	Bombay and Nagpur		47,000
	Nagpur and Poona		34,000
	Sangli and Kolhapur		n a
Kannada (1) Samyukta Karnataka	Bangalore and Hubli		47,000
Punjabi (1) Ranjit	Bhatinda and Patiala		9,000
Tamil (1) Thanthi (2) Dinamani (3) Malai Murasu	Madras, Madura, Tiruchirapalli and Coimbatore		233,000
	Madurai and Madras		131,000
	Tirunelveli, Madras and Madurai		69,000
(4) Tamil Nadu	Madras and Madurai		29,000
(5) Nava India	Madras and Coimbatore		22,000
Telugu (1) Andhra Prabha	Vijayawada and Madras		78,000
Urdu (1) Pratap	Delhi and Jullundur		40,000

*These come under Groups and Chains also.

Table 3: Control of Daily Newspapers 1963

	English	Hindi	Bengali	Gujarati	Kannada	Mala- yalam	Marathi	Tamil	Telugu	Total
GRAND TOTAL :										
No of dailies	47	86	4	28	22	26	29	24	9	345*
Circulation (000)	1,452	764	303	441	174	613	536	688	177	5,579*
Percentage	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Industrial Groups										
(1) GOENKA (Express)										
(a) No of dailies	2(7)	...	...	...	...	...	1	1 (2)	1 (2)	5 (12)
(b) Circulation (000)	306	...	...	...	...	...	125	131	78	640
(c) % of total circulation	(21.1)	...	...	...	...	...	(23.3)	(19.0)	(44.1)	(11.5)
(2) SAHU JAIN (Times)										
(a) No of dailies	3(4)	1(2)	...	...	...	...	1	...	...	5(7)
(b) Circulation (000)	202	139	...	...	...	...	64	...	...	405
(c) % of total circulation	(13.9)	(18.2)	...	...	...	...	(11.9)	...	...	(3.7)
(3) BIRLA (Hindustan Times, etc)										
(a) No of dailies	4	3	...	...	...	...	...	...	...	7
(b) Circulation (000)	129	98	...	...	...	...	...	...	...	227
(c) % of total circulation	(8.9)	(12.8)	...	...	...	...	...	...	...	(4.1)
(4) ANDREW YULE et al, (Statesman)										
(a) No of dailies	1(2)	...	...	...	...	...	...	...	...	1(2)
(b) Circulation (000)	127	...	...	...	...	...	...	...	...	127
(c) % of total circulation	(8.7)	...	...	...	...	...	...	...	...	(2.3)
(5) KARNANI (Free Press)										
(a) No of dailies	2	...	...	1	...	...	1	...	...	4
(b) Circulation (000)	104	...	...	15	...	...	32	...	...	151
(c) % of total circulation	(7.2)	...	...	(3.4)	...	...	(6.0)	...	...	(2.7)
(6) Sub-Total : 1 to 5										
(a) No of dailies	12(19)	4(5)	...	1	...	...	3	1(2)	1(2)	22(32)
(b) Circulation (000)	868	237	...	15	...	...	221	131	78	1,550
(c) % of total circulation	(59.8)	(31.0)	...	(3.4)	...	...	(41.2)	(19.0)	(44.1)	(27.7)
Major 'Pure' Newspaper Groups										
(7) KASTURI (Hindu)										
(a) No of dailies	1	...	...	...	...	...	...	...	...	1
(b) Circulation (000)	133	...	...	...	...	...	...	...	...	133
(c) % of total circulation	(9.2)	...	...	...	...	...	...	...	...	(2.4)
(8) GHOSH (Patrika/Jugantar)										
(a) No of dailies	2	...	1	...	...	...	...	...	...	3
(b) Circulation (000)	111	...	108	...	...	...	...	...	...	219
(c) % of total circulation	(7.6)	...	(35.6)	...	...	...	...	...	...	(3.9)
(9) SARCAR (Standard/Ananda Bazar)										
(a) No of dailies	1	...	1	...	...	...	...	...	...	2
(b) Circulation (000)	48	...	147	...	...	...	...	...	...	195
(c) % of total circulation	(3.3)	...	(48.5)	...	...	...	...	...	...	(3.5)

	English	Hindi	Bengali	Gujarati	Kannada	Mala- yalam	Marathi	Tamil	Telugu	Total
(10) JANMABHOOMI										
(a) No of dailies	...	...	...	4	...	...	...	...	...	4
(b) Circulation (000)	...	...	...	42	...	...	...	...	...	42
(c) % of total circulation	...	...	...	(9.5)	...	...	...	...	...	(0.8)
(11) AGARWAL (Viswamitra)										
(a) No of dailies	...	1(4)	...	...	...	...	...	...	...	1(4)
(b) Circulation (000)	...	53	...	...	...	...	...	...	...	53
(c) % of total circulation	...	(6.9)	...	...	...	...	...	...	...	(0.9)
(12) DARBHANGA (Aryavarta/Nation)										
(a) No of dailies	1	1	...	...	...	...	...	...	...	2
(b) Circulation (000)	30	49	...	...	...	...	...	...	...	79
(c) % of total circulation	(2.1)	(6.4)	...	...	...	...	...	...	...	(1.4)
(13) PATEL (Sandesh)										
(a) No of dailies	...	...	...	2	...	...	...	...	...	2
(b) Circulation (000)	...	...	...	51	...	...	...	...	...	51
(c) % of total circulation	...	...	...	(11.6)	...	...	...	...	...	(0.9)
(14) SHAH (Samachar)										
(a) No of dailies	...	...	...	1	...	...	...	...	...	1
(b) Circulation (000)	...	...	...	49	...	...	...	...	...	49
(c) % of total circulation	...	...	...	(1.1)	...	...	...	...	...	(0.9)
(15) DIWAKAR (Karnataka)										
(a) No of dailies	...	...	...	...	1(2)	...	...	...	...	1(2)
(b) Circulation (000)	...	...	...	...	49	...	...	...	...	49
(c) % of total circulation	...	...	...	...	(28.2)	...	...	...	...	(0.9)
(16) MATHRUBHUMI										
(a) No of dailies	...	...	...	...	...	1(2)	...	...	...	1(2)
(b) Circulation (000)	...	...	...	...	...	165	...	...	...	165
(c) % of total circulation	...	...	...	...	...	(26.8)	...	...	...	(3.0)
(17) Thanthi										
(a) No of dailies	...	...	...	...	...	...	...	1(4)	...	1(4)
(b) Circulation (000)	...	...	...	...	...	...	...	233	...	233
(c) % of total circulation	...	...	...	...	...	...	...	(33.9)	...	(4.2)
(18) Sub-total : 7 to 17										
(a) No of dailies	5	2(5)	2	7	1(2)	1(2)	...	1(4)	...	19(27)
(b) Circulation (000)	322	102	255	142	49	165	...	233	...	1,268
(c) % of total circulation	(22.2)	(13.3)	(84.1)	(22.2)	(28.2)	(26.8)	...	(33.9)	...	(22.7)
(19) TOTAL : 6+18										
(a) No of dailies	17(24)	6(10)	2	8	1(2)	1(2)	3	2(6)	1(2)	41(59)
(b) Circulation (000)	1,190	339	255	157	49	165	221	364	78	2,818
(c) % of total circulation	(82.0)	(44.3)	(84.1)	(25.6)	(28.2)	(26.8)	(41.2)	(52.9)	(44.1)	(50.4)

* Including others.

Each edition is counted separately.

Figures in parenthesis in rows (a) indicate the number of editions from different centres.

('chain' and 'multiple units'). While groups, and to a lesser extent chains, are a common feature in many countries, the frequency of multiple units in India is a rather unusual feature. There are 27 multiple units, against 15 chains and 36 groups, again with overlaps.

With the exception of *Statesman*, *Thanthi* and *Malai Murasu*, all the leading multiple unit dailies belong to the large chains and/or groups. At the same time, some independent dailies with a small circulation also have multiple units, but this phenomenon is practically confined to Hindi and Punjabi papers. Curiously enough, the Birla group's chain has no multiple unit whatever (though it has a Kanpur supplement to the *Hindustan Times* published from Delhi). On the whole, it would be correct to say that the bigger multiple units tend to coincide with big chains and groups.

Since it is difficult to unscramble the chains and groups, we may satisfy ourselves with two broad particulars: (1) the leading chains-cum-groups, and (2) their share in total circulation.

In 1963, 143 dailies (including multiple units) were under common ownership; their circulation of 3.8 million accounted for 68 per cent of the total circulation of all dailies. In 1962, the figures were 130, 3.5 million and 66 per cent. The increase in the share of

dailies under common ownership would have been greater if more newsprint had been available to them.

Five industrial groups, namely, Goenka, Sahu Jain, Birla, Andrew Yule, and Karnani, play a major role in the ownership of daily newspapers (besides periodicals with which we are not concerned here). These groups (derisively called the Jute Press) had 28 per cent of total national circulation in 1963. This proportion is rather deceptive, because their share in the circulation of English dailies was 60 per cent, Telugu 44 per cent, Marathi 41 per cent, and Hindi 31 per cent. Their share in Tamil circulation was 19 per cent and in Gujarati only 3 per cent. They had no share whatever in Bengali, Kannada and Malayalam. English dailies provided more than 56 per cent of their total circulation.

There were roughly 11 major 'pure' newspaper groups in the sense that their controlling interests had practically no interest in industrial activities. These 11 groups had 23 per cent of total national circulation. Two of them, however, accounted for 84 per cent of the circulation of all Bengali dailies, and one had 34 per cent of Tamil circulation. The share of all the 11 groups in English dailies was 22 per cent, Hindi 13 per cent, Gujarati 22 per cent, Kannada 28 per cent and Malayalam 27 per cent.

Whether one takes only the five industrial groups or all the sixteen groups, the concentration of circulation is high. In languages like Gujarati, Kannada and Malayalam, where the concentration appears to be low, there are relatively few dailies.

Dailies are highly localised so far as the centres of publication are concerned but the circulation of leading dailies is spread over a wide area. Out of 503 dailies at the end of 1963, 204 were published from State capitals, 185 from cities with population exceeding 100,000 and only 114 from smaller towns. Bombay had 36 dailies, Calcutta 25, Madras 23, and Delhi 20, making a total of 104 from metropolitan centres.

The precise area-wise circulation of metropolitan and other dailies is not available, but the leading metropolitan dailies sell a large part (actually the larger part in many cases) of their copies to readers outside the metropolitan centres. Restrictions on the import and use of newsprint and growth of population in large cities have tended to restrict the outstation circulation of metropolitan dailies in 1962 and 1963. While the number of dailies published from small towns has increased, there is nevertheless, little doubt that dailies in India continue to mean, in effect, metropolitan dailies only.

Table 4 : Circulation of Metropolitan Dailies

Town of Publication	Title of Paper	Language	Average Circulation	Circulation Within the Town	Circulation Within the State	Circulation Outside State
Delhi	Hindustan Times	English	1,06,667	47,924	.....	58,74
	Indian Express	English	55,546	29,280	637	25,63
	Times of India	English	40,956	11,853	.....	29,09
	Statesman	English	23,109	11,178	200	11,73
	Patriot	English	25,455	11,405	76	13,97
	Nav Bharat Times	Hindi	98,081	25,233	.....	73,85
	Hindustan	Hindi	81,333	12,401	.....	68,932
	Milap	Urdu	25,080	10,365	184	14,531
	Pratap	Urdu	27,407	12,607	.....	14,800
Bombay	Times of India	English	1,34,180	79,325	18,707	36,148
	Free Press Journal	English	83,391	40,247	22,115	21,029
	Indian Express	English	75,302	37,248	14,676	21,491
	Nav Bharat Times	Hindi	42,111	18,610	8,102	15,669
	Bombay Samachar	Gujarati	59,215	45,830	2,780	10,605
	Lok Satta	Marathi	1,18,598	57,569	51,364	9,605
	Maharashtra Times	Marathi	69,251	40,002	24,610	4,639
Calcutta	Statesman	English	1,02,306	54,692	18,285	29,331
	Amrita Bazar Patrika	English	90,488	50,822	23,728	15,934
	Hindustan Standard	English	47,805	23,240	12,178	12,387
	Jugantar	Bengali	1,01,809	34,044	47,986	18,870
	Ananda Bazar Patrika	Bengali	1,46,881	56,750	64,776	25,346
Madras	Basumati	Bengali	35,569	.....	.....	.....
	Hindu	English	1,32,328	39,487	40,953	51,888
	Mail	English	35,572	16,732	10,525	8,315
	Andhra Patrika	Telugu	47,355	2,056	552	44,752
	Swadesmitran	Tamil	42,412	4,234	37,096	1,087

Growth Stage Theories and Agricultural Development Policy

Vernon W Ruttan

This paper reviews and attempts to evaluate the potential contribution of growth stage theories to the formulation of agricultural development policies.

As economists have been asked to extend their services to policy makers and planners in countries which are just beginning to experience modern economic growth, a consensus has developed to the effect that economic analysis conducted within the framework of either the older developments associated with the "marginal revolution" or post-Keynesian income, employment and growth theory has been less effective than anticipated in providing the knowledge needed to solve the development problems of the emerging non-western economies.

No clear-cut system of "new development economics" dominates the field as completely as the "new economics" based on Keynes' work dominated economic thinking after 1936. However, the growth stage approaches have established a substantial "claim" in the race to stake out the boundaries of a "new development economics."

GROWTH stage theories are not new in the history of economic thought. The older literature, primarily a product of the nineteenth century German economic historian, exhibits three main types of stage schema based on:

(a) shifts in occupational distribution (List);

(b) changes in the degree of economic integration (Hilderbrand, Bücher, Schomoller); and,

(c) changes in the system of property rights and associated changes in economic ideology (Sombart, Marx).

Industrial Fundamentalism

List distinguishes five development stages: (a) savage; (b) pastoral; (c) agricultural; (d) agricultural and manufacturing; and finally, (e) agricultural, manufacturing, and commercial. However, he stresses "a description of the conditions under which a mature agricultural stage can exist, under which it may progress, and how an agricultural stage can be transformed into one on a higher level by the introduction of manufacturers".

He was particularly concerned with demonstrating the positive role of industrial protectionism for countries (such as Germany or the United States in the nineteenth century) which were in transition from a high level of agricultural development to industrialisation. At the same time, he argued that free trade was to appropriate economic policy for countries (a) which are "by nature" agricultural or which have not yet achieved a high level of agricultural development (mainly tropical), and (b) which have achieved an advanced level of industrial development (such as Great Britain). List believed that progress in agricultural could only occur (a) under the stimulus of export demand, or, more important, (b)

through the impact of domestic industrial development.

Structural Transformation

There is a close resemblance between List's last three stages and the concept of primary, secondary, and tertiary production developed in the 1930's by A G B Fisher and Colin Clark. This formation emphasised the "steady shift of employment and investment from the essential 'primary' activities ... to secondary activities of all kinds, and even to a still greater extent into tertiary production" which accompanies economic progress. The economic growth which accompanies this transformation is achieved *first*, by increases in output per worker in any sector, and *second*, by the transfer of labour from sectors with low output per worker to sectors with higher output per worker.

The Fisher-Clark generalisations had an important impact on both economic thought and economic policy during the decade immediately following World War II. But by the mid-1950's, the analytical validity and statistical foundation, as well as the policy implications of these generalisations were being questioned.

Leading Sectors

The decline of interest in the Fisher-Clark stages during the last decade resulted primarily from the emergence of Rostow's leading sector growth stage approach. Rostow identifies five stages in the transition from a primitive to a modern economy: (a) the traditional society; (b) the preconditions for take-off; (c) the take-off; (d) the drive to maturity; and (e) the age of high mass consumption.

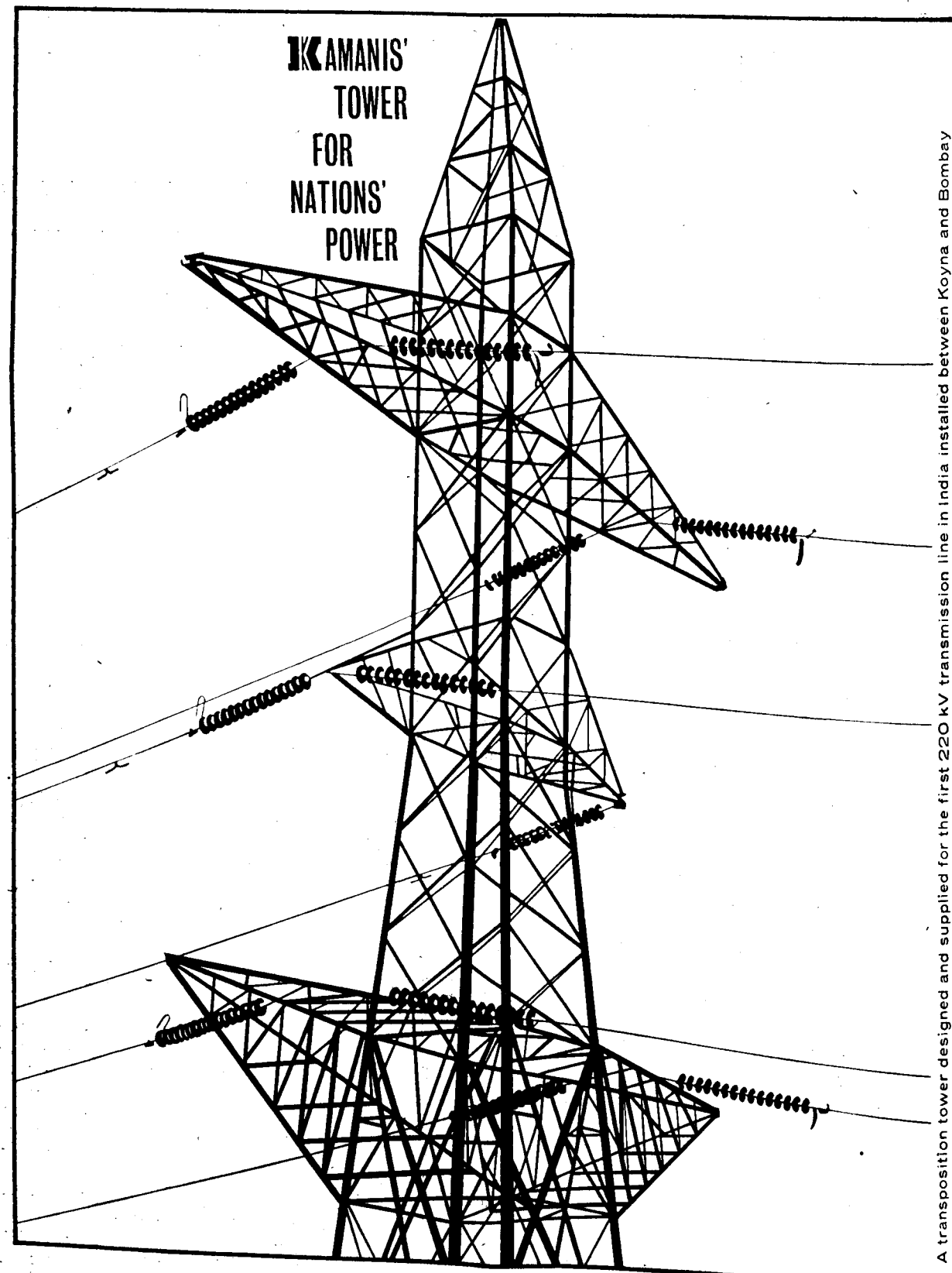
Rostow is primarily concerned with the process by which a society moves from one stage to another, and his historical analysis is conducted to pro-

vide policy guidance to the developing countries since "it is useful, as well as roughly accurate, to regard the process of development now going forward in Asia, the Middle East, Africa and Latin America as analogous to the stages of preconditions and take-off of other societies in the late eighteenth, nineteenth, and early twentieth centuries".

The problem of transition from one stage to another in Rostow's system becomes how to offset the tendency for deceleration in individual sectors to achieve growth in the total economy. On the supply side, Rostow introduces the concept of a sequence of leading sectors which succeed each other as the basic generators of growth. On the demand side, declining rates of growth in demand are introduced as factors dampening the growth rates of leading sectors and transforming them to sustaining or declining sectors. Technology plays an important role in both the emergence of new leading sectors and the dampening of growth or elimination of older sectors.

Only Rostow's system clearly specifies a dynamic role for the agricultural sector in the transition process. In an open economy, primary sector industries may act as leading sectors and, at a particular time, carry the burden of accelerating growth. In addition, agriculture must (a) provide food for a rapidly increasing population; (b) provide a mass market for the products of the emerging industrial sectors, and (c) generate the capital investment for new leading sectors outside of agriculture.

Most of the papers presented at a 1960 conference of the International Economic Association on "The Economics of the Take-Off Into Sustained Growth" rejected (a) either Rostow's dating of the take-off for presently advance countries or (b) the concept of the take-off itself. Students from less



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developed countries have found even greater difficulty in identifying their experience with any particular stage. A recent article reached the rather startling conclusion that "after entering the 'take-off' stage in 1957, the (Philippine) economy immediately slipped back into the 'preconditions' ... stage ...". Furthermore, the approach contains no mechanism to explain why countries such as Argentina, Chile, Ceylon, Burma and India, all of which experienced very rapid growth during the latter years of the 19th century, failed to achieve a successful take-off.

Agricultural Development Stages

The insights into the general growth process provided by the several growth stage approaches has led to a re-examination of agricultural development patterns within the context of growth stage sequences by western economists.

The Industrial Impact Hypothesis

The implications of the Fisher-Clark structural transformation model for the agricultural sector have been formulated by Schultz in the form of three statements: (1) "Economic development occurs in a specific locational matrix...; (2) These locational matrices are primarily industrial-urban in composition...; (3) The existing economic organisation works best at or near the centre of a particular matrix of economic development and it also works best in those parts of agriculture which are situated favourably in relation to such a centre. In formulating this hypothesis, Schultz was particularly concerned with the failure of agricultural production and price policy to remove the substantial regional disparities in the rate and level of development in American agriculture.

The policy implications of the Schultz industrial impact hypothesis appear to be most relevant for the less developed regions of the more highly industrialised countries. In these areas, agricultural development can be accelerated by either increased industrial decentralisation or migration of surplus agricultural workers to more distant urban-industrial centres. Such policies appear to have less scope in many of the less developed countries where the "pathological" growth of urban centres resulting from population pressure in rural areas frequently runs ahead of growth in the demand for non-farm workers.

Three-Stage Sequence

A sequence of three agricultural development stages which roughly

parallel the precondition, take-off, and drive to maturity stages in the Rostow model has been suggested by a number of agricultural economists.

In the agricultural development stage models, major policy interest focuses on the programme instruments and measures that are required to move rapidly from Stage I (Static) through Stage II (Transitional) to Stage III (Dynamic). Within the agricultural sector, emphasis is typically placed on (a) the importance of biological innovations and intensity of labour use during the transition from Stage I to Stage II with (b) higher inputs of power in the form of mechanisation being reserved for the transition from Stage II to Stage III. Recommendation that public social overhead investments (education, research, extension) and institutional modifications (tenure, credit, and market structure reforms) should lead the more capital intensive public infra-structure investment (communications, roads, dams) is also frequently implied. The importance of positive population policy to dampen the birth rate is increasingly identified as essential for a rapid transition from Stage I to Stage III.

Some authors have followed Rostow in emphasising the importance of leading commercial sectors within agriculture, in contrast to the more static subsistence sectors, in the adoption of technological innovations and as a source of much of the increase in the output of food and export commodities. Others, using Japan and Taiwan as models, emphasise the possibilities of transforming the subsistence sector into a small scale commercial sector.

The issue that remains unresolved is (a) can growth be achieved most effectively by the commercial sector absorbing the land resources and releasing the labour resources of the subsistence sector for non-farm employment, or (b) can the subsistence sector be gradually transformed into a small scale commercial sector and eventually into a large scale commercial sector? The difficulty of resolving this issue, within the framework of growth stage analysis, is symptomatic of the difficulty faced by stage approaches in generating useful guides to agricultural development policy at any particular time in economic history.

Growth Stage Theories and Agricultural Policy Analysis

What guidance can the economic analyst working within the context of growth stage models provide the policy

maker or planner in making the policy decisions and formulating the programme designs necessary to achieve more rapid agricultural development? One method of answering this question is to examine the policy prescriptions implied by the agricultural growth stage approaches for several of the agricultural development choices which the nations of Southeast Asia now face.

Agricultural Production Policy

Throughout most of Southeast Asia, population growth rates fall in the 2.5 to 3.5 per cent per year range. Thus, even modest per capita income growth rates imply an increase in the demand for farm output of 3.0 to 5.0 per cent per year. During the interval which precedes effective population control, this range may well result in rising food prices, and as Rostow stresses, dampen the rate of total economic growth.

Example 1: Irrigation

The agricultural growth stage models, drawing heavily on Japanese experience, stress the importance of biological innovations and labour intensive methods of production during the early stages of agricultural development. Yet in most of Southeast Asia, the productivity of many of the biological innovations and labour intensive cultural practices, regarded as appropriate in Stage I, will be severely limited until the completion of capital intensive irrigation developments. In spite of a monsoon climate, lack of water is an important obstacle to full employment of both land and manpower in most rice producing areas of Southeast Asia.

Example 2: Mechanisation

Growth stage models typically identify mechanisation as appropriate only during the later part of the transition from Stage II to Stage III. Modifications are frequently introduced for economies with a dual (i.e., plantation and subsistence) structure in the agricultural sector which favour mechanisation in the plantation sector earlier than in the subsistence sector.

An increasing body of evidence from South and Southeast Asia provides specific instances of relatively high returns on investment in mechanical power in the subsistence sector. Even in densely populated areas there are substantial areas of land which are not cultivated at all or only during certain parts of the year because (a) the power requirements are in excess of the amount available in the traditional man-animal technology, or (b)

operations cannot be performed at sufficient speed to utilise the land at a high level of intensity. In such situations, analysis of the productivity of power inputs cannot be treated entirely within a labour substitution framework or depend on historical analogies with small scale agricultural development in temperate regions.

Structural Change

Both Rostow and the agricultural development stage theorists have emphasised the importance of structural changes during the early stages of economic development. Tenure reform, fiscal policy reform, and others have identified as important factors in reducing the political power of those who have a vested interest in the *status quo*, and releasing the productive energies of the peasants and the emerging middle class.

With these reforms agricultural prosperity is expected to stimulate industrial development by providing the mass purchasing power needed to sustain an expanding urban-industrial sector. Since initiation of steps leading to exchange decontrol in the Philippines in 1961, the agricultural and commodity sectors have experienced sustained increases in prices, output, and income. At the same time the sectors producing primarily for domestic consumption have, with the exception of the domestic agriculture and construction industries, failed to share in this growth.

One explanation for this paradox of prosperity in the commodity sectors and lagging growth in the manufacturing sectors is that the higher aggregate income in the agricultural and commodity sectors reinforces an already highly unequal income distribution. As a result, the income is being utilized for non-industrial construction and importation of consumer durables rather than the purchase of the mass consumption consumer goods produced by local industry.

Use of political means to alter the income distribution effects of expanded export earnings or to achieve any of the desired structural reforms, is particularly difficult to achieve in practice. Agricultural prosperity reinforces the political power of the same groups who benefit from the present situation and delays the emergence of the appropriate political and social "preconditions".

An Evaluation of the Agricultural Development Stage Approaches

Neither the general stage models nor

the agricultural development stage models provide definitive guides for the resolution of the agricultural development policy issues which have been raised in the previous section. Have they made any positive contribution at all to the analysis of these issues in a manner useful to the policy maker or planner?

(1) Clearly Rostow's leading sector model and the agricultural development approaches have helped focus attention on the critical role of the agricultural sector in the development process. This represents a healthy reversal of the failure to appreciate agriculture's contribution in earlier growth stage approaches and a positive contribution to economic "doctrine" (ideology?).

(2) The leading sector concept does add a potentially useful tool to our analytical capacity. The concept has largely been ignored by the debate

over the timing and/or existence of the "take-off".

(3) The basic limitation of the growth stage approach when employed as a guide to development policy is that it substitutes a search for economic doctrine in the form of historical generalisations, for the development of analytical power.

(4) Emphasis on the "take-off" and the differentiation of "stages" in both the general and agricultural development stage approaches represents a "blind alley" rather than the route to a new "revolution" in economic thought. Even if current disagreements with respect to "take-off" dates could be resolved we would at best be confronted with a set of valid historical generalisations concerning the processes by which countries which are now developed arrived at their current level of development.

What is Holding up Rural Housing?

S K Iyer

The impression that housing is no problem at all in rural areas is as wrong as it is widespread. That this attitude to rural housing is shared at the highest levels in the Government is indicated by the meagre provision of Rs 13 crores in the Third Plan.

But while the pitiful financial allocation reflects neglect of rural housing, it cannot be said that rural housing is being held up for want of finance. In fact it is now certain that a large part of the Third Plan allocation will ultimately go unutilised.

An attempt is made here to examine the factors responsible for the slow progress of the rural housing programme and to suggest the lines along which action might be taken to speed it up.

THE tragedy of rural housing in India is that it has not yet obtained recognition as a serious problem in national development. This may be said of housing in general too, but the fact remains that urban housing secures much greater attention than rural housing. Details regarding funds utilised for rural housing during the Third Plan period show that out of Rs 12.7 crores allotted only Rs 2.9 crores have been spent so far. According to the Mid-Term Appraisal of the Third Plan 16,500 houses were built during the first three years under the village housing project scheme, the target for the entire plan period being 1,25,000 houses. This comes to an average of one house for every 30 villages. During the Second Plan period, 3000 houses were constructed, that is one new house for every 180 villages. The conclusion that may legitimately be drawn from these facts is that not more than 30 per cent of the funds available would have been spent on rural houses when the Third Plan ends. It also appears that the governments of the States regard funds meant for rural housing as convenient sources for diversion to other purposes. This has led to the suggestion that during the Fourth Plan the village housing scheme should be in the central sector.

The under-utilisation of available funds points to the fact that in the sphere of rural housing the problem is not just one of finance but of organisation. It will be more correct to say that it is a problem of finance and organisation. The failure to evolve an efficient organisation is probably the main cause of the lack of capacity to spend the funds. The general impression that housing is no problem at all in the rural areas is also an important factor. The provision of finance is thus an inadequate solution for the problem.

It is also true that finance is not a serious problem in rural housing. Land-cost which is a major element in urban housing is not a difficult problem at all so far as the villages are concerned.

With the co-operation of village people and panchayats it is possible to obtain the land required for the re-planning of villages. The law may also be resorted to in difficult cases. In any case, the cost of land is bound to be small. So is the case with building materials. It is now an accepted proposition that locally available materials should be used, to the extent possible, in the construction of houses in the rural areas. Some amount of useful research work has also been done in this field. The cost of such local materials is expected to be within the means of the villagers. In this sphere, however, organisational work on a large scale is necessary both for the production of building materials and their popularisation. Labour charges, another important element in urban housing, could be reduced to the barest minimum if the villagers are induced to contribute labour to build houses for themselves. With such possibilities of reduction in the cost of land, materials and labour, villagers do not have to spend more than rupees three hundred to rupees one thousand for houses, the actual amount depending on family size and requirement. A hotise and a garden of five cents of land around could be the aim in rural housing. The existing system under which village houses are located in a small central site has outlived its usefulness and should be abolished in stages.

The question which next arises is how the required amount of money can be made available to rural families. The lapse of even the meagre funds available for rural housing goes to show that rural families do not have the capacity to utilise the funds made available to them by Government. As stated earlier organisational defects have contributed much to the slow progress in rural housing. The Community Development scheme has not played any significant role in housing. The scheme, with all its achievements, has not succeeded in achieving balanced development in different spheres of rural life. Housing in particular has received scant attention in the Blocks and the arguments usual

ly advanced in defence of the existing state of affairs do not stand scrutiny. It is also doubtful whether the engineering personnel working in the scheme are competent to evolve and execute good housing schemes for the rural areas. The professional training acquired by them does not appear to be the one required for rural areas and the training in rural housing now being imparted to them also does not seem to have succeeded in producing a changed outlook in them. These facts lead to the conclusion that the entire training programme should be reorganised and further the trainees and the staff employed under the training programme in rural housing should be given intensive training in extension methods. The villagers have to be made aware of the importance of better housing and how it could be had. Vigorous extension work and close cooperation among different agencies connected with rural housing are required to achieve this result. The procedure for the grant of loans has also to be simplified so that the simple villager does not have to go through too many formalities. The truth is that the existing rules regarding the grant of loans actually kill enthusiasm for improved housing.

Socio-economic studies of villages lead to the unmistakable conclusion that the large majority of the villagers just do not have any money to spare for housing purposes. This applies both to the construction of new houses and to repairs to existing ones. When more pressing wants still remain unsatisfied it is but natural that housing ceases to be a problem. An increase in income is therefore essential if housing improvement should become a felt need of the villager. Housing thus merges into the whole problem of rural development and it follows that the latter should be intensified if the finance necessary for the former is to be obtained. This no doubt, is a long-term solution. The question therefore is whether rural housing schemes should be slowed down and speeded up later when the villagers acquire the capacity

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to utilise funds available for the purpose from the State. The answer can only be in the negative. There seems to be insufficient realisation of the fact that poor housing in the rural areas is a major factor responsible for ill-health and inefficiency and investment on a large scale in rural housing will promote economic efficiency and production to a considerable extent. Housing improvement is thus investment in man and deserves high priority in schemes of rural development.

The funds set apart for rural housing should be placed at the disposal of housing co-operative societies. These societies should not merely disburse loans but also undertake the production of building materials on a large scale. One society for a group of villages should be the rule. But it is important that the villagers should be induced to join the co-operatives. The Panchayats too have their part to play and should, if necessary, exercise their powers to secure land for those who require them for housing purposes. The possibility of providing common services for construction purposes should also be explored by the Panchayats. The community development blocks should simultaneously attend to the extension work necessary for the success of housing scheme and provide technical guidance. These are excellent principles and have been laid down by the Planning Commission itself. But very little effort has been taken to convert these principles into practice.

The idle man-power which now goes to waste should be mobilised and converted into capital for building purposes. A large amount of capital could be available by adopting this method. Once the villagers realise that they are working for their own benefit they would cheerfully co-operate for the success of the scheme. The possibilities of capital formation through this method have not yet been tapped to the extent desirable. Certain voluntary agencies have achieved remarkable success in organising voluntary labour for productive purposes. The villagers should therefore be organised for the purpose of house-building and also provided with simple training in construction methods where necessary. It may be said that the success of the village housing programme depends to a great extent on the efficiency with which labour is organised for purposes of construction.

There is also a case for devising a suitable machinery in the villages to

mobilise the monetary savings of the people for the specific purpose of improved housing. At present there is very limited scope for such savings, but it is bound to increase as developmental schemes expand in the rural areas. The additional incomes obtained as a result of economic development are likely to be frittered away on articles of consumption which are not essential. A scheme to popularise savings for the specific purpose of improved housing is likely to find favour with the villagers as savings, in this case, leads to the acquisition of a definite asset. General schemes for the promotion of savings do not have an equal chance of success. What is required is a scheme under which very small sums are accepted as deposits and the amount thus collected is used for the repayment of loan instalments secured for housing purposes. The village panchayats should be entrusted with this work.

The provision of water supply, sanitation, lighting and other facilities is also part of housing development. The government and the panchayats

should assume responsibility in these matters. The scheme for the popularisation of sanitary latrines has made little progress in the rural areas. There is enough scope for people's contribution in labour in these fields too.

The disintegration of the old village society has already reached a critical stage. The old society is likely to collapse abruptly and throw the entire rural economy in disorder unless facilities for modern living are provided. The pull of the urban areas will soon become irresistible. Pulls and pushes would thus combine to dislocate the agricultural economy. This is a serious prospect for which the remedy lies in the energetic replanning of villages. The Planning Commission's working group on rural housing has thus done the right thing in recommending an expenditure of Rs 100 crores on rural housing during the Fourth Plan. An expenditure of this magnitude requires elaborate organisation and an efficient machinery. The lesson of the three Plans is that the more provision of finance does not ensure the construction of houses.

Unesco's Model to Predict Flood

FLOODS on the Mekong River can now be predicted 20 days in advance with a "more than reasonable degree of accuracy" by a mathematical model which has been developed for the United Nations Special Fund by UNESCO. This achievement was announced last month at UNESCO House in Paris following a recent meeting of participants in this mathematical model study of the Mekong Delta. It brought together representatives of the governments of South Vietnam and Cambodia, UNESCO and the Mekong Committee of the United Nations Economic Commission for Asia and the Far East.

On the basis of studies made of Mekong floods from 1961 to 1964 the model, it has been claimed, can now predict crests downstream from Penh, the capital of Cambodia, with an accuracy of 20 centimetres at 80 per cent of all measuring points. To be useful the model must predict not only flood levels but the speed at which the river will go up, which is vital information for rice-growers whose crop can be "drowned" by fast-rising waters. The model consists simply of three large reels of magnetic tape which are fed into a computer. One copy of the model will be confined to the Committee for the Co-ordination of Investigations of the Lower Mekong

Basin, consisting of Cambodia, Laos, Thailand and South Vietnam. Two more will be with Cambodia and South Vietnam and one with UNESCO.

The decision to study the behaviour of the Mekong in its delta by means of a mathematical model was taken in view of the almost insuperable problems that would have been posed by the usual physical model. The slope of the delta is so slight that such a model would have covered several acres in order to reflect it accurately. The primary purpose of the model is to provide data needed by engineers planning a dam on the Tonle Sap, a tributary of the Mekong 150 kilometres north of Pnem Penh. This dam, designed to provide both flood control and irrigation, is part of the development scheme for the Mekong Basin that is now being prepared with the co-operation of the United Nations and 24 countries. The proposed site of the Tonle Sap dam is at the head of Cambodia's Great Lake which measures 12,000 square kilometres when the Mekong is in flood. Once the Tonle Sap has been dammed, it is hoped to use the Great Lake to store excess water in the rainy season for irrigation during dry months. But even before construction starts on the dam, the mathematical model can serve a number of purposes.

AROUND BOMBAY MARKETS

Despondency Pervades Dalal Street

Wednesday, Morning

DALAL STREET has slipped back again to very near its year's low. As in the preceding week, last week's setback also was due primarily to lack of support. Turnover shrank further and most of the time activity was almost at a standstill. The entire week's business could have easily been transacted in a single two-hour session without making the market look very lively. Little wonder therefore that there is a feeling of utter frustration among the stock exchange community.

Apart from the Reserve Bank's warning about a possible tightening of credit curbs if commodity prices did not register even their normal seasonal decline and the tension in Calcutta owing to the agitation against the increase in tram fares, there was hardly anything in the week's news to add to the market's feeling of despondency.

The corporate news was, in fact fairly encouraging. But in its mood of frustration resulting mainly from the persisting lack of business, the market was more inclined to point towards bear factors wherever it could locate them. Shri J R D Tata's defence of the maintenance of TISCO's dividend in view of the large tax liability drew larger attention than the announcement of higher dividends by Machinery Manufacturers, Imperial Tobacco and Digvijay Woollens.

Several suggestions have been made from time to time to revive the capital market which is not merely shy but is virtually dead. But the Madras Industries Minister's suggestion that new enterprises could speed up the declaration of maiden dividends by foregoing their claims for the development rebate and some other tax relief sounds fantastic. Shri R Venkataraman is reported to have made that suggestion in his inaugural address to the quarterly meeting of the All India Manufacturers' Organisation. If dividends alone could encourage investors, then the investment market would not be in such a bad shape as it is today. Equity prices have been drifting lower despite good corporate news.

COTTON

Weather Good, Prices High

NEARLY all the cotton growing areas continue to report almost ideal weather conditions. But this has not had even the slightest impact on the market. Activity in futures re-

mains virtually at a standstill, with the August contract quoted only a little lower than the ceiling which is not the least surprising in view of the enormous premiums that cotton is commanding in the ready market. If the turnover in the spot cotton market continues to be restricted, it is not because the mills are already carrying large stocks of cotton, nor is it because mills have their financial resources strained by the accumulation of heavy stocks of both cloth and yarn. Turnover in ready is limited only by the availability of good quality cottons. There seems no dearth of buyers, the high prices notwithstanding, but quality cottons are scarce.

That the market sentiment should remain quite unaffected by the weather is an indication of the serious imbalance between demand and supply which is unlikely to be rectified unless there is a very appreciable increase in cotton production during the 1965-66 season. Who can say what the new crop will be like when everything is at the mercy of the the unpredictable weather. Cotton production is not only keeping far behind the Plan targets it is unable to keep pace even with the limited expansion in spindleage. The scarcity of cotton would have become far more acute had all the spindle capacity proposed in the Third Plan been created according to schedule.

Futures Trading

With futures trading in the August contract virtually at a standstill, the trade is eagerly awaiting the commencement of business in the new crop contract. The East India Cotton Association has convened a meeting of its members on August 13 to finalise the draft amendments to the by-laws for the 1965-66 season's hedge contract. In keeping with the Government of India's new cotton schedule, the EICA has suggested that Vidarbha/MP Virnar 27/32" should form the basis of the new season's hedge contract, tenderable up to 27/32" 'on' and 2/32" 'off', instead of Moglai fine 25/32". Of the present tenderable descriptions, M G Ankleshwar and M G Surti have been dispensed with and a new description MG Sanjaya (CJ 73) with staple of 26/32" has been added. The tenderable 'on' and 'off' staples and the staples of various descriptions will be in line with the Textile Commissioner's sche-

dule for 1965-66 season except in certain cases like Jaydhar B and Iaxmi B which will continue as at present, with basic staple 27/32" and Dholleras with 1/32" 'off' staple only. The present delivery months of March, May and August will continue. Similarly, there will be no change in the provisions regarding tendering differences and invoicing back cotton and there will be no ceiling within the ceiling. By-law 223 (v) is proposed to be amended to empower the Board to fix the unit for price quotation. Certain other amendments have also been proposed to by-laws relating to outstanding delivery contracts clarifying the position of buyers' and sellers' rights and obligations. Since there is very little to be said against the proposed amendments to the by-laws which have been necessitated primarily by the Government's decision on the basic variety, futures trading in the new season's contract can be expected to start before the end of the current month.

OILSEEDS

Prices Recede

OILSEEDS prices have suffered an all-round sizable setback from their previous week's highs — the highest for the season. Groundnut oil which had been bid up to Rs 31.50 (per 10 kgs) has come down to Rs 28.50; linseed oil has declined from Rs 28.25 to Rs 25.50 and castor oil has eased from Rs 19.50 to Rs 18.25. During the same period, spot prices of linseed, groundnut and castorseed have declined by Rs 6 to Rs 4 per quintal. The fall has been more pronounced in futures — new crop contracts — with linseed April down from Rs 116 to Rs 103.50 and castor April from Rs 93.25 to Rs 82.50 (per quintal). Cottonseed futures have continued to rule steady, with the January contract moving irregularly between Rs 57 and Rs 55.50.

In an unofficial note circulated "for favour of publication", the vanaspati manufacturers have claimed that groundnut oil prices have eased — from Rs 3,030 to Rs 2,950 a tonne — following their decision to abstain from purchases in the open market. But the decline has occurred only in the past two days whereas it was some three weeks ago that the vanaspati industry made known its decision not to buy groundnut oil in the open market at

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a price exceeding Rs 2,700 a tonne and the price of groundnut oil shot up from Rs 2,750 to Rs 3,150 after the industry's decision to observe the voluntary price ceiling. And that is not about all. In Saurashtra, groundnut oil was quoted very much lower when the industry fixed the ceiling of Rs 2,700. The voluntary price is to be remain in force until August 10 when the managing committee of the Vanaspati Manufacturers' Association will meet again in Bombay to review the position.

The vanaspati industry's decision to keep off the market has contributed only a little to the recent decline in groundnut oil prices. While technical considerations alone could have produced a sizeable setback—no market even keeps rising without occasional setbacks—the recent all-round recession in oilseeds reflects largely the turn in market psychology following very favourable weather conditions in almost all the groundnut producing areas. Up-country has been reported as a persistent seller in linseed and castor futures, particularly in linseed. Stockist who had been sitting tight on the unhappy chance that the weather might not oblige are now beginning to feel uneasy as the weather has continued to be very satisfactory. For the first time, near the week-end, market men reported some anxious selling in groundnut oil by stockists. Business put through was not large but prices fell because of the preponderance of sellers. It is too premature to make any assessment of groundnut crop prospects, let alone castor and linseed crops which have yet to be sown. Too much should not be made of the recent setback in oilseeds prices as prices had been pushed to very high levels. The price trend in coming weeks is likely to be moulded mainly by the weather news because it is the weather which holds the real key to production.

On the export front, only cottonseed cake is doing well as the business is quite remunerative, thanks to the incentive scheme. Export business in groundnut extraction has been affected by the Government's new policy under which only the manufacturers will be allowed to conduct export business from October. Exporters who are not having any extraction plants of their own are in no mood to enter into forward commitments normal for this time of the year. Groundnut extraction prices have eased by about Rs 15 per tonne over the past few days due to poor overseas inquiries.

Money and Banking

Thursday, Morning

CONDITIONS in the Bombay short-term money market during the week to August 5 displayed a slightly tightening trend. The easiness prevailing in the previous weeks seemed to be coming to an end as rates of interest moved slowly upwards. Demand for funds showed a small increase as funds were withdrawn for investment in treasury bills. The rate of interest as on Thursday morning was $4\frac{1}{2}$ per cent against 4 per cent last week.

Scheduled bank deposits during the week to July 23 showed an increase of Rs 26.37 crores to Rs 2777.85 crores, according to the latest scheduled bank returns. Total credit, declined by Rs 28.06 crores to Rs 2034.61 crores. Cash in hand was lower as well at Rs 69.65 crores against Rs 72.66 crores during the previous week. Balances with the Reserve Bank increased by Rs 9.69 crores to Rs 112.14 crores. Borrowing from the Reserve Bank at Rs 15.65 crores showed a decline of Rs 10.74 crores. Investment in government securities was substantially higher at Rs 811.95 crores against Rs 764.88 crores during the previous week. Loans and advances showed a decline of Rs 24.79 crores

at Rs 792.34 crores. During the week there was a slight decline in the amount of inland bill purchased and discounted by Rs 4.37 crores at Rs 162.04 crores. Foreign bills purchased and discounted showed a small increase of Rs 1.08 crores at Rs 80.23 crores. Money at call and short notice declined by Rs 37 lakhs at Rs 64.51 crores.

Notes in circulation during the week to July 30 were substantially lower at Rs 2573.42 crores against Rs 2607.31 crores in the previous week, according to the latest Statement of Affairs of the Reserve Bank. Deposits of the Central Government were higher by Rs 31.44 crores at Rs 119.45 crores. State Government deposits were better as well by Rs 47 lakhs at Rs 17.04 crores. Deposits of the scheduled banks were, however, lower at Rs 99.51 crores by Rs 9.29 crores. Foreign securities with the Reserve Bank were unchanged at Rs 68.35 crores while balances held abroad were slightly higher by Rs 18 lakhs at Rs 7.42 crores. Advance to governments were lower by Rs 5.52 crores at Rs 56.01 crores. Advances to scheduled banks were lower as well at Rs 9.49 crores against Rs 15.51 crores during the previous week. Investments moved up again during this week by Rs 14.93 crores at Rs 326.23 crores.

BUSINESS NOTES

Tata Steel

J R D TATA, Chairman, Tata Iron and Steel Company, has urged rethinking about the planning of steel expansion in the Fourth and Fifth Plans on the basis of a rigorous assessment of the relative priorities to be attached to steel and other products in short supply. He has questioned the wisdom of planning to spend over Rs 1,000 crores during the next Plan on raising steel producing capacity to about 16.5 million tonnes with the intention of achieving self-sufficiency and creating an exportable surplus. In a country where shortages and imbalances afflict the economy, is it reasonable, Tata asks, to give a higher priority to steel for non-essential purposes than to fertilisers, road transport, electric power, education, medical care and other purposes in all of which there will be persisting shortages even after the Fourth Plan. In his statement circulated with the company's report for the year to March last, Tata says that the steel industry is the most capital intensive of all engineering industries and one which

provides about the lowest employment potential. For every rupee spent in creating new steel capacity, we create products worth only half a rupee every year, whereas the ratio is at least 1:1 in industries manufacturing products made of iron and steel, and their employment potential is many times higher. As regards exports, steel-making capacity exceeds demand in most steel producing countries and exports from India can be made only at a heavy loss.

Tata states that, when in 1959 the steel industry was consulted by the Planning Commission in regard to the Third Plan targets he had questioned the need for placing so much emphasis and allocating such a large proportion of resources for the development of the basic steel industry. He had then pointed out that in other countries the ratio of steel consumed to the total production of manufactured goods was much lower than that planned for our country and that while it was essential to meet in full the needs of manufacturing industries

5½ per cent State Government Loans, 1977

STATE	AMOUNT (IN CRORES OF RS)	ISSUE PRICE PER CENT Rs
1. Andhra Pradesh	9	99.50
2. Assam	3	99.00
3. Bihar	4	99.00
4. Gujarat	7	100.00
5. Kerala	4	99.00
6. Madhya Pradesh	5	99.00
7. Madras	14	99.50
8. Maharashtra	15	100.00
9. Mysore	5	99.00
10. Orissa	8	99.00
11. Punjab	5	99.00
12. Rajasthan	5	99.00
13. Uttar Pradesh	10	99.50
14. West Bengal	7	99.50

All loans will open for subscription on Monday, 23rd August 1965 and close on Saturday, 28th August 1965 or earlier without notice as soon as subscriptions approximate to the amount of each issue. All the State Governments reserve their right to retain subscriptions upto ten per cent in excess of the notified amounts.

The loans will be redeemable at par after 12 years i.e. 23rd August 1977 and interest will be paid half-yearly on 23rd February and 23rd August each year.

Subscriptions may be in the form of CASH/CHEQUE.

Applications for *all the loans* will be received at the offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Madras, Nagpur and New Delhi, the State Bank of India, Patna and the State Bank of Hyderabad, Hyderabad.

Applications will also be received *at other places within the respective States* as follows:—

- Branches of the Subsidiary Banks of the State Bank of India conducting Government treasury work.
- Branches of the State Bank of India at places where there are no branches of its Subsidiary Banks conducting Government treasury work.
- Treasuries and Sub-treasuries (except in the States of Assam and West Bengal) at places not served by the aforesaid branches.

Copies of the Notifications and Application Forms may be obtained from the Receiving Offices concerned.

Those tendering applications at the offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Madras, Nagpur and New Delhi will, in the event of oversubscription to the loan applied for, be given the option of transferring their cash refunds to any of the State Government loans which may still be open for subscription. To avail themselves of this facility, the applicants should complete the "Special Option Form" (copies of which can be obtained at any of the foregoing offices of the Reserve Bank of India) and tender the form along with their applications.

consuming steel, particularly of costly special steels, there was no justification for committing so much scarce resources in money and foreign exchange to ensure complete self-sufficiency in steels used for non-essential purposes. He had also pointed out that it was wasteful to invest vast sums in steel capacity without making sure of a simultaneous expansion of raw materials, transport, power, technical and managerial skills, without which the new capacity would remain idle or take an unduly long time to reach full utilisation. But his views were not accepted by the authorities concerned.

Recently, the Government has asked the company to consider a further expansion of about two million ingot tonnes in the Fourth Plan period. The doubling once again of the capacity of the Jamshedpur plant poses technical, financial and other problems of tremendous magnitude and complexity, the solution of which is fraught with many uncertainties. The company will obtain from a firm of independent consulting engineers a preliminary project report or feasibility study on which will be based future consideration of the project. The whole project, if it fructifies, will depend on the financial support and approval of the World Bank. At the moment, however, the picture is somewhat nebulous, and it is not expected that the company will be in a position to place concrete proposals before the shareholders for another year.

Indian Iron

A RETROGRADE step has been taken in according Indian Standards Specification to certain steels of definitely inferior quality, according to Sir Biren Mookerjee, Chairman of Indian Iron and Steel Company. In his annual statement issued to the company's shareholders, Sir Biren says that in the place of the former "Tested" steel we now have steel of "Standard Quality" and of "Fusion Welding Quality" governed by prescribed and adequate specifications but "Untested" steel is now replaced by "Ordinary" (or, as it is popularly designated, "Commercial") quality steel to two differing specifications and by "Off-grade Quality" steel, to which, being the dregs of production, no specification could conceivably be assigned. It is entirely fallacious to imagine that because of its lower price of Rs 45 per tonne, the use of "Commercial St 32-0 Quality" steel leads to economy in the cost of structures. This steel must on no

account be used in structures for carrying dynamic live loads. If used for other structures in disregard of the usage intended according to its specification, then heavier sections must be utilised because of its lesser strength. Taking this consideration into account, the use of Commercial St 32-0 Quality steel leads to excessive consumption of steel, varying between 14½ per cent to 25 per cent, and the total cost of steel is actually from 8½ per cent to 19 per cent higher.

Sir Biren has also pointed out the grave risks attendant upon any mixing of Commercial or off-grade quality steel with Standard Quality steel, for, he says, if any of the former steel were to be used on structures bearing dynamic live loads, or if the differing characteristics of the Commercial and Standard qualities were to remain uncompensated—even in respect of one member only of a Structure—then the effect could well be disastrous. Appreciating that perfection of production in the industry can never be achieved and that there must always be a certain quantity of Commercial and Off-grade quality of steel to be disposed of, Sir Biren has stressed that the consumer should be safeguarded against the possibility of the mixing of Commercial and Off-grade quality steel with steel of Standard Quality. In order to minimise this possibility only the producers whose reputations are involved and who have the organisation and facilities for the strictest possible supervision, should be permitted to stock all qualities of steel for sale to the consumer. As regards other stockists, he has suggested that these should be divided into two separate and distinct categories: one handling Standard Quality, Fusion Welding Quality and Commercial (St 44-0) Quality steel only and the other Commercial (St 32-0) Quality steel and Off-grade steel alone. Sir Biren feels that the present practice of allowing any stockist to stock and sell steel of all qualities is fraught with the gravest dangers.

In regard to the company's working during the year to March last, Sir Biren says that as a consequence of some untoward events production of steel ingots fell to 949,887 tonnes, lower than the previous year's level. Among these, the major misfortune was a mishap to No. 3 blast furnace resulting from the sudden fracturing

of the heavy-duty alloy steel rod from which is suspended a large sealing bell weighing some 15 tonnes. The bell dropped inside the furnace and the furnace could be put back on blast only after about ten days, and it took furnace to normality. Besides, the poor and violently fluctuating quality of the supplies of coal and limestone rendered operations exceptionally difficult.

Mukand Iron

THE trading results of Mukand Iron and Steel Works for the year to March 31 last are more or less the same as in the previous year, with gross profit a shade lower at Rs 92.09 lakhs compared to Rs 92.26 lakhs. With small savings in each of the necessary provisions, however, the net profit for disposal is about Rs 2 lakhs higher than the previous year.

Provision for depreciation has absorbed Rs 20.65 lakhs (Rs 21.46 lakhs), that for taxation Rs 38 lakhs (Rs 38.50 lakhs) and that for development rebate reserve Rs 1.20 lakhs (Rs 2.55 lakhs). No amount has been set aside for bad and doubtful debts which received Rs 0.05 lakhs last year. After making these provisions, the balance profit amounting to Rs 32.29 lakhs (Rs 30.44 lakhs) is allocated to general reserve from which the dividend, when recommended, will be paid. Last year, the company paid at the rate of Rs 1.20 per fully paid ordinary share, Rs 0.24 per partly paid share and Rs 37.24 per deferred share, which together absorbed Rs 17.75 lakhs.

Machinery Manufacturers

MACHINERY Manufacturers Corporation has had another good year. According to a preliminary statement for the year to March 1965, sales expanded from Rs 2.54 crores to Rs 2.89 crores and gross profit improved from Rs 65.18 lakhs to Rs 75.64 lakhs. Of this, depreciation has taken up Rs 14.15 lakhs (Rs 13.34 lakhs), taxation Rs 35.50 lakhs (Rs 31 lakhs) and development rebate reserve Rs 1.90 lakhs (Rs 2.12 lakhs). After setting aside Rs 2.19 lakhs (same) for payment of preference dividends, equity earnings stand at Rs 21.90 lakhs to compare with the previous year's Rs 16.53 lakhs. The recommended equity dividend is unchanged at 15 per cent plus an extra 2.5 per cent by way of bonus, covered 4.16 times against 3.66 times in the previous year. At first glance this distribution looks ungenerous in view of good earnings cover, but the directors have made it clear that additional

5½ Per Cent Maharashtra State Development Loan, 1977

ISSUE PRICE AT PAR

OPEN ON MONDAY, THE 23rd AUGUST 1965

The loan will be closed as soon as the total amount of Rs 15 crores has been subscribed and in any case not later than the close of business on the 28th August 1965.

The applications for the loan will be received at:—

- (A) the offices of the Reserve Bank of India, Bangalore, Bombay (Fort & Byculla), Calcutta, Madras, Nagpur and New Delhi,
- (B) the branch of the State Bank of India at Patna,
- (C) the branch of the State Bank of Hyderabad at Hyderabad,
- (D) the branches of the State Bank of Hyderabad conducting Government treasury work within the State of Maharashtra,
- (E) the branches of the State Bank of India within the State of Maharashtra except at Bombay and Nagpur and at places covered by item (d).
- (F) the Government treasuries and Sub-treasuries in the State of Maharashtra at places not covered by items (d) and (e).

Full particulars can be obtained at any of the offices mentioned above.

KSS/3-8-65.

finance is required for further expansion.

Approval has been secured for the manufacture of the crosrol-varga high production device in collaboration with Carding Specialists of the U K and high production draw frames in collaboration with Whitin International of the U S. The company expects to get the necessary loan from I F C.

Gwalior Rayon

DURING the year to March last Gwalior Rayon's staple fibre production rose by 2.5 million kgs to 32.18 million kgs, but unsold stock at the year-end increased by five million kgs to 13.4 million kgs due partly to unconsumed stocks of imported staple fibers with the spinning mills and partly to unremunerative prices of staple yarn. The offtake of fibre, however, has improved considerably, following reduction in excise duty from March last and particularly after the draw back of 50 paper kg allowed from June 19 to manufacturers of cotton staple fibre blended yarn. The pulp division produced during the year 16,418 tons of paper pulp and 25,770 tons of rayon grade pulp. Since February last, the production of paper pulp has been stopped. The factory has achieved a production of 125 tons of rayon grade pulp per day which would enable the Nagda plant to run at full capacity without any imported pulp.

With a view to eventually overcoming the shortage of bamboos, the company has acquired 30,000 acres of land in Nilambur in Kerala State for growing eucalyptus plantation. An enquiry has been received by it from a foreign firm for supply of technical know-how for manufacturing rayon grade pulp from bamboos. The weaving division has taken up a phased programme of modernising and expanding its plant and machinery. The staple fibre factory has also taken in hand modernisation and expansion of its machinery and equipment. A loan of Rs 28 lakhs has been secured from I C I C I for the import of some balancing equipment for improving further the quality of rayon grade pulp.

According to a preliminary statement, gross sales during 1964-65 advanced over Rs 6 crores to Rs 22.32 crores but gross profit could improve by only Rs 34.33 lakhs to Rs 4.54 crores, reflecting severe pressure on margins due to rising costs. After providing Rs 1.51 crores (Rs 1.63 crores)

for depreciation, Rs 1.48 crores (Rs 1.24 crores) for taxation, Rs 15.72 lakhs (Rs 7.98 lakhs) for development rebate reserve and Rs 13 lakhs (same) for payment of preferential dividends, equity earnings amount to Rs 1.26 crores (Rs 1.11 crores) of which the dividend raised by 25 paise for the second time in succession, to Rs three per share requires Rs 75 lakhs against Rs 68.75 lakhs a year ago.

Indian Dyestuff

AFTER paying 7 per cent for each of the preceding three years, Indian Dyestuff is raising dividend by two per cent for the year to March 1965. The proposed distribution is payable fully on the capital as increased by one-for-fourteen rights issue. A preliminary statement from the company shows rise in net sales (after deducting excise duty paid) from Rs 2.20 crores to Rs 3.09 crores followed by a relatively faster advance in gross profits from Rs 42.73 lakhs to Rs 72.58 lakhs. Of this, depreciation charge has taken up a higher amount of Rs 45.27 lakhs against Rs 32.76 lakhs provided in the previous year. It may, however, be pointed out that the method of calculating depreciation charge has been changed; provision on the basis of the former method would have required a much bigger sum of Rs 1.21 crores. As before, there is no tax charge. Also, no provision has been made for development rebate reserve which absorbed Rs 9.97 lakhs last year. Together with the previous year's arrears, the total arrears of development rebate amount to Rs 45.31 lakhs.

After writing back Rs 4.87 lakhs and setting aside Rs 2.81 lakhs for payment of preference dividend, there remains for disposal a sum of Rs 29.37 lakhs (loss of Rs 2.81 lakhs). The enhanced equity dividend distribution demands Rs 20.20 lakhs (Rs 14.63 lakhs), and Rs 9 lakhs are being allocated to general reserve. Last year, Rs 10.83 lakhs were transferred back from general reserve and Rs 6.59 lakhs from development rebate reserve to pay the dividends.

Indian Organic

THE erection of the inorganic acetate plant of Indian Organic Chemicals has been recently completed, and the trial runs have proved successful. The chlorination plant is nearing completion and is expected to be commissioned shortly. The erection of the ester plant was completed in October 1964, and the manufacture of

ethyl acetate commenced soon thereafter. The production of butyl acetate, being dependent on the import of butanol, could be started only in May last.

During the year to March last, sales of carboys showed sizable improvement over those of the previous year, and the production of acetic acid glacial improved from 56 per cent to 83 per cent of the rated capacity due to the improved supplies of alcohol, though prices realised were not satisfactory owing to heavy competition. The company's total turnover expanded from Rs 39.77 lakhs to Rs 48.01 lakhs on which was earned a profit of Rs 5.69 lakhs, against a loss of Rs 5.52 lakhs incurred in the previous year, after providing Rs 9.75 lakhs (Rs 12.27 lakhs) for depreciation and Rs 0.80 lakh (Rs 7.60 lakhs) for development rebate reserve, and transferring Rs 2.67 lakhs (nil) to capital account. After writing off Rs 18,898 as preliminary expenses, a deficit of Rs 3.27 lakhs is carried to the balance sheet. The dividend is again skipped.

Ruby General

HIGHER net premium income from all the three departments and a substantially bigger profit from the Miscellaneous insurance revenue account are the key features of Ruby General Insurance Company's operations during the year to December 1964. The company has earned a higher profit of Rs 32.49 lakhs compared to Rs 28.56 lakhs a year before, after writing off Rs 5.39 lakhs (nil) in respect of its business in Burma. After setting aside Rs 18.50 lakhs (Rs 14.70 lakhs) for the tax liability, Rs 7.50 lakhs (same) have been transferred to general reserve, and Rs 6.50 lakhs (Rs 5.36 lakhs) to dividend reserve from which the proposed dividend of Rs 1.50 a share requiring 6 lakhs is to be disbursed.

The general insurance business was nationalised in Burma in February 1964, but the company has so far not been able to transfer from that country the surplus funds relating to the year 1961 and onwards. The directors say that in the present situation there is no certainty of remittance of surplus funds from that country. The company's application for the issue of bonus shares out of the share premium account was rejected by the Controller of Capital Issues on the ground that the subscribed capital of Rs one crores was not fully paid-up. The management is still pursuing the matter with the Government.

FROM THE CHAIR

The Indian Iron and Steel Company Limited

Statement by the Chairman, Sir Biren Mookerjee

THE following statement by Sir Biren Mookerjee, Chairman of the Indian & Steel Co Ltd dealing with Company's working for the year ended 31st March, 1965, has been issued to shareholders. The Annual General Meeting of the Company will be held on Friday, the 3rd September, 1965, at 3 p.m. at the Registered Office of the Company, 12, Mission Row, Calcutta-1:

I would at the outset pay tribute to the memory of the late Mr Thomas Leslie Martin who died in Calcutta on the 6th June 1965. Mr Martin was a Director of your Company from 1930 to 1958 and during the major part of this period was Chairman of the Board. The Company owes much to his wise counsel and capable guidance both as a Director and through its Managing Agents, in which latter capacity his valued advice remained available to the Company after his retirement from its Board until the date of his death. His loss is keenly felt.

Operations

Following upon the achievement for two years in succession of a production of steel approximating to the rated capacity of the plant, I had stated last year that, barring untoward events, it was hoped that this position would be maintained. Unfortunately, in the year under review untoward events did, in fact, occur and as a consequence the production of steel ingots fell to 949,887 tonnes, representing a reduction of 76,899 tonnes from the production of the previous year. These events are briefly narrated in your Directors Report but it will, I think, be of interest if I explain the position in somewhat fuller detail.

The major misfortune was the loss of output occasioned by a mishap to No 3 Blast Furnace that occurred on the 26th June 1964. The mishap was of an unusual type which has never before happened in India and which, in fact, has been of the rarest occurrence in the history of blast furnace operation elsewhere. The insertion of a charge into a blast furnace is made from the top and it is naturally necessary that the furnace shall remain sealed throughout the process of charging. This is effected by means of the alternate operation of two Sealing Bells within the furnace: a small one above and a larger one below. The large Bell is suspended from and operated by means of a heavy-duty alloy steel Rod and the mishap that occurred was the sudden fracturing of this Rod, with the result that the large Bell, weighing some fifteen tonnes, dropped inside the furnace. The accident would have been less serious had the furnace been fully charged at the time, but unfortunately it occurred shortly after the furnace had been tapped and, as a result, the bell fell a considerable distance and lodged in an inaccessible position inside. After a study of all factors it was decided not to take the furnace out of production, which would have meant a long and difficult process of removal of the solidified residue within and the sacrifice of the remaining life of the lining, but rather to replace the large Bell and Rod assembly and get the furnace back into operation again with all possible speed.

The task of replacing the Bell was accomplished in an expeditious and efficient manner and the furnace was put back on blast on the 5th July 1964. The difficulties and hazards of restarting a blast furnace after a long and premature emergency shut-down are well known, and this occasion was no exception. It was only after many disappointing and at times heart-breaking experiences that the furnace was successfully restored to normality on the 8th August 1964, the loss of iron production occasioned by the occurrence amounting to approximately 60,000 tonnes.

The poor and violently fluctuating quality of the supplies of

coal and limestone rendered operations throughout the year exceptionally difficult. Fluctuation in quality is of itself no new problem, but in the matter of average quality it had been thought previously that as regards coal the position could not conceivably deteriorate further from that of the previous year, when the average ash content of the coal supplies reached the appallingly high figure of 18.76%. In the event, quality did, in fact, still further deteriorate and in the year under review the average ash content of our coal amounted to no less than 19.55%. The resultant increase in the ash content of the coke charged to the blast furnaces led to still greater difficulties of operation and was inevitably reflected in an increased volume of slag, with consequent marked reduction in the output of iron from the furnaces.

In this matter of coal we are to a large extent helpless, since the position resolves itself essentially into a question either of accepting the allotments made by the Coal Controller or of going without. In saying this I imply no criticism whatsoever of this official, who is discharging a most difficult task in an able and efficient manner; the fundamental cause of the trouble is, of course, the deterioration in quality of the output of so many mines, as the presently worked seams of metallurgical coal are gradually becoming exhausted. Nevertheless it is somewhat galling, in the circumstances, to find ourselves in the position of having in certain cases to pay a price based on former quality, while receiving a coal of presently definitely inferior grade.

Many years ago we had, as we thought, protected our coal position by the entering into of long-term contracts with selected collieries, an arrangement designed to ensure to us over a considerable period a basic quantity of first grade coking coal. With the assumption by Government of control over coal distribution, these contracts were, however, rendered inoperative and we became thereafter dependent upon such supplies as might be allotted to us. At a later stage, plans were made by Government for the setting up of various Coal Washery Plants, including one at Pathardih, which latter plant, we were given to understand, would in due course cover the supply to us of reasonable quantities of good quality washed coal. Considerable delay was, however, incurred in the completion of the Pathardih Plant and, with operational difficulties subsequently intervening, it has not proved possible yet to obtain any supplies from this source—the future position being also uncertain in view of the increasing requirements of washed coal by the steel plants in the Public Sector.

It is apparent, therefore, that any long-term relief is to be looked for only in the building up of production from the Company's own colliery properties and the vast Collieries Development Project on which we are now fully launched is being pressed forward with the utmost possible expedition. The completion of this Project will render us practically independent of outside sources and will ensure regular supplies of consistently good quality coking coal with great consequential benefit in the operational efficiency of our blast furnaces.

Kulti Foundries

The total production of castings for the year under review was again governed largely by the availability of pig iron and, at 213,399 tonnes, remained below the capacity of the foundries. In addition to meeting the requirements of the Burnpur Works in this respect ingot moulds and bottom plates were produced for the other steel companies, as also ladles for hot metal and slag. Manufacture of rolls for the 18" Rolling Mill at Burnpur continued satisfactorily

THE ECONOMIC WEEKLY

and the possibility of enlargement of the scope of roll manufacture is presently under examination. In regard to covering the non-ferrous castings requirements of Burnpur, good progress has been made and we are, to an ever-increasing extent, approaching self-sufficiency.

From the technical aspect, the year was interesting as establishing our ability satisfactorily to undertake a range of castings, both of steel and of iron, of a more difficult and intricate nature than previously indigenously produced and in the development by us of a new type of sand stowing pipe; whilst research was continued towards the meeting to a wider degree of the specialised castings requirements of the country's chemical industries.

The Former "Tested" and "Untested" Steel

To my mind a retrograde step has been taken by the according of Indian Standards Specification to certain steel of definitely inferior quality. Gone are the old terms of "Tested" and "Untested" steel. In the place of "Tested" steel we now have steel of "Standard Quality" and of "Fusion Welding Quality" governed by prescribed and adequate specifications. To this there can, of course, be no objection, save only from those who find difficulty in changing their terminology. "Untested Steel", however, is now replaced by "Ordinary"

nary" (or as it is popularly designated "Commercial") quality steel to two differing specifications and by "Off-grade Quality" steel, to which, being the dregs of production, no specification could conceivably be assigned.

It has always been my creed that the aim of the producer should be an output entirely composed of "Tested" steel. This, of course, in actual practice must remain an ideal even in the best of circumstances, and with the quality of the raw materials presently available and the conditions under which operations are, perforce, now being carried on, is still further impossible of achievement. Nevertheless, once a Works is allowed to relax its striving towards perfection and to substitute quantity instead of quality of production as the criterion, a position is established which, in my opinion, is detrimental to the best interests of the country and one from which it may be a matter of the very greatest difficulty ever to recover. I deprecate, therefore, anything tending to invest poor quality production with a specification status capable of obscuring the fact that it remains poor quality.

In the comparative chart appended, I have had set out the various grades of steel, their characteristics, price differentials and suitability for usage purposes according to their relative specifications. The first point I would stress is that it is entirely fallacious to

COMPARISON OF COMMERCIAL & STANDARD QUALITY STEEL

COMPARISON OF COMMERCIAL & STANDARD QUALITY STEELS																																
SPECIFICATION REFERENCE	DESCRIPTION	GRADE	TENSILE STRENGTH Kg./mm ²	YIELD STRESS Kg./mm ² (MINIMUM)	ELONGATION % (MINIMUM)	CHEMICAL COMPOSITION (MAXIMUM)			USE IN																		BASE PRICE Rs. / TONNE					
						CARBON %	SULPHUR %	PHOSPHORUS %	WAGONS & CARRIAGES	ROAD & RAILWAY BRIDGES	FOOT OVERHEAD BRIDGES	FACTORY BUILDINGS WITH CRANES	FACTORY BUILDINGS WITHOUT CRANES	CRANES	DAM GATES	HYDRAULIC STRUCTURES	OFFICE BUILDINGS	RESIDENTIAL BUILDINGS	TRANSMISSION TOWERS	TRANSMISSION TOWERS UNIMPORTANT MEMBERS	EARTHQUAKE RESISTANT STRUCTURES	STRUCTURES DESIGNED ON PLASTIC THEORY	REINFORCEMENT BARS	WELDED STRUCTURES	PENSTOCKS, PIPE LINES	DOORS & WINDOWS		GATES, GRILLS, ETC.	UNIMPORTANT MEMBERS NON-LOAD BEARING			
IS 226-62	STANDARD QUALITY (PREVIOUSLY KNOWN AS TESTED STEEL) WILL BEAR DYNAMIC LIVE LOAD	St 42-S	42-54	23-26	23	0.25	0.06	0.06	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	NO	NO	YES	YES	YES	PLATES : Rs. 822/-SAY "X" Sections : Rs. 738/-SAY "Y"				
IS 2062-62	FUSION WELDING QUALITY (PREVIOUSLY KNOWN AS TESTED STEEL) WILL BEAR DYNAMIC LIVE LOAD	St 42-W	42-54	23-26	23	0.22	0.06	0.06	← CAN ALSO BE USED →												YES	YES	← CAN ALSO BE USED →		PLATES : X + Rs. 93.50 Sections : Y + Rs. 79.82							
IS 1977-62	COMMERCIAL OR ORDINARY QUALITY (PREVIOUSLY KNOWN AS UNTESTED STEEL) WILL NOT BEAR DYNAMIC LIVE LOAD	St 44-O St 32-O	44-54 32-44	26 —	23 26	NOT SPECIFIED	0.07 0.07	0.07 0.07	NO	NO	YES	NO	YES	NO	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO	NO	YES	YES	YES	PLATES : X Rs. 10/- Sections : Y Rs. 10/- PLATES : X Rs. 45/- Sections : Y Rs. 45/-			
	OFF-GRADE QUALITY (ALSO PREVIOUSLY KNOWN AS UNTESTED STEEL) UNSUITABLE EXCEPT FOR UNIMPORTANT NON-LOAD BEARING MEMBERS ONLY					← NOT SPECIFIED →												NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	PLATES : X Rs. 55/- Sections : Y Rs. 55/-

COMPARISON OF COMMERCIAL QUALITY STEEL St 32-O (PREVIOUSLY UNTESTED) WITH STANDARD QUALITY STEEL St 42-S (PREVIOUSLY TESTED), IGNORING SPECIFICATION LIMITATIONS.

SECTIONS IN COMMERCIAL QUALITY St 32-O		EQUIVALENT SECTIONS IN STANDARD QUALITY St 42-S		PERCENTAGE SAVING DUE TO USE OF STANDARD QUALITY STEEL St 42-S	
				ON WEIGHT	ON COST OF STEEL
ISMB 600x210 @ 122.6 Kg/m	I	ISMB 550x190 @ 103.7 Kg/m	I	15 1/2 %	10 %
ISMB 300x140 @ 44.2 Kg/m	I	ISMB 250x125 @ 37.3 Kg/m	I	15 1/2 %	9 1/2 %
ISMC 280x80 @ 30.4 Kg/m	]	ISMC 225x80 @ 25.9 Kg/m	]	14 1/2 %	8 1/2 %
ISA 150x150x16	]	ISA 150x150x12	]	24 %	19 %
PLATE 1500x18	—	PLATE 1500x14	—	22 %	17 1/2 %
PLAT 200x20	—	FLAT 150x20	—	25 %	19 %
ROUND 25	●	ROUND 22	●	22 1/2 %	17 1/2 %

NOTE:—
EQUIVALENT SECTIONS ARE BASED ON SECTION MODULI FOR JOISTS & CHANNELS AND ON AREAS FOR OTHERS.

imagine that because of its lower price of Rs 45 per tonne, the use of "Commercial St 32.0 Quality" Steel leads to economy in the cost of Structures. It will be seen that this steel must on no account be used in structures for carrying dynamic live loads and I will assume that no one would knowingly use it for such purpose. It used for other Structures in disregard of the usage intended according to its specification, then heavier sections than those of Standard Quality Steel must be utilised because of its lesser strength. The chart will indicate that, taking this consideration into account, the use of Commercial St 32.0 Quality Steel leads to excessive consumption of steel, varying between 14½% to 25%, and that far from there being any monetary saving the total cost of the steel is actually from 8½% to 19% higher according to the section in question.

The grave risks attendant upon any mixing of Commercial or Off-grade Quality Steel with Standard Quality Steel will also be appreciated, for if any of the former steel were to be used on Structures bearing dynamic live loads, or if the differing characteristics between the Commercial and Standard qualities were to remain uncompensated—even in respect of one member only of a Structure—then the effect could well be disastrous.

Since perfection of production in the industry can never be achieved, there must always be a certain quantity of Commercial and Off-grade Quality of steel to be disposed of and I am concerned that the Consumer should be safeguarded to the maximum practicable extent against the possibility of the mixing—whether advertent or inadvertent—of Commercial and Off-grade Quality Steel with steel of Standard Quality.

While the Consumer cannot always be protected against himself, I would recommend that the fullest publicity be given to the grave risks attendant upon the use of steel of a quality or of uncompensated characteristics inadequate for each particular work. In order to minimise the possibility of mixing of different categories, I would strongly recommend that only the producers themselves, whose reputations are involved and who in the greatest measure have the organisation and facilities for the strictest possible supervision, should be permitted to stock all qualities of steel for sale to the Consumer. As regards other stockists, I would urge that these should be divided into two separate and distinct categories: one handling Standard Quality, Fusion Welding Quality and Commercial (St 44.0) Quality steel only and the other Commercial (St. 32.0) Quality steel and Off-grade steel alone. The present practice of allowing any stockist to stock and sell steel of all qualities is, to my mind, fraught with the gravest dangers.

Collieries Development Project

Having regard to the vital importance to the Company of the Collieries Development Project in the circumstances I have earlier explained, it will doubtless be of interest if I supplement to some extent the Report of the Directors regarding the progress of the development work.

The Project embraces the three coal-bearing properties of the Company, comprising the virgin area at Chasnalla together with the existing mines at Noonodih-Jitpur, some 5½ miles from Chasnalla, and Ramnagore, adjoining the Kulti Works. The programme for Ramnagore covers primarily the sand stowing and de-pillaring of the workings and that for Noonodih-Jitpur sand stowing of existing workings and the deepening of the mines to tap new and lower seams of coal, the principal objective of the Project being the large scale opening up of the Chasnalla area. Noonodih-Jitpur will be connected by ropeway to Chasnalla and from Chasnalla, where the coal preparation plant is sited, another ropeway over 33 miles in length will connect with the Burnpur Works.

Work on the No 3 Shaft at Jitpur has already reached a depth of over 800 ft from the original level of 250 ft and is now in hand on the Noonodih Shaft. Of the three shafts at Chasnalla, the main

17 ft diameter West Mine Up-cast Shaft has reached a depth of 215 ft against an ultimate depth of 1750 ft, while the shaft-head collars at the West Mine Downcast Shaft and the East Mine Shaft have been constructed and the foundations for the permanent head towers for all three shafts substantially completed. The main coal preparation plant building, which will ultimately be about 76 ft high, is taking shape—with some of the concrete columns already 18 ft above ground-level. The main Ropeway Coal Bunker structure is now virtually finished and foundations for other structures are in varying stages, that for the 2000-ton Coal Blending Bunker being well advanced. The road system is fully adequate, with about 95 per cent of the programmed heavy-duty roads and 85 per cent of the lighter roads already in regular use.

As regards electric power, all the temporary sub-stations, together with three of the permanent sub-stations, are completed and now in use in full cover of constructional requirements and work on the permanent overhead power lines is well advanced. Adequate water services have been installed for construction and residential purposes. Well over 500 workers quarters have been completed and the staff colony accords with requirements and includes also a small inspection bungalow, two hostels and a club. The over-all planning includes park areas and recreational grounds for the enjoyment of all staff and workers, and many trees have been planted, the creation of the best possible surroundings and climatic conditions in a self-contained working area such as Chasnalla being, to my mind, matters of very great importance in any industrial development planning.

Stock Accumulations

Reference has been made in the Report by your Directors to difficulties encountered in the despatch of finished steel from the Works. Due to Railway traffic restrictions and regional shortages from time to time of special types of wagons, there is a tendency in all the steelworks towards a gradual build-up over the course of a working year of a backlog of despatches requiring to be cleared—the position being capable of accentuation by a tendency also for the tempo of production to increase somewhat towards the end of the operational year. With the operational years of all the steel plants of the country at present coinciding, a concerted demand for additional transport for despatch of finished steel in a natural desire to minimise the volume of closing stocks can, accordingly, then develop which is quite beyond the ability of the Railways to meet.

Whatever the reasons, however, whether transportational, operational, psychological or a combination of all three, the resultant practical position of a year-end accumulation of stocks does, I suggest, call for recognition and is one, perhaps, that might well be worthy of consideration in determining the working years of coming new entrants into the field of the steel industry of the country. So long as steel remains in short supply, it is obviously very desirable that the full output of all the plants should be available to the consumers within the shortest possible period of its production; this naturally requiring avoidance of duplication of any factors that could tend towards an additional accumulation at any one time of stocks awaiting despatch.

Acknowledgments

In conclusion I would express, on behalf of the Board of Directors, our appreciation of the services rendered by the General Manager, Mr. McCracken, his executive heads and the entire staff and workers of the Company under the very difficult operational conditions with which they have had to contend throughout the year.

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

The Tata Iron and Steel Company Limited

Statement by the Chairman, Mr J R D Tata

THE following statement by Mr J R D Tata, Chairman of the Tata Iron and Steel Company Limited, dealing with the company's working for the year ended March 31, 1965, has been issued to the shareholders. The Annual General Meeting of the Company will be held on Thursday, August 26, 1965 at 4-30 pm at the Birla Matushri Sabhagar, 19, Marine Lines, Bombay 1.

To the Members

I am aware that rumours in the Stock Exchange had led some shareholders to expect a higher dividend than last year. I am sure that on reading the Directors' Report and studying the annexed accounts, shareholders will have realised that the Stock Exchange expectations were unjustified and based on incorrect estimates of the disposable profits.

2 Although good progress was made by your Company during the year under review and the turnover and operating profits were appreciable larger than last year, higher depreciation, higher taxation and an exceptional provision for interest in respect of the Special Advance of Rs 10 crores from Government, absorbed substantially more than the excess profit made over the previous year. In the net result the amount available for appropriations was over Rs 3 crores less than last year and there were therefore no grounds on which the Directors could have justified a higher dividend.

3. As some shareholders may question the need for appropriating Rs 3 crores to deferred taxation in addition to the Rs 2.70 crores provided last year, I may remind them that the sole purpose of this reserve is to insulate shareholders from the burden of additional taxation which will become progressively heavier in the coming years as a result of the growing gap which will arise from 1966 onwards between the depreciation allowed by the Income Tax authorities on the written down value basis adopted by them and the larger amount provided in our accounts on the straight line method adopted by us. We calculate, that during the next few years we shall have to pay about Rs 11 crores more in taxes than would be

payable if such taxes were based only on the profits shown in our annual profit and loss accounts for those years. As against the Rs 11 crores required, we have provided upto now only Rs 5.70 crores including this year's allocation of Rs 3 crores.

4 As stated in the Directors' Report, out of the sum of Rs 1.75 crores for interest on the Special Advance provided in the accounts before you, Rs 49 lakhs represent the interest payable in respect of the year 1964-65, and the balance for the period 1961-62 to 1963-64. As at the date of this report the exact terms of repayment of the Special Advance and interest thereon have not been finalised with Government. But as a settlement is now likely in the very near future and as it will include interest from at least 1st April 1961, your Directors have considered it necessary to provide for interest upto and including the year ending 31st March 1965.

Expansion

5 In my statement last year, I mentioned the possibility of a further large scale expansion of the Jamshedpur plant being included in the Fourth Five-Year Plan. In response to Government's request, we submitted tentative proposals for a million tonne expansion to be rolled into flat products. Subsequently however Government felt that the excess capacity built into a Strip Mill of the width contemplated would make the capital cost per tonne of our project unduly high and that it might therefore be postponed to a time when it could be undertaken to its full ultimate capacity of about two million tonnes. At that stage, therefore, it seemed probable that a further expansion at Jamshedpur would be postponed to the Fifth Five-Year Plan.

6 Recently, however, as the planning of the steel targets in the Fourth Five-Year Plan advanced to its final stages, the Planning Commission and the Steel Ministry seem to have come to the conclusion that it would be necessary to undertake the expansion of the two Private Sector plants during the Fourth Plan period in addition to that of the three existing Government plants and the creation of two new steel plants in the Public Sector. As a consequence of this, we have recently

been asked by Government to consider an expansion of about Two Million ingot tonnes in the Fourth Plan period although full production would not be achieved until the Fifth Plan period.

7 A project for doubling once again the capacity of the Jamshedpur plant obviously poses technical, financial and other problems of tremendous magnitude and complexity, the solution of which is still fraught with many uncertainties.

8 Notwithstanding the magnitude of the commitments that would be involved in such an undertaking, your Directors tentatively took the view that, provided the problem of finance could be solved on a basis which would ensure the continued financial stability of the Company and the maintenance of existing dividends on the present capital and offer prospects of a fair reward to shareholders, and provided further that all requirements of raw materials, rail transport and power could be assured, the Company should not reject such an opportunity of bringing the plant up to its ultimate maximum capacity and efficiency and of serving the needs of the country.

9 A further expansion upto a total capacity of 3.8 million tonnes to 4 million tonnes of ingot steel per annum, based on the installation of new plant and equipment of the most modern and productive kind and permitting the shutting down of old and obsolete units, would ensure to the Company a degree of efficiency, productivity and earning power which would obviously be of the greatest long term advantage to shareholders.

10 We have, therefore, in recent discussions informed Government that provided the scheme can be made viable financially, technically and economically and subject to the approval of the shareholders whose concurrence in regard to the large additional borrowings would, in any case, be required under the law, the Company would be prepared to consider such an expansion programme.

11 I must make it clear that discussions with Government upto now have been entirely on an informal basis without any firm commitment on either side. The only decision made and

commitment undertaken, with the approval of the Government of India, is to obtain from a firm of independent consulting engineers a preliminary project report or feasibility study on which will be based future consideration of the project. The whole project, if it fructifies, will depend on the financial support and approval of the World Bank who also will want to satisfy themselves in regard to its viability, availability of rupee finance, market demand and other factors. Shareholders will therefore appreciate that the picture is still somewhat nebulous and that many months must pass before firm conclusions can be reached. In any case, I do not expect that we shall be in a position to place concrete proposals before the shareholders for another year.

12 While on the subject of steel expansion in the Fourth Plan, and irrespective of whether the expansion of our own plant is ultimately included in it, I should like once again to sound a note of caution, however unpopular I know it to be in some circles. In 1959, when the steel industry was consulted by the Planning Commission in regard to the Third Plan targets, I questioned the need, in the context of our over-all economic development, for placing so much emphasis on, and allocating such a large proportion of our resources to, the development of the basic steel industry. I pointed out at the time that in other countries the ratio of steel consumed to the total production of manufactured goods was much lower than planned for our country; that while it was essential to meet in full the needs of manufacturing industries consuming steel, and particularly costly special steels, there was no justification for committing so much of our scarce resources in money and foreign exchange to ensure complete self-sufficiency in steels used for non-essential purposes; that it was wasteful to invest vast sums in steel capacity without making sure of a simultaneous expansion of raw materials, transport, power, technical and managerial skills, without which partly the new capacity would remain idle or take an unduly long time to reach full utilisation. I therefore advocated a curtailment of the steel targets. My views were not accepted.

13 As it turned out, the expansion of steel capacity undertaken in the Third Plan period suffered greatly for a time from delays, shortages and deficiencies in raw materials and trans-

port, and the bulk of the special steels required by steel processing industries had to be imported. Right now, ten years after beginning the manufacture of commercial vehicles, a company like Telco has still to import almost every kilo of special steel incorporated in its products, and today, because of the foreign exchange crisis, those imports have been curtailed and Telco, along with many other industries depending on imported raw materials, is compelled to curtail production. While, admittedly, a large expansion of the special steel industry is now included in the Fourth Plan, shortages in these essential materials will continue to prevail for many years to come and the country will continue to suffer heavy loss in the unnecessary expenditure of foreign exchange on the one hand, and recurring set-backs in production on the other.

14 In regard to ordinary carbon steels, the belief apparently continues to prevail that serious consequences would follow from the slightest gap between supply and demand for ordinary steels, and we are planning to spend over Rs 1,000 crores during the next Plan period on raising steel making capacity to about 16½ million tonnes. In fact, production in excess of domestic demand is proposed with the intention of exporting the surplus. With great respect, this does not make sound economic sense to me.

15 The steel industry is the most capital intensive of all engineering industries and the one which provides for about the lowest employment potential. For every rupee we spend in creating new steel capacity, we create products worth only half a rupee per year, whereas the ratio is at least 1:1 in more advanced industries manufacturing products made of iron and steel, while their employment potential is many times higher. As regards exports, there is already a large excess steel making capacity in most steel producing countries and exports from India can only be made at a heavy loss.

16 Such heavy sacrifices on achieving total self-sufficiency or even a surplus in ordinary steels would be worthwhile if they were essential to our industrial and general economic growth, as special steels in fact are, but all steel is not consumed for essential purposes. In a developing country like ours where shortages and imbalances prevail throughout our economy and will continue for many years, is it reasonable

to give a higher priority to steel for non-essential purposes than to fertilisers, road transport, electric power, education, medical care and other purposes in all of which there will be persisting shortages even after the Fourth Plan? Surely our efforts and sadly limited resources should first be concentrated on essential needs and not on projects likely to perpetuate and aggravate existing imbalances.

17 While there is still time, I would most earnestly urge some rethinking in the planning of steel expansion in the Fourth and Fifth Plan periods based on a rigorous assessment of the relative essentiality of demand as between steel and other products in short supply. I have no doubt in my own mind that a postponement of a part of the Fourth Plan expansion to a later Plan and a resulting saving of the order of Rs 200 crores, half of it in foreign exchange, could be achieved without any adverse effect whatever on the rate of our economic growth. Such rethinking should apply not only to steel but to other projects. The same objective could be attained by making the Fourth Plan a Seven Year instead of a Five Year one with the minimum of expenditure incurred in the first two years. This would not only release the pressure on resources but also give time for consolidation and the full digestion of previous projects.

18. In closing, I should like, on behalf of the Board and the shareholders, to thank all our staff and workers at Jamshedpur and elsewhere for their good work during the year which contributed so materially to the improved operating results.

J R D TATA
Chairman

Bombay, July, 23rd 1965.

Request to Readers

AS there is a demand from new subscribers for the following back issues of *The Economic Weekly*, it will be much appreciated if readers kindly mail back these copies to the Business Manager, The Economic Weekly, Co-operative Insurance Building, Sir P. M. Road, Bombay-1: 7, 8, 14 and 20 dated January 2, 9, Volume XVII-Nos: 1, 2, 3, 4 to 6, 16, Annual Number, February 20, 27, April 3 and May 15, 1965. The copies will be paid for.

CURRENT STATISTICS

Progress of Education in India

I—Primary				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Number of schools	2,09,671	2,78,135	3,30,399	4,00,000
Enrolment in classes I to V (in '000)	1,91,54	2,51,67	3,49,94	5,10,00
Enrolment in classes I-V as percentage of population in age-group 6-10	43.1	50.1	62.4	77.8
Expenditure (Rs lakhs)	36,48.43	53,72.72	73,44.61	1,12,00.00
Teachers				
Total Number	5,37,918	6,91,249	7,41,515	10,50,000
Percentage of trained teachers	58.8	61.2	64.1	70.0
Average annual salary per teacher (Rs)	544.5	651.5	872.8	960.0
Pupil-teacher ratio	94	33	36	38
Cost per pupil per annum (Rs)	19.9	23.4	27.6	28.0

II—Middle School				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Number of schools	13,596	21,730	49,663	78,000
Enrolment in classes VI-VIII (in '000s)	3,330	4,293	6,705	10,800
Enrolment in classes VI-VIII as percentage of population in age-group 11-13	13.7	15.9	22.5	31.7
Expenditure (Rs lakhs)	7,69.90	15,40.50	42,92.20	65,50.00
Teachers				
Total Number	85,496	1,48,394	3,45,288	5,20,000
Percentage of trained teachers	53.3	58.5	66.5	70.0
Average annual salary per teacher	682.4	880.4	1,057.3	1,121.1
Pupil-teacher ratio	24	26	31	31
Cost per pupil per annum (Rs)	37.1	40.4	40.5	40.9

III—High/Higher Secondary School				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Number of schools	7,288	10,838	17,257	27,000
Enrolment in school classes IX and above (in '000s)	1,220	1,878	2,887	5,200
Enrolment in classes IX and above as percentage of population in age-group 14-16	5.4	7.6	10.6	16.8

	1950-51	1955-56	1960-61	1965-66 (Estimated)
Expenditure (Rs lakhs)	23,04.50	37,61.44	68,91.17	1,08,00.00
Teachers				
Total number	1,26,504	1,89,794	2,96,305	4,40,000
Percentage of trained teachers	53.8	59.7	64.1	70.0
Average annual salary per teacher (Rs)	1,258.3	1,426.6	1,681.0	1,791.8
Pupil-teacher ratio	25	25	25	25
Cost per pupil per annum (Rs)	72.9	79.8	91.7	98.2

IV—Schools for Vocational and Technical Education				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Total no of schools for vocational and technical education	2,339	3,074	4,145	5,500
Enrolment in vocational and technical courses ('000s)	191	280	425	650
Total expenditure (Rs lakhs)	3,69.43	5,45.08	11,40.92	23,00.00
Cost per pupil per annum (Rs)	219.4	236.7	315.0	400
Teacher Training Schools (included in the above)				
No of schools for teacher training	782	930	1,138	1,300
Total enrolment in teacher training classes*	70,063	90,914	1,22,682	1,60,000
Total expenditure on schools for teacher training (Rs lakhs)	1,52.29	1,97.57	3,48.11	6,40.00

* Includes enrolment in attached classes to other schools.

V—Colleges for Arts and Science				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Number of colleges	498	712	1,039	1,500
Enrolment in arts & science colleges	3,10,123	5,22,530	6,91,632	10,00,000
Expenditure (Rs lakhs)	7,17.14	11,64.74	20,91.53	30,00.00
Total number of teachers	15,312	23,812	35,555	50,000
Average annual salary per teacher (Rs)	2,696.1	3,069.9	3,658.9	4,000.0
Pupil-teacher ratio	20	22	19	20
Cost per pupil per annum (Rs)	231.2	222.9	302.4	300.0

VI--Colleges for Professional Education				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
Total number of professional colleges	208	346	852	1,200
Total enrolment in Professional colleges (in '000s)	54	94	194	3,00
Total expenditure on professional colleges (Rs lakhs)	4,21.93	7,00.08	15,80.41	32,00.00
Teacher Training Colleges (included in the above)				
Total number of colleges	53	107	478	250
Total enrolment in teacher training classes*	5,781	14,280	46,770	30,000
Total expenditure (Rs lakhs)	35.47	65.66	2,15.14	2,40.00
Cost per pupil per annum	331.8	583.0	424.1	800.0
* Includes enrolment in Teacher Training Classes attached to other institutions.				

VII--Universities, Boards and Research Institutions				
Item	1950-51	1955-56	1960-61	1965-66 (Estimated)
A Universities				
No of universities	27	32	45	66
No of university teaching departments	237	305	479	690
Enrolment in university teaching departments	31,321	49,476	73,381	1,00,000
Teachers Expenditure (Rs lakhs)	3,085	3,497	5,589	8,500
	4,90.53	7,18.05	14,13.89	25,00.00
B Boards of Intermediate/secondary Education				
Number	7	11	13	15
Expenditure (Rs lakhs)	53.38	1,32.40	2,41.33	4,00.00
C Research Institutions				
Number	18	34	41	50
Expenditure (Rs lakhs)	62.56	139.04	2,69.86	6,00.00

VIII—Expenditure on Education, by Objective

(Rs crores)

Objects	1950-51		1955-56		1960-61		1965-66 Estimated	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Direct Expenditure								
Pre-primary schools	0.12	0.1	0.25	0.1	0.59	0.2	1.00	0.2
Primary schools	36.48	31.9	53.73	28.3	73.45	21.3	112.00	20.4
Middle schools	7.70	6.7	15.41	8.1	42.92	12.5	65.50	11.9
High higher secondary schools	23.05	20.1	37.61	19.8	68.91	20.0	108.00	19.6
Schools for vocational and technical education	3.69	3.2	5.45	2.8	11.41	3.3	23.00	4.2
Universities, research institutes and boards	6.06	5.3	10.69	5.7	19.25	5.6	35.00	6.4
Colleges for arts and science	7.17	6.3	11.65	6.1	20.92	6.1	30.00	5.4
Colleges for professional education	4.22	3.7	7.00	3.6	15.80	4.6	32.00	5.8
Schools and colleges for special education	2.56	2.2	3.02	1.6	4.11	1.2	5.50	1.0
Total direct expenditure	91.05	79.6	144.81	76.4	257.36	74.7	412.00	74.9
Indirect Expenditure								
Direction and inspection	2.74	2.4	4.00	2.1	7.01	2.0	10.45	1.9
Buildings	9.93	8.7	19.64	10.4	42.82	12.4	61.05	11.1
Scholarships, stipends and other financial concessions	3.45	3.0	8.22	4.3	20.02	5.8	38.50	7.0
Hostel charges	1.83	1.6	2.66	1.4	4.31	1.3	8.75	1.6
Miscellaneous	5.39	4.7	10.34	5.5	12.86	3.7	19.25	3.5
Total indirect expenditure	23.33	20.4	44.85	23.6	87.02	25.3	138.00	25.1
Grand Total	114.38	100.0	189.66	100.0	344.38	100.0	550.00	100.0

IX—Expenditure on Education, by Source

(Rs crores)

Source	1950-51		1955-56		1960-61		1965-66 (Estimated)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Central Government	3.52	3.1	12.15	6.4	29.58	8.6	40.00	7.3
State Governments	61.74	54.0	105.06	55.4	204.51	59.4	360.00	65.5
District Boards	7.86	6.9	9.90	5.2	11.83	3.4	91.00	2.9
Municipal Boards	4.64	4.0	6.46	3.4	10.66	3.1	20.00	3.6
Fees	23.33	20.4	37.90	20.0	59.03	17.1	80.00	14.5
Endowment and other sources	13.29	11.6	18.20	9.6	28.77	8.4	34.00	6.2
Total	114.38	100.0	189.66	100.0	344.38	100.0	550.00	100.0



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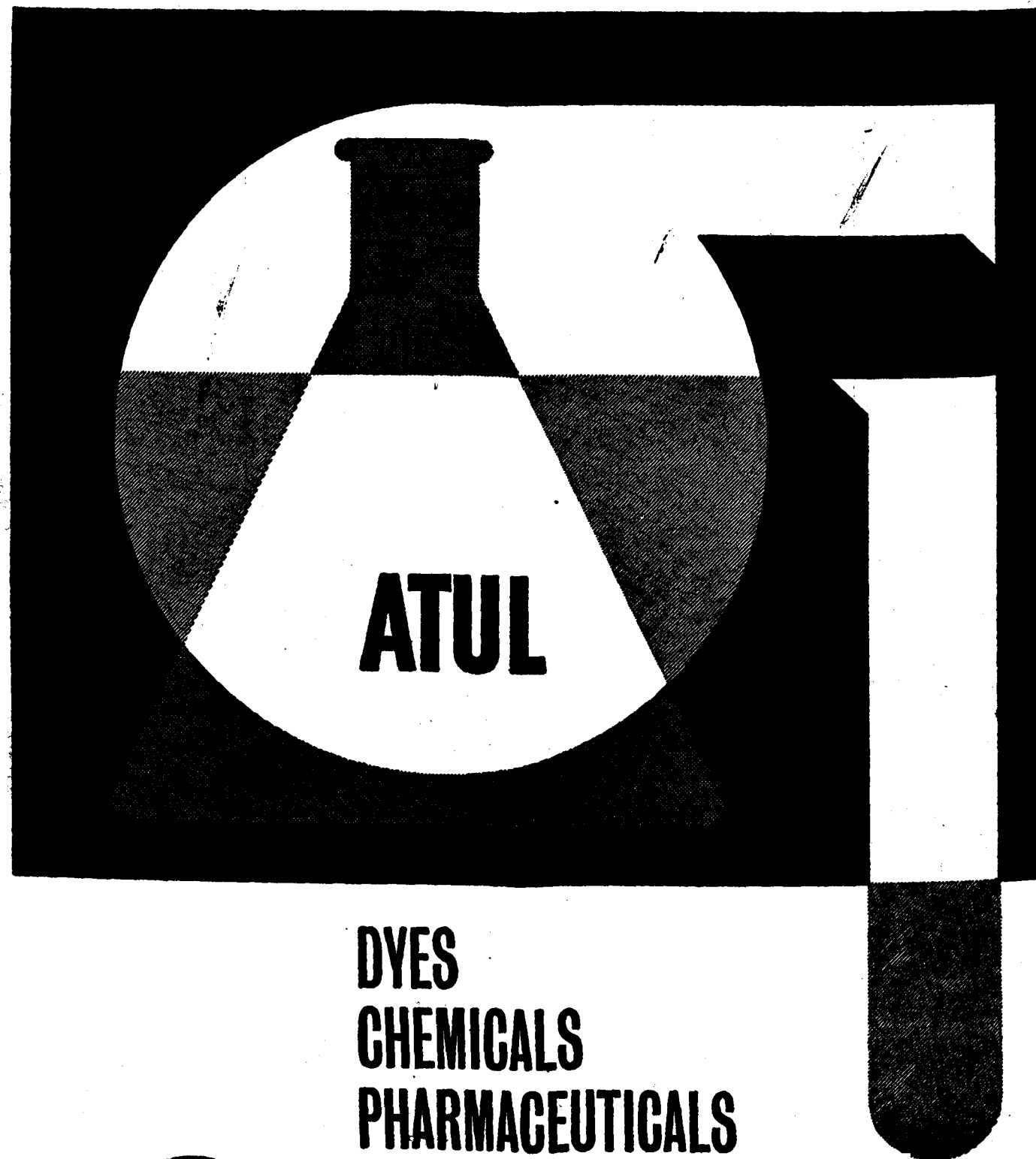
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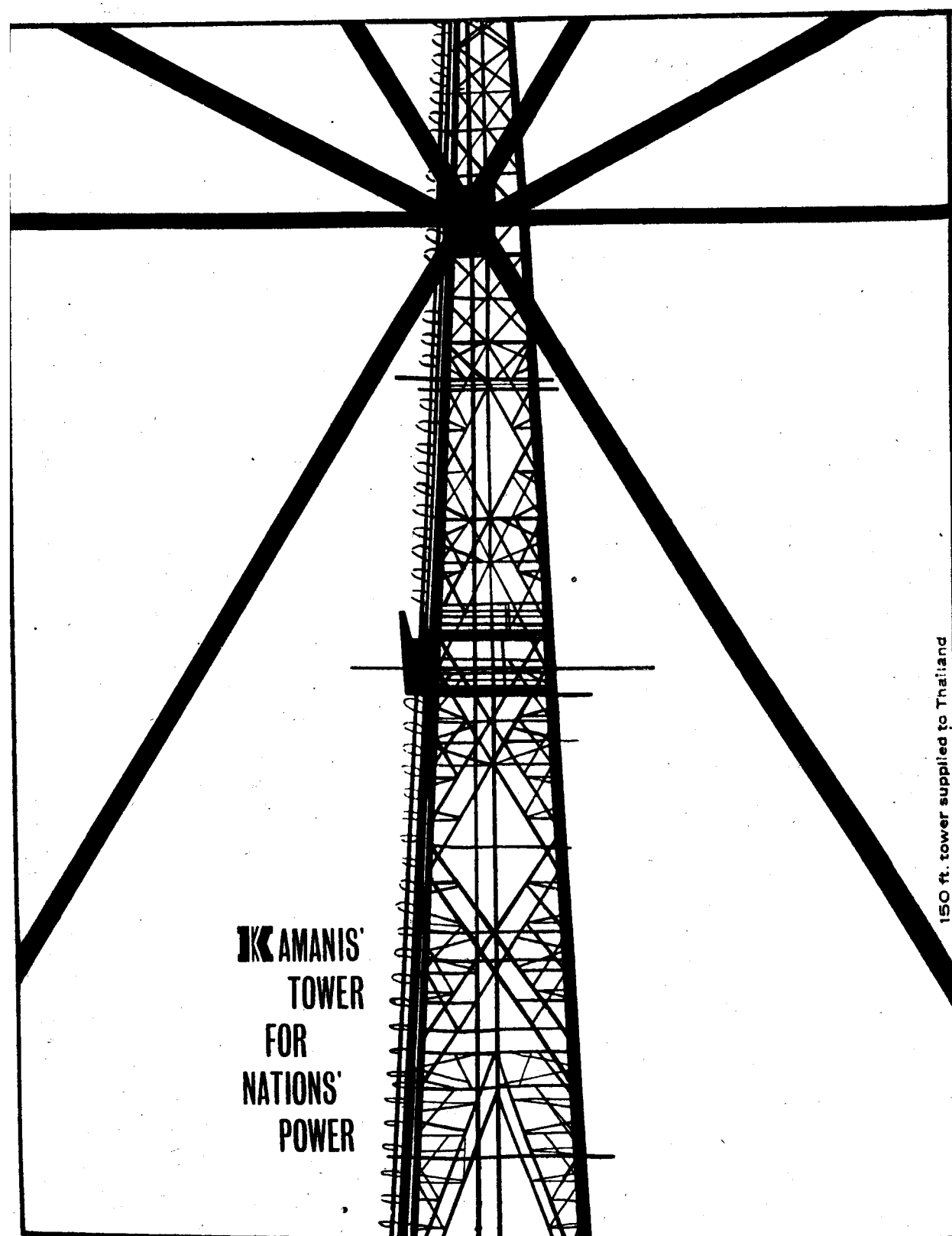
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THE ECONOMIC WEEKLY

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EDITORIALS	
U S and S-E Asia	1253
Shadow Fight over Plan	1254
WEEKLY NOTES	
Tunku Breaks Malaysia —	
And Now, Foreign Colla-	
boration in Air Services?—	
The MIG Story Over Again	
—Disorders and Response—	
Obote's Visit — Excise Duty	
Rebate	1255
LETTER TO EDITOR	
Food Zones	
— S K Nath	1255
CAPITAL VIEW	
Obscurantists on the Move	
— Romesh Thapar	1257
FROM THE LONDON END	
The £ above Everything	1258
LETTER FROM AMERICA	
Johnsonism, at Home and	
Abroad	
—Philip G Altbach	1260
BOOK REVIEWS	
Vietnam and China	
— Subhash Chandra Sarker	1261
Case-Pleading History	
— Ashok V Desai	1263
SPECIAL ARTICLES	
Planned Balanced Growth vs	
Plan Holiday	
— S K Nath	1265
Foreign Capital Requirements	
in India's Perspective Planning	
— Arjun Sengupta	1267
The Agricultural Price Com-	
mission: What It Has Done	
and What It Could Have	
— Rustic	1277
AROUND BOMBAY MARKETS	
Dalal Street at New Low	1279
BUSINESS NOTES	
Larsen and Toubro — Tata's	
New Thermal Unit — Dig-	
vijaya Woollen — Polychem	
— Simplex Mill — NOSIL—	
Amul Dairy	1281
FROM THE CHAIR	
Indian Sugar Mills Asso-	
ciation	1283
CURRENT STATISTICS	1285

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U S and S-E Asia

MALAYSIA has come apart. The end came suddenly and abruptly, and the orgy of mutual recriminations in which the Malayan and Singapore politicians are indulging this week would suggest that President Soekarno's instinct was correct. It was a marriage of convenience, but, obviously, the dislike of communism and neo-communism cannot unilaterally provide the conditions for a lasting union. The end may not have come as a direct consequence of President Soekarno's 'Crush Malaysia' campaign, it could be that the internal contradictions were proving too much for Malaysia, but the point still holds. Where the rest of the objective factors are all arrayed against fusion, the mere presence of hatred of communism is not enough. Anti-communism is not and cannot be a philosophy of living, nor can it take on the role of a catalyser of elements which are otherwise immersed in deep animosities towards each other.

This is a lesson which should be brought home to others, and particularly to the United States Government. Given the American obduracy, where does one go in Vietnam from here? The terms which the National Liberation Front and the Hanoi regime had spelled out to the Ghana delegation for restoring peace are clearly not yet reconcilable with the American notion of 'honour'. The Foreign Minister of Ghana was given short shrift in Washington: President Johnson detained him for barely twenty minutes. The Americans know that the war is continuing remorselessly against them. The ejection of the local population from the Danang base has proved conclusively, if any proof was still required, that the Americans can trust hardly anybody in Vietnam; but even this removal has not saved the base from mauling. The Americans are now, truly and wholly, an army of occupation holding on by force to a few cities and ports and bases, just as much as Nazis who took over Norway in 1940 were. The availability of one or two quislings does not alter this truth. In this sense, the Vietnam has undergone a radical transformation in recent weeks. The so-called government in Saigon has ceased to be of relevance. Whether it is a still grimmer confrontation in the fields and valley and hills or a negotiation across the table on conditions for peace, the parties will now have to be the National Liberation Front and the United States Government.

Once this proposition is accepted, it also follows that the Americans are in Vietnam as aggressors, usurpers and imposters. The world is not guided by either the morality or the metaphysics as adumbrated by the American administration, and concepts of what are democracy, popular will, rule of law, etc, cannot just be handed down by the United States. The Americans may continue to claim that they are fighting the battle of democracy and anti-totalitarianism is South Vietnam. But since the local population does not want to have any part of this fight, they simply have no business to be there any more, whatever may be the earlier set of factors under which they went in. Morality is not the monopoly of the Americans, and millions of people all over the world are feeling a moral urge to condemn the barbarities which President Johnson's regime is perpetrating in Vietnam.

The President of the United States has gone on record that the war in Vietnam has been transformed into a war for the salvaging of American honour. We in this part of the world, despite the fact that many amongst us are obligated to the Americans for economic assistance, cannot be too bothered about their honour in this instance. It is not on the advice of Asians and Africans that the United States launched its aggressive adventure in Vietnam. It was very much a unilateral decision on their part, and in the escalation that they have assiduously brought about over the last twelve months they did not have the support, either overt or tacit, of any of the Afro-Asian nations. Even in Europe, the one government which has chosen to declare all-out support to the American cause is that of Great Britain. But Britain under the great 'socialist', Harold Wilson, is a sadly burnt-out case: she has sacrificed moral conscience in order to salvage her balance of payments. Elsewhere it is only the two Conservative governments of Australia and New Zealand who are with the Americans, and one can raise a query

August 14, 1965

about the proportion of the total world population these two countries represent.

On the Vietnam issue, therefore, the Americans are isolated as they never have been in recent years. The pointed statement by the Japanese Prime Minister should be the final eye opener. The US administration would be wrong to conclude from this demonstration of virulent dissent that there is no gratitude left anywhere in the world. It is the Americans themselves who are sadly out of touch with the reality of sentiments elsewhere in the world, and it could well be suggested that it is cussedness on their part to brush aside large segments of Asian, African and European opinion and to continue with their depredation. What is going on in Vietnam, culminating in the use of even such things as ordinary cigarette lighters for burning down villages and fields and settlements, is mad and criminal. Even on their own arguments, the United States cannot justify the present phase of their involvement. The question of American honour apart, the other reason preferred for the US administration's decision to dig in Vietnam is their acceptance of the so-called 'domino theory', namely that, once South Vietnam falls to the communists, the rest of the South Asian countries, including Thailand and Malaysia, will also collapse. But the Dominican Republic and Haiti did not disappear when Cuba crossed over to communism. And if the rest of South Asia did not abdicate when Ho Chi Minh took over in Hanoi, it is difficult to see why the catastrophe will take place now just because Vietnam will come under a unified administration. Malaysia has collapsed this week, but her coming to grief has nothing to do with the 'domino theory'.

It is a sad reflection that the Americans have yet to learn some of the more elementary lessons of political reality. What happened in East Europe in the wake of the march of the Red Army was an aberration. Communism does not spread primarily through subversion. It is the state of the objective factors within a country which determines the possibilities for the advance of communism. In Asia, India has survived and so too have Pakistan, Ceylon and Burma. If Indonesia is moving towards communism, it is again on account of the set of conditions obtaining within. The reason why in South Vietnam the Viet Cong are able to

helped by massive infiltration from the North, but simply that the domestic conditions made it ripe for a wholesale internal uprising against the corrupt regime foisted on the population by

THE ECONOMIC WEEKLY

the Americans. For all one knows, if John Foster Dulles had been somewhat more perspicacious in 1954, things today would have been very much different in Vietnam.

Shadow Fight over Plan

TO all intents and purposes the battle for the Plan is over. And it has been won by the upholders of the big plan. The size of the Plan has been finally set at Rs 21,500 crores — the lower-limit of the Memorandum figure (though, naturally, nobody bothers much about the prices at which the figure is measured). A gap of Rs 3,000 crores between the resources position estimated by the Ministry of Finance and the target is to be filled up by additional taxation and to some extent through pricing policy. Another gap of Rs 650 crores is proposed to be made good by, to quote a report, "economy in the administration, more efficient running of public sector enterprises and additional savings from the economy, including taxation". What is most consoling and reassuring, the news report continues, "there were no discordant voices" at the meeting of the Planning Commission that took the decision which will be placed before the National Development Council in the first week of September for final ratification. There is going to be no 'pause' in planning, no 'plan holiday', no 'consolidation for one year', no staggering of the Plan over seven years. The planners have triumphed.

We used the expression the battle for the Plan. We know who have won: the upholders of a big plan, which now includes the Prime Minister and the Finance Minister as well as the Deputy Chairman of the Planning Commission. Who have lost then? Was there really anybody wanting a smaller plan? Were there really any differences? Did not Asoka Mehta deny after the meeting that there had been any differences between himself and the Finance Minister and did he not quote the latter as saying "If there are two people in Delhi who share common objectives and approaches, it is Mr Mehta and I". Were we deluded last week when we talked about there being "a conspiracy in the air of scuttling the plan and frustrating the fifteen years of development effort?" Do we not find in this week's air, a conspiracy — an open one — for saving the plan at any

It does not, however, take too penetrating an eye to discern in the resolution arrived at this week the needs of later dissolution, to detect in the summing up of Shastri, described by Asoka Mehta as "luminous and full of clarity and confidence" the shine of polished, impeccable make-believe. The net outcome of the deliberations and loud thinking in last two weeks may not be summed up by the slogan "the plan at any cost, without aid if need be" but another one, uttered as it were by a tight-lipped leader of a conspiratorial group: "The show must go on — until the zero hour".

For there is a conspiracy, may be a deeper one than what we imagined last week. The consensus for halting the plan so rapidly gaining ground among the top leaders and then, equally quickly, a consensus to save it, speak of a deep strategy underlying superficial changes in tactics. As a matter of fact, the existence of such a strategy, of a tacit understanding among the top leaders about finally discarding the plans, should have occurred to those who watched the way the Fourth Plan was being prepared and discussed. One could not possibly have failed to notice the air of unreality and make believe that surrounded it; the very cool and unperturbed manner in which the Planning Commission went on setting targets for the Fourth Plan and elaborating a perspective plan to take the country to the "take off stage", oblivious of the difficulties encountered by the Third Plan. Apparently the admission of failure in the Mid-Term Appraisal of the Third Plan, worked out by one division of the Planning Commission did not have any effect at all on those working in some other division, engaged in elaborating the Perspective Plan. The latter is indeed a logically coherent piece of work — more so in fact than any one of the earlier three plans. But the curious thing is that while a great deal of care has been taken to ensure that the Fourth Plan is properly integrated with the Fifth Plan, there is no attempt whatsoever to develop the Fourth Plan as one following out of

the Third Plan. Is it any wonder then that as it draws near, it looks threateningly more and more suspended in the air, still seeking a lodgment and a home, or a firm base in reality?

The Perspective Plan starts off with certain assumed positions for the end-year attainments of the Third Plan. To the extent that other divisions in the Commission changed any one of these figures, the Perspective Plan also incorporated them, without changing any other figure anywhere: in other words, the underlying crucial ratios and proportions were implicitly, if not explicitly, changed just to suit the needs! This way of linking the Third Plan with the Fourth Plan is, of course, merely of the nature of arithmetic manipulation. Nowhere has the Perspective Plan or the Fourth Plan as a part of it undergone any modification in matters of policy, strategy or approach, based on any diagnosis of the difficulties that attended upon the Third Plan.

This incredible indifference to and callous disregard of the economic aspects of the problem rather than the statistical ones continues to mark all thinking on planning even to the

last meeting of the Planning Commission. Shastriji had insisted that the Fourth Plan should give priority to agriculture: but what does this mean considering that the Fourth Plan Memorandum was drawn up with agricultural growth at 5 per cent per year as its first objective? Again, another instance of the lack of seriousness of purpose of the Planning Commission is its reported finding on the two one-year plans it has prepared for the next year, one as a part of the Fourth Plan according to the Memorandum proposals, another according to the proposals made by Shastri for an annual plan for agriculture with only such industrial projects as have already been started, viz that both these call for the same outlay, Rs 2,200 crores! Now the Memorandum proposals could not have visualised a first year plan which would leave unfinished projects high and dry. So how is it possible for both the plans to have the same outlay? If under the Shastri-variant a much higher allocation is to be given to agriculture, the question arises: is such a high allocation called for by balanced growth? If not, what is the

justification for it? If yes, then how could the Memorandum suggest a smaller allocation?

Critical analysis of the above type of the various details of decision-making by the Planning Commission leads to the unavoidable conclusion that ever since the middle of the Third Plan, leaders in the country have lost faith in planning, partly because of the difficulties of implementing the plans, and partly because planning of this type is no longer of much use to the vested business interests and is no more favoured by the aid-giving countries. A large consensus must have been reached among the politicians — as could be seen from the change of line of even Nanda. The administration has been left to carry on to prepare a Fourth Plan and a Perspective Plan which nobody seriously wanted to implement. Hence the unreality of the discussions on the Fourth Plan and even more so on the Perspective Plan. A show had to be kept up for the benefit of the public. The show is still on, but it may be called off soon. One is waiting for the politically opportune moment.

Weekly Notes

Tunku Breaks Malaysia

THE secession of Singapore has dealt a mortal blow to the very concept of the Malaysian Federation. The association of Singapore, with its large Chinese population, in a larger federation brought hopes that a genuine multi-racial Malaysia would evolve. The People's Action Party represented a progressive socialist-oriented and genuinely multi-racial party which in course of time might have offered a socialist alternative to the right-oriented Alliance Government which now rules Malaysia. The divorce of Singapore from Malaysia dashes these hopes. In fact, it is reported that the PAP's decision to contest the federal elections was a major cause of misunderstanding between Tunku Abdul Rahman and Lee Kuan Yew of Singapore.

The instability of Malaysia has been exposed; it is not so much Soekarno's confrontation tactics as internal racial animosities that have broken it up. The continuation of Sarawak and Sabah in the Federation must now be a matter for speculation.

And for fomenting these internal animosities Tunku Rahman's United Malays National Organisation must be held primarily responsible. The Malaysia for Malays streak in the UMNO has become prominent though it is not the only party to blame in this respect. The unfortunate racial clashes last year in Singapore have been exploited by both the right and the left in Malaya. The Barisan Socialist Party, it will be recalled, is as much opposed to the Malaysia concept as some of the extremist Malay politicians. The Tunku's statesmanship lay in convincing his fellow Malays of the advantages of a multi-racial polity. The Tunku could still have made a major effort to ease racial tensions but this would have called for an alliance of all progressive elements in the Federation on a non-racial basis; instead, it is the UMNO, basically a feudal party, and the Malayan Chinese Association, a party of Chinese businessmen, to which the Tunku turned. Neither of these parties could have shared a common economic platform with the PAP.

Malayan politics will be bedevilled

by racial animosities as long as political alliances are based on ethnic affinities rather than economic principles (our own experience with separate electorates is a pointer). The tragedy of Singapore's exit is the failure of a non-racial, economics-based movement to influence the trend of Malayan politics.

And Now, Foreign Collaboration in Air Services?

THERE is no retreat from nationalisation of the air services yet. The IAC will go on from strength to strength but domestic air services are no longer to be reserved exclusively for the public sector. This time it is no backsliding from established policy under pressure from a private operator with the right contacts at the top, as it happened with Kalinga Airways, but a policy decision of some consequence though the immediate effect may not be spectacular. When the air services were nationalised, private operators were permitted to run non-scheduled charter services and these were by no means confined to carrying of cargo only. Communication with

Assam being so very difficult — the railway route from Calcutta being circuitous and time-consuming — that chartered flights from Calcutta to various places in Assam were very much in demand right from the beginning. Over the years these chartered flights have been run more or less on a regular time table and for all practical purposes, have operated as scheduled services without however the benefit of a proper licence.

Powers have now been taken under an amendment to the Indian Aircraft Rules 1937 to permit the running of scheduled air services to private companies, thus lifting the prohibition on the operation of scheduled flights by private companies under the Nationalisation of Air Services Act of 1953. The companies which have been permitted to operate scheduled air services, however, are those which had been running regular chartered flights both for passengers and cargo from Dum Dum to various points in Assam. Their flight schedules as also the maximum and minimum fares and freight rates charged by them have to be approved by the Director General of Civil Aviation. The Gazette Notification or rather the press release adds a rider that permits will normally be granted only for operation on the short distance routes where IAC cannot operate because of insufficient resources.

The relaxation, however, goes much farther than giving *de jure* recognition to what have been *de facto* scheduled services on the short distance routes, mostly in the West Bengal-Assam sector. For under the amended rules,

"the Director-General of Civil Aviation is authorised to permit the running of scheduled air services by any citizen of India. Operation by a company or corporate body will also be permitted if it is registered and has its principal place of business within India and the chairman and at least two-thirds of its directors are Indian citizens and its substantial ownership and effective control is vested in Indians.

"The permit will be valid for a period of not more than five years as may be fixed by the Director-General at the time it is granted".

This will open up domestic air services to companies with 'substantial ownership' in Indian hands to negotiate foreign collaboration for running regular services on the routes which the IAC is unable, whatever the reason, to cover. There are today any number of such routes and they are likely to increase with time for with the growth of traffic on the main routes, the demand for feeder services has steadily expanded. In fact, the tourist department has long

been urging a considerable expansion of feeder services for expanding tourist traffic. There is undoubtedly need for such expansion even from the narrow point of view of attracting more tourists to this country. For tourists naturally want to see not only the big cities and the traditional places of tourist interest but also the interesting spots which are now either completely inaccessible by air or the services to which, e.g., Khajuraho, are wholly inadequate. The need for feeder services, however, is by no means exhausted by the tourists' requirements alone.

The stumbling block to the needed expansion is foreign exchange. The charter operators to Assam who are now permitted to run scheduled services will not thereby be automatically able to expand their complement of aircraft nor replace the ex-stock which is largely composed of obsolete and uneconomic Dakotas. If the Government could spare the foreign exchange for these feeder services, it could have readily expanded the operation of the IAC. There is no reason to believe that the Department of Civil Aviation has been moved by the more sophisticated arguments in favour of rationalisation and better utilisation of existing capacity in organisation and personnel of the air companies. The need is for new aircraft which cost a lot of foreign exchange. This may well be the thin end of the wedge for the private foreign investor to enter a new, expanding and remunerative field of enterprise. If the present structure of the IAC is retained and its resources steadily augmented, there is no reason to suppose that the relaxation will seriously threaten to unbalance its operations provided the authorities stick to the professed aim of supplementing the nationalised sector by confining private companies, with or without foreign collaboration, only to the feeder services.

The MIG Story Over Again

SUBMARINES, except for one that was supposed to come from UK for training in anti-submarine operations, were not part of the Rs 5,000 crore five-year defence plan. The prospect of getting this submarine disappeared when UK discovered that the quoted cost of Rs 5 crores would be as much a luxury for India as for itself. India then had no alternative but to turn to the Soviet Union which had offered to supply naval equipment a long time back. In the bargain, four submarines instead of one appear to have become feasible. Lower cost must have had something to do with this increase but the idea now is obviously to build up a submarine fleet,

not to have just anti-submarine training.

This means that we are stepping outside the original five-year defence plan but whoever heard of a defence plan remaining rigid and unchanged for so long a period as five years? The situation has changed materially since this plan was drawn up in consultation with and on the advice of the US and UK. Relations with Pakistan have deteriorated sharply, Ceylon is more unstable and our defence planners see a threat to the security of Andamans even from Indonesia. The south and east coast is practically undefended; the implicit umbrella provided by the entry of the US Seventh Fleet into the Indian Ocean is too remote to provide any cover. Our aging little naval fleet is almost wholly concentrated on the west coast, it has in effect only one offensive arm and that is the aircraft carrier *Vikrant*, the air complement of which needs replacement, and which is too vulnerable to be committed in a forward position.

The Indian Navy, royal or post-royal, has never had a submarine, without which no country today considers itself a naval power. But a long coastline requires a balanced naval contingent and a core of personnel trained in all departments of conventional limited warfare.

What effect will the move to buy Soviet submarines have on the prospects of economic aid from the Consortium? The MIG deal with USSR also clouded aid negotiations for some time; western experts then asserted that India did not really need these planes or alternatively that they could be procured from western sources, none of which ultimately proved willing either to supply comparable planes at a reasonable price or help us to manufacture them. Over the last year or so, objections to this deal have quietened down and there has been no complaint about passing on of secret information to USSR through mixing of equipment and personnel. But now the objection is heard once again, in the context of the submarines this time, that the Russians might find out the working of secret devices to be installed in the Leander frigates under construction in Bombay. This is silly really; if these devices were really as secret as they are made out to be, they would not have been contracted for delivery to India; even without any Russians or Russian submarines around, it is possible for

British personnel or British-trained Indian personnel to pass on military secrets to Russia.

The real objection of the US and the UK to the submarines deal is different: the deal breaks, for the first time, a strand in the cord which has hitherto tied India fast to Western, mainly British, naval stores and equipment.

Disorders and Response

THE head of the Kashmir Government calls it invasion. New Delhi, while not underestimating the gravity of the situation and fully exposing the participation of Pakistani armed forces and arms in the affair, prefers to describe it still as infiltration. News reports make no secret of it that the infiltrators have reached the outskirts of Srinagar. Even in the invasion of 1947 they had not come so close to the capital of the State. As we go to press, a fresh encounter has been reported between Pakistani armed infiltrators and Indian security forces on the outskirts of Srinagar city. Pakistan Radio has been shouting about a general uprising of the populace of Kashmir. A Delhi report, officially inspired, goes on to say that the entire plan of the raiders seems to be on the lines of the Algerian type of guerilla warfare which President Ayub Khan had been threatening in Jammu and Kashmir, little realising the folly and inappropriateness of the parallel.

It is not the Kashmiris who are the infiltrators but Pakistani saboteurs and Nandaji has been urged upon by the State Congress leaders and Kashmir cabinet ministers to take strong action against those questioning Kashmir's accession to the Indian Union. Sovereignty is not negotiable and Kashmir's accession cannot be called into question, and infiltration with Pakistani arms and manned in the main by Pakistani personnel cannot have the remotest complexion of a political problem to be settled on the political plane. It is a problem of security, of defending the country's frontiers and it has to be backed by the defence forces by strengthening security measures. The reported progress of the infiltrators and the wide area of their operations powerfully suggest the extent and quality of the operations' military intelligence in the area.

The motivation behind Pakistani activity is not difficult to see. Its link with the procedure agreed to for settlement of the Kutch dispute now in

progress is very apparent. If the Kutch could be, though only in part, left to a tribunal, it is President Ayub Khan's aspiration to push Kashmir into the same frame. India has appealed to the UN for expanding and strengthening the UN Observer set-up. That, however, can only bring to light the fact of infringement and violation of the cease-fire line. It is the recurrence which has to be stopped once and for all.

But violation of the Kashmir frontier is not the only disturbing news which has worried the people of the country during the week; in an altogether different sphere what has troubled people more are the happenings in Bihar. At the time of this writing, Patna, Ranchi and Muzzafarpur are still under curfew. Mass protests against rising prices and food shortages organised by the opposition parties, synchronising with student agitation against raising of fees, have led to wide-spread disorder, hooliganism, police firing and all the rest, some of the highlights of which are the arrests of Lohia and the editor of *Searchlight* of Patna under DIR.

Those who have followed the way the Congress Government in Bihar has been utterly mismanaging the affairs in the State over the years would not be surprised by the response that the protest meeting have evoked. Even so they would be taken aback by some of the steps which the Government of the State has taken to bring the situation under control and to restore normalcy. What makes the situation in Bihar even more poignant is the depressing thought that this utter bankruptcy of the State has come at a time when the disagreements among the State Congress factions had been successfully overcome, perhaps for the first time since independence. This gave the State the possibility of having a cohesive party and cabinet to tackle its problems. The success of the 'Bandh' and the protest, however disastrous their consequences, should at least prove an eye-opener to the local authorities and also to the High Command of the Congress in whose name the Government of the State is run.

Obote's Visit

INDO-AFRICAN relations have received a shot in the arm with the Ugandan Prime Minister's week-long official visit here. The Government of India's efforts to establish close relations with Africa have not

been all that they might have been. Certainly Africa has not received the attention that the West and the Soviet Union have. This is matched by the general ignorance about Africa (excluding perhaps the Arab countries) on the part of even the educated public here. As Milton Obote told us before he left, "you will have to do something about it".

The joint communique issued at the end of the talks between the two Prime Ministers stressed their agreement on several important matters. Uganda considers herself to be non-aligned and puts particular emphasis on finding peaceful solutions to international problems. Over Viet Nam, the two leaders agreed that a political rather than a military solution was the answer. There was also agreement that India and Uganda should work together on the problems of disarmament and non-proliferation of nuclear weapons.

The talks on promoting trade and mutually beneficial economic co-operation between Uganda and India have proved fruitful; a new trade agreement is about to be signed and plans for joint ventures are well under way. There is a market in Uganda for many Indian goods, not only the traditional textiles and spices, but chemicals, plastics, machinery, pharmaceuticals and other new exports. The Indo-Uganda Development Agency and the Uganda Development Corporation have advanced plans for setting up four sugar factories in Uganda, with Indian machinery and know-how.

Fortunately, anti-Indian feeling, which exists in some of the East African countries, is largely non-existent in Uganda. Most of the country's 72,000 Indians have taken Ugandan nationality and are well-integrated into life there. A number of Ugandan students come to India, and they should be welcomed in greater numbers. It should be possible for India to attract more African students since she has a far wider range of educational facilities than most of the recently-independent African countries have.

India's opportunity in Africa is not limited to the expanding markets for Indian goods. If Indians have become a little more aware of the common problems of disease and poverty shared with most African countries, if they recognise a little more clearly the important role they can play, together with the African countries, in the fight against colonialism (and neo-colonialism), then Dr Obote's visit would have achieved something more than strengthening Indo-Ugandan ties.

Excise Duty Rebate

A Correspondent Writes:

ACTION has been taken on TTK's budget proposal for giving excise duty relief to specified industries as an incentive for higher production. The industries selected are cement, paper, newsprint, soda ash and caustic soda, and the extent of rebate on excise duty has been fixed at 25 per cent for cement and newsprint, 20 per cent for caustic soda and ash, and 15 per cent for paper (other than newsprint and boards) on that part of output in excess of that in the last financial year.

The industries selected are a mixed lot, four out of the five are under price control. There is formal price control in the case of cement and paper. Caustic soda and soda ash prices were de-controlled towards the end of 1963, but some of the large manufacturers (Tata Chemicals, Sasurashtra Chemicals) have an informal price-holding arrangement.

There is no doubt that most of these products, paper excluded, are in short supply. The growth of production in these industries has been slow, and certainly below requirements as shown in the table below.

Cement output is perhaps 2 million tons below demand. The State Trading Corporation has been importing huge quantities of caustic soda on the basis of *ad hoc* licenses. There is at present only one newsprint manufacturer (that too, in the public sector), and India imports about 80,000 tons of newsprint per year for restricted distribution; the two newsprint licenses, talked about at the beginning of the Third Plan, have failed to make any headway. The odd man out is paper where supply is equal to or above demand (particularly with the commissioning of the huge Amlai project), and the rationale of the excise duty relief remains to be found in this case.

As a fiscal device, this measure is among the more sophisticated parts of TTK's budget. However, in the larger context, one can question the basis of the excise tax credit. Would it not be more rational to allow these

industries a price rise to enable them to make higher profits and finance expansion? Most of these commodities are intermediate products, and inter-industry transfers through higher prices should help to finance increased production. Budgetary relief can then more appropriately be applied, for example, to capital goods manufacture where high prices of indigenous equipment affect the long-term export competitiveness of Indian industry.

LETTER TO EDITOR

Food Zones

IN your issue of August 7 an interesting defence of the food zones appeared (p 1223). It highlights a basic finding of the Agricultural Prices Commission, viz, that the coefficients of variations of per capita availability of cereals as well as those of wheat and rice (as between different States) have gone down since the zones were introduced. The other argument advanced in defence of the food zones is that free movement of food between States would lead to the private traders' buying cereals in surplus States, and then speculating; in such a situation the Central Government's likely refusal to increase its commitments (coupled with denouncements of the private trade) would only lead to increased hardship of the consumers. This, too, is justified.

But something needs to be said on the other side also. If there is not a firm and total commitment on the part of the Central Government to supply all the needs of the deficit States, then the latter are bound to denounce the zonal system, which according to them lets the surplus States hold on to their surpluses. (There does seem to have been some evidence of this.) Further, a process is started in deficit States to try to become self-sufficient in food. If this took the form of increased output from the same area, it would be splendid. But only too often it threatens to take the form of a switch from commercial crops (in which some deficit States have a comparative advantage) to food crops.

(in thousand tons)*

Year	Cement	Caustic Soda	Soda Ash	Paper
1960	7,844	98	145	285
1961	8,245	120	177	298
1962	8,586	127	223	319
1963	9,355	152	267	384
1964	9,690	184	282	413

* Metric tons in the case of cement only.

The Central Government, for its part, has had the problem that the deficit States over-estimate their deficits and the surplus States under estimate their surpluses. This problem, along with the inevitable desire on the part of the Central Government to minimise work for itself, explains its hesitation to enter into firm commitments. The Agricultural Prices Commission has recommended that "Immediate steps should be taken to make a realistic assessment of the surpluses and deficits of foodgrains... for each State..." But this is not good enough. Two necessary pre-conditions which must be satisfied before the Central Government can enter into complete commitments to the deficit States are: a proper procurement policy actually in operation, and adequate buffer stocks well distributed all over the country.

This issue of the food zones illuminates an important aspect of our economy, i.e, the habits and responses of our businessmen; they are vastly different from what economic theory assumes in its models of perfect competition or even imperfect competition. A rise in demand, leading to a rise in price, should after some time lag result in increased supply of most things. In India this increase in supply hardly ever occurs; instead there is increased adulteration of milk, foodgrains and other merchandise. This happens to some extent in other countries too, but in economies like ours, it is so much the norm that it calls for a different model of the "price mechanism". Similarly, according to the standard textbook theory speculation should help to stabilise price. But in India, if speculation were left alone it might often lead to an explosive inflation.

The foreign experts, with their unconscious assimilation of conventional economic theory, need to revise their models of reference when looking at our problems. On the other hand, it must also be admitted that State planning, initiative, and enterprise have in India, if anything, shown less vigour than we might have expected from the experience of some western countries. Hence the elements in our choice are particularly difficult. Still, perhaps, since lives are directly involved in food, we might expect government agencies to be more responsible than private traders.

S K NATH

Bombay
August 10.

CAPITAL VIEW

Obscurantists on the Move

Romesh Thapar

DICTIONARIES describe the obscurant as one who opposes enlightenment or reform. This is as good a description as any, but when we apply it to the obscurantists who operate in Indian politics we soon realise that it just does not hold. Our obscurantists are very often enlightened men sufficiently reformed to pass as modern images—but, and this is what disturbs, only too anxious to join forces with the traditionalists and revivalists to win political prestige. We have been sharply reminded of this rather disturbing fact during the past few weeks.

Surveying the ferment taking place among the vocal sections of India's Muslims over the attempt being made to carry out a long-delayed clean up of the mess that is Aligarh University, the assumption would be that Union Education Minister Chagla has mishandled and complicated a rather simple problem of student indiscipline which had some communal overtones. Indeed, one would soon be persuaded that Chagla is an opportunist who is parading his nationalism in order to secure his position within the Congress hierarchy, that he is a man without a base, without any support in the country. In fact, Chagla appears from reports now circulating to be the villain of the piece who is operating through a puppet Vice-Chancellor.

The public assumes that it is being fed on something approximating the truth. There has been no independent assessment made of the situation. Yet, it is well-known that the implied allegation of Pakistani involvement in the recent fracas was contained in a background press release by an information officer — the allegation that is supposed to have incensed a host of otherwise patriotic Muslims. These elements are doubly incensed because of Chagla's appeal to 'nationalist' Muslims to support the measures he is taking to clean up the Aligarh mess; the argument is that the community is sought to be divided into nationalists and communalists by an opportunist Muslims minister. The demand is that Chagla be sacked, that the smearing of Aligarh University's pure secular character be stopped, and that the infamous ordinance be withdrawn.

We are still in the midst of a public relations effort to depict Aligarh University as a cradle of secularism and

nationalism. Newspapers are being flooded with letters from indignant Muslims all over country recording the great services rendered by Aligarh University as the training ground for nationalists. Conventions are being held by indignant Muslim leaders who claim that the actions of the Education Minister are an affront to the community. Even some indignant meetings are being planned by a united front of Muslim organisations, including Congressmen and Muslim Leaguers. Those who raise their voice in support of Education Minister Chagla are dismissed as 'stooges', as 'unrepresentative'.

It may be that there have been mistakes made in the handling of the Aligarh University crisis. It may be that it was not politically wise to emphasise the role of avowedly communal elements in the university because various confusions and misunderstandings have provided an opening for the communalists among the students and the faculty members. It may be that the purge in the university could have been ordered without resort to a provocative ordinance, for the interests of a minority community were being dealt with. Mistakes in handling and emphasis are not new to our administration. How is it then that such a ramified campaign has been launched against one of our most courageous ministers who is known to be above the factions — communal, political and educational — which vitiate life in our universities?

The answer is so simple that it is startling. Muslim colleagues of the Education Minister, senior Muslims within the hierarchy of government, disgruntled Muslims who are members of the Congress party, have come together with the communal elements in their community to exaggerate, exploit and sponsor a possibly explosive agitation for their narrow political ends. Cabinet collectivity has been violated. Party discipline has been challenged. Freedom has been given to the mischief-makers, bitternesses and anxieties of a community which since the partition of the country has been more or less leaderless. We are today witnessing in the attack on Chagla, an attack on the modern Indian, the advanced Indian, the Indian who alone can lift this land

from a past tortured by religious and social obscurantism.

The Congress leadership has to take serious note of these developments, particularly the Home Ministry under Gulzarilal Nanda. Ever since the death of Jawaharlal Nehru, there has been an unhealthy tendency to close communists, real and unreal, because understanding of developments within the communist world is totally lacking. The minors at the Home Ministry, relying heavily on old files and records, are out of touch with present-day reality. And in the process the communalists, including the Hindus, are enjoying a freedom seldom enjoyed in the past. That this should be happening under the stewardship of Gulzarilal Nanda, believed to hold healthy views on these matters, is all the more intriguing.

The infection spreads because of an unstable economic situation which in turn has weakened seriously the political power of the Centre. Ambitious, disruptionist groups, held in check so long as the ruling leadership was confident, are again moving to assert their regional role — a trend which is strengthened by the knowledge that within a year the people will be organising for a general election. This is also the backdrop for the recent recrudescence of Akali activity. The call is again heard for a Punjabi-speaking State, for a Sikhistan.

The most extraordinary exhibition of obscurantism was witnessed in the Capital at a press conference at which Master Tara Singh presided. There was much talk about Hindu tyranny, the desecration of Sikh places of worship, the general plight of the community and the need for a separate State. Significantly, sympathy was expressed for Sheikh Abdullah and Master Tara Singh announced a visit to Pakistan. This mumbo-jumbo of allegations, demands and commitments is not subscribed to by enlightened sections of the community, but judging from the new Akali recruits paraded by Tara Singh on the platform, and the more sophisticated but not so different performance of Sant Fateh Singh during his meeting with Prime Minister Lal Bahadur, we are about to witness an attempted revival of communal discord in a leaderless Punjab.

The Congress party, while denying

much of the propaganda being engineered by the communal leaders of the minorities, cannot consider itself blameless. Its reluctance to break ruthlessly the back of Hindu revivalists who are active destroying the secular fabric of the Republic has demoralised and silenced the enlightened, and also fed the ambitions of the worst communal elements among the minorities. Over the past weeks, communal clashes have taken place in several towns. And we have still to be convinced that the punishment of the guilty has been sharp and severe. We must view these eruptions as threats to the security of this country and act accordingly. Why does Gulzarilal Nanda not respond today like he did to the killings in Calcutta in January 1964 when Nehru was still with us?

The crushing of communal incendiaries and the isolation of the obscu-

FROM THE LONDON END

The £, Above Everything

THE Censure Motion provided an opportunity to assess the debut of Edward Heath as Leader of the Opposition, the record of the Labour Party, after nine months office, and the deep-seated malaise of the British economy. Heath's much-heralded speech as Leader of the Opposition turned out to be a damp squib and came as a pathetic anti-climax to his build-up as the pugnacious leader who would outpoint Wilson.

Ironically enough, it was the easy-going Maudling who made a far better, and indeed more trenchant, speech than Heath. So much so that Harold Wilson could not resist the temptation to say that it was a great pity Maudling had not made the speech a fortnight earlier! Perhaps Heath's was a flop because it really is cynical humbug for the Conservatives to move a Motion of Censure when they had completely neglected the balance of payments deficit in view of the General Election, and in view of the fact that the remedies they had in the bag then were identical to the ones that the Labour Government itself was now using. Loss of confidence because of inept handling of the situation may have exaggerated the gravity of the crisis that faces Britain, but even if the Conservatives had been returned to power the situation would have been little different. This naturally acted as an inhibiting factor in Heath's speech, and most people agreed that he was certainly not a

rantists in our political life should have as high a priority as the recruitment of army divisions — for inevitably, when law-and-order situations get out of hand, the army is diverted from its duties to undertake police action. But it is a priority which both government and the ruling party have lost sight of in the midst of the confusions and crises generated by the collision with China in 1962 and the aggravation of our border tensions with Pakistan now heightened by enemy infiltrators in the Kashmir Valley.

To restore this priority is an urgent task, a task closely connected with the formulation of political perspectives without which there can be no effective economic planning or solid social transformation or a determined defence of national sovereignty.

his best. If the House of Commons were nothing more than a boxing ring, there is no doubt that Wilson would be the unrivalled champion though he be the unwi2yi5a 7890-‡1234 though he does not always abide by the Queensberry rules! The Censure Motion failed to raise a spark in the House, and in the event, the Government had a majority of thirteen votes. William Warbey, the left-wing rebel, who proclaimed that he had no confidence in Wilson as leader of the Party, abstained from voting, and it is not yet clear what disciplinary action the Labour Party proposes to take against him.

While Wilson was able to ridicule the Conservative speakers, his performance was not quite as good as that of the week before, when in a fighting speech he had defended the actions of the Labour Party and maintained that every election promise made by the Party would be honoured in due course. He described the earlier Conservative motion as "the most bizarre Censure Motion I have seen. It complains that we have, in less than 300 days, failed to do all the things Conservative did not do, neglected to do or refused to do, or did not know how to do—not in 300, but in 5,000 days". With reference to Labour's election pledges, he pointed out that the programme was for a full parliament, and not for a single session, or even two. Many Conservatives had doubled the Government's ability to

carry it through in a full session. Now they accuse the Labour Party of not carrying it through in nine months.

However, leaving aside the parliamentary brilliance, which is recognised on all sides, of Wilson, it is necessary to make a more sober analysis of the Labour Party's first nine months in office. Government, above all things, is a question of priorities, and the courage to act upon these priorities. While there is little doubt that the Labour Government's priorities are correct, the methods that they have adopted to achieve these priorities, and the manner in which they have acted, have not always been the most effective. Given the massive balance of payments deficit they had inherited and given the paramount need to defend the value of the pound and setting the economy to rights, it was essential that they take unpopular measures to act directly on the balance of payments, and to reassure foreign holders of sterling that some check would be put on the economy to prevent the situation from worsening. The question that remains is whether the actual actions they took were the right ones and enough, whether they were taken at the right time and with sufficient forethought and whether they were the kind of actions to be expected from a Labour Government, or merely a rehash of the old "stop-go" measures used over the last few years by the Conservatives.

Some direct action had to be taken to check imports, but surely a Party which is in favour of planning could have chosen the imposition of import quotas (acceptable to G A T T) rather than the import surcharges which did so much damage to opinion abroad. Restriction on capital investment abroad is also certainly necessary, but the manner in which this was imposed and the fact that no distinction was made between capital exports to developing countries and to other countries is also disappointing. Since one of the basic difficulties of Britain lies in the fact that her exports are simply not expanding, some direct stimulus for these is necessary, and one wonders whether the measures taken by the Government are in themselves sufficient. Cuts in expenditure too are also inevitable, but should the axe have fallen on social services—such a vital part of the Labour party programme—or should they have fallen on more expendable defence expenditure? Cuts in this field have, of course, been made by the Labour Government, but do they really go

THE ECONOMIC WEEKLY

far enough? Britain's military expenditure abroad accounts for more than half the deficit in the balance of payments. Under these circumstances, it is good to see that a full meeting of the Parliamentary Labour Party held recently unanimously adopted a motion calling on the Government to speed up cuts in defence expenditure as the only means of solving Britain's economic difficulties.

All the unpopular economic measures taken up to date by the Labour Government have been to shore up the defences of the pound, and reassure foreign opinion whose confidence in the Labour Party's ability to maintain the value of the pound was minimal, and declined rapidly as British exports failed to rise. Continuous pressure on the pound, following the November crisis, led to a further series of restrictive measures, culminating in Callaghan's last package of restrictive measures, popularly referred to as his third budget. These are by far the most severe that have yet been undertaken, and follow the classic pattern welcomed by international banking circles, of a sharp dose of deflationary medicine, concentrating with it a further tightening of hire purchase regulations, stricter exchange

control and curbs on direct overseas investment. The Labour Party has gone out of its way to emphasize the difference between these measures and the Tory "stop-go" ones, by pointing out that the Labour measures are more selective in that regions of high unemployment have been excluded, and that expenditure on housing and education has not been cut; also, it is pointed out that if there is any sign that a recession is on the way, these measures can quickly be rescinded. Recourse to these measures, particularly the cuts on social services, the postponement of cheaper mortgage rates for owner-occupiers and the Income Guarantee Scheme, means that large parts of the programme on which the Labour Government was elected are being put aside, at least for the time being.

Foreign confidence in Britain's economic performance has continued to be shaky, and the recent survey of the U K economy, published by the Organisation for Economic Co-operation and Development emphasizes the deep-seated malaise of the British economy. It points out that the balance of payments difficulties of Britain have been growing over a long period. Britain's export per-

formance has been consistently unsatisfactory, although world demand has been generally buoyant. Exports of manufactured goods, which make up the bulk of U K exports, have risen less fast than those of the other major industrial countries. The report argues out that the way to deal with the root causes of Britain's economic difficulties is not only to impose direct controls checking the export of capital and the flow of imports but to correct the over-heating of the domestic economy. This is the path that the Chancellor of the Exchequer has now chosen, perhaps galvanised into activity by the massive conversion by China of its holdings of sterling into gold, which further weakened confidence in the pound and which must have provided an alarming parallel to Labour leaders of the situation in 1931. If there is one thing that the Present Government does not wish to be forced into, it is a devaluation of the pound, and the drastic action that has now been taken will probably, finally, convince overseas opinion that Labour's first priority is to defend the pound, even if this means giving in by cutting social expenditure and toeing the American line on Vietnam.

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LETTER FROM AMERICA

Johnsonism, at Home and Abroad

PRESIDENT Johnson's recent speeches on the Vietnamese situation have made a deep impression on those Americans who were not still aware of the gravity of the U.S. position in that war-torn land. The American man in the street, usually not concerned with matters of foreign policy, is now very much aware of the Vietnam situation, and the newspapers have been full of news from there. Johnson's virtual declaration of war has already increased the numbers of men called for compulsory service, and informed sources in Washington are convinced that this increase is merely a prelude to more sizable addition to the armed forces, including calling up sections of the reserves. Indeed, the Defence Department has already ordered stepped up training for units of the reserve.

Pressures on the President

It is fairly clear that many of President Johnson's advisors wanted to take more stringent measures last week, but many Congressional critics have persuaded him to hold off, at least for the present. Thus, the recent increase of American forces in Vietnam to 125,000 is a sort of compromise between men like Senator Fulbright, who are pressing for negotiations, and the military officials, who seem to want a direct confrontation with the Chinese. The fact that an intense power struggle is now going on in Washington is indicated by President Johnson's denunciation of the House Minority Leader, Ford, for leaking out some of the dissension which has taken place. According to Ford, a number of influential Senate Democrats, led by the Majority Leader Mansfield, strongly urged the President to moderate his stand on Vietnam, claiming that a substantial number of Senators would not support him, and that his position was losing popularity among the people. Although this version has been flatly denied by the White House, it would seem to have more than a bit of truth. Although only Senators Morse and Gruening have spoken out publicly against the Administration, there seems to be much private criticism going on in high places. And as civilian critics become more vocal, the military and their allies in the State Department

have stepped up their pressure for more direct action in Vietnam.

Thus, the final decision on Vietnam clearly have not been made yet. The debate, which has been mostly behind closed doors, continues although it seems likely that the President will expand the Vietnam war to its maximum extent without deliberately provoking China. The situation, however, threatens to grow even more serious in the near future. In the meantime, the news from Vietnam is both heavily censored and highly contradictory.

Legislative Victories

President Johnson finds himself in a rather strange situation in the United States. His popularity among the people, if one can rely on the public opinion polls, stands at an all time high, with almost 70 per cent supporting the President's overall policies. Yet, he has been almost continuously attacked by the press and seems to be an object of derision in the salons of official Washington. His style, which is in especially sharp contrast to that of President Kennedy, rubs educated Americans the wrong way. His frequent use of off-colour language and his diplomatic mistakes (such as publicly attacking a Spanish official at an official function) have caused a good deal of criticism. Yet, the Administration's domestic legislative victories have been impressive from any point of view, and more progressive legislation has been passed by the present Congress under the continual prodding of the President, than any Congress since the time of Franklin D. Roosevelt. The Medicare legislation, which has just been signed into law, does not provide America with a British-style National Health Service, but it does give substantial coverage to the old and poor, the segments of the population which need this help most. One of the key civil rights measures, the voting rights bill, will pass the Congress within a short time, and will provide a major breakthrough in changing the political structure of American south.

In addition to these legislative victories, which are highly significant to the poor and to the Negroes, several of President Johnson's recent appointments have received high praise. The new United Nations ambassador,

although a novice at international affairs, is an articulate liberal who is almost universally respected in the United States and will probably have something of a moderating influence on President Johnson. The new associate Justice of the Supreme Court, Fortas, has also received high praise in Washington. Finally, the mission of Harriman, the roving ambassador, to Moscow, Belgrade, and Western Europe, has been seen as a move to reassure the Soviet Union of basic American policy.

From the foregoing comments, it is clear that American politics, particularly in that fish bowl called Washington, is taking on something of the "cult of the personality". President Johnson has developed something of an American "Gaullism" although without the finesse or intelligence of *le grand Charles*. Not since the era of President Roosevelt has one man dominated so much of America's national life. Even during the Kennedy administration, one man did not play the kind of central role that President Johnson currently plays. In sum, American liberals have supported the President's domestic programme strongly and only the extreme right wing press has attacked his domestic record. On foreign policy issues, however, the entire intellectual community and many Washington officials are simply praying that Johnson will not engulf the world in a holocaust.

The Paradox.

The domestic situation has been kind indeed to the Johnson administration. The economy continues to break records, and the usual summer slack has not taken place. Employment rates have risen, and earnings are at an all time high. Government revenues, despite the substantial tax cut, continue at a high level, and a month-long stock market decline seems as if it has ended. Practically all economists are convinced that the economy is basically sound, and forsee nothing but continued expansion in the coming months. The increases in defence spending made necessary by the Vietnam situation, will help to spur the economy. Other domestic matters also seem under control. The racial situation, both north and south, has remained relatively stable and quiet.

The Negro movement has not yet found adequate leadership and Martin Luther King simply cannot personally provide guidance to the nation's 11 million Negroes. Even the labour movement has been accommodating by refraining from any major strikes in recent months.

Americans are basically still isolationists and want to be left to themselves. They are not disturbed by foreign events unless they threaten immediate effects. Thus, the Dominican fiasco hardly caused a ripple in the public apathy (except for the

intellectuals, who were very much opposed to the Administration's actions. Indeed, it is doubtful that anyone would care much if the United States made the Dominican Republic a colony in name as well as in fact. Vietnam has struck closer to home, but the situation will have to grow worse, as seems to be likely, before the public discontent (perhaps confusion is a better word) will get out of hand. Right now, it is a small but vocal group of legislators who have managed to get the facts about Vietnam, a difficult task in itself, and the intel-

lectuals and students who are urging the Administration to restrain itself. The prospects for their success seem to be slim at the present time. Foreign pressure, which is officially discounted, may have some effects on the Administration. Thus, America is faced with a paradox. Its foreign policy has been a total failure with no prospects for improvement, while the domestic record of the Administration has been excellent, and more progressive legislation seems to be on the horizon.

— Philip G. Altbach

BOOK REVIEWS

Vietnam and China

Subhash Chandra Sarker

Communism in North Vietnam by P. J. Honey; Ampersand Ltd, London, 1965; pp 206, Price 7s 6d.

THIS is a study of the policies of the Vietnamese Communist Party (officially known as Dang Lao Dong Viet Nam, i.e., Vietnamese Workers' Party) during the decade following the final Vietnamese victory over France in 1954. However, the major part of the book deals with developments between 1957 and early 1963 with particular reference to the relations of the Vietnamese Communist Party with the Communist Party of China and the Communist Party of the Soviet Union. The author's approach is that of an analyst, who does not have any sympathy with Vietnamese aspirations but who wants to understand the broad delineations of Vietnamese Communist policies with a view to suggesting an appropriate course of action on the part of the western powers, particularly the United States of America (this is however, nowhere made explicit in the book itself; the author's stated objective is to determine the position of Vietnamese Communist party in the Sino-Soviet dispute.)

Honey's antipathy to the Vietnamese Communist Party is reflected in his assessment of the role of Ho Chi Minh. He writes: "The consequence of Ho's decision was involvement of both the United States and Communist China in the Indo-Chinese war, thereby increasing the scale and significance of the conflict and causing more bloodshed, suffering, and damage to the Vietnamese people." Whatever may be Honey's faults, sympathy for Vietnam and the Vietnamese is not one

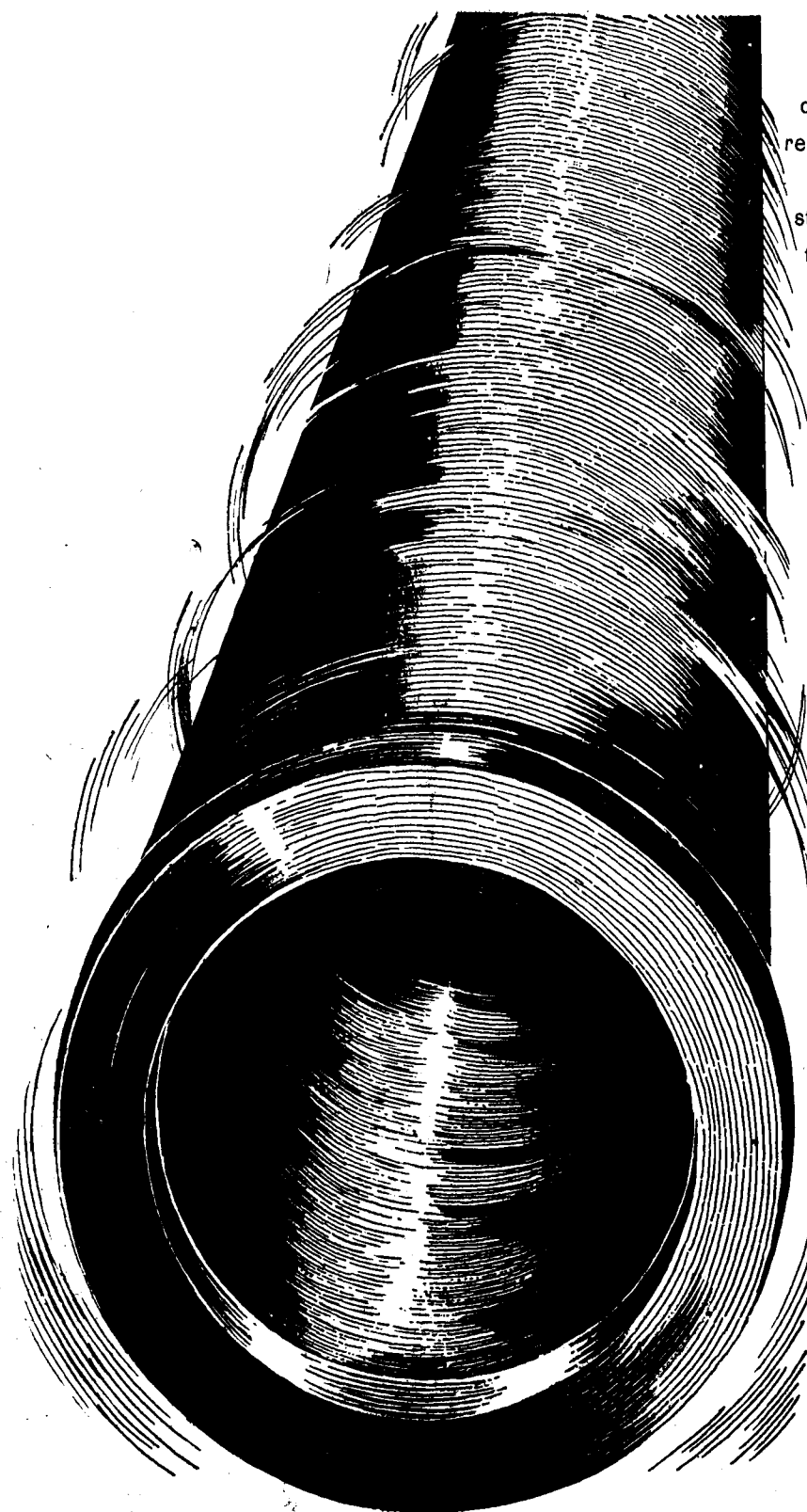
of them. Yet in a peculiar way this avowed antipathy is not without its merit; for it ensures that any positive statement about the Vietnamese Communist Party in his study need not be doubted and can be accepted as fairly accurate and approximate to truth.

Vietnam Is Nobody's Pawn

Read in this light, the book is of particular relevance to Indians who have yet to comprehend the true significance of the struggle in Vietnam. After the traumatic experience on the India-China border, many Indians view the U.S. involvement against Vietnam's struggle for independence as a guarantee against Chinese expansionism. Much as these Indians feel sorry for the suffering of the Vietnamese people they, nevertheless, consider this historically inevitable and, under the circumstances, also justifiable to a considerable extent. Nothing, however, could be more misconceived. Those who are acquainted with Vietnamese history know that the history of the past several centuries in Vietnam has been one of struggle against China. A measure of friendship and understanding was achieved between the Chinese and the Vietnamese during the anti-colonial liberation struggles against western colonialism. But that was nothing more than what grew between the Chinese and the Indians (who sent a medical mission to China fighting against Japan) or between the Indians and Indonesians. In their fight against the French

colonialists the Vietnamese had of necessity to seek some Chinese help (which was indirect all through the war against France); the Vietnamese are understandably grateful to the Chinese for this help. But it is utter misreading of events to view the Vietnamese Communists as the instruments of furthering any possible Chinese designs in Vietnam or any other Asian country. On the other hand, the Communist leaders of Vietnam have constantly endeavoured to uphold and strengthen their independence of action *vis-a-vis* not only France and the U.S.A but also China and the Soviet Union. Honey's study establishes this fact beyond any dispute.

Honey writes: "The attitude of virtually all Vietnamese toward the Chinese is so complex and difficult to describe... Nevertheless the overriding emotion of the Vietnamese is dislike (stories of the greed, the duplicity, and the terrible cruelty of the Chinese rulers during the two periods of Chinese domination abound in Vietnam and are recounted as though the events of history had taken place only recently) and that is why communist campaigns stressing 'historical friendship' between the peoples of Vietnam and China had to be abandoned hurriedly when they encountered so much ridicule in North Vietnam. It is interesting to note that many of the new factories and industrial undertakings in North Vietnam have been named after Vietnamese heroes venerated because of their victories



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over Chinese invaders, and that the anniversary of Emperor Quang Trung, who not only defeated a Chinese army but also laid claim to territory in Southern China during the eighteenth century, is celebrated annually by the Communist authorities".

Neutral in Sino-Soviet Conflict

It is again of no little significance that the Vietnamese Communists have consistently refused to side with the Chinese Communists in the Sino-Soviet controversy, despite considerable Chinese pressure.

For understandable reasons the Chinese have sought to align the Vietnamese Communists with their policy not only with regard to the Soviet Union and the United States of America but also with regard to various political, economic, social and military issues. Honey has given a number of instances of Chinese overtures seeking Vietnamese alignment with China. The Vietnamese have always refused to identify themselves unreservedly with China — a refusal the significance of which certainly goes very much beyond involvement in the Sino-Soviet dispute which provided the pretext for the decision. In view of the geographical proximity of China and the considerable dependence of the Vietnamese leaders on Chinese goodwill and support in order to meet the very real US threat to Vietnamese independence, Vietnamese neutrality in the Sino-Soviet dispute must be regarded as an extremely courageous action which speaks eloquently of the desire of the Vietnamese Communist leaders to pursue a course of their own making and in accordance with the national interests of the Vietnamese people to maintain friendly relations with all countries.

The zigzags in Vietnamese policy towards the Sino-Soviet dispute in which they at one time seemed to favour China and at another time the Soviet Union, never irrevocably committing themselves to one side, have to be interpreted in the light of this overriding desire to retain freedom of action. Honey writes: "North Vietnam could afford no such indulgence (of siding with either Soviet Union or China) because she badly needed all the economic assistance she could obtain from every quarter. To antagonise any communist country would be tantamount to inviting that country to cease supplying and... Consequently, Ho Chi Minh found himself in mid-1961 more heavily committed than ever before to his policy of re-

maintaining on good terms with all Communist countries, of avoiding any participation in the Sino-Soviet dispute and of using any means at his disposal to bring this dangerous conflict to an end".

Ho Chi Minh's Role

The Sino-Soviet rivalry in Vietnam and the latter's response to the chal-

lenges of the two giants throw interesting light on the various tactics employed by the contestants in pressing their peculiar carrot and stick policies. Displeasure or pleasure would be shown by taking hold of the most flimsy of pretexts. For example, when in 1963 the Soviet Union was favourably disposed towards Vietnam it devoted "many times more publicity



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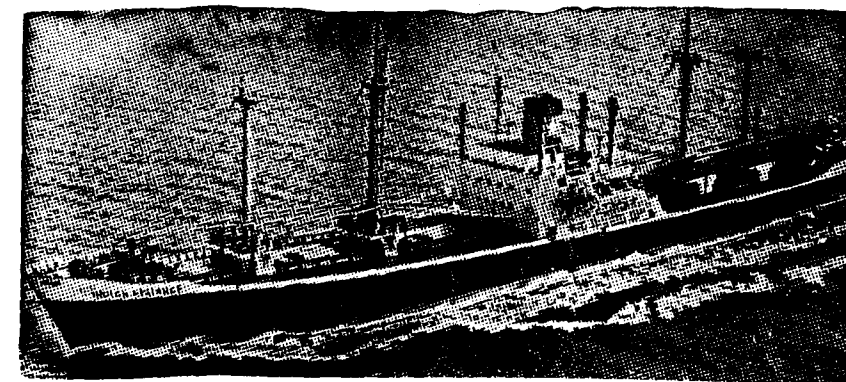
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Case-Pleading History

Ashok V Desai

A Basic History of Germany by Hubertus Prince zu Loewenstein; Inter Nationes, Bonn, 1965; price not stated.

than in the previous year to the thirteenth anniversary of the establishment of North Vietnamese-Soviet relations on 30 January and eulogising the Lao Dong Party on the occasion of the thirty-third anniversary on 3rd February," while China, vexed at the effusion of Vietnamese-Soviet cordiality, ignored the occasion completely, although it had devoted much time and space to the thirty-second anniversary a year earlier. The Vietnamese likewise resorted to publication and suppression of events and actions of China and the Soviet Union to show approval and disapproval.

Vietnam is contiguous to China and has in recent years received considerable help from China. The Vietnamese Communists in particular owe over a good deal to the Chinese communists for their victory over France and for their success in economic reconstruction in Vietnam. It is not surprising therefore if a section of the Vietnamese communists should see in greater Vietnam-China co-operation a better future for Vietnam; the history of resistance to China again ensures that this pro-China tendency will be contested by others. Honey believes that an eruption of the fighting between these two diverging elements within the Vietnamese communist party has been put off only by the presence, of Ho Chi Minh, who, at 77, enjoys undisputed supremacy over the party and the people in Vietnam. His pursuit of a Vietnamese policy independent of China is firmly supported by the confirmed anti-Chinese Vietnamese Minister of Defence, General Vo Nguyen Giap. Apparently in late 1957 the pro-Chinese elements sought to capture power but had to yield to Ho Chi Minh eventually. What course the future will disclose will depend considerably on the outcome of the struggle of the South Vietnamese people, who have so far found only China to be genuinely concerned at their suffering and, unless there is a change in the attitude of other Asian Governments to the war in Vietnam, may in the event of their victory over the Americans (which cannot be very far off) find themselves obliged to turn to China for support and sustenance. The communist leaders in North Vietnam would not, in that case, be able to withstand the two-pronged pressure of the Chinese from the north and the south Vietnamese from the South and would be pushed to a closer identification with China (irrespective of the consequences of such an identification).

THE purpose of this book is "to acquaint other nations with the basic facts of German history as a part of occidental mankind, and to demonstrate that in our modern world freedom is supranational and indivisible". Thus, it is meant to be a case-pleading type of history. The case to be pleaded is that the ideas of freedom and democracy are immanent in the entire German history.

Actually, the thread is quite lost in this book; it compares not so much with *grand ligne* historical treatises as with a common school text. It is a string of dates, names and moves; one looks in vain for the accidental mankind in it.

If the book has a point of view, it is strictly nationalistic; since one hears two voices from Germany nowadays, those of the Federal Republic and of the Democratic Republic, one had better call it federal-nationalistic. There are memorable quotations which presumably warm German hearts: Frederick the Great saying, "Everything is lost. I shall not survive the downfall of my country"; von Stein saying, "My God, here I lie prostrate while they are fighting in Poland!"; Frederick William proclaiming, "I have placed myself and my people under the honoured banner of the German Reich". Bismark prorogued the Prussian Parliament in 1863 to avoid having to get its approval for the budget, he thereby saved the state from disintegration. When the French and Belgians occupied the Ruhr in 1923, the Germans replied with passive resistance. But passive resistance also had to be broken off "if Germany as a nation and as a free republic was to be saved".

This line of argument is unlikely to influence the unconvinced. While it is no crime to be a nationalist, it is a sign of incompetence if a historian with a case fails to convey it.

The idea of this book — to inform foreigners about Germany and to make propaganda at the same time — is misconceived. There is much in German history that can interest an

ignorant foreigner. It has such a fairy tale quality. Take King Otto III, born in 980 and in his grave at twenty-two. Apparently, he became king at the age of three, defeated the Danish-Norwegian fleet at the age of fourteen and thereby established dominion over Germany, Italy and Burgundy; appointed his aunt Matilda as Governess of Germany and retired to salubrious Italy at the age of fifteen. There he helped his cousin, Bruno of Carinthia, to become Pope, and then had this twenty-four year-old Pope, Gregor V, put Charlemagne's imperial crown on his head. About this exchange of honours, Loewenstein says, "It must have been one of the great dramatic moments of history. A chiliastic fever of hope, fear and exaltation swept across the occidental world at the end of the first Christian millenium. Christ's second coming was by many held to be imminent. During this period, when people in all countries prepared themselves for the Awful Judgment, the reins of the world's government were held by two glowing youths, both filled with highest ideals and conscious of the exalted position of their respective offices. The complete harmony between the spiritual and the temporal orders must have appeared as a foreshadowing of the coming of the Kingdom." Truth here is more entertaining than fiction — if properly told.

If, however, propaganda must be made, modern Germany is a much better advertisement of itself than Germany at any other time in its history. West Germany is prosperous, powerful, democratic and also quite generous in its own penny-wise way. Some material help together with some modest self-advertisement can win it many friends. The insistence, on the other hand, that Germany's friends should share its enemies, that they must be its comrades in ideology, is the worst propaganda it could make for itself. There is something pathological about the way West Germany counts petty diplomatic victories and hectors its friends: as in our own case, this is the mark of a nation that seeks verbal consolation in its impotence against international problems.

Planned Balanced Growth vs Plan Holiday

S K Nath

It is possible for somebody who is not an anti-planner to argue that the economy at present reveals certain imbalances which are bigger than they need have been if the Third Plan been fully implemented and that they are too serious to be left to look after themselves.

To have a short spell of restoring balances when investment is largely confined to high priority projects still requires planning. Indeed, it requires more careful planning than if there had been no marked imbalances. It certainly does not call for a "plan holiday" when we just "stop for some time and think anew". This is a slogan which suits the purposes of those who would have us give up governmental guidance and planning of economic development.

CERTAIN elements in the controversy sparked off by the present economic crisis have got needlessly mixed, so that often the protagonists do not know what they are arguing about. There is no doubt that the economy today has some new economic problems, apart from those—such as population, unemployment, and insufficient food—which have been with us for a long time. The "new" economic problems (of foreign exchange gap, rising prices, idle capacity, and construction of projects behind schedule) are "new" in the sense that they have seldom been so severe before; or at least their present conglomeration is rather new.

Imbalances Must Be Corrected

Rationality demands that even those who consider that planning is essential for India's economic growth should examine if the present situation calls for any change in the programme of action for at least the immediate future. It is possible for somebody who is not an anti-planner to argue that the economy at present reveals certain imbalances which are bigger than what they need have been if the Third Plan had been fully implemented, and that they are too serious to be left to look after themselves. To argue that the immediate task should be to restore some element of balance in the economy does not amount to an argument that there are no longer-term tasks to be done. It is possible to argue for extraordinary efforts (extraordinary by the standards of our record hitherto) for producing important gains within a short time, i.e., within a year or two, in the sectors of food, cloth, edible oil, and cement (where there are particularly marked shortages); for quickly bringing to completion the projects in heavy industry, heavy electricals, chemicals and fertilisers, which have been languishing behind schedule for so long; and for taking steps to utilise the 40 per cent idle capacity in industry—it is possible to argue for all these things under our

present circumstances even though one is in favour of state planning.

But let it be said at once that there are a number of people who are arguing for the above things as well as against state planning. In fact the present imbalances are being used as evidence to show that planning does not work. These imbalances can be viewed as the result of two factors: faulty anticipation largely due to poor planning but also partly due to unavoidable uncertainty regarding future developments; and faulty implementation. Even if somebody were to argue that our planning and its implementation cannot possibly improve any further, it would not demolish the case for state planning in India. In spite of all its faults and recurrent crises of various kinds, there has been greater growth under planning than there ever was without any planning. And, in any case, there definitely is hope of improvement both in our planning techniques and in implementation. (Superficial appearances apart, even in countries where the economic problems are much simpler than ours, political parties of almost any colour—when actually in power—come to see the need for some degree of economic planning by the government.)

Shortcomings of Implementation

Shortcomings of plan implementation are illustrated by the following assortment of facts. As we all know by now, in a number of projects, construction is woefully behind schedule, so that their actual outputs in the last year of the current plan are going to be much below targets. Of finished steel, the output in 1965-66 is likely to be 5.8 million tons instead of the target of 6.8; of alloy, tool and stainless steels the output is likely to be just over half the target; of nitrogenous fertilizers the output is likely to be 500,000 instead of 800,000 tons; and of phosphatic fertilizers, only half the target. In agriculture, the Ladejinsky report, which has at last been made public, reveals the

gap between policy proclamations regarding land reform and their actual implementation, and also the distance between the intentions of the intensive package programme and its achievements.

There is, then, a genuine and widening hiatus in implementation which needs immediate attention, otherwise Plan targets and policies will cease to be taken at all seriously. And there is also real economic sense in somehow ensuring that the major part of the 40 per cent idle capacity in industry is brought into use. To the extent that the present inflationary pressures require increased supplies rather quickly, full utilization of installed capacity is an obvious way of bringing about increased supplies. Of course this requires increased maintenance imports which do compete with other imports, e.g., imports of machinery. Hence, fully utilizing the installed capacity does call for some change in priorities in the short-run; but this needs to be done within the framework of a carefully formulated Plan. If full utilization of the installed capacity in a non-essential industry competes with the import of machinery for new capacity in an essential industry, then the former needs to be rejected in favour of the latter. It may be that this is an artificial example; but whether there are any such conflicts or not can only be discovered if there is systematic planning.

Case for a Sub-Plan

To have a short spell of restoring balances during a period of consolidation in which investment is largely confined to high priority projects still requires planning—indeed it requires more careful planning than if there had been no marked imbalances—but it definitely does not require a period in which we just "stop for some time and think anew". The latter is a slogan which can in principle nicely fit those who would have us give up gov-

ernmental guidance and planning of economic development; while the former cannot. A 'plan holiday' is in fact the thin end of the wedge which the anti-planners might use. Yet, those who consider state planning essential, need not deny the need for some change in the emphases and strategy for the next year or two, and for a fundamental change in the character of implementation. (Similarly, though some of those who argue against controls also argue against planning, there is no reason why the supporters of planning should not want to modify any controls which do not serve the planned objectives. See in this connection, the report of the Committee on Steel Control.)

But what about the size of the Fourth Plan? Surely the controversy about the size of the Plan is premature? If performance relating to the short-term targets of the next Plan is worse than our recent general performance, then even the reduced size which some people recommend at present may prove too large; on the other hand, if the next two years see the long-awaited burst of energy on various fronts, it may then well be possible to raise our sights even higher than the present larger size and its accompanying targets. Isn't there then a lot to be said for leaving for the moment the Fourth Plan size and targets as they are, and formulating an eighteen-month sub-Plan for its first phase, in which, for once, an effort will be made to overfulfill all targets? The suitable ultimate size, and the ultimate specific targets, of the Plan can then be reviewed at the end of that period.

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Foreign Capital Requirements in India's Perspective Planning

Arjun Sengupta

The desire to be free from dependence on foreign capital at an early date will be shared by most Indians. But it is not certain that every one of us is aware of its implications.

According to the Planning Commission's perspective plan it is expected that by 1975 the economic structure of the country will be radically transformed and we will be firmly set on the path of self-sustained economic growth, completely independent of foreign capital.

By independence from foreign capital what is meant is that after 1975 there will be no increase in our foreign liabilities, that further inflow of foreign funds will not be needed. By that time we shall have enlarged our domestic resources sufficiently so that after meeting the increased needs of consumption at home and the rate of investment required to maintain a stipulated rate of growth, enough will be left to pay for amortisation, interest and dividend to foreigners for their past contributions of capital. In other words, it is claimed that domestic savings will exceed the required investment by an amount at least equal to the service payments on all forms of foreign capital coming to India until 1975.

It is proposed here to examine this claim.

IT has been solemnly proclaimed in responsible quarters that our country has a "date with destiny" in 1975. By that date, it is asserted with laudable optimism, the economic structure of our country will be radically transformed and we shall be firmly set on the path of self-sustained economic growth. Among many highly desirable things that will happen to us by that time, one is that we shall become independent of foreign capital.

Presumably, this independence from foreign capital does not imply that we shall be free from all foreign liabilities. To the extent foreign capital comes to us in the form of private investment, they will remain as that in periods beyond 1975 and a part of our resources will continue to flow out every year as dividend payments to foreigners, and occasional repatriation of capital. In addition to this, a substantial part of foreign loans will not be liquidated by that time, and we have to provide every year funds for amortisation and interest payments abroad for many years to come. All that is meant by independence from foreign capital is that after 1975 there will be no increase in our foreign liability, that we shall be free from the need for further inflow of foreign funds. By that time we shall have enlarged our domestic resources sufficiently, so that after meeting the increasing needs of consumption at home and the rate of investment required to maintain a stipulated rate of growth, enough will be left out of those resources to pay for the amortisation, interest and dividends to foreigners for their past contribution of capital. In other words, domestic savings will

exceed the required investments by an amount at least equal to the service payments on all forms of foreign capital coming to India until 1975.

I examine this claim somewhat closely in this paper. The desire to be free from foreign capital at an early date is a sentiment that will definitely be shared by most Indians. But I am not sure if everyone of us is aware of its implications. One may suggest that our development potentialities are such that the need for fresh inflow of foreign funds will disappear by 1975 as a matter of course. Otherwise, we may introduce this terminal date as a policy decision and plan our developmental activity in accordance with that. In either case this has certain definite implications in terms of the magnitudes of efforts or sacrifices that will be expected of us during this period. It is only after an assessment of these magnitudes that we shall be able to decide if our aspirations have parted too much from reality or we are prepared for the task and can take the appropriate policies.

In Section I, I shall give the results of an application to Indian data of some methods that I have developed and which are presented in Section II. In Section II, I shall discuss some general issues relevant to the question and the methods of making quantitative assessment of its implications. I have made use of very simple algebraic formulas which can be easily derived by extending the Harrod-Domar formulas to allow for the effect of foreign capital*. This kind of aggregate approach, with an implicit assumption that all other relevant variables some-

how get adjusted to each other behind the scene, can only give an overall view. But this is justified for the simple reason that any plan must at least be consistent at the aggregate level and the implications of such aggregate model are the minimum that must be taken note of.

II

Before proceeding with the application to any concrete situation of the methods to be outlined in the next section for estimating foreign capital requirements, I should underline their aggregative nature. All the aggregative magnitudes involved here are in fact summaries of the corresponding detailed magnitudes of a long run plan, and the consistency of these magnitudes is only a check for the internal consistency of the detailed plan. Further, estimating foreign capital requirements is only a part of the overall plan and depends very much upon the consistency and accuracy of other parts of the plan.

This is the reason why the exercise in this section will be confined only to the Perspective Plan for India for 1960-61 to 1975-76, prepared by the PPD. The assumption is that all other parts of the perspective plan are correct and consistent. I shall only examine the implications of the assumption made by the PPD that by 1975-76 no foreign capital inflow will be necessary, in the sense of finding out what are the consistent values of the different magnitudes, if the PPD claim is borne out in practice. Further, starting from the initial values of the different variables as given by PPD, I shall try to indicate the number of years required

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to attain self-sufficiency consistent with different assumptions about several intensive magnitudes. Since this exercise is concerned with the PPD plan only, I have chosen to stick to the PPD figures for the initial year 1960-61. Since estimates of foreign capital requirements must be consistent with the overall plan, they must be based on the initial year values of the same plan.

The PPD claims that the main role of external assistance "will primarily be to fill the gap in the balance of payments rather than to supplement domestic savings." One gets the impression from the context that by external assistance it is meant all types of foreign capital. So foreign capital is viewed mainly as an instrument for covering the foreign exchange gap, but when it is claimed that by 1975-76 inflow of foreign capital will be nil, it also implies that by that period sufficient domestic savings will be generated to eliminate the savings-investment gap.

The PPD projection of exports for 1975-76 of Rs 1624 crores exceeds the projection of imports, excluding invisible, for that year of Rs 1610 crores. For the purpose of the present paper I shall assume that these projections are correct. But it should be noted that the import figures of the PPD can very well be regarded as the minimum import requirements according to our terminology. The PPD itself claims that "as the proportion of luxury items and otherwise dispensable goods is small in our imports, the scope for effecting any substantial saving of foreign exchange by curtailing imports of unessential goods is very limited." It also observes that "it will be unsafe to provide for imports of commodities of value less than Rs 1350 crores in 1970-71 and Rs 1600 crores in 1975-76 in the context of a growth of industrial production of the order of 10 per cent per year."

In fact, total imports to increase from Rs 1120 crores in 1960-61 to only Rs 1600 crores in 1975-76 when national income is expected to increase from Rs 14140 crores to about Rs 37300 crores during this period would require a tremendous amount of effort and import substitution especially in metals, machinery and chemical industries. The PPD programme envisages a fall in the proportion of imports to national income from about 8 per cent in 1960-61 to a little over

4 per cent in 1975-76 and for all practical reasons this can be regarded as the bare minimum level of imports that has to be financed.

This minimum nature of import requirements has to be emphasised if only to point out how much weight the PPD projections for our exports will have to bear if foreign capital requirement is to become nil by 1975-76 to cover the export-import gap. The PPD export projections are highly optimistic. Total exports are expected to increase from about Rs 672 crores in 1961-62 to about Rs 1225 crores in 1970-71 and further to Rs 1624 crores in 1975-76. Agriculture and animal base exports which accounted for more than three-fourths of our export earnings in 1961-62 would increase from about Rs 509 crores in that year to about Rs 722 crores by 1970-71 (a rate of growth of about 4 per cent per year), and to Rs 863 crores by 1975-76 increasing at a rate of about 3.6 per cent for these last 5 years. The proportion of the contribution of this group of products would fall to about 52 per cent in 1975-76. But exports of manufactured goods would increase from Rs 60 crores in 1961-62 to Rs 276 crores by 1970-71 and to Rs 484 crores by 1975-76. The rate of growth of exports of these items is expected to be 18.5 per cent between 1970-71 and about 12 per cent between 1970-71 and 1975-76. The expected growth of exports of mineral ores is no less optimistic. From Rs 40 crores in 1961-62, they are expected to rise at the rate of 17.5 per cent per year to Rs 171 crores in 1970-71 and then at the rate of about 6 per cent per year to Rs 230 crores in 1975-76. All these projections are obviously very optimistic—and although it is not within the scope of this paper to examine these projections, it seems reasonable to harbour some doubts about them. And to the extent these estimates are subject to doubts, the claim that exports will be enough to finance the minimum import requirements by 1975-76 is not quite tenable.

It may be noted that the estimates for imports here do not include net invisibles which continue to be a net drain on the country's foreign exchange resources. In 1975-76 the deficit in net invisible account is expected to be of the order of Rs 90 crores. The net investment income which has to be remitted abroad has been very conservatively estimated at Rs 246

crores in that year. The deficit has been reduced by highly optimistic estimates of net receipts on account of foreign travel transport and private donations.

In any case, since it is not the purpose of the paper to examine in detail the claim that foreign exchange gap will be eliminated by 1975-76, we shall accept all these projections as correct and concentrate on the savings-investment gap. To simplify matters, I shall assume that this savings-investment gap is covered by foreign capital coming in in the form of grants only. This is obviously unrealistic but such an exercise is justified by the fact that this gives the minimum that will be required, the minimum number of years that will be needed to attain independence from foreign capital.

Foreign capital will naturally come in the form of a mixed bag. There will be some grants in it, but there will also be a substantial amount of foreign direct investment as well as different kinds of loans capital, all entailing definite repayment obligations. It is almost impossible to predict the exact weights of the different kinds of foreign capital in the total inflow in the future, nor is it easy to estimate the repayment obligation. The returns on direct investment even of the past is very difficult to assess and it is even more difficult to project for the future. The terms of loan capital vary widely as between different types of loans and different sources of them. There is a marked tendency in the world today for loan terms becoming easier for the underdeveloped countries, especially after the IDA has come into operation. But there is no certainty that this trend will continue, or India will benefit much from this for a long period. But to the extent these repayment obligations are there, they would detract from the foreign exchange available. In addition to this, there will remain payment obligations of incomes on past investment so that even if all future foreign capital flows in as grants, all of it will not be available to cover the savings-investment gap. As a result of all these, the year of independence for our foreign capital will only recede in the future. So to repeat, the value of 'n' (the year when independence from foreign capital is achieved) obtained by treating all foreign capital inflows as grants will only be the minimum, which all possible realistic values of 'n' will surely exceed.

The PPD figures for the base year, 1960-61, are given below:

	(thousand millions)
GNP at market prices	Rs 159.4
Gross capital formation	Rs 21.0
Public consumption	Rs 11.6
Private consumption	Rs 132.0
Gross domestic savings	Rs 15.8
Net inflow of foreign assistance	Rs 5.2

Gross domestic savings as a percentage of GNP = 9.9 per cent.

This rate of gross domestic savings is naturally higher than the rate of net domestic savings as a proportion of national income.

The rate of growth in the perspective plan for the period 1960-61 to 1975-76 is expected to be 6.6 per cent per year. The following table gives the consistent values of gross marginal capital-output ratio and the marginal rate of savings if, in accordance with the perspective plan, the country becomes self-supporting after 15 years (n = year of independence from foreign capital = 15).

Table 1

Gross Capital- Output Ratio (K)	Marginal Rate of Saving (s)
2.5	21.5%
3.0	27.0%
3.5	32.4%
4	37.9%

Table 2 gives different values of the year of independence for different values of the marginal rate of savings and marginal capital-output ratios.

Table 2

K/s	r = 6.6			
	.20	.25	.30	.35
2.5	19.5	10.0	7.5	5.2
3.0	—	18.8	12.3	8.4
3.5	—	43.1	19.2	12.6
4.0	—	—	32.6	18.3

Independent estimates of marginal gross capital-output ratios or of marginal gross rate of savings of the recent past are not available so that one can form some judgment about the plausibility of some of the figures for the future. For this reason Table 3 and 4 give alternative figures for the consistent values of marginal net capital-output ratio and marginal net rate of savings and the number of years required to attain self-sufficiency,

although such netting involves the arbitrariness about using depreciation figures. The PPD figures for 1960-61 for net national product at factor cost or national income is Rs 141.4 (,000 millions), total net investment is Rs 16.2 (,000 millions), net foreign inflow, as before, Rs 5.2 (,000 millions) and net domestic savings Rs 11.0 (,000 millions). This gives the initial rate of savings = 7.8 per cent. The PPD figure for the rate of growth of national income is 6.6 per cent per year between 1960-75. Tables 3 and 4 are based on these figures.

Table 3

Consistent values of K and s with
 $n = 15$
 $r = 6.6\%$

K	s
2.5	22.1%
3.0	27.3%
3.5	32.6%
4.0	38.0%

Table 4

Value of n with $r = 6.6\%$

K/s	.20	.25	.30	.35
2.5	20.0	11.2	7.8	6.1
3.0	64.3	18.7	12.2	9.1
3.5	—	34.5	18.3	12.9
4.0	—	—	28.5	17.7

Independent estimates of marginal net capital output ratios and marginal net rate of savings are available in RBI Bulletin of March 1965. One should of course note that there is substantial difference in the estimates of savings and capital formation of the PPD and the RBI but the RBI figures would give some broad order of magnitudes which would enable us to form some judgment about the plausible values of different variables.

The RBI figures for the marginal capital output ratio for the period 1956-57 to 1958-59 is 4.21 and for the period 1959-60 to 1962-63 is 3.91. Alternatively for the entire Second Plan period, the RBI estimate for the marginal capital output ratio is 3.86 and for the first two years of the Third Plan (1961-62 and 1962-63) it is 3.53. As mentioned above, the marginal capital-output ratios are all intensive magnitudes, they emerge out of productive operation in different units and there is no reason for their taking one particular value rather than another. But it is difficult to think that the productivity of investment will increase so much that there will be a declining trend in this ratio

in the near future. On the average, I would venture to presume that the marginal capital output ratio over the period 1960-75, will not probably fall below 3.5, or more definitely not below 3.0.

The RBI estimate for the aggregate marginal savings rate for 1956-57 to 1958-59 is only 10.7 per cent and for 1959-60 to 1962-63 is only 19 per cent. Alternatively, for the entire Second Plan the marginal rate of savings was estimated to be 18.9 per cent while for 1961-62 and 1962-63 it was only 14.6 per cent. Allowing for this under-estimation of the RBI, if we assume that the marginal rate of saving will be around 20 per cent on the average for the coming years, it will be seen that with a marginal capital output ratio of 3.0, we will need 64 years to be self-supporting. If we assumed an average marginal rate of savings of 25 per cent per year, it will take 19 years with an average marginal capital output ratio of 3.0, and about 35 years with an average marginal capital output ratio of 3.5 to attain independence from foreign capital.

Finally, one should note that all these figures are purely illustrative and I do not want to attach much predictive significance to any of these values. One should also remember that these calculations do not include repayment of investment incomes abroad. But I believe I may with some reason claim, from Tables 1 and 3, that if we want to be free from dependence on foreign capital by 1975-76, we should be able to generate a marginal rate of savings of at least 27 to 30 per cent in the coming years. This is on the average for the whole period of the Third, Fourth and Fifth Plans, and if our performance upto now has been much lower than this, we have to aim at a much higher ratio for the remaining years of this period.

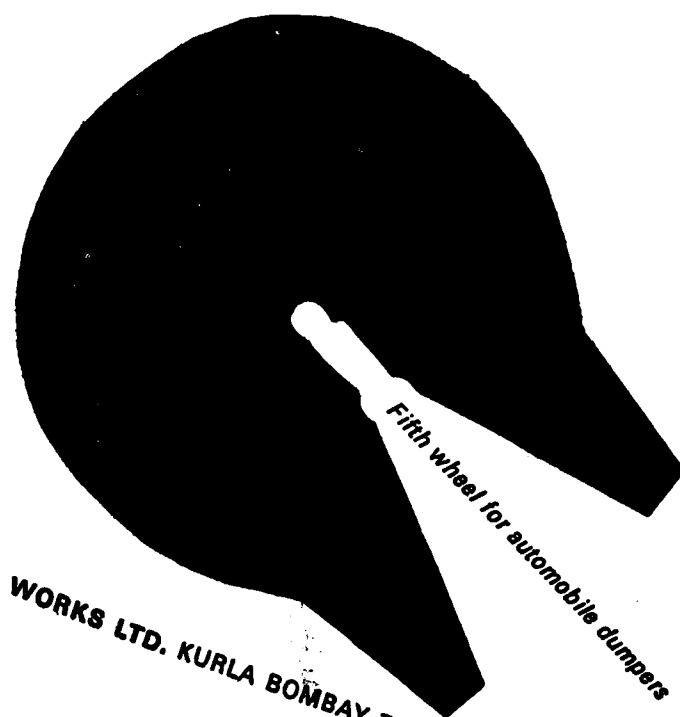
[II]

At any point of time, the total amount of resources available to a country which it can consume and devote to (gross) investment or use for exports is equal to the country's gross national product plus its imports, where exports and imports refer to the credit and debit items of the current accounts of the country's balance of payments. It follows from this identity that at any time, the difference between a country's gross investments and gross domestic savings is necessarily equal to the difference between

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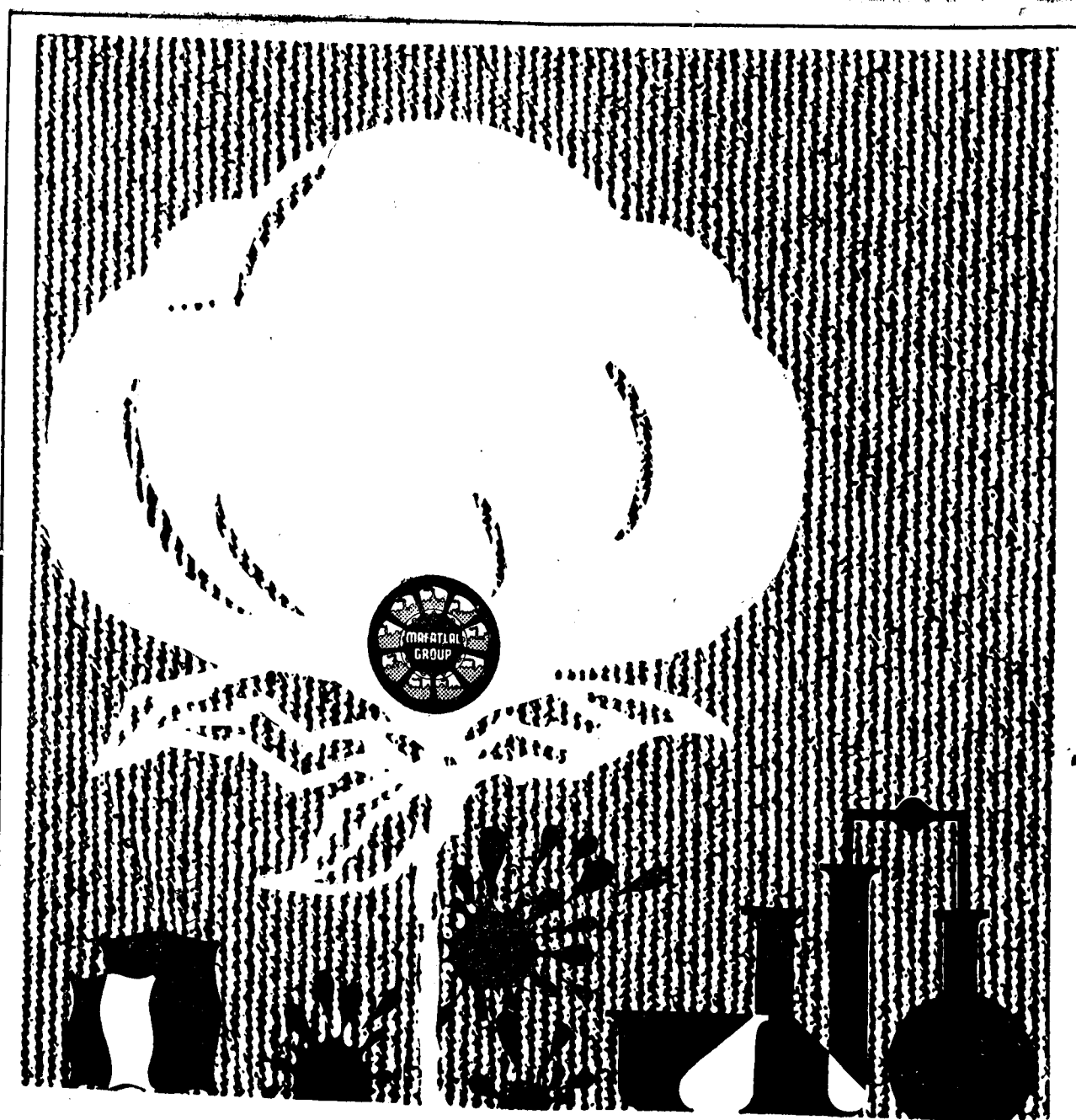
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its imports and exports. So, a country can invest more than it can save, and thus achieve a growth rate higher than that determined by its domestic savings rate, if it could import more than its exports by the same amount. This will naturally depend upon how it finances the import-surplus.

A justifiable assumption to make here is that over a long period an underdeveloped country should not depend upon the depletion of foreign exchange resources or selling gold to finance such import-surplus. In that case, a net inflow of foreign capital remains the only offsetting item in the balance of payments to finance the deficit in the current account.

With this assumption, the role of foreign capital in a growing economy becomes clear. A given amount of foreign capital can finance an equal amount of import-surplus of the capital-receiving country and also allow its investment to exceed its domestic saving by the same amount, that is,

$$I_t - S_t = M_t - X_t = F_t \dots\dots\dots (1)$$

where the variables refer to gross investment, gross domestic savings, imports, exports and net inflow of foreign capital at time 't' respectively.

If gross incremental capital-output ratio is denoted by k , and the rate of growth of GNP by r , then

$$I_t = k \cdot r \cdot Y_t \dots\dots\dots (2)$$

where $Y_t =$ GNP at time t .

The rate of savings is expected to rise over time. Let s_0 be the average rate of savings at the initial period and s , the incremental savings rate and assume the savings function to be of the form,

$$S_t = s_0 Y_0 + s (Y_t - Y_0) = (s_0 - s) Y_0 + s Y_t \dots\dots\dots (3)$$

Then using relation (1), we get

$$\left. \begin{aligned} k_r Y_t - [(s_0 - s) Y_0 + s Y_t] &= F_t \\ \text{or } (k_r - s) Y_t + (s - s_0) Y_0 &= F_t \end{aligned} \right\} \dots\dots\dots (4)$$

$$\text{or } R = 1/k \left[\frac{(s_0 - s) Y_0}{Y_t} + s + \frac{F_t}{Y_t} \right] \dots\dots\dots (5)$$

These give us a unique relationship between the rate of growth r and the net inflow of foreign capital. Given the incremental capital output ratio, marginal rate of savings, average savings rate at the initial period and the initial and the current level of GNP we can obtain the net inflow of foreign capital received to achieve a target rate of growth, or what rate of growth can be achieved with a given inflow of foreign capital. Note also $\frac{dR}{dF} > 0$,

or a larger inflow of foreign capital can achieve a higher rate of growth.

This way of looking at the relationship between foreign capital and the rate of growth of GNP implies that every year the import-surplus somehow gets adjusted to the net inflow of foreign funds. Total imports become automatically equal to the two exogenous variables X_t and F_t and the growth rate entirely depends on how far F_t can eliminate the bottleneck of the low rate of domestic savings. But imports may not be so freely adjustable in the underdeveloped country and a more realistic model should contain some additional constraints in the form of some kind of import bottlenecks.

For instance, one may assume that there is a rigid relation between the minimum level of imports required and the level of GNP. In that case a given amount of foreign capital by financing a rate of investment in excess of domestic savings may not achieve an increase in income, as determined by the capital output ratio, if the maximum level of imports corresponding to the increased level of income exceeds the exports by more than the given inflow of foreign capital. Alternatively, one might suggest that there is a minimum proportion of investment expenditure which must be spent on imports. In that case the rate of growth determined, *ceteris paribus*, by a rate of investment corresponding to a given inflow of foreign capital may not be achieved if the minimum imports out of that investment expenditure exceed the exports by more than the given inflow of foreign capital.

In either case the condition for a given amount of foreign capital inflow to achieve a rate of growth of income determined by the amount of savings investment gap it can finance, is that $M \leq X + F$, where M stands for the minimum level of imports. If this condition is not fulfilled, there will be two operative constraints on the level of income and its growth. The solution of the system then will depend upon whichever constraint is more restrictive, i.e. whichever gives the minimum solution.

Bruno and Chenery in their model for the Israeli economy introduced a variant of the first kind of import restriction mentioned above and estimated the import requirements from the solutions of an input-output model under some strict assumptions. They observed that at lower levels of GNP

the import bottleneck is more restrictive than the savings bottleneck. Their method can be described in a simplified form in the following way. Let the import minimum

$$M = m' (C + I + X)$$

Where C is private and public consumption. The GNP is defined as:

$$Y = C + I + X - M = (I - m') (C + I + X)$$

Then from the equation

$$M = X + F$$

We get

$$\frac{m'}{1 - m'} \cdot Y_t = Y_t + F_t$$

$$\text{or } Y_t = \left(\frac{1 - m'}{m'} \right) (X_t + F_t)$$

which gives a relationship between GNP and foreign capital.

The alternative method of introducing this import restriction, in the form of some minimum developmental imports being a fixed proportion of gross investment, seems to me to be somewhat more realistic than the Bruno-Chenery method. In a planned economy, where the Government can effectively use fiscal, monetary and other kind of quantitative controls, the relative prices, the exchange rate and import-substitution, at least in consumption, are very much dependent on policy decisions and it is difficult to conceive of a minimum import requirement as a given proportion of GNP or total private and public consumption expenditure. On the other hand the proportions of gross investment to be spent on developmental imports will depend very much upon technological relationships. Gross investment here is the required investment corresponding to a target rate of growth and the overall incremental capital-output ratio is a summary of the detailed capital requirements of all the different projects which have to be carried out to achieve that rate of growth. If there is little technological substitutability between different kinds of capital goods in any of these projects, it is possible to calculate the amount of capital goods that have to be imported for any level of required investment from the expected availabilities of these goods within the economy.

Let m_t be the proportion of required investment which is the minimum that must be spent on imports. Then, from equation (2), we get

$$M_t = m_t I_t = m_t k \cdot r \cdot Y_t \dots\dots\dots (6)$$

The condition $M_t \leq X_t + F_t$ gives us

$$m_t k \cdot r \cdot Y_t \leq Y_t + F_t$$

or

$$r \leq \frac{1}{m_t k} \left(\frac{X_t}{Y_t} + \frac{F_t}{Y_t} \right) \dots (7)$$

This relation gives the upperbound to the rate of growth of GNP that can be achieved in this system. A net inflow of foreign capital, by covering the savings-investment gap, as in equation (5), cannot achieve a rate of growth which is higher than

$$\frac{1}{m_t k} \left(\frac{X_t}{Y_t} + \frac{F_t}{Y_t} \right).$$

The rate of growth can be equal to it, when the savings-investment gap is exactly equal to the gap between exports and the minimum imports, or it can be less, when the economy is able to import more than the minimum.

It can also be seen that this upperbound or the import constraint on the rate of growth becomes less and less restrictive as time goes on. If exports increase at a faster rate than GNP then even if foreign capital inflow tapers off this will not offset the effects of increasing exports as it is normally only a fraction of total exports. Further, there is every reason to expect that m_t will decline over time, as with the rising GNP, more and more of different kinds of capital goods will be produced domestically. Thus, in the long run the savings — investment gap will determine the effect of foreign capital on the rate of growth, although in the early phase of development the import constraint may be more important.

From the relation (7) it is possible to calculate the number of years after which the minimum import-requirements can be fully financed by the country's exports without being supplemented by foreign capital. Let n be the year when such independence from foreign capital is achieved. Then

$$M_n = X_n$$

$$\text{or } m_n k r Y_n = X_n$$

Assuming a constant rate of growth over time in GNP and exports, we get $m_n k r Y_0 (1+r)^n = X_0 (1+e)^n$

$$\text{or } \frac{(1+r)^n}{(1+e)^n} = \frac{1}{m_n k r} \cdot \frac{X_0}{Y_0} \dots (8)$$

from which the value of n can be obtained.

It should be clear from the above discussion that this n need not be equal to the n obtained from the relation (4). The latter gives the number of years after which the country will generate enough domestic savings to finance the investments required to attain a given rate of

growth without depending on foreign capital. This can be obtained from the relation (4) in the following way:

The relation (4)

$$(kr-s) Y_t + (s-s_0) Y_0 = F_t$$

becomes in the n th year when $F_n = 0$

$$(kr-s) Y_n + (s-s_0) Y_0 = 0$$

$$\text{or } Y_n = \frac{s-s_0}{s-k} \cdot Y_0$$

Since $Y_n = Y_0 (1+r)^n$, we get

$$(1+r)^n = \frac{s-s_0}{s-k} \dots (9)$$

from which the value of n can be obtained.

It is obvious from all this that the essential condition for the country's becoming independent from foreign capital at a future date is that $s > k \cdot r$ or the marginal rate of savings should exceed the required rate of investment. Further, smaller will be the value of n , i.e. earlier will be the year of such self-sufficiency, the bigger the difference between the marginal rate of savings and the required investment and the higher the value of the initial rate of savings (s_0).

Until now, no reference has been made to the problem of repayment and servicing of foreign capital. Unless foreign capital comes purely in the form of grants and donations, funds will have to be provided every year for dividend or interest and amortisation payments. This implies that there will be an annual drain from the country's domestic savings as well as from its foreign exchange earnings an amount equal to the payment of investment and amortisation abroad. Since the minimum import requirements, considered above have been made to depend either only on the rate of investment or on domestic expenditures, this drain in foreign exchange and domestic savings which any foreign capital inflow other than grants necessarily entails has to be explicitly taken into account in the equation of foreign capital requirement.

Before we introduce this factor, it should be clear that the relations (4), (5), and (9) all refer to the case of foreign capital inflow purely in the form of grants. No repayment obligation is attached to them, and after the n th year that is, the year of independence from foreign capital is reached, the country's domestic savings will exceed the required investment rate. In that case, if the same rate of growth is maintained, the country will have to export capital

abroad. Otherwise the country's rate of growth will have to increase every year so that the rate of investment required to achieve the higher rate of growth is equal to the increasing domestic savings. The model then will look like a simple Harrod-Domar system.

$$I_t = S_t$$

$$\text{or } k r_t Y_t = (s-s_0) Y_0 + s Y_t$$

$$\text{or } r_t = 1/k \cdot s - 1/k (s-s_0) \frac{Y_0}{Y_t}$$

This increasing rate of growth will approach, as time passes, $\frac{s}{k}$ for the

$$\text{expression } 1/k (s-s_0) \frac{Y_0}{Y_t}$$

will become smaller and smaller.

I shall consider in the following two types of foreign capital inflow which have some form of repayment obligation attached to them. In case A, I shall consider the case of direct foreign investment which entails an obligation of payments of dividend income abroad but no repayment of capital. There may be some repatriation of direct/foreign investment every year, but since this is not necessarily related to the past inflow, it will not be explicitly introduced in the system. As the foreign capital inflow figures are netted against outflows, such repatriations will be reflected in the size of the foreign capital. In case B, I shall consider the case of foreign loan capital which has an obligation of a series of interest and amortisation payments abroad for a stipulated period attached to it. The important difference between foreign loan capital and foreign direct investment is that the former liability is totally liquidated after a stipulated period while even when no net direct investment is flowing in, the country has to provide for dividend payments abroad for an indefinite period.

Case A

Here, let us suppose that all foreign capital is coming in the form of direct investment. The required amount of foreign capital is no longer simply the difference between the required rate of investment, to achieve a target rate of growth, and the rate of savings. Funds have to be provided in foreign exchange every year to pay for the dividends on the past foreign investments and the amount of foreign capital required every year will be equal to the gap, between the required investment plus such dividend payments and domestic savings. If D_0 is the accumulated foreign investments

at the initial year and i , the average rate of dividends to be paid on the j th year's inflow of direct investment, then foreign capital required at n th period will be

$$F_n = I_n - S_n + i_0 D_0 + \sum_{j=1}^{n-1} i_j F_j$$

For simplicity assume a constant average rate of dividends over time, equal to i , — though it is obvious that F_n could be determined if i_j 's could be estimated correctly for the different years.

Then we obtain,

$$F_n = I_n - S_n + i D_0 + i \sum_{j=1}^{n-1} F_j$$

This can be expanded as follows:

$$\begin{aligned} F_n &= I_n - S_n + i D_0 + i \sum_{j=1}^{n-1} F_j \\ &= I_n - S_n + i D_0 \\ &\quad + i \left[I_{n-1} - S_{n-1} + i D_0 + i \sum_{j=1}^{n-2} F_j \right] + i \sum_{j=1}^{n-2} F_j \\ &= I_n - S_n + i D_0 \\ &\quad + i \left[I_{n-1} - S_{n-1} \right] + i^2 D_0 \\ &\quad + i \left(1+i \right) \sum_{j=1}^{n-2} F_j \\ &= I_n - S_n + i D_0 \\ &\quad + i (I_{n-1} - S_{n-1}) + i^2 D_0 \\ &\quad + i (1+i) (I_{n-2} - S_{n-2}) + i^2 (1+i) D_0 \\ &\quad + i (1+i)^2 \sum_{j=1}^{n-3} F_j \\ &= I_n - S_n + i D_0 \\ &\quad + i (I_{n-1} - S_{n-1}) + i^2 D_0 \\ &\quad + i (1+i) (I_{n-2} - S_{n-2}) + i^2 (1+i) D_0 \\ &\quad + i (1+i)^2 (I_{n-3} - S_{n-3}) + i^2 (1+i)^2 D_0 \\ &\quad + i (1+i)^3 \sum_{j=1}^{n-4} F_j \\ &\dots \dots \dots \end{aligned}$$

$$\begin{aligned} &= \left[(I_n - S_n) + i (I_{n-1} - S_{n-1}) + i (1+i) (I_{n-2} - S_{n-2}) \right. \\ &\quad \left. + i (1+i)^2 (I_{n-3} - S_{n-3}) + \dots \dots \dots \right. \\ &\quad \left. + i (1+i)^{n-2} (I_1 - S_1) \right] \\ &\quad + i D_0 (1+i)^{n-1} \dots \dots \dots 10 \end{aligned}$$

Assuming a constant rate of growth ($r \neq i$), we can use the relations

$$I_n = k r Y_0 (1+r)^n$$

$$S_n = Y_0 (s_0 - s) + Y_0 s (1+r)^n$$

$$\text{from (2) and (3) as } Y_n = Y_0 (1+r)^n$$

$$\text{Then, } I_n - S_n = (kr - S) Y_0 (1+r)^n - Y_0 (s_0 - s)$$

Putting $n=n, n-1, n-2, \dots, 1$ we get from (10)

$$\begin{aligned} F_n &= (kr-s) Y_0 \left[(1+r)^n + i (1+r)^{n-1} + i (1+r)^{n-2} \right. \\ &\quad \left. + \dots + i (1+i)^{n-2} (1+r) \right] \\ &\quad - (s_0-s) Y_0 \left[1 + i (1+i) + \dots + i (1+i)^{n-2} \right] + i D_0 (1+i)^{n-1} \end{aligned}$$

$$\text{or } F_n = (kr-s) Y_0 (1+r)$$

$$\begin{aligned} &\left[i \frac{(1+i)^{n-1} - (1+r)^{n-1}}{i-r} \right] \\ &+ Y_0 (s-s_0) (1+i)^{n-1} + i D_0 \end{aligned} \dots (11)$$

From this relation, by putting $F_n = 0$, one is able to determine the number of years after which no fresh inflow of foreign capital, all coming in the form of direct investment is required to maintain a given rate of growth.

As before, this essential condition for independence from foreign capital at a future date is $s > Kr$ or the marginal rate of savings should exceed the rate of investment required. But the period taken to achieve this independence will obviously be longer than in the case of grants. The pure savings-investment gap will be covered at a relatively early period, but inflows of foreign capital will continue to be required as domestic savings will not be sufficient to pay for dividends on the accumulated investment. Only, at the year of independence, domestic savings will be enough to meet the needs for the required investment as well dividend payments. But, as mentioned earlier, this does not mean that after the year n , all domestic savings can be invested. A sum of

$$\left[i \sum_{j=1}^{n-1} F_j + i D_0 \right], \text{ will have to}$$

be paid continuously, if no capital is repatriated and only the amount of savings in excess of this sum can be invested. So, after the year the rate of growth will start rising, as in the case of grants, but at a much slower rate.

Case B

In the case of foreign loan capital payment obligations abroad include in addition to interest payments every year amortisation payments for every loan. The exact time profile of such payments will depend upon the arrangements for amortisation and

interest payments for different kinds of loans. Interest and amortisation can be charged on the net debt outstanding, in which case loans are not completely liquidated but the unliquidated balance of each loan becomes smaller and smaller every year. On the other hand while interest is charged on the net debt outstanding, yearly amortisation may be 1/T of the original value of each loan for T periods. Alternatively, the equal instalment method may be followed, when amortisation and interest on each loan are paid off in a series of equal annual instalments.

There may be several other ways of charging interest and amortisation on different kinds of loans, and in any particular year the total amount of foreign loan will be composed of several kinds of loans subject to different methods of charging interest and amortisation rates. Quite often some kind of "grace period" is attached to official loans when the interest and/or amortisation payments do not begin till some years after the loans are granted.

I shall consider here only the equal instalment method which is probably the most commonly used method for different kinds of official loans. It is also easily comparable to the earlier results and can highlight the issues involved in any such illustration. According to this method, if F is the amount equal to a F will be repaid every year, from one year after the loan is granted, for a period of T years to pay off both the principal and the interest on such loan. This 'a' can be called the rate of servicing of foreign loans. The stream of annual payments is like an annuity, the present discounted value of which is equal to the original value of the foreign loan.

If $v = 1 + i$, where i is the rate of interest, using the standard formula for the present value of an annuity, we get

$$F = \frac{aF(vT-1)}{vT(v-1)}$$

From this, we get the rate of servicing

$$a = \frac{vT(v-1)}{vT-1} \dots (12)$$

Note that the value of 'a' depends only on the rate of interest and the period of loan T. If i is given, then a will be larger, smaller the value of T. The grace period can be easily accommodated within this formula. Suppose a loan is granted for 40 years of which for the first ten years no

payment is involved and the principal and interest are paid off in equal instalments in the remaining 30 years.

Then a will be equal to $\frac{v^{30}(v-1)}{v^{30}-1}$ but the annual payments will be for the last 30 years equal to aFv^{10} .

Let us assume that all foreign loans are given for a period of T years and the rate of interest i is the same for all loans and over time. Even then the estimation of foreign capital requirements in this case is quite complicated. We have to consider explicitly the fact that after every $T + j$ year, the j 'th year's foreign loan is completely liquidated and no more repayment obligation is involved for this. Consider this following sequence.

$$F_1 = I_1 - S_1 + a(F_0 + F_{-1} + F_{-2} + \dots + F_{-(T-1)})$$

$$F_2 = I_2 - S_2 + a(F_1 + F_0 + F_{-1} + \dots + F_{-(T-2)})$$

$$F_T = I_T - S_T + a(F_{T-1} + F_{T-2} + \dots + F_0)$$

$$F_{T+1} = I_{T+1} - S_{T+1} + a(F_T + F_{T-1} + \dots + F_1)$$

which can be generalised in the formula:

$$F_n = I_n - S_n + a \sum_{j=1}^{n-1} F_j \dots (13)$$

Now, if this time profile of all the foreign loans previous to the initial period $j = 1$ are known, or if the investment, savings and growth relationship can be projected backwards, the system can still be solved. Since our purpose is mainly illustrative, we can simplify by assuming that no foreign loan was outstanding at the initial period and F_0 is simply equal to $(I_1 - S_1)$. If, in addition to this we assume $T > n$, then our equation (13) becomes:

$$F_n = I_n - S_n + a \sum_{j=1}^{n-1} F_j \dots (14)$$

which is comparable to the earlier relation (10), of the case of direct investment, with $D_0 = 0$, and a replacing i . The solution for this will be:

$$F_n = (kr - s) Y_0 (1 + r) \left[\frac{a(1+a)^{n-1} - r(1+r)^{n-1}}{a-r} \right] + Y_0 (s - s_0) (1 + a)^{n-1} \dots (15)$$

From this, the value of n , the year of independence when $F_n = 0$, can be calculated.

An important distinction between foreign loan and foreign direct investment is that although after the year

of independence the entire amount of domestic savings cannot immediately be channelled into investment, the amount of the drain of resources on account of service charges on foreign loans will be declining until the year $n + T - 1$, after which no more service charges will be required. Thus in the case of foreign loans between the years n and $n + T - 1$ the rate of growth of the economy will be increasing at a slower rate than in the case of grants but at a faster rate than in the case of direct investment. But after $n + T - 1$ years, the rate

of growth will be similar for both the cases of foreign loans and foreign grants.

*C A Alter: "The Servicing of Foreign Capital Inflows by Underdeveloped Countries", in "Economic Development of Latin America", (ed) Ellis and William; Bruno and Chenery: "Development Alternative in an Open Economy: the Case of Israel", *Economic Journal*, March 1962; D. Mar: "The Effect of Foreign Investment" in "Essays in the Theory of Economic Growth".



The Agricultural Prices Commission What It Has Done and What It Could Have

Rustic

When the Agricultural Prices Commission was appointed six months ago, there was considerable scepticism about its possible usefulness. No one knew what a price policy was supposed to achieve, and no one expected that three people without any executive authority could get the government to buy, sell and build stocks that were essential to make recommended prices effective.

Now we know what the Commission regards as its task, and from its report on "Price Policy for Kharif Cereals, 1965-66" we can also have a rough idea of the competence with which it will carry it out.

THE Agricultural Prices Commission regards itself as an arbitrator in the distribution of real incomes between producers and consumers of agricultural consumer goods, mainly foodgrains. When it earlier declared minimum prices for rabi crops it explained that they were such as to give a reasonable return to an efficient farmer. While such calculations can only be crude and of limited significance, the ideal of being fair to the puritan, hard-working farmer is clear. The declared preference for stable prices is also justified on the grounds that they would make the farmer's calculations of expected profits more reliable. So the Commission will engage itself on working out prices on a cost-plus basis and collecting little bits of cost information for the purpose.

This idea of a just price is not an economic concept; but that is no condemnation of it, for economics has nothing to say on justice. Food prices are a crucial issue of urban politics, and our various governments are highly sensitive to urban pressures, so there is and will be a food price policy—one with the intention of minimising urban food prices. It will be no loss if the Commission manages to introduce some long-term consistency in the policy. The notions of the economic farmer and correct terms of trade, although they are myths, are unlikely to prove pernicious myths.

However, this price-fixing activity is likely to become a routine exercise; the Commission seems unconsciously to have turned to another task for its main business. It is made up of thinking individuals who still probably get some time to concentrate on problems; it would be impossible for them to fix Kharif prices without thinking about their implications. It is this working out of implications that is the main interest of the report on Kharif prices; and if properly done, it will be enough to justify the

existence of the Commission. Agriculture is such a bedevilled subject politically and the views one hears on it are based on such unashamed vested interests that some disinterested argument in official clothing can only improve the tone of the debate.

Inter-State Trade

The Commission is drawn to discuss two issues—those of inter-State trade and the procurement-distribution mechanism. A praiseworthy feature of the discussion is that it does not just present a case; various alternatives are presented, and the Commission gives reasons for preferring one or the other. Unfortunately, the reasons given are poor. Let us take the Commission's justification for restrictions on inter-State movement for example:

"While flow of supplies of foodgrains from surplus to deficit States is natural and desirable, it is apprehended that in a situation of shortage, entirely unregulated movement on private trade account may lead to an indiscriminate rise in prices everywhere. Moreover, as purchasing power of different regions does not necessarily match their needs, there is a possibility that surpluses of the producing regions may be moved out to such an extent that prices in those regions are pushed up to a level which would cause hardship to the vulnerable sections of the population in those regions. Hence some degree of regulation of inter-State movement of foodgrains appears to be inescapable in the present context."

Now it is as justified to say that unrestricted movement of foodgrains will lead to an indiscriminate rise in prices as that it will lead to an indiscriminate fall. Movement restrictions or their removal primarily affects relative prices. If the price-elasticity of demand for foodgrains were lower in surplus States than in deficit ones, removal of restrictions would raise the average price level; but the Commission has nowhere made this as-

sumption, let alone justified it, and it is unlikely that it even thought of it.

The welfare reason given for restrictions—that they prevent hardship to the poor in surplus areas—is equally specious, since it ignores the poor in deficit areas. There might be grounds for believing that the former poor are poorer or more vulnerable than the latter poor. The per capita availability of cereals is highest in the surplus States of Orissa and Madhya Pradesh, and it is possible that this is so because of poverty (i.e. because the poor eat relatively more cereals). So State food zones might conceivably increase the real incomes of the poorest. But the argument is very tenuous and requires a great deal of substantiation.

The Commission claims that "as a result of procurement and allocation operations of the Government, the inter-State differences in per capita availability of foodgrains have been considerably reduced". If we are to judge by the figures given by the Commission there is no substance in the claim at all. The figures relate to "coefficients of variation"; presumably what is meant is the standard deviation of observations which have been normalised in some fashion. The coefficient of variation of per capita net production of cereals in States in 1965 is given as 29.5 per cent, while the coefficients for per capita availability was 15 per cent. The fact is, however, that cereals tend to move from States with high availability to ones with low availability, and so as long as there was movement of cereals, availability would show less variation than production. If procurement and allocation operations did not lead to more equal availability than production, they would have to be regarded as highly perverse and pernicious. The coefficient for availability in 1961 to 1963 when the movement of foodgrains was relatively free was 17 per cent. It is so nearly the same as the

1965 coefficient that to argue that it fell as a result of government operations betrays statistical illiteracy. The conclusion that the Commission's figures justify is quite the contrary of the one it draws—it is that if it was the purpose of the government in introducing procurement and allocation to equalise per capita availability between States, it has signally failed in this purpose.

In fact, a suspicion of fiddling with figures cannot be avoided. Raj Krishna says in his note of dissent that "...the variation in the availability of wheat and of all cereals as between States has declined, but the variation in the availability of rice has increased in 1965 in comparison with the variation in 1961-63". It is impossible to evaluate this conclusion since the actual figures are not given; the Commission should really have given all the relevant figures that it worked out. But if Raj Krishna is right, the picture might be a very unfavourable one to State food zones. For it appears that food zones have reduced the flow of rice from surplus to deficit States, and the resulting shortfall has been made up by the issue of imported wheat to rice deficit States. This conjecture might well be wrong, but there is nothing in the Commission's report to suggest that it is.

Procurement

As regards procurement, the Commission suggests a partial levy which would bring in about 25 per cent of the marketed surplus of rice. It is essential for the government to have some assured supply of cereals to provision fair price shops, and monopoly purchase would cause much discontent among farmers. Hence the compromise of a partial levy.

In spite of the crudity of its projections, it is difficult to question the Commission's view that given the rate at which the demand for grain sold by fair price shops is growing, compulsory procurement is inescapable. But the details of its proposal are vague. The levy might be imposed either on producers or on millers. Theoretically, a levy on millers should be easier to administer; but the actual results of such levies have been disappointing.

If the levy is to be imposed on farmers, the question of its base is important. A levy on production would be difficult to assess, and a levy on sales even more so. The easiest levy to work would be one

based on area with some adjustments for fertility perhaps. Its estimation would follow the same principles as land revenue. However, the economics of such a levy needs to be explored very fully. Should it apply only to land under cereals or to all land? Should compensation for the procured grain be given entirely in money or partly in kind? What element of taxation should there be in the prices paid? These questions need to be raised and answered—answered with imagination, intelligence and daring.

Piecemeal Approach

The most important contribution of the report is to emphasise that the provision of towns through fair price shops necessarily entails compulsory procurement, and that procurement must be equitable as between States—that it must be based on what the Commission calls a National Food Budget. This is not very profound, but it needs to be said and said again, in view of the general reluctance to act and respect for local interests.

Having said this, the Commission ought to have gone on to work out the National Food Budget itself and the pattern of procurement; it should have formulated policy for entire agriculture, and not just fixed prices of Akkulu, Kattaisamba, Suthersaul and other varieties of rice. True, it might by doing so, have transgressed the strict limits of its terms of reference, but no one would have minded this terribly if the Commission had something worthwhile to say. The important fact is that everybody

knows that we are just now in a desperate position agriculturally, everybody feels the need for State action. But policy is made, not out of high ideals and pious declarations, but out of careful, concrete proposals that bring objectives and administration together. The Commission is eminently suited, both by its composition and by its tasks, to work out such proposals.

At this point this review should end. But a protest must be made against the Commission's notion that procurement must be a battle of wills between the government and farmers. It is true that if we want to maintain fair price shops farmers must be made to provide a regular supply of foodgrains. The necessity is even more inescapable now that statutory rationing covering millions is proposed. But must the farmers be given unattractive below-market prices for the procured grains? Why not pay them in goods and services instead? Pay them in fertilisers, seed, pumps, schools, storage services, in whatever would help them increase output. This two-way traffic in goods can be used to put some purpose and life into the Food Corporation which is languishing for lack of work. It will alleviate the antagonism latent in a levy system, impose obligations in respect of agricultural investment and improvement which both the State and the farming people have shirked hitherto, and lead to most/reliable, rapid and steady increase in agricultural output.

Modern Fibres of India

A NEW Company, Modern Fibres of India, has been registered in Bangalore for the manufacture of acetate fibres using acetate flakes as raw material. The Rs 6 crore project is proposed as a joint venture of Modern Mills, Bombay, and a prominent UK manufacturer of man-made fibres, who together are expected to subscribe to 50 per cent of the total equity capital of Rs 2 crores. The sponsors have approached an international institution to subscribe to another 25 per cent of the equity capital, leaving a balance of Rs 50 lakhs in equity capital, which will be offered to the public towards the end of this year, together with another Rs 25 lakhs in preference capital. The public issue is expected to be fully underwritten. The plant and machinery for the project has been tendered

UK, which has recently supplied two acetate fibre plants to the Soviet Union.

Acetate filament yarn, which has silk-like qualities, has been enjoying a boom in the last few years throughout the world. In the United States, the production of acetate filament yarn for the textile industry is now double that of viscose filament yarn, both of which are of cellulosic origin. In India, on the other hand, the production of acetate filament is hardly 8 per cent of the total cellulosic filament yarn production which is predominantly viscose.

The new project expects to initially produce finer deniers of acetate yarn which are not presently manufactured in the country and which, under the present import restrictions, cannot be

Dalal Street at New Low

Wednesday, Morning

ON the stock market, it is almost the same story every week. The turnover continues to be extremely restricted and equities keep sagging for sheer want of support. There is no outside money flowing into the market to feed the professional speculators who therefore are in no mood to extend fresh large commitments. With the stockbroking community keeping idle most of the time, utter frustration prevails in the market and the feeling of despondency is increasing with time.

News hardly matters—not bullish news anyway. A possible reduction in the size of the Fourth Plan, exemption of a few more categories of imports from the deposit requirements, encouraging corporate news, reports suggesting a agreement on the repayment of Government loans taken by the two steel companies—TISCO and IISCO—none of these brought any relief to the market. Except for a little steadier sentiment on August 7, Dalal Street displayed a subdued tendency most of the time and it developed distinct easiness near the weekend following disturbing developments in Kashmir. Extensive Pakistani infiltration into the territory of Jammu and Kashmir has been viewed with serious concern by New Delhi. Dalal Street which had never been in good shape has chosen to beat a further retreat, striking a new low for the year—the lowest for many years.

There seems to be no end to the stock market's difficulties. How long the current phase of agonising dullness will continue is anybody's guess. Activity on the stock market is unlikely to revive appreciably unless investment in equities begins to appear quite attractive in the context of the prevailing structure of high interest rates and the economic and political climate holds out a reasonable hope of capital appreciation. The prospect in this regard is far from promising at present.

COTTON

Credit Curbs — Why Not

WITH activity in cotton futures virtually at a standstill, turnover in the spot market also extreme-

ly restricted and prices keeping almost at the season's highest, perhaps the only thing that needs to be mentioned about the cotton market is the trade's strong protest against the Reserve Bank of India's decision extending, for the first time, the scheme of selective credit control to cotton and 'kapas'. The minimum margin on bank advances against cotton and 'kapas' (advances to cotton mills have been exempted) has been fixed at 50 per cent of the value of the relative stocks. Margin has been made applicable with immediate effect in respect of new limits, while in respect of existing limits it will come into force not later than August 20.

The trade's anxiety is understandable. Scheduled banks are known to have been making advances against cotton with a margin of 20 to 25 per cent. The 25 to 30 per cent increase in the margin is bound to cause serious strain on the trade's resources as it is reported to be carrying a stock of nearly 10 lakh bales. It is estimated that the trade will have to find about Rs 15 crores by August 26 to meet the margin liability and this is no easy job. It has therefore represented to the Reserve Bank Governor that foreign cotton, exportable indigenous cotton and cotton stocks held by the trade on behalf of the mills should be exempted from the new margin rules.

There is something to be said for giving the trade sufficient time to be able to make adequate arrangements to cope with the new margin requirements, a fortnight's period being rather too short. But considering that cotton has been quoted well above the statutory ceilings all through the season—the premiums range up to Rs 150 a candy at present—one really wonders why the trade should be having any stocks at all. The existence of large stocks with the trade as also with farmers and cooperative societies in face of the acute financial stringency and in spite of the fantastic premiums that cotton is enjoying over the statutory ceilings is an indication of complete disrespect for the law. Exorbitant premiums and large stocks amidst serious financial stringency present an intriguing phenomenon. Nobody can re-

ally have any sympathy for those who openly violate the price control order

OILSEEDS

Remarkably Firm

THE setback in oilseeds prices noticed in the preceding week has proved to be a very short-lived affair. The market has again developed remarkable firmness, with ready groundnut oil price striking a new high for the season. Linseed oil and castor oil also are not much below their season's best. Groundnut oil which had recently eased from Rs. 31.50 to Rs 28.50 was up again at Rs 31.70 (per 10 kgs) on August 10. Linseed oil has recovered from Rs 25.50 to Rs 27.50 and castor oil from Rs 18.25 to Rs 19.10. The recovery in oilseeds futures has been no less spectacular. Linseed April has recovered from Rs 102.75 to Rs 112 and castor April from Rs 82.50 to Rs 91, which takes them fairly close to their recent best. Last week's highs were recorded only in kerb deals, official trading at above Rs 110.50 for linseed and Rs 89.75 for castor being prohibited by the maximum limits set for the price rise during the week. It bears repetition that the rise in futures that occurred last week has, in the past, been the full season's range at times. Who can satisfactorily explain such wide (wild is perhaps more appropriate) swings in prices in a matter of days?

There was nothing very disturbing in the weather news to explain the renewed spurt in prices. Weather reports were generally satisfactory though some parts in Andhra, Mysore and Madras were said to be in need of early rains. What is more, the rise in bank advances against vegetable oil and oilseeds (excluding groundnut and cottonseed). If tightening of credit control measures has failed to produce even the slightest impact on the oilseeds market it is essentially because stocks of oilseeds and oils are being held mainly by the farmers and cooperative societies and not by merchants and it is not the scheduled bank's credit which has been employed for financing these stocks but cooperative credit which remains outside the purview of selective credit control measures.

Vanspati Buying

But more than anything else, it was the vanaspati manufacturers' decision to put an end to their gentlemen's agreement under which they had been reportedly keeping off the groundnut oil market for a month which caused a spurt in oilseeds prices last week. The vanaspati industry's scheme of self-restraint has failed miserably. Few people ever really believed that vanaspati manufacturers had refrained from making fresh purchases because groundnut oil had all the time been quoted above the 'ceiling' rate of Rs. 2,700 a tonne; it is easily possible for anyone to effect purchases without having to disclose the real identity. Nobody need criticise the industry for its decision to resume open market purchases of groundnut oil with effect from August 10 at well above the 'ceiling' of Rs 2,700—business on August 10 was put through at between Rs 3,050 and Rs 3,150 a tonne. For the industry is quite free to chalk out its programme of action so far as purchase of groundnut oil is concerned. But it is necessary to point out that when the industry chose to abstain from buying groundnut oil in the open market at a price not exceeding Rs 2,700 per tonne it need not have made the boastful claim that the decision had been taken with a view to curbing unhealthy speculation and preventing any increase in the price of groundnut oil."

NTSD -Contracts

Mention must be made of New Delhi's announcement that non-transferable specific delivery contracts in groundnut and groundnut oil can hereafter be entered only between or through or with members of associations recognised for forward trading in these commodities under Section 6 of the Forward Contracts (Regulation) Act. The decision is said to have been taken following a steep rise in prices of groundnut and groundnut oil and to prevent speculation being diverted to non-transferable specific delivery contracts as hedge trading in these commodities is virtually at a standstill.

The regulation of trading in non-transferable specific delivery contracts under the Section 15 of the Forward Contracts Act throughout the country implies that the entire trade will be routed through the associations recognised for conducting hedge trading. This is a far reaching step and

its implications need to be examined very carefully before implementing such a measure. Trading in NTSD contracts cannot be equated with hedge trading. Will these contracts be subjected to the ceilings prescribed for hedge contracts? It needs to be mentioned that whereas the Forward Markets Commission has prescribed a ceiling of Rs 105 per quintal for the groundnut hedge contract, spot groundnut (Karad Bold) is currently quoted around Rs 152. It is the arbitrary and unrealistic ceiling which has brought futures trading in groundnut to a standstill; of course few will regret the lack of facility to speculate in groundnut.

Unwise Move

Reliable reports indicate that the Union Commerce Minister Manubhai Shah has urged the Solvent Extractors Association of India to consider seriously the proposal of a leading firm—Ulhas Oil and Chemical Industries (Private) Ltd. to purchase 3 lakh tonnes of groundnut extractions on a mutually agreeable formula for export to the U K on an exclusive basis. The Honourable Minister has expressed the view that the proposal is "in the interest of the country as it would stabilise export trade to the U K" which is the primary interest at the present time of his Ministry. The proposal was submitted at the meeting which the Solvent Extractors Association of India recently had with the Union Minister in order to finalise the details of the revised export scheme under which the export trade will be conducted only by the manufacturers after the end of September. Shri Manubhai Shah's support to the proposal for the purchase of a huge quantity of 3 lakh tonnes for export on an exclusive basis seems most unfortunate, to say the least. India has been doing well in regard to the export of groundnut extractions—setting new records every year. Where is the need to encourage one particular firm to export as much as 3 lakh tonnes on an exclusive basis? If the Commerce Minister has any fear that the export performance of groundnut extractions this year is unlikely to show an improvement over the previous year's record shipments, he had better have a second thought on the revised policy for export of groundnut extractions which prohibits established shippers from participating in the business.

THE ECONOMIC WEEKLY

MONEY AND BANKING

Tightness Returns

TIGHT conditions prevailed in the Bombay short-term money market during the week to August 11. Demand for funds continued at a high level while supply of funds was lower due to larger purchases of treasury bills. The position is likely to become even more stringent during the coming weeks in view of the State Government loans floated recently. Interest rates ruled firm throughout the week and on Wednesday evening the rate quoted was 5 per cent. Conditions in the Calcutta market were more or less similar. Demand for funds was keen with supply small and the rate quoted was around 6½ per cent.

Scheduled bank deposits during the week to July 30 were higher by Rs 11.11 crores at Rs 2,788.96 crores, according to the latest weekly statement issued by the Reserve Bank. Bank credit, on the other hand, was lower at Rs 2,025.94 crores by Rs 8.67 crores. Cash and balances with Reserve Bank were also lower at Rs Rs 166.09 crores against Rs 181.78 crores. Borrowings from the Reserve Bank declined by Rs 6.02 crores at Rs 9.62 crores. Investment in government securities was better by Rs 17.37 crores at Rs Rs 829.32 crores against the previous week's level of Rs 811.95 crores.

Notes in circulation during the week to August 6 increased substantially from Rs 2,573.43 crores to Rs 2,617.38 crores, according to the Statement of Affairs of the Reserve Bank. Central Government deposits at Rs. 92.74 showed a fall of Rs 26.41 crores. State Governments' deposits were lower as well by Rs 3.36 crores at Rs 13.69 crores. Scheduled bank deposits show a fall of Rs 3.36 crores at Rs 13.69 crores. Scheduled bank deposits declined by Rs 8.02 crores to Rs 91.49 crores. Foreign securities stayed unchanged at Rs 68.35 crores but balances held abroad were slightly better by Rs 29 lakhs at Rs 7.72 crores. Rupee securities were higher by Rs 25 crores at Rs 2,339.72 crores. Loans and advances to governments increased by Rs 9.74 crores to Rs 65.75 crores. Advances to scheduled banks moved down from Rs 9.49 crores to Rs 6.13 crores. Investments were lower at Rs 298.31 crores by Rs 27.92 crores.

THE ECONOMIC WEEKLY

Larsen & Toubro

DURING the last few years, Larsen and Toubro has displayed all-round growth in its activities as reflected in increasing sales, development of new products, execution of large contracts for both the public and private sectors and contacts and collaboration with leading foreign companies. These achievements should enable it to look forward with confidence to increasing business opportunities in all its lines of activity. In his Chairman's statement issued with the company's report for 1964-65, H. Holck-Larsen says that the industries the company serves as supplier of plant, equipment and technical know-how and as engineer and contractor are those with a high rate of growth. They are industries vital as a basis for an industrially developing country, and the management is taking the projected widening of the country's industrial base into account in its long-term planning.

So far the company has been able to exceed its targets, but in the current year strict curbs on imports and restrictions on bank finance are proving formidable obstacles to progress. There is a possibility that some of the manufacturing activities may be temporarily idle owing to shortages of raw materials and vital components. Nevertheless, the strong foundation and resources should assist the company in the times ahead. Holck-Larsen is of the view that even if the company's plans have to be modified and some targets curtailed, these unfavourable circumstances will not be allowed to prevent, for any length of time, the overall growth and prosperity of the company and its subsidiary and associates companies.

In the year ended March 1965, the company's revenue from sales, servicing, commission, compensation, engineering fees and other sources increased by 13 per cent to Rs 10.29 crores to establish a new record in the company's history. But the profit rose by only six per cent to Rs 1.18 crores mainly because of the steep increase in expenses on dearness allowance and interest on borrowings, items on which the company has little or no control. Investment in new fixed assets was Rs 69.35 lakhs compared with Rs 41.44 lakhs in the previous year. The bulk of investment was once again at Powai. The total output from the workshops and the wholly-owned

subsidiaries at Powai increased by 26 per cent. A cement machinery division was established to undertake progressive manufacture of complete plant and machinery for the cement industry with technical collaboration of F L Smidth and Co A/S of Denmark. The capacity of the general workshop is also being enlarged to meet the growing demands on its facilities.

The company was awarded a Rs 3-crore contract by Atomic Energy Establishment, Trombay, for the construction, on turn-key basis, of its radiological laboratory which, besides being highly sophisticated, is expected to be the largest of its kind in Asia. The subsidiaries, Alu Capsules, Christensen Longyear (India), Engineering Construction Corporation, Indian Crown Cork and Willcox Buckwell India — have all recorded encouraging growth during the year. The associate companies have also fared well, contributing more income to the company's revenue by way of selling agency commission and dividends. Audco India has plans in hand to widen the existing range and to add new products. Eutectic welding Alloys of India has commenced trial production, and is expected to begin sales in the course of the year. The construction of the new factory for Tractor Engineers at Powai is in progress and is expected to be completed by April next year.

Utkal Machinery made a "rights" issue of Rs 60 lakhs in January this year to finance production and sales which have begun to increase after the initial setbacks caused by strikes and riots between January and April last year. The three German collaborators agreed to take up Rs 2.08 lakhs each and renounced the balance totalling Rs 31.20 lakhs in favour of DEG, a West German Government financial institution. In order to maintain the same ratio of holding as that of each of the collaborators, Larsen and Toubro agreed to take up Rs 2.08 lakhs and renounced the balance share of Rs 10.40 lakhs in favour of ICICI and LIC to whom guarantee has been given for the purchase of these shares after five years, but not later than seven years, at par plus a payment of seven per cent per annum from the date of allotment.

Tata's New Thermal Unit

THE Tata Electric Companies have recently commissioned a 150/160

MW steam turbo-generator at their thermal power station at Trombay which has brought the much needed relief to the critical power supply shortage in the Bombay-Poona region. This is the fourth thermal unit to be added to the power station and is the largest so far built in India. The turbo-generator operates with the highest steam conditions, namely, 2,400 psig and 1000°/1050°F. It is an efficient unit having a comparatively low fuel consumption and incorporating several interesting and new features, such as, controlled circulation boiler, boiler feed pumps, sophisticated instrumentation and highly automated controls for safe and efficient operation.

The project costing over Rs 18 crores was initiated with the assistance of the Agency for International Development. The unit has been brought into commercial operation within the scheduled period of three years, the construction on the project having commenced after the monsoon in 1962.

Digvijaya Woollen

CONSIDERING the difficulties faced by the woollen industry, Shree Digvijaya Woollen Mills' working results for the year to March last are satisfactory, with sales up from Rs 1.87 crores to Rs 2.06 crores and gross profit slightly better at Rs 51.41 lakhs against Rs 51.21 lakhs previously. The profit would have been higher but for the provision of Rs five lakhs for the increased dearness allowance and the consequent increase in bonus besides the contribution of Rs 1.5 lakhs to the Woollen Research Association. The directors have provided for managing agents' remuneration Rs 3.38 lakhs (3.71 lakhs), for depreciation Rs 4.14 lakhs (2.24 lakhs), for development rebate reserve Rs 0.80 lakh (1.80 lakhs) and for taxation Rs 25 lakhs (28.50 lakhs). Transfer to general reserve has been raised by two lakhs to Rs seven lakhs. The preference dividend claims Rs 1.72 lakhs (same) and the equity dividend lifted by one point to 19 per cent requires Rs 9.48 lakhs (7.94 lakhs).

Polychem

DESPITE rise in sales from Rs 2.73 crores to Rs 3.21 crores, Polychem has earned a lower gross profit of Rs 69.06 lakhs in the year to March last compared to Rs 88.12 lakhs a year before. Of this, depreciation has taken up Rs 44.91 lakhs (56.47 lakhs), development rebate Rs one lakh (27.33 lakhs) and taxation Rs nine lakhs (nil). After setting

aside, as before, Rs 3.33 lakhs for payment of preference dividend, equity earnings amount to Rs 10.82 lakhs against only Rs 4.32 lakhs previously. The equity dividend unchanged at 15 per cent requires a bigger amount of Rs 9.99 lakhs (8.40 lakhs), being also payable proportionately on the bonus shares issued last year in the proportion of three-for-seven.

Simplex Mills

UNLIKE the experience of many textile units, Simplex Mills is having only a small unsold stock of cloth. Speaking to the shareholders at their annual general meeting some time back in Bombay, the Chairman, S R Damani said that the Mills carried an average packed stock equivalent to less than a week's production. Damani explained that following the statutory partial control by the Government, the Mills had to make drastic changes in the pattern of production which included the manufacture of new varieties, and initially it did lead to a little accumulation of stock but the consumer preference on account of the good quality of products helped clear the accumulated stock to a great extent.

During the year to March last, the company's sales and profits were the highest on record, reflecting the benefits of continuous modernisation. In the last five years the company spent Rs 91 lakhs on modernisation programme aimed at equipping the Mills with the latest machinery to fully cater to the ever-changing consumer taste. The company has already begun regular production of 2 x 2 poplins, and full voiles and Terene blended fabrics and screen printed dress materials are expected to be marketed before the end of this year.

NOCIL

DUE chiefly to the regulatory duty of 10 per cent on imports and increase of one per cent in Bank Rate, the initial capital requirements of National Organic Chemical Industries' petro-chemical project have increased by about Rs five crores to Rs 35.89 crores, including Rs 16.27 crores in foreign exchange. Of the increased total equity, Shell Petroleum will contribute Rs four crore in Sterling, and the balance of Rs eight crores will be subscribed by the Mafatlal Group, their friends and associates and the Indian public. The directors are considering the timing of the public issue.

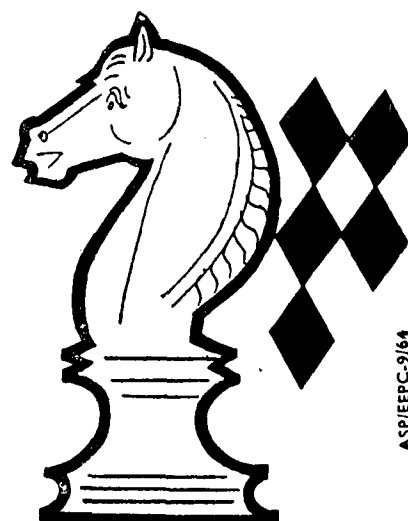
In addition to subscribing to the

equity capital of Rs four crores, Shell Petroleum will provide the balance of the foreign exchange requirements of Rs 12.27 crores by advancing a loan in freely convertible Sterling. Negotiations for rupee loan of Rs 11.62 crores are in an advanced stage with the financing institutions in India. Meanwhile, construction work on the 300-acre factory site on the Thana-Belapur area in Maharashtra has started. Plant and machinery from overseas suppliers will start arriving soon after the monsoon.

Amul Dairy

AN UNUSUAL decline in milk collection during the last four months of its financial year ended March 1965 has been reported by Kaira District Co-operative Milk Producers' Union, popularly known as Amul Dairy. The management has attributed the decline in milk production to under feeding owing to high feed cost. The Union's cattle feed plant that came into production in the end of October last has been effective in controlling the prices of cattle feed besides providing better concentrates. The establishment of the cattle feed plant and the work of ear-tagging and milk recording are some of the items the Union has undertaken under the programme for doubling milk production. It is proposed to set up a specialised agency to do research, development and extension work.

The production of baby food during 1964-65 exceeded the licensed capacity, and the Government has permitted increase in the capacity which will enable the Union to meet with the growing demand for this product. The production of cheese was increased, and is proposed to be stepped up as the milk collection goes on increasing. A new product called butter milk powder was made during the year from sweet unneutralised butter milk. It is comparable in quality and usage to skim milk powder. The second dairy has been nearly completed, and the Union will handle double the quantity of milk and will also be able to convert extra milk into milk powder and butter for which there is a great demand and from both defence services and the public. The Union proposes to manufacture different types of feeds, like dry cattle ration and poultry feed. It was not able to manufacture lime juice during the year, as the lime crop was poor and prices were much higher than in the previous years. The management feels that the Union may have to give up this activity.



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FROM THE CHAIR

Indian Sugar Mills Association Presidential Address of Shri S Jaipuria, M P

Bright prospects lie ahead of the Sugar Industry: Need to remove impediments to increased production

THE following are extracts from the Presidential Address of Shri S Jaipuria, M P, delivered at the 32nd Annual General Meeting of the Indian Sugar Mills Association held at New Delhi on August 4, 1965:

Record output: Sugar Industry's endeavours to increase output assisted by Government's policy of incentives and a good cane crop have borne fruit in the current season 1964-65 when production is expected to exceed 32 lakh tonnes, the highest output ever recorded. It is hoped that the 3rd Plan production target of 35 lakh tonnes will not be difficult to achieve in the next season being the last year of the Plan. In fact, sugar production in the current season itself would have been higher had factories specially those in West U P got adequate cane supplies and large scale cane diversion to gur and khandsari manufacture had been prevented. According to the U P Government's own estimate, the loss in sugar output due to closure and intermittent working of West U P factories was over 1 lakh tonnes.

Need for long term policy. The problem of large scale cane diversion to gur and khandsari manufacture needs to be tackled effectively and permanently. For this, a long term policy is necessary. It is hoped that after the Sen Sugar Enquiry Commission's report becomes available, it would be possible for the Government to formulate a long term policy.

Relaxation of consumption curbs: Following the record sugar output in the current season, the sugar supply position has become comfortable and, therefore, the existing consumption curbs should be relaxed to provide the much desired relief to consumers. Sugar rationing in vogue in some of the cities should be done away with and sugar allotment to bulk industrial consumers should be liberalised. Further, the cut which was imposed on

the gate sale sugar quota of the factories should be restored and some additional quantities should also be allotted to the factories for distribution amongst cane growers. If the existing curbs on consumption continue, the total offtake may be more or less restricted to last year's figure of about 23 lakh tonnes. This will leave a sizeable carryover stock of about 6 to 7 lakh tonnes with the factories while the country will continue to starve for sugar which is hardly fair. Reports about the next season's cane crop are also encouraging.

Cash and credit limits: During the current season, in Bihar production rose by about 65% while in East U P the increase was of the order of 45%. Factories generally finance their production, maintain regular payment of cane price, salaries and Government dues by borrowing from the commercial banks against sugar stocks. The commercial banks generally regretted their inability to accede to the requests of the factories for additional cash credit limit in view of credit restriction policy followed by the Reserve Bank. The credit restriction policy was essentially to curb inflationary tendency in the Indian economy and not to impede industrial growth and output. Higher cash credit limits as are required due to increased production should be granted as a matter of routine otherwise the financial problems of the factories would be even more acute in the next season when sizeable increase in sugar production is visualised. In this connection, the recent directive issued by the Reserve Bank of India to all banks to ensure that the aggregate of unsecured advances granted by them should not exceed the amount of such aggregate as on 25th June 1965 is also unjustified. If the Reserve Bank desires to reduce the limits, a more rational basis should be found so as to ensure that no particular industry or unit suffers unduly.

Rebate in corporate tax: The Sugar Industry is directly tied with the well-being of hundreds of thousands of cane growers and there is no other industry on which rural economic development so much depends. Sugar is also contributing significantly towards the country's foreign exchange earnings. Sizeable expansion of the industry is visualised during the 4th Plan period. Therefore, sugar must be included in the list of industries allowed rebate in corporate tax, under the 1964-65 and 1965-66 budget proposals.

Rebate in excise duty on excess production: There is a provision in the 1965-66 budget proposal for granting excise duty rebate on excess production in the form of tax credit certificates. Having regard to the higher sugar output achieved by the policy of granting excise duty rebate on excess production during the last two seasons as also in the past, the scheme of granting tax credit certificates should be extended to cover the sugar industry also. Since the quantum of rebate allowed has a direct bearing on the factories' ability to draw cane supplies in competition with gur and khandsari, ceiling rate of 25% should be permitted to the sugar industry to stimulate sugar output.

Cane development: It is gratifying to note that at the instance of the Central Government intensive cane development schemes have been launched in U P, Bihar and the Punjab. The implementation of the scheme in Punjab and Bihar should be expedited and the practical difficulties impeding the progress of the scheme in U P should be removed. Moreover, intensive cane development schemes should be extended to cover larger areas, the ultimate object being to bring the entire reserved areas of factories within their purview.

It is welcome that the Union Government proposes to increase alloca-

tion for sugarcane development to Rs 90 crores, in the 4th Plan period. It is further heartening that the Food and Agriculture Ministry proposes to make available Rs 2.14 crores for sugarcane research. The State Governments too should play their due part and make available their entire cane cess collection for cane development as has already been done by the Punjab Government.

Evolution of improved cane varieties suited to different soils and climatic conditions is a "must" for cane development. Commercial propagation of newly released varieties should also be expedited.

Land Ceilings: In the context of the compelling needs to increase cane productivity, it is unfortunate that the State Governments of Maharashtra and UP have not exempted factories cane farms from the purview of their land ceiling legislations. This take-over is contrary to the recommendation made by the Planning Commission and the Study Group (Export Sector) on agricultural commodities and agriculture-based industries, set up recently under the Chairmanship of Shri V Shankar, former Food Secretary. The Ministry of Food and Agriculture proposes to allow the joint stock companies to take up farming operations on Government waste lands. There are also reports that Government proposes to set up big sugar factories of 4000/5000 tonnes capacity with attached cane farms to feed them. When in Government's thinking, the importance and need for factory farms is recognised, it is only proper and desirable that the State Governments of UP and Maharashtra should reconsider their decision to take over factory cane farms.

New Capacity: About 8.73 lakh tonnes additional capacity remains to be licensed to achieve the 4th Plan capacity target of 45 lakh tonnes. The existing units must be given priority to expand over the setting up of new units depending upon the availability of cane. Factories would be requiring additional capacity to crush increased quantities of cane forthcoming due to introduction of intensive cane development schemes in the various States, otherwise disposal of cane in the existing areas may pose a very serious problem for the growers in the years to come. Sound economic and commercial con-

siderations also demand that expansions should get preference as the cost involved would be only half as compared to new units according to estimates of the Development Council for Sugar Industry and the time required for bringing the additional capacity into operation would also be very much less. The Development Council for Sugar Industry has also placed economic capacity of a sugar factory at 2000 tonnes and it is therefore only fair that wherever feasible the existing units should be allowed to expand upto this size. If all the existing units are allowed to expand upto 2000 tonnes, the total additional capacity available would be about 24 lakh tonnes.

For licensing additional capacity, the present and future cane requirements of the existing factories should be carefully assessed to assure that their working is not affected by licensing of additional capacity in other areas. Government should constitute a Stand-Committee compressing of reputed technologists to go into the grievances of the existing factories, if any, before additional capacity is sanctioned. Demarcation of cane zones to factories specially in Maharashtra should be expedited.

Smaller Units: There are a large number of small units in the country that deserve prior consideration from the Government for their expansion programmes. The Gundu Rao Committee appointed by the Government to consider this matter has submitted its report and its recommendation should be expeditiously implemented for the healthy development of the sugar industry in general. This development is jeopardised by the reported move of the Government to do away with the Managing Agency System in the sugar industry. The system is inherently sound and needs to be retained on its merits.

Sugar Export: So far about 2.73 lakh tonnes have been sold for shipment against a target of 3.5 lakh tonnes set by the Government. In view of the comfortable sugar supply position in the country, exports could be further increased to earn the much needed foreign exchange for the country. A significant development in the export field this year has been our joining the Commonwealth Sugar Agreement as a full-fledged member which signifies recognition to India as

an established and permanent exporter of both raw and white sugar.

Bagasse: The matter regarding economic disposal of the sugar industry's main bye-products especially bagasse should be ensured through assurance of adequate demand from paper and straw board mills. Concessional railway freight should be offered on bagasse moved from sugar factories to paper and straw board mills.

Transport facilities should be improved for expeditious movement of essential store materials required by the sugar factories in the process of manufacture.

Losing companies must be exempted from payment of minimum bonus as provided under the Bonus Ordinance and essential prior charges like Rehabilitation should be allowed.

Allotment of Sulphur: Another serious problem presently faced is the inadequate supplies of sulphur essentially needed for clarification purposes. The open market price of Sulphur is exorbitant. While the provisional allotment of 8000 tonnes of sulphur for the Sugar Industry by the Directorate of Technical Development is no doubt welcome, the quantity is hardly sufficient to meet even one-third of the sulphur requirement of the factories in the next season and increased quantities of sulphur must be allotted commensurate with the actual requirements of the factories.

Future prospects: The difficulties presently faced have to be viewed in the context of bright prospects that lie ahead of the sugar industry. The internal demand for sugar is continuously rising and Government intend to import annually about 5 to 7.5 lakh tonnes. Accordingly, a higher production target of 45 lakh tonnes has been fixed for the 4th Five-Year Plan. Industries dependent on sugar for raw material are also fast progressing. All these factors underline the need for substantial expansion of the sugar industry in the years to come. It is suggested that Government should constitute a Committee on the lines of the Sugar Controller's Advisory Committee, which was in existence some time back, for a periodic review of the problems of sugar factories.

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

CURRENT STATISTICS

World Crude Petroleum Production

(Excluding communist countries)

Country	Producing 1-7-64	Drilling 1-12-64	Quantity (100 b/d)	Estimated 1964 Production	Percent Change over Previous Year
(1)	(2)	(3)	(4)	(5)	
North America					
Total	611,400	1,722	8,403.0	6.8	
United States	595,700	1,505	7,640.0	1.3	
Canada	15,700	217	763.0	6.5	
Caribbean					
Total	640,261	2081	4,470.6	2.3	
Argentina	4,959	58	274.0	4.6	
Bolivia	182	14	9.2	4.5	
Brazil	1,074	53	89.9	2.3	
Columbia	2,203	23	165.5	0.9	
Chile	213	5	37.7	4.7	
Cuba	...	2	0.2	...	
Ecuador	989	4	7.7	1.16	
Mexico	2,802	131	310.4	3.0	
Peru	2,268	8	59.0	2.9	
Trinidad	3,205	12	134.5	0.5	
Venezuela	10,966	49	3382.5	4.2	
Europe					
Total	6,038	168	384.1	9.9	
Austria	978	12	52.7	6.3	
Belgium	...	1	...	...	
France	516	20	55.5	11.9	
Italy (incl Sicily)	117	34	47.8	41.4	
Netherlands	411	17	42.8	1.9	
Spain	...	7	...	...	
United Kingdom	242	6	2.5	...	
West Germany	3,774	71	149.8	5.5	
Yugoslavia	...	...	33.0	10.0	
Africa					
Total	1,455	109	1733.4	45.2	
Algeria	557	18	552.4	10.5	
Angola	11	2	23.6	63.9	
Congo (Brazzaville)	7	1	1.7	29.2	
Egypt	329	10	124.7	9.9	
Gabon	88	2	22.4	33.3	
Libya	332	56	858.6	82.7	
Morocco	69	2	2.9	3.3	
Nigeria	62	12	147.1	105.7	
Somalia	...	1	...	...	
Tunisia	...	5	...	...	
Asia-Pacific					
Total	5,307	109	635.25	7.0	
Australia	13	18	5.3	...	
Brunei	306	...	72.1	4.2	
Burma	385	...	72.1	4.2	
Formosa	50	5	0.05	...	
India	318	19	44.4	34.5	
Indonesia	2,338	18	480.0	6.2	
Japan	1,633	45	12.3	30.0	
Korea, South	...	...	...	...	
Malaysia	174	...	0.9	10	
Philippines	...	1	...	...	
Pakistan	90	3	8.4	...	
Middle East					
Total	1,801	64	7,706.7	14.2	
Abu Dhabi	47	5	185.0	277.5	
Aden	...	...	...	...	
Bahrain	179	1	49.0	8.9	
Dubai	...	2	...	...	
Iran	138	10	1815.0	23.4	
Iraq	127	2	1226.7	9.5	
Israel	37	4	4.0	42.9	
Jordan	...	1	...	...	
Kuwait	457	7	2120.0	9.8	
Neutral Zone	371	5	374.0	22.2	
Oman	...	2	...	...	
Qatar	53	2	220.8	14.4	
Saudi Arabia	256	5	1695.9	4.8	
Syria	...	3	...	...	
Turkey	136	15	16.3	16.4	
Total World	654,862	2531	23,333.0	8.7	
WORLD PROVEN OIL RESERVES					
	1954 (End)		1964 (End)		
	Billion Tonnes	Per cent	Billion Tonnes	Per cent	
(1)	(2)	(3)	(4)	(5)	
Middle East	13.0	61.6	28.4	61.1	
U S A	3.9	18.5	5.00	10.8	
U S S R, etc	1.4	6.6	4.1	8.9	
Caribbean	1.7	8.0	2.7	5.7	
Others	1.1	5.3	6.3	13.5	
Total	21.1	100.0	46.5	100.0	

Index Numbers of Wholesale and Retail Prices

Commodity	URBAN								RURAL							
	Wholesale Price Index				Retail Price Index				Wholesale Price Index				Retail Price Index			
	1961	1962	1963	1964	1961	1962	1963	1964	1961-62	1962-63	1963-64	July-Dec 1964	1961-62	1962-63	1963-64	July-Dec 1964
	(Base: 1960=100)								(Base: 1960-61=100)							
1 Rice	95	100	112	122	99	101	108	122	100	108	120	132	102	109	118	137
2 Wheat	98	101	100	135	97	107	99	141	102	99	117	147	100	99	110	151
3 Jowar	90	105	91	138	96	105	100	134	99	107	106	171	89	97	96	161
4 Bajra	103	99	97	126	101	107	104	125	98	92	107	132	103	96	102	137
5 Maize	105	100	95	143	118	117	115	169	96	89	110	148	103	98	108	156
6 Ragi	101	92	92	123	106	105	91	112	96	89	98	143	101	95	100	140
7 Gram dal	101	107	112	175	112	115	112	172	95	102	123	193	101	106	121	173
8 Arhar dal	86	108	123	175	94	109	122	168	100	128	156	215	101	124	149	196
9 Mustard oil	110	115	111	153	111	119	111	148	105	108	112	170	105	109	107	157
10 Coconut oil	102	111	118	116	99	107	114	115	98	114	111	115	97	116	114	112
11 Groundnut oil	111	102	95	123	112	109	97	120	98	90	98	128	102	92	96	119
12 Gingily oil	115	101	84	117	105	98	128	136	92	76	82	108	68	87	87	115
13 Hydrogenated oil	112	111	110	122	112	112	112	125	101	100	103	119	—	—	—	—
14 Sugar	99	101	107	118	97	96	101	107	99	104	112	120	97	99	103	106
15 Kerosene oil	105	105	138	145	107	107	128	131	103	117	142	142	102	111	26	120
16 Soft coke	101	107	115	119	104	107	108	111	101	110	116	119	—	—	—	—
17 Dhories	99	100	101	103	104	106	109	114	99	101	101	103	104	105	107	112
18 Sarees	99	100	101	101	103	106	109	115	99	99	100	101	104	106	110	112
19 Long cloth	97	98	98	101	101	104	105	109	99	100	102	103	105	105	109	112
20 Toilet soap	107	112	117	120	108	128	119	125	110	111	118	118	—	—	—	—

Banking Returns

Reserve Bank	August 6	July 30	July 9	Aug 7, '64		July 30	July 23	June 25	July 31, '64
	2617.38	2573.43	2689.34	2458.93		5.96	6.54	6.31	6.50
1. Note Circulation									
2. Rupee Coins	98.58	100.84	93.46	104.90	4. (2) (3) as % of (1)				
3. Deposits					5. Borrowing from Reserve Bank	9.62	15.65	65.99	2.00
(a) Central Govt	92.74	119.45	77.42	83.04	(a) Against usance bills and/or promissory notes	...	...	5.73	1.14
(b) Other Govts	13.69	17.05	17.19	26.57	(b) Others	9.62	15.65	60.26	.86
(c) Banks	94.27	102.33	114.04	97.27	6. Advances	1790.83	1792.34	1782.58	1495.39
(d) Others	236.89	237.89	228.41	189.58	(a) State Bank	438.51	429.85	450.35	324.10
4. Foreign securities	68.35	68.35	68.35	85.46	(b) Other	1362.32	1362.49	1332.23	1171.29
5. Balance abroad	7.72	7.43	4.46	8.20	7. Bills discounted				
6. Rupee securities	2339.72	2314.72	2414.72	2160.80	(a) Inland	155.50	162.04	214.28	165.36
7. Investments	298.31	326.23	276.53	275.88	(b) Foreign	76.61	80.32	72.97	69.13
8. Loans and advances to Govts	65.75	56.01	44.22	16.88	(c) Total	232.11	242.27	287.25	234.49
9. Other Loans and advances	158.76	161.10	210.53	149.21	(i) State Bank	24.03	24.27	29.90	20.55
					(ii) Others	208.08	218.00	257.35	213.94
Scheduled Banks					8. (6) + (7) as % of (1)	72.64	73.24	76.53	70.96
1. Aggregate Deposits (net)	2788.96	2777.85	2704.51	2437.78	9. Investment in Gov Securities	829.32	811.95	726.72	761.36
Demand (net)	1381.70	1385.03	1349.75	1173.04	10 (9) as % of (1)	29.74	29.23	26.87	31.23
Time (net)	1548.96	1536.82	1482.62	1370.36					
2. Cash in hand	67.63	69.65	73.98	63.09					
3. Balances with the Reserve Bank	98.45	112.14	96.71	95.48					

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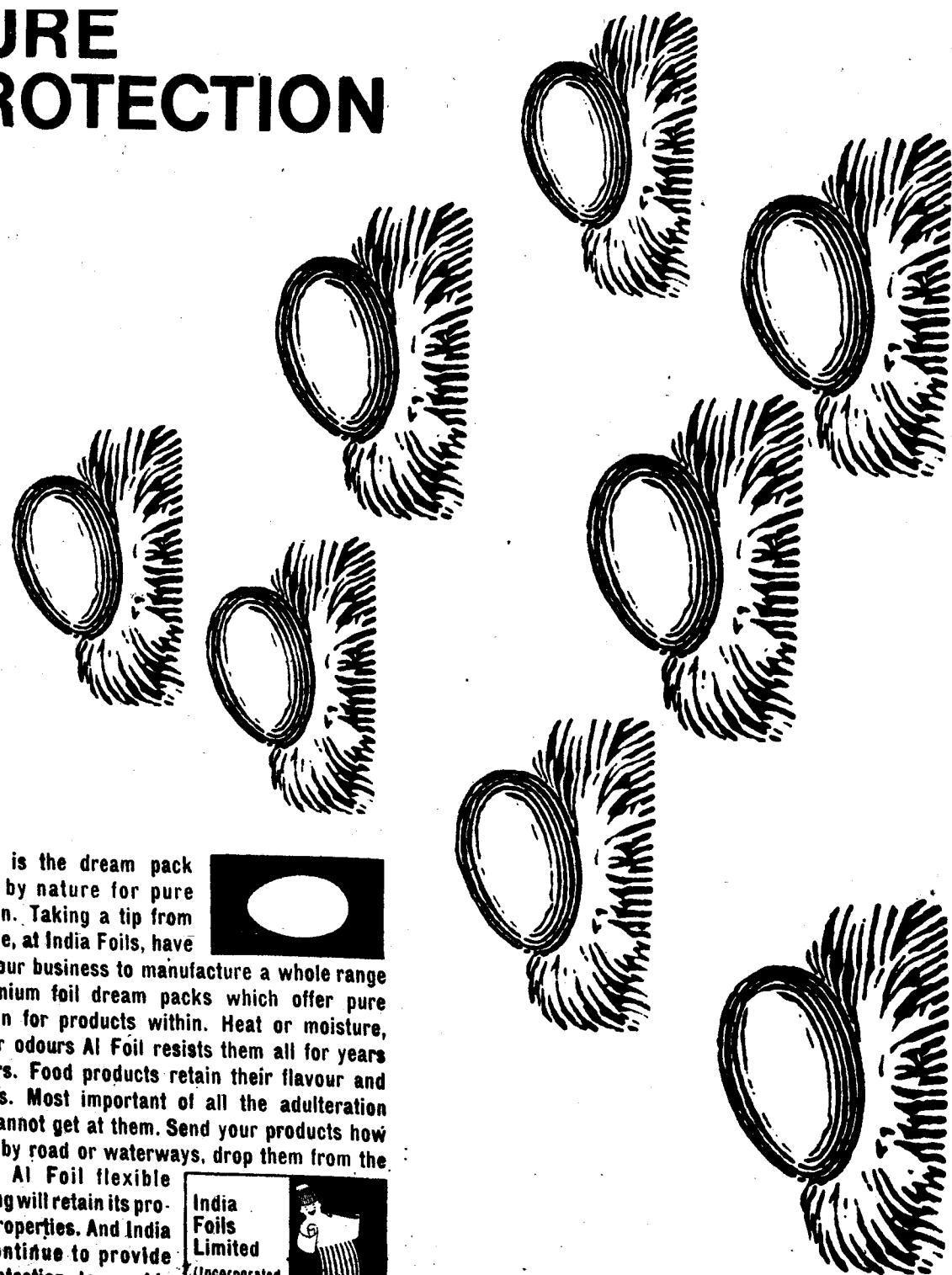
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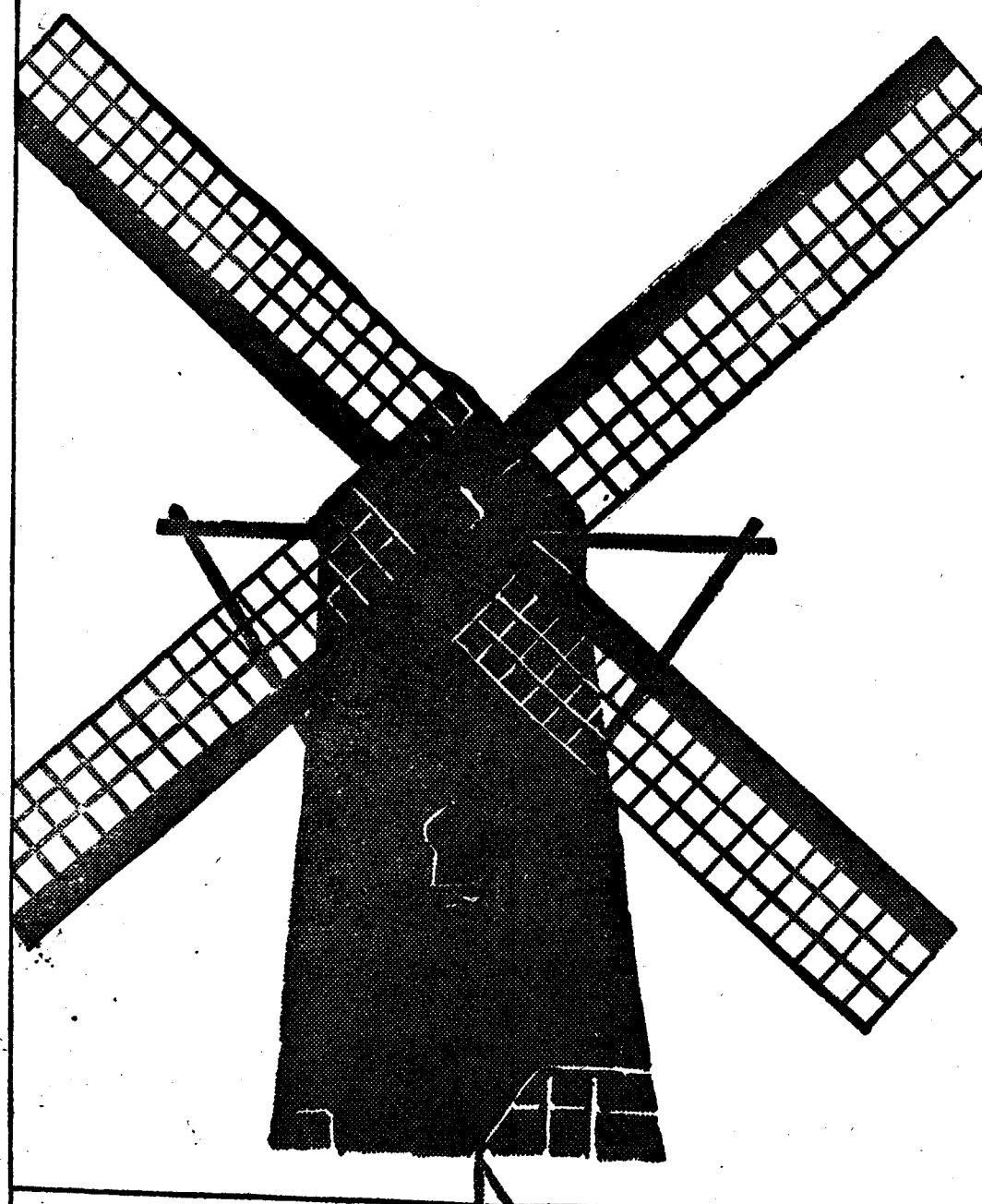
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THE
ECONOMIC
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Vol XVII No 34 August 21, 1965

EDITORIALS

- On the Boil Again 1287
What Plan Figures Don't Tell 1288

WEEKLY NOTES

- Oil Stays in Public Sector —
Non-Academic Uses of a
University — Britain's 'East
of Suez' Policy — Industrial
Location — Maintenance
Loans from IDA — At Last,
Vote for the Negro. —
Exports Sluggish Again 1289

LETTER TO EDITOR

- To Collaborate or Not to
Collaborate? 1292

CAPITAL VIEW

- A Defeat for Pakistan, but...
— Romesh Thapar 1293

A CALCUTTA DIARY

- A Streetcar Named Dementia
— Flibbertigibbet 1316

BOOK REVIEWS

- Precursors to an Economic
History of Asia?
— J Krishnamurty 1225
Power Politics in World
Affairs
— Philip G Altbach 1297

SPECIAL ARTICLES

- What Prevents Unity?
— K D Malaviya 1294
Singapore's Future
— G M Telang 1299
Changes in Cropping Pattern:
A Study of UP
— Shyam S Bhatia 1301

Labour Party's Surrender to
Racialism

- From Our London Cor-
respondent 1311

A New Role for Managing
Agencies

- Priyakant N Patel 1313

AROUND BOMBAY MARKETS

- Dalal Street Retreats Further
1317

BUSINESS NOTES

- Hindustan Motors — Ahme-
dabad Electricity — Estrela,
Batteries — Bajaj Auto —
Hindustan Twyford —
German Credit for ICICI 1318

CURRENT STATISTICS 1321

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On the Boil Again

IT is a queer situation in Kashmir. About eight Pakistani battalions, comprising more than three thousand men, Gulzarilal Nanda suggests, have infiltrated across the border. Mufti or no mufti, it is certainly astonishing that such a large number could enter without being accosted, and travel miles on end reaching as far into the interior as Srinagar, the capital city. The suggestion strains credulity. On the other hand, if this is in fact what has happened, it speaks ill—extremely ill—of our border and security forces. Despite Defence Minister Chavan's bravado in the Lok Sabha, the citizens at large could legitimately expect—and demand—better return on the one thousand crores of rupees that are being annually turned over to the Ministry of Defence. Off and on in recent weeks we have been treated to reassuring statements from Union Ministers about our present defence capability. Hints have been freely thrown out regarding how we could now take on China and Pakistan together. There has also been plenty of talk concerning the overhaul of the border police, and recent moves to centralise the State border forces under Nanda's strict surveillance were intended to make the arrangements super-efficient. There is no question that there has been a very bad slip-up, and for once the members of the opposition would be voicing the genuine uneasiness felt by the people when they condemn the bungling along the Kashmir border.

Now that there is no further report of any open and large-scale incursion by Pakistani troops, our forces should be able to complete the task of mopping up the intruders within the next few days. So long as Bhutto was scheduled to visit New Delhi next week, one could speculate that the Pakistan Government might think it prudent to lower the tension, and issue instructions accordingly. On the other hand, if Bhutto's ploy in New Delhi was to be to de-freeze the Kutch agreement, the Pakistanis might well have decided to pile on provocations along the entire stretch of the Jammu-Kashmir border. With Bhutto's visit called off there is no point in speculating about the Pakistani intentions in regard to the proposed meeting. Having signed the Kutch Agreement, we should not feel tempted to use the Kashmir incidents to renege our own commitments, nor should we allow the Pakistani Foreign Minister any opening through which he could wriggle out. The Parliament has therefore done the right thing in giving support to the agreement, despite bitter attacks from the Opposition. It should be the Indian endeavour to treat Kutch and the present series of incidents in Kashmir as separate episodes, at least till the Pakistanis on their own do not move to nullify this assumption.

But other, more basic issues would still remain. The present impasse in Kashmir cannot continue for ever. It is an unreal situation there, with scores of people thrown into prison, and the Defence of India Rules deployed every now and then to suppress popular modes of expression. The present Prime Minister of the State is an honest, well-meaning person, but he knows and about everybody knows that his hold on the Kashmiri people is still uncertain. By detaining Sheikh Abdullah in far-away Ooty, we are merely postponing the day of reckoning. The fact remains that whatever administration New Delhi might foster in Srinagar—call it by the appellation National Conference or National Congress—would continue to be dissociated from the mainstream of Kashmiri opinion, and, quite candidly, in moments of stress, would have to lean heavily on the defence forces and the police. How long can democracy be staved off in the name of the Emergency, be it in Kashmir or the rest of India? Apart from everything else, so long as the present abnormalcy is allowed to reign, some provocateurs or other from across the border will continue to feel sorely tempted to ignite a "revolution" in Kashmir. Each such attempt at a "revolution", however abortive, gives India a bad image. For the truth is, while the mood of the broad strata of the Kashmiri people is sullen, they are not itching for a revolution—agitations, and occasional acts of violence, are as far as they are prepared to go.

Whether we can achieve a *detente* in Kashmir or not, obviously we have to brace ourselves for a state of quasi-permanent hostility with Pakistan. For

there are many knowledgeable people who believe that the end of the Kashmir dispute will not automatically lead to the establishment of cordial relations with Pakistan. Ordinary prudence therefore demands that, before we venture on such a long-term gambit, we try to restore some of our Asian fences. In so far as confrontation with Pakistan is concerned—and particularly when Kashmir would constitute the central issue—we have learnt to our cost that we can hardly depend on moral support from either the USA or the UK. Also, long-distance friends, however powerful, are of no avail when prickly, little disputes spring up every now and then between neighbours. The moral backing of powers closer to home is in such circumstances of much greater practical value. If we and Pakistan stay unreconciled, commonsense

What Plan Figures Don't Tell

IN his Independence Day address from the Red Fort, the Prime Minister solemnly declared that the size of the Fourth Five Year Plan would be Rs 21,500 crores and that there would be no deficit financing. This is a strikingly bold statement in all conscience, considering what the Prime Minister himself and others had been saying earlier. The underlying tone of all the earlier prognostications and advice for going slow was much worse than that of just caution. The impression inevitably created in the public mind was that of a failure in planning, of achievements falling so far short of expectations as to have changed the outlook altogether. Foreign exchange shortage, the decline in the rate of increase of industrial production, among others, were held up as danger signals.

The battle of the figures has at last been ended and though what is now accepted as the target is a full thousand crores below what had been provided for in the Fourth Plan Memorandum, it is still to be welcome as a great gain, in the light of the depressing and defeatist talk that had spread gloom in the air. It is indeed a victory for Asoka Mehta, the Deputy Chairman of the Planning Commission, that he could make the Prime Minister see reason. The backing of the States which he managed to win must have been a determining factor, for it is no secret that with the—possibly single—exception of C Subramaniam, the Food Minister, all the other members had been extremely chary of plan perfor-

would then indicate some exertion on our part for a rapprochement with China and Indonesia. Unfortunately, our quarrel with China has reached such a stalemate that it will be rather difficult to get a move on in the short period. A beginning nonetheless should be made, and Shastriji's rejection of President Nasser's offer to mediate afresh must be dubbed as short-sighted on several counts. A friendly overture to Indonesia could mark this beginning. With the collapse of Malaysia, we have very little reason to continue pleading the Tunku's cause, more specially since the Malaysian Prime Minister himself has pointedly refused to take sides in the Indo-Pakistani dispute. Let us try to win back at least some neighbours—a few favourably disposed nations in Asia will not do us much harm.

mance and pessimistic about the future. The logic of the situation obviously favoured the Deputy Chairman, for the Chief Ministers were naturally reluctant to face the electorate with smaller plans which would have to be presented as Congress Manifestoes.

The particular figure which the Prime Minister presented to the nation is not, however, one which he has himself accepted without any reservation. In the discussions still going on for finalising the plan, the figure is presented in two parts: Rs 20,500 crores as the operative minimum and another thousand as a complementary figure, to be kept in sight and attempted 'to the extent possible' but not a firm commitment. Judging from the manner in which these discussions are usually carried on, it is hardly necessary to add that definiteness and finality are relative concepts and have to be taken with a pinch of salt. Academicians have also to be enlightened that the Prime Minister's conversion to the quantity theory, implicit in his statement about no deficit financing, is a qualified one; it is quantity theory tempered by commonsense.

The constraint this time is not inadequacy of foreign aid. The resources gap is, therefore, crucial and the conflicting figures that have been put up about the gap constitute the heart of the controversy. This is not a situation, however, which one would be disposed to accept so readily, considering that resources grow out of production and if the Third Plan has

achieved its main objectives even substantially, that by itself should enable us to raise our sights in the Fourth Plan. There has been no appraisal of Plan performance after the gloomy one made at mid-period. It is only in the latter half that a plan picks up. In the absence of any subsequent assessment, the impression has been widespread that everything has gone wrong with the plan which is by no means the case. With the Planning Commission on the defensive, however, this goes unchallenged. Worse still is the reluctance of the Planning Commission to face the future squarely, to own up deficiencies in plan performance and institute measures straightaway for rectifying them. Since one plan grows out of another, it is not necessary to labour the point. What exactly is it that has gone wrong? Have investments been inadequate or foreign aid insufficient, tardy in its flow and not available on time? Or is it that implementation has been so defective over wide areas where the bulk of the investments have gone—and these are areas in the public sector—and execution so faulty that returns have been hopelessly inadequate and far short of what had been expected? Much hope was, therefore, roused when the newspapers reported that C Subramaniam had pressed the Planning Commission for an enquiry into administration while arguing powerfully in favour of retaining the original figure of Rs 22,500 crores and opposing any cuts in it.

While the decision for a large-sized plan, whether it is firm or final or not, is certainly to be welcomed, dissociation of the plan objectives from a searching enquiry into the instruments of implementation portends the perpetuation of the same state of scepticism and distrust in the public mind which covers the subject of planning today. It is high time, therefore, to match the plan size with the agencies of implementation and to treat them as inseparable, in order to win back public confidence. At the moment, public confidence is being steadily undermined by persisting doubts that bulk of the investments, substantial by any standards, are going into an area for which the Government has not been able to develop a workable and efficient system of management and administration, that it has not even applied its mind to the problem. A start has to be made with fixing responsibilities, and it has to begin from the top.

Oil Stays in Public Sector

THE statement on oil policy laid before Parliament deals with both long and short-term questions of crude supply, refining capacity and distribution. Exploration within the country is being intensified through the Oil and Natural Gas Commission and through joint enterprises with foreign collaborators "wherever suitable terms are obtainable"; contract drilling in Iranian off-shore areas is also being pursued vigorously. Once crude is produced by a Government agency in India or abroad, it will be utilised, first, in fully-owned Government refineries, and the surplus will be supplied to existing and future refineries that may be erected with foreign collaboration. If Government imports crude at prices lower than those obtained by private refineries, the refineries must either match these prices or accept Government crude. The price cut accepted by Phillips Petroleum for the Cochin refinery will save Rs 1 crore of foreign exchange annually, while the increased despatches of Ankleshwar crude to the Bombay refineries will save another Rs 8.5 crores. The cuts in import prices recently accepted by the three oil companies will raise the total saving by Rs 3 crores to about Rs 12 crores.

Enough new refining capacity would be created to achieve self-sufficiency in as many petroleum products as possible. As hitherto, all new refining capacity shall be wholly Government-owned when the crude oil belongs to Government. Foreign participation may be needed to cover foreign exchange costs in some cases which, judging by experience so far, is likely to entail a commitment to purchase crude from the collaborator. Such commitments would be limited to the minimum period possible and care would be taken to see that such contracts do not conflict with the fullest use of indigenous or Government-owned crude. Steps would be taken simultaneously to promote domestic manufacture of refinery equipment. The existing agreements with the three private refineries are under revision in order to replace the agreements concluded in 1951 with normal industrial licenses under the Industrial Development and Regulation Act, from which the refineries are now exempt. Expansion of these, as of other refineries, would be considered in the light of product demand in

the relevant areas—which implies that the chances of expansion for them are remote.

As for marketing, deficit products would be procured at the best price irrespective of source "with some preference to rupee sources so long as this is necessary". Self-sufficiency in diesel is expected before the end of the Third Plan, imports of kerosene would be substantially reduced over Fourth Plan, and the use of furnace oil would be regulated under a rational coal-oil policy. A substantial reduction of 24 per cent in the price of aviation fuel from a western source will save about Rs 1.5 crores.

The aggregate saving of Rs 14 crores approximately, claimed by the Minister for Petroleum and Chemicals, should make a substantial impact on the petroleum import bill which had been drastically cut in 1964. The denial of import licenses for deficit products to oil companies since May this year is an additional saving but though the prices of Russian products are lower, the quantity contracted for import is somewhat larger than normal in order to overcome regional shortages.

The Minister has claimed that "complaints of shortage have now become extremely rare", and that satisfactory distribution arrangements have been made without recourse to emergency powers. Without in any way detracting from the creditable performance of Indian Oil in recent months, this claim is not altogether justified as the uproar which greeted it in Parliament indicates. It would take better planning and utilisation of existing storage and distribution facilities to overcome shortages in pockets of scarcity.

Non-Academic Uses of a University

THE recent trouble in Aligarh University has brought to the fore once again the latent communalism in the country. Its latest manifestation is a virulent attack on Chagla at the all-India Convention of the old boys of the University. On April 25 there were violent student demonstrations on the Aligarh University campus (supposedly over an alteration in the admission procedure) which culminated in an assault on the Vice-Chancellor. On May 4 Education Minister Chagla revealed the details of what was in fact a communal plot, directed at the V-C, Ali

Yavar Jung. According to the reports, a small minority of reactionary, communal elements among the students, encouraged and abetted by certain members of the staff, objected to the appointment of Ali Yavar Jung, who wanted to ensure the maintenance of secular standards in the University. These elements—whom the Vice-Chancellor described as not merely communal, but Fascist—formed a students' action committee, ostensibly to agitate against the change in admission rules, but in reality to conspire against the Vice-Chancellor.

After the revelation that University life at Aligarh was infected by an unhealthy communalism, not of an anti-Muslim character, but of a reactionary anti-secular type, the Government decided to promulgate the Aligarh University Ordinance. The Ordinance, intended to be a temporary measure, will be followed by a bill in Parliament, similar to the Banaras Hindu University Bill which has not yet been revoked. The Ordinance provides for an advisory court of 51 members, 30 of them to be nominated by the Visitor (President Radhakrishnan), and an executive council of nine members, seven of them to be nominated by the Visitor. The executive council, with the Vice-Chancellor as Chairman, will be vested with full powers to administer the University.

The Ordinance has raised a storm of protest among a vocal Muslim minority, who, it should be noted, ignore the fact that a similar Ordinance was promulgated for the Banaras Hindu University in 1958. It is claimed that the Muslim character of the University has been destroyed, and that academic autonomy has been threatened. The promulgation of the Ordinance has brought to light a persistent misapprehension on the part of a reactionary minority of the role that Aligarh Muslim University should play in a modern secular State. The University is intended to be an all-India University, "specialising in subjects concerned with Muslim culture and having due regard to the claims of deserving Muslim students". It is not, as the Muslim University Act of 1920 made clear, a University to be run solely by Muslims for Muslims.

The most deplorable result of the Aligarh University disturbances is that they have been seized upon by a few mischief-mongers as a peg on which to hang a whole number of non-academic

grievances. The two-day all-India convention of the Aligarh Muslim University old boys was used by a reactionary minority to air their views. Their purpose was to arouse communal feelings; this is clear from the fantastic demand that was made, asking all Muslims to withdraw their support from Congress if the convention's claims were not conceded. Speakers used the platform to complain about the status of Muslims in the services and the Legislatures and about the status of Urdu. The convention demanded the withdrawal of the Ordinance claiming that the University is "a cultural, religious and educational centre of Indian Muslims."

The Government received full support for promulgating the Ordinance at a joint session of the Bihar State Congress Muslims' Convention and the Jamiat Ulema. The meeting condemned communalism in the strongest terms and appealed to Muslims not to succumb to anti-social and anti-national forces. Chagla is to be commended for his firmness in dealing with the troubles at the University; a reactionary minority must not be allowed to infect the whole community, and thus prevent Aligarh University from becoming a national secular institution.

Britain's 'East of Suez' Policy

Our London Correspondent writes: SOME rethinking on Britain's "East of Suez" policy has obviously become necessary with the dramatic secession of Singapore from the Malaysian Federation. One of the main elements that justified this policy was the protection of the integrity of the British-engineered Malaysian Federation made up of disparate racial groupings. The British had little desire to part with their very large base at Singapore and as it became increasingly evident early in the sixties that independence would soon have to be granted to Singapore whose population was predominantly Chinese, and with a definite left-wing orientation, the Malaysian Federation was created to incorporate Singapore with the already independent and moderate Malaya. In order to balance the Chinese predominance in Singapore, Sarawak and Sabah in North Borneo were brought in to make what was always an artificial federation. It is interesting that this is the third British-created federation that has broken up in disarray — the first two to break up being the Rhodesian and the Caribbean federations. It marks the end of yet another multi-

racial experiment. Malaysia without Singapore has no *raison d'être*. And with the disintegration of the Federation, the cogent reason for maintaining large British forces in this area no longer remains. If the Indonesian "confrontation" of Malaysia were now to stop, would there be any further justification for Britain retaining its large base? Balance of payments considerations would certainly work in favour of reducing British commitments in this area, but this would mean a complete break with the policy that has hitherto been followed.

There is, however, no doubt that a fairly wide spectrum of political opinion in the U.K. is in favour of the withdrawal of British forces from areas East of Suez, ranging from the extreme left-wing to such staunch conservatives as Enoch Powell. Obviously, there are elements in both parties which while looking around desperately for areas in which to make cuts in military expenditure which are so vital if Britain is to strengthen her economy, feel that areas East of Suez are certainly ripe for economies.

The Conservative Party under Edward Heath would certainly be more Europe-oriented; the Commonwealth has never occupied first place in the thoughts of Heath, as was made only too plain during the abortive Common Market negotiations, and therefore, cuts in expenditure in this area would make economic sense to him. The left-wing elements in the Labour Party who see the British base in Singapore as an undesirable remnant of colonialism, would like to see it closed down.

The Prime Minister of Singapore has already asked Britain to negotiate a new agreement under which Britain would retain its interests in the base to meet the security needs of both Singapore and Malaysia. But the base would not be available to be used for Britain's treaty relations with SEATO. Tunku Abdul Rahman, however, has suggested that if Singapore is going to put restrictions on the use of the base, Britain should establish a new base on Malaysian territory.

Industrial Location

It has been reported that the Planning Commission has asked State Governments to set up area development corporations for develop-

THE ECONOMIC WEEKLY

oping industrial areas where ready-made sites will be made available for industry. At a time when it is clear that the growth in the output of mining and factory establishments has slackened, it might seem odd to want to devote any attention to industrial location. Yet efficient planning requires that while short-term targets are energetically pursued, essential work continues to be done for the long-term objectives as well. One of our long-term aims definitely is to have a pattern of industrial development which is as evenly spread over the country as is compatible with the distribution of the various economic resources.

A modest beginning was made during the Second Plan with the creation of industrial estates; however, most of these estates were too near the largest cities. Realising that this was undesirable, the authorities decided in 1959 to start some rural industrial estates in places with a population smaller than 2,500 persons. But this was going to the other extreme. The largest cities have a number of advantages for new industrial units; but, since the social amenities there are already hard pressed, the aim should be to divert the new units to places where an increased population can be relatively easily absorbed and where the preconditions for industrial growth are also available or can be easily provided.

Places which satisfy this double condition are small and medium towns of which there are plenty in India. Compared to some of the developed countries our distribution of population is fairly even over cities of various sizes: in the five largest cities of the country, 3.2 per cent of India's population is to be found; the percentage for America is 9.6 and for Japan 16.3. Eighty-two per cent of our population is rural (i.e., lives in places with less than 2,500 persons); 11 per cent lives in places with more than 50,000 people, and about 7 per cent in places of more than 2,500 but less than 50,000. As far as can be done without adversely affecting its rate of growth, we need to direct new industry to the last category of towns. A major advantage of this would be that a large proportion of new industrial workers could continue to stay in their villages and travel to work in towns, many of which are within a few miles of some villages. It is hoped that by the end of the Fifth Plan the share of agriculture in the total labour force will drop from 70 per cent to 60 per cent. If this change is not to add to the already great num-

THE ECONOMIC WEEKLY

bers of slum and payment dwellers in large cities, some amount of taking industry to the people (rather than bringing people to the industry) will have to be consciously arranged. Agro-industries are particularly suitable for this purpose as the Planning Commission points out in its proposals to the States.

As a part of the policy of attracting private industry to the smaller towns, provision has been made in the last Budget to allow for refund of capital gains tax if the sale proceeds are invested in an industry which is located away from the metropolitan areas. The State Governments have been asked to provide the necessary overhead facilities for private enterprise in new industrial regions, and also, whenever the considerations of raw materials, power and the like point it, to take public sector projects to backward regions. These are all moves in the right direction. Though parochialism is bad, yet if the various kinds of representatives of the people take a keen interest in the development possibilities of their regions and, without forcing the sacrifice of economic considerations, do not let the legitimate claims of their regions be ignored, then it would perhaps be a good thing for the country in the long run.

Maintenance Loans from IDA

A SECOND IDA loan, this time of \$100 million against \$90 million in June last year, for the import of materials, components and spare parts for engineering and construction industries has been announced. The credit will benefit the manufacture of commercial vehicles, automotive components, machine tools and cutting tools and electrical and heavy construction equipment. The first credit made higher utilisation of capacity possible in these industries. Production of switch-gear, motors, transformers and cutting tools increased by more than a third over the previous year and that of construction equipment and commercial vehicles by a quarter. The interest taken by IDA in extending such credits has given confidence to manufacturers in the future availability of critical materials, components and ex-stock spare parts and has thereby improved production planning and inventory control. Together with credits from other sources, it should be possible to increase the output of these industries by about 25 per cent in 1965-66 over the 1964-65 level, which itself was more than 25 per cent higher than in the previous year.

Output of engineering goods recorded a fairly satisfactory rate of increase in 1964, but other industries like textiles and chemicals tended to slow down. Difficulties in obtaining adequate cotton supplies, both domestic and foreign, are partly responsible for the relative stagnation in cotton mill output, but fluctuations of output in this industry, which has a weightage of one-third in the index of industrial production, are always difficult to appraise due to the growing output of powerlooms and handlooms and constant shifts in the composition of mill output itself. The slowing down and, in the aggregate, a decline in the output of nearly all chemical products is a more serious portent, for which an adequate explanation has yet to be offered. The shortage of sulphur has proved to be a crippling factor but that is not the only item in short supply. Most of the basic and intermediate chemicals are scarce but, simultaneously, the available supplies of domestic, East European and US goods are facing price and/or quality resistance. Chemicals have a very small weightage in the index of industrial production (base 1956) but their impact on output in other branches of industry is next only to that of agricultural materials, power and transport.

Since the IDA has stretched its scope of assistance sufficiently to cover maintenance requirements, it would be worthwhile to approach it for assistance to cover at least the minimum requirements of chemicals. True, these do not rank entirely on par with basic engineering maintenance requirements since the latter get embodied in capital goods and hence save on foreign exchange required for various projects while chemicals remain as intermediate goods, except for the very small part used as ingredients for the manufacture of capital goods. But the possibility is worth exploring, especially as the only source of credits for chemicals at present is the US, whose prices quoted are often 30 to 50 per cent higher, inclusive of the higher dollar freights payable. These higher prices, unlike those for equipment to some extent, are hardly compensated by superior quality as compared with West European or even East European supplies.

At Last, Vote for the Negro

An American Correspondent writes:

WHEN the voting rights bill was signed into law by President Johnson recently, the most significant piece of legislation concerning the Ne-

gro in many years came into effect. As a precedent-creating ceremony at the Congress, the President declared that federal authorities would implement the law quickly and efficiently, and as a token of his conviction, he ordered law suits brought against several southern States for long-standing violations of the new law. Representatives from the Congress of Racial Equality have said that the bill will enable 900,000 Negroes in the south to register and vote this year. Regardless of the number who register, it is clear that the pattern of political affairs in the South will undergo a basic change in the immediate future.

Since 1870, the American south has been ruled by the white man. The Negroes, who were freed from slavery a century ago, were effectively robbed of their franchise by white-majority legislatures. The federal government, content with the *status quo*, did nothing to disturb this situation until the civil rights revolution of the past few years forced action. At present, only a small fraction of the Negroes eligible to vote are actually registered, due primarily to the fact that the white majority has refused, through various legal tricks, to let them vote. Until recently, the southern Negro community was apathetic and generally accepted its fate. Now, with the militancy of the civil rights movement, combined with effective federal legislation and, it is hoped, its prompt enforcement, the situation will change radically.

The voting rights bill itself is a relatively simple document. It stipulates that all people must be able to vote, in federal as well as State and local elections, and that if there is any discrimination by local authorities, the federal government may step in and register voters itself. It also outlaws the "poll tax" which a number of southern States still levy. No more will people have to pay for the privilege of voting in the United States. The main change from preceding legislation is the enforcement procedures which the new law provides. For the first time federal authorities will actually be able to enter a local district and make sure that the law is being enforced fairly. In the past, long court proceedings were necessary, and even then the enforcement was dependent on local officials, who were often opposed to the law and to the Negroes.

The new law will cause substantial changes by providing the setting for a change in the political structure of the south. In the past, State and local

offices were firmly in the hands of segregationist whites who did not even have to consider the Negroes, since they were effectively deprived of the vote. Since Negroes are the majority in a number of southern localities, and are a substantial minority in many others, under the new law, they will wield considerable political power. White politicians, who in the past satisfied the most reactionary elements in the community, will now have to meet at least some of the demands of the Negroes if they want to stay in office. Already, a member of the Student Non-Violent Co-ordinating Committee, the militant civil rights group, has been elected to the State legislature of Georgia. With the militant and effective programme of the Mississippi Freedom Democratic Party, a mostly Negro group with a substantial following, rapid change may even be possible in Mississippi, one of the last strongholds of all-out segregation.

For the first time, Southern Negroes will have political power within their grasp, and the mere threat of the use of this power will force moderation in the power structure of the south. It must be remembered that it cost the lives of three civil rights workers, murdered last year in the swamps of Mississippi, to initiate this legislation, and the mounting pressure of the Negro mass movement to get it passed by the Congress. But the measure is passed, and the political structure of the south will be changed as a result.

Exports Sluggish Again

THE search for missing export receipts in 1964-65 has yielded one surprising result. The value of exports was over-estimated by Rs 23 crores of which manufactured jute shipped from Calcutta alone accounted for Rs 20 crores. Bombay accounted for the remaining Rs 3 crores. Some errors and omissions in statistics are normal; statistics of piecegoods exports from Bombay have often enough been in the plural. But an error of Rs 20 crores in one commodity from one port, whatever the importance of that commodity or port, is serious enough to merit close attention; in the event, the original figure of exports of jute exceeded the revised figure of Rs 169 crores by 12 per cent.

As a result of this revision, the figure of total exports in 1964-65 has been revised from Rs 838 crores to Rs 815 crores, which represents an increase of only Rs 22 crores over 1963-64. This increase was concentrated in jute (revised figures), ores and alloys, and engineering goods. Veget-

table oils and seeds (Rs 15 crores), sugar (Rs 8 crores), art silk fabrics and handicrafts together recorded a decline of Rs 32 crores.

In the first quarter of the current financial year, there was a net fall of Rs 11 crores in exports as compared with the corresponding quarter of 1964-65; the entire decline occurred in sugar (Rs 8 crores) and cotton piecegoods (Rs 3 crores). The lower earnings from sugar (Rs 4 crores against Rs 12 crores) are attributable to lower prices since the quantity exported actually went up from 147,000 tonnes to 156,000 tonnes. For mill cloth, both value and quantity have been lower. Most of the decline in aggregate exports this year has been in respect of ECAFE countries (mainly Japan) and UK.

The increase in exports witnessed

LETTER TO EDITOR

To Collaborate or Not to Collaborate?

THE two articles "Case for Foreign Collaboration in Advertising" (May 22, 1965) and the "Case against Foreign Collaboration in Advertising" by RST (July 10, 1965) would sound like quibbling over small change when compared to the recent collaboration proposal of the Hilton International group. According to reports the proposal would amount to handing over a chain of government built hotels, for a duration of 25-50 years, to be run by Hilton International who would take 33½ per cent of the gross operating profits in addition to repatriating all expenses incurred by them. In absolute terms, Hiltons would repatriate, annually, about Rs 8 lakhs per hotel and on the assumption of an initial chain of 5 hotels, Hiltons would cause a drain on the reserves to the tune of Rs 40 lakhs per annum. Lynx eyed observers like RST would no doubt give vent to their protests in no uncertain terms.

It is interesting that public opinion against foreign collaboration suddenly gets galvanised when the government considers sanctioning a collaboration agreement for advertising (LPE-Aiyers), brassiers (Maidenform-Eve Apparel) or hotels (Hilton International-Government). RST aptly sums up the anti-collaborationists' view: "I for one can never believe that creative ability in India has reached a point where we have to await waves of inspiration from across the seas". It is somewhat unfortunate that the 'anti-collaborationists' restrict their tirade against what Michael Kidron aptly calls the over-

THE ECONOMIC WEEKLY

since 1962 is levelling off but that is not all. The net terms of trade which had improved from 100 in 1958 to 113 in 1962 have declined consistently since then to 110 in 1963 and 107 in 1964. Uncertainty about the continuance and modification of export incentive schemes has had something to do with the renewed sluggishness of exports, but this cannot be an adequate explanation because these schemes apply to only about one-quarter of total exports. Foreign demand, available surpluses for exports, and export prices have set a short term ceiling, to pierce which requires, first, an increase in domestic production, second, stabilisation of internal prices, and third, concentrated efforts to improve the export of non-traditional items like ready-made garments and engineering goods.

import of technology (*Economic Weekly*, April 24, 1965), merely to brassiers, hotels and advertising. For, who has heard of a small-scale filter paper producer who protested, not so long ago, against the government's threat to sanction foreign collaboration for producing filter paper? The stifling of Indian know-how in items distant from the public view is perhaps a more serious problem since such inequities rarely come into the open.

Foreign collaboration takes the form of the almost outrageous Hilton proposal mainly because of the restrictive policy adopted towards foreign investment. If the foreign partner is not permitted a stake in profits, through ownership of a part of the share capital, he is bound to adopt circuitous, though sometimes more lucrative, means to obtain his share of the profits. An open-door liberal policy towards foreign investment would at worst lead to control of industry by foreigners (a point so cogently exaggerated by President de Gaulle) but would it not be less demeaning than a major reorganisation, at the instance of the *World Bank*, of the once powerful Directorate-General of Technical Development by an American firm, Allen and Hamilton International? We certainly seem to be caught between the Scylla of foreign equity and the Charybdis of foreign loans!

B L ROSH

Bombay,
July 28.

Flibbertigibbet's Calcutta Diary appears on page 1316.

CAPITAL VIEW

A Defeat for Pakistan, but...

Romesh Thapar

WITH the Pakistani infiltrators in Kashmir in a state of disarray, and a military 'drag-net' supposedly closing in on them, one is tempted to ask whether President Ayub, like President Kennedy after the fiasco of the Bay of Pigs operation in Cuba, is weeping over the fate of his men who were given to believe that the people of the Valley would rise to their support. He has reason to weep. Despite the dishonest chatter in sections of the western press about a popular revolt in the Valley, he knows that the events of the past few days have made a sorry mess of his ramified intrigues over Kashmir.

We have still to locate the hidden hand behind the so-called infiltration which Prime Minister Lal Bahadur has rightly described as a thinly-disguised invasion. Speculation ranges over a wide field. Was Ayub trying desperately to divert his people from the anti-US rantings of Bhutto? Did the omnipresent CIA trigger the operation for their loyal stalwart? Are the Chinese instructors, reported to be operating on the Pakistani side of the cease-fire line, the real culprits? Was the infiltration carried out over a few days or over months? Does Rawalpindi plan a sustained operation of this kind to loosen India's hold on the Valley? Will the cease-fire line be challenged too?

Pointless Official Briefings

As always, the official briefings of the press make the simplest matters look confused. No purposeful homework is done. Responsibility is divided. Seniority in the bureaucratic hierarchy, whether civil or military, dictates who will speak. The men who know the facts hang around in the shadows unable to intervene or to put sense into the proceedings. We have still to be told how the infiltration took place, and at what points. We have still to be given the human story of how the people of the Valley helped to isolate the raiders and to prevent their convergence on certain strategic points. We have still to nail down the lies and fabrications being spread within the country and outside to smear the Kashmiri people and to fan communal hatred.

Notwithstanding the emergency within 'The Emergency', even as the people of the Valley faced the dis-

guised invasion, the GOI was on holiday through Saturday and Sunday. Some sections planned a holiday for Monday, too, taking it for granted that Sunday was a holiday any way. And most newspapers did not appear on Monday. That this should have been the mood long after Defence Minister Yeshwantrao Chavan and his army staff had been compelled to recognise the gravity of the infiltration—earlier reports from Srinagar having been dismissed as exaggerated—only helps to confirm a generally held opinion that the GOI does not take its responsibility seriously and is always caught napping.

How the News Came

The first confirmation of a major infiltration was in the hands of the State Government early on Saturday, August 7. Ironically, the Prime Minister, seldom available for urgent consultations, received the report late that night. As for the rest of the Union Cabinet, the less said the better. The dangerous extent of the infiltration, via a gap near Gulmarg, became apparent in the following days. The State Government was most energetic. Its police units bore the brunt of the attack with great courage. The people of the Valley refused to respond to the engineered propaganda of the 'ghost' radio. The infiltrators, currently estimated at over 3,500, failed to co-ordinate. And when the army moved in, it was possible to prevent the concentration of the infiltrators and begin their destruction, pocket after pocket. However, delay in the counter-attack allowed a large number of the groups to escape to the mountains and forests. These demoralised, desperate men are still at large.

In the Capital, the initial reaction to the developments in the Kashmir Valley was puerile and thoughtless. First, there was the usual wild talk about the failure to prevent infiltrators getting through 'our positions' along the cease-fire line—as if our army in the State is organised in a solid phalanx. Then, the report that the infiltration had been going on surreptitiously since May was seized upon by several bureaucrats, politicians and ministers to spread the idea that the people of the Valley had been sheltering the infiltrators—an indication of how thin and fragile secular attitudes are within the ruling party,

the GOI and the Union Cabinet. And finally, believe it or not, the mess-makers united to whisper the canard that the State Government could have been more effective—a whisper which had to be loudly and emphatically silenced by Prime Minister Lal Bahadur in the course of his speech from the Red Fort on Independence Day.

Jan Sangh Demonstrations

The muck of Indian politics certainly comes to the top every time there is a crisis. On this occasion, communal and parochial attitudes have been visible in the most unexpected quarters. Indeed, one could not help noticing how easy it was for the Jan Sangh to fix its saffron flags and its loudspeakers over municipal property for an elaborate demonstration before Parliament which happened to coincide with the developments in Kashmir. The cynics claim that these communal-type demonstrations are encouraged to underline 'Hindu feelings'. The attempted rationalisation by those who are sympathetic is along familiar lines: one communalism must be fought by another! If we permit this political racketeering in high places, the demand may soon be voiced openly that Nationalism be equated with Hindu communalism.

This sickness which increasingly afflicts policy-making is reflected in our inability to strike at the roots of the problem in the Kashmir Valley. Integration of the State with India, so vociferously espoused by all and sundry, is not merely a question to be settled by constitutional amendments. A wonderfully talented people have to be lifted out of their despondency, persuaded that they are very much a part of a society which plans for an enlightened and secure future, that their Valley has a role to play beyond that of a tourist playground, that as a part of India they have something tangible to live for and fight for. That the people of the Valley denied the infiltrators a base, despite years of bad and corrupt government, despite the political and economic confusion which still prevails, is a fact which needs to be chewed upon particularly by the guilty men who continue to regard the region as something apart.

This is the crux of the problem. An airport which is paralysed every time heavy clouds gather, a road which

could not be more undependable, a railway which has yet to reach Jammu and a thoroughly primitive telephone system, are obvious pointers to our blatant, almost criminal, neglect of the Valley. As for the not-so-obvious evidence of our neglect, it is even more damning. The Valley still functions only for the tourist and 'closes down' during the long winter of six months. No plans are there to make the Valley viable round the year. Recruitment from the Valley to the Indian services is practically nil. Never does a Kashmiri find himself in the multitude of advisory committees which buttress the G.O.I. As for Kashmiri representation at the Centre, in policy-making, we are conscious of the need for it. Indeed, the people of the State still do not enjoy the various political and social rights which we do in other parts of the country. Labour laws in Kashmir, for example, are of the nineteen-thirties variety!

To argue glibly that vast sums of money have at least been poured into the valley is to reduce ourselves to the level of colonisers who need a piece of real estate, which is of strategic importance, and who pretend that they are interested in its welfare. It is the reactions in the valley to this smug, superior Indian attitude which feeds the propaganda of those who dream of independent *sheikhdoms*. No significant opinion in the valley is pro-Pakistani. True, a few successful business families, enriched by their link with the Indian market and now seeking political power in a merger with Pakistan, do subsidise the activities of the pro-Pakistani elements. But such ambitions and stirrings will always be a feature of life in the fringe areas where political frontiers meet — at least, until major economic advances have broken the hold of traditionalist and revivalist leaders.

The proper *integration* of the valley, in other words, has to begin with a massive opening up of communications, a substantial recruitment of Kashmir personnel into the services and a crash programme to sustain work and activity in the valley right through the year. This is a challenging task made all the more urgent by the events of the past fortnight. We should not be diverted, for Pakistan is unlikely to give up her infiltration tactics. And the confrontation may take on more dangerous forms as in the Kargil sector. The Kashmir situation is made up of many facets. We must keep them all in view.

We have failed repeatedly to keep

our promises to the people in the valley. Another failure, and we may not be presented with an opportunity

to try again. Pakistan has been defeated, but Pakistan banks on our continuing neglect of the valley.

What Prevents Unity?

K D Malaviya

OUR relations with Pakistan are fast deteriorating. Many of us believe that it is only Kashmir that stands between India and Pakistan. This is not so. We have now been drawn into the whirlpool of world politics in a precarious way and Pakistan is playing its game treacherously but skilfully. We are now involved in some country's struggle for domination in world affairs and Pakistan is only playing a tool in its hands. We too, therefore, should look for a political rather than a military solution. But it does not mean that we should not beat Pakistan back soon. No, we should do so very promptly...

What is the quarrel between China and India? NEFA? No. Is it Aksai-Chin? Yes, to a certain extent, but can this not be settled? Let the Chinese ponder over it. The initiative lies with them and not with us. There can be ways and means of probing for a solution, but only where there is a will. In the present attitude of the Chinese leaders, it seems difficult to find a line of action. Let the leaders of Asiatic powers coolly ponder over various issues that face us in Asia. If they do so, they will find that it is the economic backwardness and inertia of the people that come in the way of all types of progress — political, social, economic and cultural. Racial or national superiority or rivalry will not remove the evils of inertia of Asiatic peoples. A Socialist Asia should be our dream, but that can happen when some of us look to our national economic problems and others to our international relations and attitudes for the purpose of surging forward to a stage of collective understanding, wherein all barriers in the way of building a socialist society are quickly removed. Let China think about it before Mao tse-tung goes or events in India and Pakistan lead to painful turmoil.

It is good to talk about unity. It is equally good to appeal for such unity and for clearing the atmosphere of discord caused by personal ambitions. But we must never forget that unity does not come for the asking of it, that there are perfectly scientific causes of the phenomenon of disunity. These reasons are social and accumu-

late in a society like toxic matters in the system of human beings. If the toxin accumulated in the body politic of a social system is not removed, the disease is not cured in spite of great prayers and pious wishes, or unity is not achieved in spite of incessant appeals.

Let us take the case of Bihar Congress. For a long time this State, like its neighbours, was full of discord. Petty ambitions in politics, caste frictions and rivalries built on feudal and primitive attitudes were rampant. Corruption and inefficiency appeared to be the order of the day. Some senior Ministers of the Government of India thought that evils like corruption or inefficiency or rivalry were absolute evils and could be removed by prayers, appeals or exhortation on the pattern of our praying the Almighty for rains. Unfortunately, however, neither rain nor unity is brought about by prayers. But when it suits the interests of the parties or when warlords get tired of fighting, differences are patched up. This is what happened in Bihar. Unity having been achieved, Bihar should have improved its affairs and been a stronger and better State today than a month ago.

But what do we see? Immediately on the morrow of unity, Bihar was seen to be on fire. From distant corners of the State come news of sabotage, disruption of communications, loot, arson, murder, and complete anarchy. Why did this happen if the great problem of unity between the two warring factions in the Congress was settled? Has it not been said that all would be well in the country if Congressmen unite and live in love and peace? How is it that in spite of so much love in sight, the State of Bihar is still in trouble and its people in great distress?

I will only pose this question and not try to offer the answer. For, if I start saying in answer that prompt removal of economic disparity and revolutionary concessions to the tillers of land and announcement of a concrete socialist programme alone can bring about a better time, then people will start calling me a fellow traveller, or a dogmatist cut-off from the realities of India.

BOOK REVIEWS

Precursors to an Economic History of Asia?

J Krishnamurty

The Economic Development of South-East Asia, edited by C D Cowan; George Allen and Unwin, 1964; pp 192. 32s.

The Economic Development of China and Japan edited by C D Cowan; George Allen and Unwin, 1964; pp 255 35s.

THE two books under review represent efforts to bring together the considerable work that has gone into the study of East and South-East Asia, in order to assess the economic, historical and political factors relevant to a study of economic growth and economic backwardness in a region where both exist side by side. Such an undertaking is certainly an ambitious one and success or failure should be judged in relation to the magnitude of the problems involved.

Fortunately, or unfortunately, economic history — especially of the underdeveloped countries of today — has tended to go into certain limited lines of enquiry. There has been a tendency to concentrate on the study of foreign trade and, to a lesser extent, of extractive and plantation industries and of institutional aspects of agriculture. To a large extent this stems, not from the adoption of the view point of colonial rulers, but from the limitations of the availability of data. To some extent the two volumes under review reflect this problem.

Out of the seventeen papers collected in "The Economic Development of South-East Asia", no less than six deal with foreign trade, and a good many more deal with the impact of the West on export industries. Partly, this is due to the fact that all these papers were read at a conference held in July 1961 at the London School of Oriental and African Studies, and reflect the orientation of western thought on the problems of East and South-East Asia. In fact only three out of the seventeen papers are Asian contributions. The western orientation is obvious in the introduction — which is common to both books — by C D Cowan. He says: "Many current problems... hark back to the growth of trading ports and export crops, the importation of western colonial regimes and western funds and skills, the related development of indigenous trading communities and the economic bases of unrest underlying the nationalist movements of the late nineteenth and twentieth centuries." The result is a number of case studies of Asia *versus* the West, written largely from the western standpoint.

At the same time, the scholarly

nature of the contributions should not be underrated. This is particularly true of the volume on China and Japan. The study of the overland trade between Russia and China by Mark Macnall is certainly a commendable effort. He not merely studies the qualitative and quantitative impact of this trade — known as the Kiakhta trade — but also compares it with the trade at Canton. This comparison is certainly instructive. The Kiakhta trade, which began in 1689 and continued right down to 1858, was of mutual benefit to both Russia and China, unlike the trade through the treaty ports, between Western Europe and China which was an unjust imposition.

Kwang-Ching Liu's paper on "British-Chinese Steamship Rivalry, 1873-85" presents a comprehensive account of the superiority of the British steamship companies, due largely to their enterprise and initiative compared to the inertia of the Chinese companies, subjected to continuous intervention by an incompetent State bureaucracy.

The gross inefficiency of the State comes out even more vividly in Feuerwerker's account of the attempt to develop steel production in nineteenth century China. The failure of *Kuan-tu Shang-pan* (government supervision and merchant operation) to provide proper industrial leadership, sound economic judgement and manoeuvrability in operation, and the belief of government officials in their omnipotence led to a tragic series of developments, whereby an ironworks was developed at a wrong location, was manifestly uneconomic and was operated through chaotic financial methods. Large parts of Feuerwerker's accounts read like reports on Indian public and private enterprise. For instance: "In the company's three divisions... there are at least 1,200 officials and executives. Most of them are Sheng-Hsuan-huai's protégés and the relatives of his concubines. Their only forte is enriching themselves..." This is certainly a paper which should be read by all persons concerned with policy-making in India.

Jean Chesneaux's paper on the Chinese labour force in the first part of

the twentieth century is a good case study of the problems created by the lack of an industrial tradition among workers in underdeveloped societies. Alexander Eckstein in his paper on Sino-Soviet economic relations counters the Galenson hypothesis that these relations were disadvantageous to the Russians. He suggests, instead that it led to mutual benefit and that perhaps the Soviet Union benefited more.

The final paper on China by K R Walker is more a study in the history of economic thought in modern China. He studies the views of Ma Yin-Chu a leading economist and political thinker in China. Ma stands out as an advocate of balanced growth, birth control, and of more economic incentives in planning.

Allen's paper on Japanese economic growth is far too general, and is not in keeping with the specialist nature of the other papers. Professor Rosovsky's paper on capital formation in Japan is an excellent piece of quantitative analysis and he succeeds in showing that Japanese economic growth was remarkable in the way tradition and modernity were integrated to keep capital-output ratios low at the initial stages of industrialisation. The last paper by Professor Shinohara carefully analyses changes in foreign trade in pre-war Japan. He highlights the close correlation between rapid industrial growth and foreign trade.

The volume on South-East Asia is not as good as the one on China and Japan. Leighton Boyce discusses British exchange banking; Hyde, British shipping companies; Charles Fisher, population growth; Caldwell, Indonesian exports under colonial rule; Ingram, Thailand's rice trade; Wong Lin Ken, Malaya's tin industry; Norman Parmer, unrest among Malayan plantation workers and T E Smith, immigration in Malaya.

Some general comments on some of these papers seem to be in order. Francis Hyde's paper on British Shipping Companies and East and South East Asia, 1860-1939, covers much the same ground as Liu's paper on British-Chinese Steamship rivalry, 1873-85,



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but Liu's work seems to be much richer in detail especially statistical evidence. This perhaps is one of the advantages of taking up a more specific problem and period.

Caldwell's paper on Indonesian exports presents very interesting data. He shows very clearly how in a colonial economy foreign trade has had a certain type of dynamism within specified boundaries. Throughout the period 1865-1939, different products predominate in the export market, yet all these products really belong to the same economic type—either plantation products, or the products of extractive industries. Table V (page 78) illustrates this point well. During the period 1865-1914, the percentage share of the value

of agriculture, forestry and the two main mining exports, to the value of all exports was never below 93.9 per cent.

The final paper by Smith on immigration and settlement of Chinese and Indians in Malaya is in some ways an indictment of the approach embodied in almost all the papers presented in the two volumes. Smith only considers the pull factors operating on migration into Malaya, and their demographic consequences. No attempt is made to consider the push factors which led to migration out of China and India and to the impact of all these factors on the economic attitudes of these migrants. This would surely be a fascinating line of study.

The moral of the two volumes seems to be that it is high time specialists in area studies got together and did more comprehensive work. Instead of a number of very scholarly works on different countries, on very specialised problems, a more comprehensive economic history of Asia may thus come to be written. One earnestly hopes that the specialists who met in the London School of Oriental and African Studies in July 1961 have by now got down to this vital task. It is rather a pity that the editor of these volumes could not provide a summary of the discussion among these experts, and, therefore, we are left without a clue as to its outcome.

Power Politics in World Affairs

Philip G Altbach

Undercurrents in American Foreign Relations by M S Venkataramani; Asia Publishing House, 1965; Pp 218, Rs 14.

THERE is certainly a need for increased understanding of the background and basis of American foreign policy. Venkataramani has performed a valuable service by analyzing several recent events in United States policy from the point of view of an outside observer. All too often foreign observers try to understand American policy without considering vital domestic issues facing the decision makers in Washington. The present volume is guilty of this fault, although this is somewhat offset by it providing a reasonably well researched and documented analysis unbiased by undue closeness to events as they took place in the United States. Perhaps most important, however, is the fact that this book shows the possibility and the value of outside research into American foreign and domestic policy. The United States is a complex society, and the more understanding that can be shed on its affairs, by Indians as well as by Americans, the better off both countries will be. Furthermore, it is only fair that since many American scholars have come to India to dissect its social and political life, competent Indians should return the compliment in the United States.

This book consists of four separate essays concerning America's foreign relations. These studies stand by themselves, and are, in fact, unrelated to each other. The first two deal with America's relations with India prior to India's independence and specifically concern India's recurring food problems. The other two essays deal with the Suez

Crisis of 1956, and the U-2 incident of 1960. The essays are very different in nature, and stress different aspects of American foreign policy. It would seem that the author has committed different sins in each of his essays, thus making it necessary to criticize each one and detracting from their value.

The first two essays, dealing with the Great Indian famine of 1943, and the food crisis of 1946 respectively show that the author has an admirable grasp of the facts of the situation and presents a competent presentation of the relation of the United States to these important events in India. Venkataramani neglects, however, to take American domestic politics into account. Indeed, throughout the two essays runs the unspoken assumption that India has, until very recently, played a very minor role in American foreign policy considerations. If this clear fact would have been stated at the outset, the two events which are under discussion would be easier to examine.

Probably the key elements in understanding America's reaction to India during the past three decades have been its ignorance of the country and its people, and a basic unconcern for the subcontinent. Only since the Chinese revolution of 1948 has the emphasis of the United States shifted from China to other parts of Asia. India is now seen as a counterweight to the growing threat of China, and vast amounts of American funds have been poured into India, although with varying results. Prior to the Communist takeover,

however, China was the keystone of American Asian policy. It would seem that the American policy makers have always had a difficult time understanding India and Indians. Indian reality just does not seem to fit into the well-defined categories of American pragmatism, and Americans are hard pressed not to throw up their hands in despair at India's problems and lack of discipline.

These essays correctly point out that the United States turned a deaf ear to India's needs in 1943 and in 1946 and documents the various manoeuvres of the American government in dealing with this matter. It is particularly embarrassing for the United States, since it was at this time giving huge amounts of food and other material to the Soviet Union, and by 1946 to the devastated nations of Europe. The author correctly states that the U S officials were more interested in keeping Winston Churchill happy than in feeding three hundred million starving people in India. But this is simply the way that power politics works, and the Allies were at this time involved in a life-or-death struggle with Nazi Germany; therefore, the needs of the Indian people, however legitimate, were passed over in the rush of events. To be fair to the United States, one should state that any other great power in a similar position would have chosen the same response.

Power politics does not excuse American indifference to India's needs, particularly, as Venkataramani points

out, when there was sufficient food and transport available in 1946 and probably also in 1947. It merely points out that nations, however loud their propaganda, are simply not motivated by humanitarianism.

These essays also overlook matters of domestic politics for the most part. It should be noted that the whole concept of foreign aid did not take concrete shape until 1948, when the Marshall Plan was reluctantly accepted by the United States Senate. The American president, Roosevelt, may have felt that the people would not accept this kind of aid programme at the time. Indeed, if the present aid programme to India was not linked to the issues of the Cold War, it is unlikely that the Congress would agree to the expenditures or that the American people would approve of it.

The final two essays in this short book provide some valuable insights into two of the crisis of the Cold War, the Suez Crisis of 1956 and the U-2 Affair of 1960. In these essays, the author has made good use of the documentary materials available to him. In the chapter on Suez, the degree of involvement by American oil interests in the situation and their influence on the actions of the American government are outlined. The Suez crisis is placed in the context of the Cold War by noting the central importance of the Middle East to the survival of Europe and the United States in terms of oil. While there are no revelations presented in this chapter, the author has summarized the available material skillfully and presents a case study of how economic interests motivated American foreign policy in this particular situation and how the forces of economics, power politics and diplomacy intermeshed to bring the crisis to an end. This analysis was preponderant by liberal analysts in the US and in Britain immediately following the crisis, but it is still interesting coming from someone completely uninvolved in the crisis.

The final chapter on the U-2 deals mostly with the developments in the United States which led up to the use of spy planes to gain information about Soviet military strength. The post-war period is seen through the eyes of American strategists, who saw their nation lose a monopoly of nuclear weapons and then saw the Soviet Union succeed in catching up with the United States in military affairs. Again, the power politics have shaped

American policy, and the U-2 flights are ordered by President Eisenhower to ensure that the security of the United States will not be impaired. The American government knew full well that these flights were in violation of international law, and the response of the State Department when the whole affair was uncovered by the Russians showed the embarrassment of the United States.

Thus, this book is a contribution

not so much to an understanding of the roots of American policy, but to the importance of power politics in world affairs. The four incidents which are presented do not offer enough evidence to gain a thorough understanding of the under currents of American foreign policy. Yet, a beginning has been made, and it is hoped that, scholars in India and elsewhere will look closely at the foreign relations of the United States, and of other nations as well.

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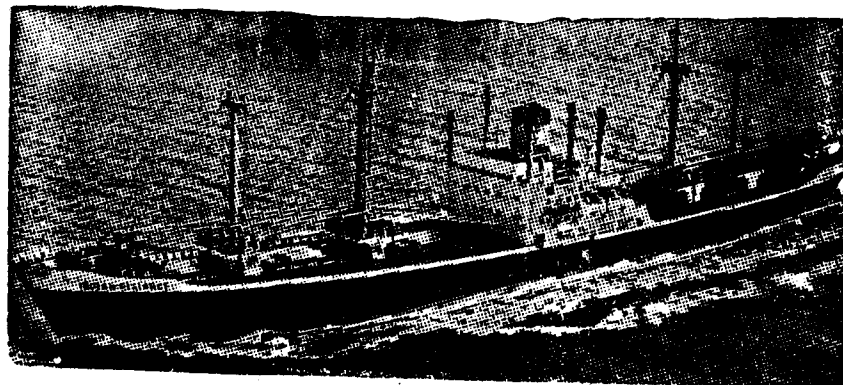
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Singapore's Future

G M Telang

THE Prime Minister of Singapore, Lee Kuan Yew, is reported to have broken down while announcing the secession of Singapore—aptly termed "ejection" by *The Times*, London—from the Federation of Malaysia. It was the natural reaction of a man who had cajoled, pleaded, argued and parted ways with friends and tenaciously fought for the integration of the island of Singapore with the Malayan mainland as a part of the Malaysian scheme. His long-cherished ideal of a new multi-racial nation of Malays, Indians and Chinese gradually advancing to socialism had been smothered under the onslaught of Malay racial exclusiveness and political conservatism.

Curiously enough, Lee's first encounter had been with the communists. That was way back in 1960 when he wanted the integration of Singapore with Malaya to be adopted by his People's Action Party (P A P) as its main plank. The communists in the party stood for an independent Singapore. The Socialists led by Lee and S Rajaratnam (later joined by the leading trade unionist, C Devan Nair who was earlier with the communists) had come to the conclusion that it would be difficult to further the socialist cause without drawing the Malay peasantry and youth into the mass movement. They felt that one of the main handicaps of the post-war movement for freedom in Malaya was the fact that it had not embraced the Malays in general. The Malayan Communist Party was completely Chinese in composition and in spite of its prolonged struggle against the British it was baulked of its objective because of the non-participation of Malays. For Lee and his colleagues, therefore, the immediate task before the socialist movement was to weld the three races in Malaya into a new national entity and then gradually work towards the egalitarian ideal.

His communist co-workers took a different view. Their thinking was conditioned more by the requirements of the current strategy of international communism than by the specific needs of domestic politics. They attached little importance to the need for a multi-racial movement and saw visions of an independent Singapore as a base for a possible armed struggle later within Malaya. The differences between

Lee and the communists led by Lim Chin Seong took a violent turn in 1961 when the latter broke away from the P A P and formed the Barisan Socialist (Socialist Front). The island then rocked under a fierce campaign by Lee, Nair and Rajaratnam to denounce the Barisan slogan of an independent Singapore.

Today Lim Chin Seong may well turn round and say triumphantly: "I told you so". But will he co-operate with Lee in consolidating Singapore's independence or will he still regard the socialists as his main enemy? There is no doubt that the strength of the Barisan Socialists which, three years ago, appeared to be in a position to claim the largest following among Singapore's population of two million (over 80 per cent Chinese) is today much weaker and the P A P commands greater influence. Lee proved this conclusively by winning a key bye-election in a constituency a few weeks ago which had twice before rejected his party candidates. However, the P A P cannot afford to be complacent.

The die-hards in Tunku Abdul Rahman's United Malay National Organisation have succeeded in frustrating Lee. He is a much disillusioned man. But he is not the sort to slide into passivity under defeat. The dice was loaded heavily against him in fighting for the creation of a multi-racial Malaysia. His handiwork has been undone, but he faces a new challenge now.

Running the affairs of a strategically situated island state will be a tough problem. The hostility of Kuala Lumpur's politicians is not the least of the difficulties that will beset Lee. The complicated defence arrangements that are being finalised between the U K, Malaysia, or what is left of it, and Singapore may place severe limitations on the new state's freedom of action. And the twists of Indonesian policy may not always be helpful.

Indonesia has welcomed the separation of Singapore from Malaysia. But she may not resume normal diplomatic relations with Singapore in the near future. If President Soekarno embarks upon a policy of working more actively for the separation of the Borneo territories from Malaysia, Lee will be placed in a quandary. Much will also

depend upon the policy the Barisan Socialist might adopt in conjunction with the Indonesian Communist Party.

A person like Lee in whom socialist idealism and political realism are combined can rise to the occasion. His socialism is opposed to communism; yet, anti-communism is not an article of faith with him. It is good to remember that it was largely because of his personal explanation of the Malaysia scheme during visits to several non-aligned capitals that Kuala Lumpur's credentials were accepted in the Afro-Asian world. How Lee faces now as leader of independent Singapore will be of significance wholly out of proportion to the size of Singapore. The leadership of the 240 square mile island will have a vital bearing on the political orientation of the large numbers of Chinese in South-East Asia.

Fourth Thermal Unit at Trombay

THE Tata Electric Companies have announced the commissioning of a 150/160 mW steam turbo-generator installed at their thermal power station. It is the largest thermal unit so far built in India. The turbo-generator operates with the highest steam conditions. It is a highly efficient unit having a comparatively low fuel consumption. It incorporates several interesting and new features not to be found in any other unit in this country, such as, controlled circulation boiler, boiler feed pumps with booster pumps, sophisticated instrumentation and highly automated controls for safe and efficient operation.

The project, which costs over Rs 15 crores, was initiated with the assistance of the Agency for International Development. The unit has been brought into commercial operation within the scheduled period of three years, the construction on the project having commenced after the monsoon in 1962. The project has been carried out by the engineers of the Tata Electric Companies. The indigenous content in design and installation of the unit has been much more than in any other comparable power plant so far erected in the country, only specialist advice being sought from the company's Consultants, Ebasco Services Inc, New York.

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Changes in Cropping Pattern

A Study of U P

Shyam S Bhatia

Between 1950 and 1961 there have been considerable changes in the cropping pattern in Uttar Pradesh. These changes, however, are not manifest when data at the State level are considered. Obviously, changes in the cropping pattern have to be studied at least at the district level in order to understand their nature and to bring out the regional distribution of such changes within the State.

In UP the cropping patterns in different parts of the State have undergone change in varying degrees. Generally speaking, western UP is more dynamic than the eastern part where some districts, like Azamgarh and Basti, seem almost to resist change.

There also appears to have been some regional redistribution of crops. There are indications that the density of some crops is increasing in areas where it was already high. In other words, there appears to be a tendency towards geographical concentration of crops. This process of concentration has been slow during the period under study, but it is definitely discernible. Further studies are needed to understand the implications of the process.

IN the First and Second Plans considerable emphasis was laid on agricultural development in Uttar Pradesh. It is the purpose of this paper to make a preliminary report on changes in cropping pattern during the decade between 1950-51 and 1960-61. Here cropping patterns at district level have been compared at two points of time, namely, 1950-51 and 1960-61. The cropping pattern in 1950-51 is taken to represent conditions prevailing in the area prior to the introduction of the development plans and the cropping pattern in 1960-61 presents conditions approximately at the end of the Second Plan.

As data are not available for the northern districts of Garhwal, Tehri Garhwal, Almora and Nainital, this study is confined to the remaining 47 districts of the State. References to the State as a whole in the context of this paper imply these 47 districts taken together. Further, the study is based on a consideration of the proportion of cropland under seven cereals (rice, wheat, barley, jowar, bajra, ragi and maize), other small millets, gram, other pulses (excluding gram), sugar-cane, total oilseeds, cotton, and fodder crops. These crops accounted for 97.2 per cent of the total cropped area in 1950-51 and 96.8 per cent of the total cropped area in 1960-61.

Changes in the cropping pattern referred to in this paper mean changes in the proportion of cropland devoted to various crops. Change is measured here by taking percentage point difference between the 1950-51 and 1960-61 proportions of cropland under each crop. For example, if in any district, wheat occupied 22 per cent of cropland in 1950-51 and 24 per cent of cropland in 1960-61, change is taken to be an increase of 2 per cent as the crop

has improved its relative strength in the cropping pattern by 2 per cent.

Change in State as a Whole

A comparison of the proportion of cropland devoted to different crops in 1950-51 and 1960-61 showed that in Uttar Pradesh as a whole, the changes in cropping pattern were small (Table 1). In 1950-51, foodgrains occupied 86.1 per cent of the total cropped area while in 1960-61 they occupied 84.8 per cent. Cereals and millets occupied 63.1 per cent of cropland in 1950-51 and 62.9 per cent less in 1960-61. Total pulses declined by 1.1 per cent during the decade.

Further, the proportion of wheat increased by 1.6 per cent while that of barley decreased by 1.5 per cent. Maize gained by 0.6 per cent and jowar declined by the same amount while gram decreased by 0.7 per cent. Among the non-foodgrains, sugar-cane increased by one per cent while oilseeds gained by 0.3 per cent. Cotton which has been progressively declining since 1930-31, showed an improvement by one tenth of a per cent during the decade under consideration. Taking the increase and decrease in the proportion of cropland devoted to the above noted crops, it appears that only about 4.0 per cent of the total cropped area was involved in crop pattern changes during the decade.

Foodgrains

Though the proportion of foodgrains has declined by 1.3 per cent in the State, interesting regional and inter-district variations can be observed. Whereas in 1950-51, only 8 districts (mostly western) had less than 80 per cent of cropped area under foodgrains, the number of such districts increased to 12 a decade later. In two districts, Muzaffarnagar and Meerut, foodgrains declined to 54.4 and 57.5 per cent of

cropland respectively in 1960-61. On the contrary, there were 12 districts in 1950-51 with more than 90 per cent of total cropped area under foodgrains, and the number of such districts increased to 15 in 1960-61.

Further, it appears that the districts that already had a comparatively low proportion of cropland under foodgrains in 1950-51 declined still more as in the case of Meerut and Muzaffarnagar. On the other hand, some districts

Table 1: Change in Cropping Pattern in Uttar Pradesh

(Area under different crops as per cent of total cropped area)

Item	1950-51	1960-61	Change
Rice	19.0	18.9	-0.1
Wheat	16.2	17.8	+1.6
Barley	9.9	8.4	-1.5
Jowar	4.9	4.3	-0.6
Bajra	5.3	5.2	-0.1
Ragi	0.1	0.1	Nil
Maize	4.3	4.9	+0.6
Other			
Small Millets	3.4	3.3	-0.1
Total Cereals & Millets	63.1	62.9	-0.2
Gram	12.8	12.1	-0.7
Other Pulses	10.2	9.8	-0.4
Total Pulses	23.0	21.9	-1.1
Total Foodgrains	86.1	84.8	-1.3
Sugar-cane	5.3	6.3	+1.0
Oilseeds	1.8	2.1	+0.3
Cotton	0.2	0.3	+0.1
Fodder Crops	3.8	3.3	-0.5
Total	97.2	96.8	-0.4

Sources: Compiled from district data.

which had a rather high proportion of foodgrains in 1950-51, have gained further as in the case of Jalaun, Jhansi, Hamirpur and Mirzapur where the acreage under foodgrains increased under the impact of increased irrigation.

The inter-district variations of change in foodgrains range from a decline of 6.5 per cent to a gain of 8.6 per cent (Table 2). In all, 18 districts showed a relative increase while 27 districts showed a decrease (there was no change in the strength of foodgrains in two districts). Of the 18 districts registering an increase, 5 districts showed an increase of less than one per cent, 7 districts an increase of one to 1.9 per cent, 4 districts an increase of 2 to 2.9 per cent while two districts increased by more than three per cent (these were Jhansi, 8.6 per cent and Hamirpur, 4.5 per cent).

Among the 27 districts registering a decline in foodgrains, 3 districts declined by less than 1 per cent, 5 districts showed a decline of 1 to 1.9 per cent, 7 districts decreased by 2 to 2.9 per cent and 12 districts showed a decline of more than 3 per cent. In Muzaffarnagar, foodgrains declined by 6.5 per cent, in Meerut by 6.3 per cent, in Kheri and Bijnor by 6.2 per cent each, and in Saharanpur by 5.6 per cent. In their regional distribution, all the western and northern districts (except Gorakhpur) have registered a decline in foodgrains. Here, the proportion of sugar-cane appears to have increased considerably. The emphasis on cash crops, so very prominent in the western districts, appears to be spreading elsewhere and seems to be a desirable trend.

Rice

The inter-regional and inter-district changes in the proportion of rice indicate that rice declined in north-eastern and south-eastern districts where it occupied a relatively high proportion of cropped area in 1950-51. It also declined in the western and mid-western districts where the proportion of cropland under it was already low. The increase in proportion of rice seems to have mostly occurred in the mid-central districts of Uttar Pradesh (of the eight districts that showed an increase of more than two per cent in rice, seven are located here). It may also be mentioned that rice was the leading increased crop in five districts in this part of the State.

The changes in the proportion of rice vary from an increase of 4.4 per

cent to a decline of 6.3 per cent (Table 3). In the 25 districts that showed an increase in rice during the decade, ten districts gained less than one per cent while seven others gained from one to 1.9 per cent. Unao and Mainpuri gained more than any other district, their respective increase being 4.4 and 4.2 per cent. In Unao, rice occupied third position in 1950-51 while it became the leading crop in 1960-61. In Mainpuri, too, rice has moved to a third position in 1960-61 while it was of minor significance in 1950-51. On the other hand, of the 21 districts which experienced a relative decline in rice during the decade, ten districts declined by less than one per cent, seven districts between one and 1.9 per cent, and four districts declined by more than two per cent. Mirzapur and Rampur showed more decline than the other districts, their respective decrease being 6.3 and 3.0 per cent. Also, in both these districts, no other crop declined as much as rice. In Mirzapur, rice continued to be the leading crop inspite of its high decrease. In Rampur, rice which was the leading crop in 1950-51 yielded the first position to wheat in 1960-61.

Table 2: Change in Area under Foodgrains in Selected Districts
(As per cent of total cropped area)

District	1950-51	1960-61	Change
Azamgarh	90.3	87.7	-2.6
Banda	95.1	97.1	+2.0
Bareilly	81.0	79.1	-1.9
Bijnor	75.5	69.3	-6.2
Deoria	86.0	81.9	-4.1
Fatehpur	91.7	93.0	+1.3
Gorakhpur	90.8	91.9	+1.1
Jalaun	92.3	93.7	+1.4
Jhansi	86.6	95.2	+8.6
Meerut	63.8	57.5	-6.3
Muzaffarnagar	60.9	54.4	-6.5
Rae-Bareilly	95.7	94.4	-1.3

Table 3: Change in Area under Rice in Selected Districts
(As per cent of total cropped area)

District	1950-51	1960-61	Change
Ballia	25.6	23.1	-2.5
Basti	39.5	38.9	-0.6
Dehra Dun	17.7	19.3	+1.6
Deoria	31.5	29.8	-1.7
Etawah	10.3	13.3	+3.0
Jaunpur	24.1	26.0	+1.9
Mainpuri	9.4	13.6	+4.2
Mirzapur	34.3	28.0	-6.3
Rampur	21.6	18.0	-3.6
Saharanpur	14.3	17.9	+3.6
Sultanpur	31.8	32.6	+0.8
Unao	14.3	18.7	+4.4

Wheat

The crop that seems to have pushed forward in a real big way in Uttar Pradesh, is wheat. The proportion of wheat in the State increased by 1.6 per cent in a decade and this increase was more than that of any other crop. The phenomenal increase in wheat was reflected at the district level by the fact that as many as forty districts showed a relative increase in wheat. In as many as thirteen districts, wheat was the leading increased crop, that is, it gained more than any other crop. Among the forty districts that showed an increase in wheat, 29 districts gained more than one per cent, 15 districts gained more than two per cent, 6 districts gained more than three per cent, and 3 districts gained more than five per cent during the last decade. Jhansi, Kanpur and Mathura were the three main increase districts with a gain of 7.6, 5.7 and 5.6 per cent respectively (Table 4).

Though wheat had gained in most parts of the state, the areas of comparatively higher increase were in the southern and south-western sections where almost all the districts increased by more than two per cent. In the

districts where wheat was the leading increase crop, the leading decrease crops were jowar, gram, barley or oilseeds.

Wheat declined in only eight districts, viz, Azamgarh, Basti, Etah, Muzaffarnagar, Rampur, Shahjahanpur, Saharanpur and Dehra Dun. In six districts, the decline in wheat was less than 2 per cent and in the remaining two, Saharanpur and Dehra Dun, there was a decrease of 2.1 and 4.1 per cent respectively. Interestingly, in four of the eight wheat decline districts, sugar-cane was the leading increase crop. (In both Saharanpur and Dehra Dun, sugar-cane increased by at least five per cent during the decade.)

Barley

The crop that has registered a considerable decline in Uttar Pradesh as a whole is barley. It has declined by 1.5 per cent during the decade and in this respect, it has moved in a reverse direction to that of wheat though on an equally extensive scale.

The crop declined in as many as 37 districts in the state. Of these, 9 districts showed a decline of less than 1 per cent, 16 districts a decline of 1 to 1.9 per cent, 8 districts a decline of 2 to 2.9 per cent while 4 districts showed a decline of more than 3 per cent. In Dehra Dun, barley declined by 5 per cent (Table 5). In its regional distribution, barley has declined in nearly all parts of the state, particularly in the west central districts and the mid northern districts.

Barley showed an increase in only 8 districts of which 6 showed an increase of less than 1 per cent. Jaunpur showed an increase of 2.2 per cent while Ballia had an increase of 1.2 per cent.

Of all the crops that showed a decline in the various districts, barley appeared as the leading decrease crop in 8 districts. These 8 districts are Gonda, Bahraich, Kheri, Sitapur, Unao, Aligarh, Budaun and Moradabad. Barley was the leading increase crop in only one district, namely, Jaunpur.

Jowar

During the decade under consideration, all the dry cereals, namely, jowar, bajra and small millets have declined in the State. Among these three crops, jowar has declined most extensively though it showed a proportional decrease of 0.6 per cent in the study area as a whole.

During 1950-51, jowar was grown fairly widely in the southern and south western districts. Its proportion gradually declined towards east and north-east. As a result of decline in the cultivation of jowar during the decade, the crop seems to be confined in 1960-61 to only the southern and mid-central districts of the state. The crop declined in as many as 29 districts, of which 9 showed a decline of less than one per cent. In the remaining 20 districts, 11 showed a decline of one to 1.9 per cent, 6 a decline of 2 to 2.9 per cent, while in 3 districts, jowar decreased by more than 3 per cent during the decade. Mainpuri registered a decline of 4.9 per cent while Etawah and Mathura showed a decline of 3.3 per cent each (Table 6). The south-western districts seem conspicuous in the relative decline of jowar and in a good number of districts in the south west, the crop not only showed a decline, but it was also the leading decrease crop. In 5 districts in the south west, namely, Mathura, Agra, Mainpuri, Farrukhabad and Etawah, jowar decreased more than any other crop during the decade. In Allahabad and Bareilly also, jowar was the leading decrease crop during the decade.

Jowar showed a relative increase in only 9 districts of which 7 showed a small increase of less than half a per cent. The districts of Jhansi and Hamirpur showed an increase of 2.3 and 1.7 per cent respectively. In these two districts, the impact of irrigation brought about a redistribution of the area under crops resulting in an increase in wheat as well as jowar. The increase in wheat and jowar in Jhansi and Hamirpur appears to have taken place particularly through a decline in the proportion of oilseeds in the cropping pattern. It may also be mentioned here that jowar did not increase more than any other crop in any of the districts in the state. It indicates that though jowar did show an increase of more than 2 per cent in Jhansi, another crop, namely, wheat was more dynamic and showed a higher in the district.

Bajra

In the State as a whole, the proportion of bajra seems to have remained almost the same in 1960-61 as it was in 1950-51. However, there seems to have been a spatial redistribution of the crop. In 1950-51, bajra was essentially confined to the western

Table 4: Change in Area under Wheat in Selected Districts
(As per cent of total cropped area)

District	1950-51	1960-61	Change
Aligarh	17.5	19.1	+1.6
Banda	16.4	20.6	+4.2
Bulandshahr	17.2	20.0	+2.8
Dehra Dun	26.8	22.7	-4.1
Farrukhabad	20.0	22.1	+2.1
Jhansi	18.8	26.4	+7.6
Lucknow	18.7	21.1	+2.4
Mathura	15.4	21.0	+5.6
Moradabad	27.8	29.7	+2.2
Muzaffarnagar	25.4	25.3	-0.1
Saharanpur	25.0	22.9	-2.1
Sitapur	16.9	19.6	+2.7

Table 5: Change in Area under Barley in Selected Districts
(As per cent of total cropped area)

District	1950-51	1960-61	Change
Agra	9.4	9.1	-0.3
Bahraich	10.2	6.6	-3.6
Budaun	6.7	4.2	-2.5
Dehra Dun	6.1	1.1	-5.0
Deoria	12.8	10.7	-2.1
Jaunpur	21.4	23.6	+2.2
Kheri	8.4	4.9	-3.5
Moradabad	6.4	3.7	-2.7
Sitapur	11.3	8.5	-2.8
Unao	18.2	15.9	-2.3

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and south western districts and its density gradually declined towards east and north east. In 1960-61 the area of higher density seems to have shrunk while the eastern districts (which had rather low proportion of cropland devoted to bajra earlier) seem to show an increase though the increase is rather small in most of the districts. Generally speaking, the western and north-western districts have experienced a decline in the proportion of bajra while the eastern and central districts have gained. In the state as a whole, 21 districts showed an increase in the proportion of cropland under bajra and of these as many as 15 showed an increase of less than one per cent. Etah showed an increase of 7.2 per cent and this increase is more than any other crop in the district during the decade. This increase seems to have been at the expense of small millets which showed a decline of 7.4 per cent in the district. Other gain districts are: Budaun 1.9 per cent, Mainpuri and Varanasi 1.5 per cent each, Ballia 1.1 per cent and Ghazipur 1 per cent.

Bajra declined in 19 districts of which 12 showed a decline of less than 1 per cent while the remaining seven showed a decline of 1 to 1.9 per cent. The latter mentioned districts are Agra, Bareilly, Hardoi, Jalaun, Lucknow, Muzaffarnagar, and Saharanpur.

Maize

In Uttar Pradesh, maize with an increase of 0.6 per cent during the decade ranks next to wheat and sugarcane. As many as 32 districts showed an increase in maize and of these, 14 districts experienced an increase of more than one per cent while 77 districts had an increase of more than 2 per cent. The three leading increase districts were Dehra Dun (5.7), Rampur (4.3) and Sitapur (4.0). All the northern, western, north western and north eastern districts showed increase in the strength of maize in the cropping pattern. Maize declined in only 8 districts of which 7 showed a decline of less than 1 per cent and six of these declined by less than half a per cent. The districts showing decline were Jaunpur, Mirzapur, Barabanki, Fyzabad, Gonda, Lucknow, Mainpuri and Jhansi.

Gram

In general, pulses declined by 1.1 per cent in Uttar Pradesh as a whole. Gram showed a decline of 0.7 per cent in the state, though it continued to

have a third rank among the various crops. The change in proportion of gram ranges from a gain of 2.2 per cent to a decline of 5.7 per cent. In all, 18 districts showed a gain and of these, 7 districts gained less than 1 per cent, 8 districts gained from 1.0 to 1.9 per cent, while 3 districts gained more than 2 per cent. The 3 leading gain districts were Lucknow, Fatehpur and Hardoi with a respective gain of 2.4, 2.2 and 2.0 per cent. The gain districts form a contiguous block from Gorakhpur to Bahraich in the north to Partapgarh and Fatehpur in the south, and Shahjahanpur and Hardoi in the west.

Gram decreased in 29 districts of which 18 showed a decrease of more than 1 per cent. Nearly all the districts in the west (except Agra and Etah) and all the districts in the south and in the east showed a decline in the production of gram. The leading decline districts were Muzaffarnagar, Saharanpur, Meerut, Kanpur, Ballia and Banda (Table 7).

Comparing the decline of gram to that of other crops, it appears that

gram decreased more than any other crop in as many as 10 districts in the State. Five of these districts form a block in the west comprising Bijnor, Saharanpur, Muzaffarnagar, Meerut and Bulandshahr, while the remaining 5 districts where gram was the leading decrease crop were Pilibhit, Kanpur, Banda, Varanasi and Ballia. In all the western districts that showed gram as the leading decrease crop, sugar-cane was the leading increase crop. In Pilibhit also, sugar-cane was the leading increase crop. The other leading increase crops in the districts where gram was the leading decrease crop, were maize and wheat. Gram was the leading increase crop in 4 districts, namely, Bahraich, Barabanki, Sultanpur and Fatehpur. In Bahraich, barley was the leading decrease crop while in Bareilly and Sultanpur, small millets were the main decrease crop.

Other Pulses

In 1950-51, other pulses (excluding gram) occupied 10.2 per cent of the total cropped area whereas in 1960-61, the proportion declined to 9.8 per cent.

Table 6: Change in Area under Jowar in Selected Districts

(As per cent of total cropped area)

Districts	1950-51	1960-61	Change
Agra	6.1	3.4	-2.7
Allahabad	7.5	5.5	-2.0
Bareilly	5.4	4.1	-1.3
Etah	4.3	1.7	-2.6
Etawah	6.9	3.6	-3.3
Fatehpur	14.4	13.6	-0.8
Hamirpur	18.4	20.1	+1.7
Jhansi	22.8	25.1	+2.3
Kanpur	15.0	12.5	-2.5
Mainpuri	8.6	3.7	-4.9
Mathura	11.2	7.9	-3.3

Table 7: Change in Area under Gram in Selected Districts

(As per cent of total cropped area)

Districts	1950-51	1960-61	Change
Agra	20.8	21.8	+1.0
Ballia	15.6	12.5	-3.1
Banda	36.5	33.5	-3.0
Bulandshahr	7.7	5.1	-2.6
Fatehpur	20.9	23.1	+2.2
Hardoi	12.4	14.4	+2.0
Jalaun	37.5	36.7	-0.8
Jhansi	23.2	22.5	-0.7
Kanpur	19.4	15.4	-4.0
Meerut	9.6	5.8	-3.8
Muzaffarnagar	13.4	7.7	-5.7
Pilibhit	14.4	11.8	-2.6
Saharanpur	15.4	10.2	-5.2

The inter-district variations in other pulses showed a high range from an increase of 5.6 per cent to a decrease of 5.6 per cent. Generally speaking, the other pulses experienced a decline in the cropping patterns of various districts. In all, 28 districts showed a relative decrease in other pulses. Of these, 11 districts had a decrease of less than one per cent, 12 districts a decrease of 1 to 1.9 per cent, 3 districts a decrease of 2 to 2.9 per cent and 2 districts decreased by more than 3 per cent. The leading decrease districts in other pulses were Dehra Dun which showed a decline of 5.6 per cent and Fyzabad which experienced a decrease of 5 per cent (Table 8).

The other pulses showed an increase in 17 districts of which 6 had an increase of less than one per cent, 8 districts an increase of one to 1.9 per cent and 3 districts an increase of over 3 per cent. The three leading increase districts were Mirzapur which gained 5.6 per cent; and Aligarh and Ghazipur which gained 3.1 per cent each.

Considering the various crops that decreased during the period under study, other pulses decreased more than any other crop in 8 districts. These 8 districts were Deoria, Gorakhpur, Basti, Fyzabad, Azamgarh, Fatehpur, Hardoi and Dehra Dun. Correspondingly, other pulses increased more than any other crop in 3 districts, namely, Ghazipur, Mirzapur and Shahjahanpur. In the districts where other pulses formed the leading decrease crop, the corresponding leading increase crops were sugar-cane, wheat, gram, oilseeds and maize.

In Mirzapur, other pulses increased by 5.6 per cent and rice showed a decline of 6.3 per cent. In Ghazipur, other pulses gained by 3.1 per cent while rice decreased by 1.9 per cent. In Shahjahanpur, the other pulses increased by 1.3 per cent and wheat declined by 1.7 per cent. In Basti, other pulses declined by 1.8 per cent while sugar-cane increased by 1.6 per cent. In Deoria, the other pulses declined by 2.6 per cent and sugar-cane increased by 5.1 per cent. In Dehra Dun, other pulses declined by 5.6 per cent while maize showed an increase of 5.7 per cent. In Hardoi, other pulses declined by 2.2 per cent while oilseeds increased by 2.7 per cent. In Fyzabad, other pulses declined by 5 per cent while wheat increased by 2.5 per cent.

From a comparison of the decline in other pulses and the increase in

other crops, it appears that the area under other pulses is passing on to either cereals or to sugar-cane.

Sugar-Cane

In the State as a whole, sugar-cane showed an increase of 1 per cent in 1960-61 over the proportion which it occupied in 1950-51. This small increase in the area as a whole does not reflect the phenomenal changes that have occurred in the distribution of this crop. As many as 25 districts showed an increase in the proportion of sugar-cane. Of these, 9 districts gained less than 1 per cent, 4 districts 1 to 1.9 per cent, 3 districts 2 to 2.9 per cent and 9 districts an increase of more than 3 per cent. All the northern districts from Deoria to Dehra Dun (except Bahraich) and all the western districts from Agra in the south to Dehra Dun in the north have experienced an increase during the decade. The western districts have had a not-

able increase in sugar-cane and Muzaffarnagar had about a quarter of its total cropped area under sugar-cane in 1960-61. All the western districts from Aligarh in the south to Dehra Dun in the north showed an increase of more than 3 per cent. The leading increase districts were Muzaffarnagar (7.1 per cent), Saharanpur (5.6 per cent), Dehra Dun, Meerut and Bulandshahr (Table 9).

A study of the distribution of sugar-cane increase shows that nearly all the districts which already had a higher than the average proportion of area under sugar-cane, were the very districts that gained most. Further, it appears that the trend in general is towards a larger proportion of area under sugar-cane and this seems to be happening at the cost of foodgrains in general and cereals in particular. For example, in Dehra Dun where sugar-cane increased by 5.0 per cent during the decade, wheat declined by 4 per

Table 8: Change in Area under Other Pulses (excluding Gram) in Selected Districts

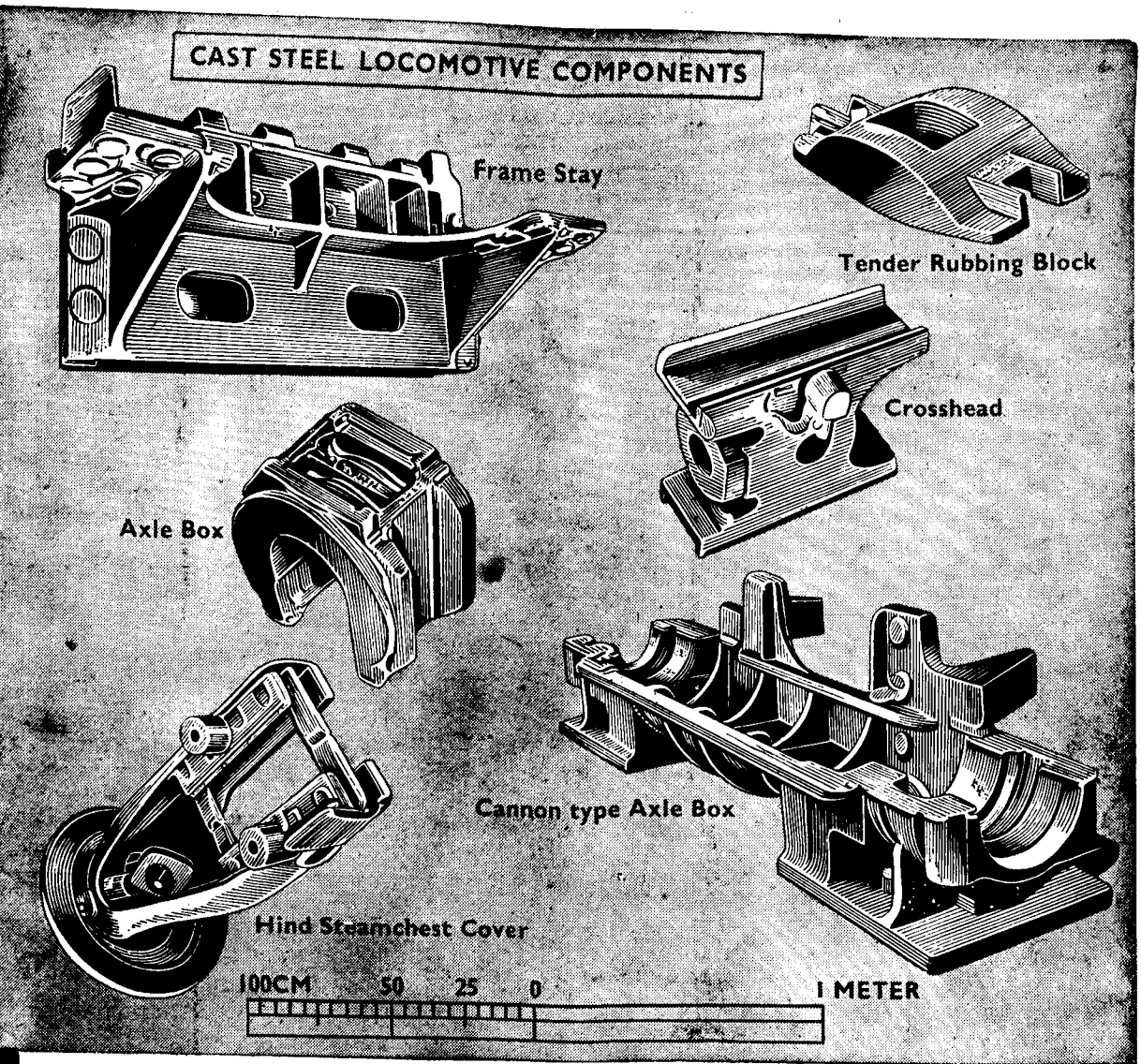
(As per cent of total cropped area)

Districts	1950-51	1960-61	Change
Aligarh	13.1	16.2	+3.1
Allahabad	12.1	10.4	-1.7
Basti	12.2	10.4	-1.8
Bijnor	5.0	3.7	-1.3
Dehra Dun	10.6	5.1	-5.5
Deoria	13.2	10.6	-2.6
Fyzabad	12.5	7.5	-5.0
Ghazipur	13.7	16.8	+3.1
Hardoi	15.3	13.1	-2.2
Jhansi	5.2	7.0	+1.8
Mirzapur	8.1	13.7	+5.6
Partapgarh	18.2	17.0	-1.2
Shahjahanpur	9.5	10.8	+1.3
Sitapur	9.2	7.0	-2.2

Table 9: Change in Area under Sugar-Cane in Selected Districts

(Rs per cent of total cropped area)

District	Change	1950-51	1960-61
Aligarh	3.2	6.6	+3.4
Azamgarh	6.0	7.2	+1.2
Barabanki	5.6	4.8	-0.8
Bareilly	9.0	9.5	+0.5
Bijnor	13.1	17.5	+4.4
Bulandshahr	9.2	13.1	+3.9
Deoria	9.6	14.7	+5.1
Farrukhabad	4.6	3.5	-1.1
Hardoi	6.1	4.3	-1.8
Jaunpur	6.1	4.9	-1.2
Kanpur	1.4	1.0	-0.4
Meerut	17.3	21.8	+4.5
Muzaffarnagar	17.1	24.2	+7.1
Saharanpur	10.0	15.6	+5.6
Unao	3.6	2.0	-1.6



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cent and barley by 5 per cent. In Saharanpur, wheat declined by 2.1 per cent, bajra by 1.4 per cent and gram by 5.2 per cent, but sugar-cane gained by 5.6 per cent. In Muzaffarnagar, which had the highest relative increase in sugar-cane in the state, barley decreased by 1 per cent, bajra by 1.1 per cent and gram by 5.7 per cent.

Among the northern districts, in Deoria rice decreased by 1.7 per cent and barley by 2.1 per cent while sugar-cane increased by more than 5 per cent. In Kheri, barley decreased by 3.5 per cent and rice decreased by 1.4 per cent whereas sugar-cane increased by 4.6 per cent. Generally, it is the small grains and dry crops which seem to be yielding place to sugar-cane but in a large number of districts, sugar-cane to be displacing the major cereals as well.

As many as 18 districts showed a relative decline in sugar-cane and of these, 12 showed a decrease of less than 1 per cent and the remaining showed a decrease of one to 1.9 per cent. The regional distribution of the districts registering a relative decrease showed that these districts mostly lie in the eastern and south eastern parts of the state and these are the districts where the proportion of sugar-cane is generally low. These facts suggest that areal shifts are under way in the distribution of sugar-cane and the crop is moving towards northern and western districts of the state while its proportion in the south eastern, southern and mid-central districts is declining.

It may also be mentioned here that in 1950-51, only 5 districts had more than 10 per cent of area under sugar-cane while in 1960-61, the number of such districts had risen to ten. And two districts, viz., Muzaffarnagar and Meerut, devoted more than 20 per cent of the total cropped area to sugar-cane.

Oilseeds

In 1950-51, oilseeds occupied only 1.8 per cent of the total cropped area in the state and a decade later they showed an increase of 0.3 per cent. But, there seem to be some interesting shifts in the areal distribution of oilseeds that have taken place during the decade. Oilseeds increased in 24 districts, of which 12 showed an increase of less than one per cent, 7 an increase of one to 1.9 per cent, 4 an increase of two to 2.9 per cent, while one district showed an increase of more than 3 per cent. Oilseeds decreased in 17 districts, of which 11 showed a decline

of less than one per cent, 3 districts a decline of one to 1.9 per cent and another 3 districts a decline of more than 2 per cent.

The interesting feature of the distributional change appears to be that oilseeds seem to have declined in southern and south western districts. The decline in Jhansi has been 6.2 per cent, in Hamirpur 4.6 per cent and the other south western districts of Jalaun and Etawah also showed a decline in oilseeds. Here, in three districts, namely, Jalaun, Jhansi and Hamirpur, oilseeds declined more than any other crop in the district. In contrast to this the major grain in oilseeds seems to have occurred in several districts from Hardoi in the east to Moradabad in the west. In this area, in at least three districts namely, Moradabad, Bareilly, and Hardoi, oilseeds increased more than any other crop in the district.

Major Increases and Decreases

Considering all the crops that showed relative increase during the decade 1950-51 to 1960-61 in the various districts, two crops appear to stand out. These are wheat and sugar-cane. While wheat was the leading increase crop in the southern and south western districts, sugar-cane was the main increase crop in all the western and northern districts of the state. Wheat formed the leading increase crop in 13 districts while sugar-cane increased more than any other crop in 11 districts. Oilseeds were the leading increase crop in 3 districts. Maize increased more than any other crop in five widely scattered districts from Ballia in the east to Dehra Dun in the north west.

Among the leading decrease crops, jowar, barley, gram, small millets, and other pulses were quite conspicuous. They were the leading decrease crop in as many as 40 districts. Barley, small millets and other pulses (excluding gram) declined more than any other crop in 23 districts. These include the terai districts from Deoria to Kheri and east central districts as far south as Rae-Bareilly, Partapgarh and Jaunpur.

Gram was the leading decrease crop in 10 districts, barley in 8 districts, jowar in 7 districts, small millets in another seven and other pulses in eight districts. In a block of 3 districts comprising Jalaun, Jhansi and Hamirpur, oilseeds decreased more than any other crop.

Though it may not be quite possible to state which crops actually provided cropland for the growth and expansion of a certain other crop, a comparison of the leading increase and decrease crops does indicate some of the ingredients involved in the replacement or substitution of crops in any area. Such a comparison provides lines for further investigation to find out the physical and economic factors that were responsible for a reshuffle of cropland between various crops resulting in changes in the cropping pattern.* For this purpose, the leading increase crop of each district was tabulated against its leading decrease crop to find out the occurrence of common groups and contiguous areas.

* It is possible that some crops experienced a relative decline because of the expansion of total cropped area.

Table 10 Leading Increase and Decrease in Crops in Selected Districts
(In Parentheses : Per Cent Change)

District	Leading Increase Crop	Leading Decrease Crop
Agra	Wheat (3.4)	Jowar (2.7)
Aligarh	Sugar-cane (3.4)	Barley (2.9)
Bijnor	Sugar-cane (4.4)	Gram (2.3)
Bulandshahr	Sugar-cane (3.9)	Gram (2.6)
Etawah	Rice (3.0)	Jowar (3.3)
Hamirpur	Wheat (3.7)	Oilseeds (4.6)
Jhansi	Wheat (7.6)	Oilseeds (6.2)
Kheri	Sugar-cane (4.6)	Barley (3.5)
Meerut	Sugar-cane (4.5)	Gram (3.8)
Moradabad	Oilseeds (2.6)	Barley (2.7)
Muzaffarnagar	Sugar-cane (7.1)	Gram (5.7)
Pilibhit	Sugar-cane (2.2)	Gram (2.6)
Saharanpur	Sugar-cane (5.6)	Gram (5.2)
Unao	Rice (4.4)	Barley (2.3)

The comparison of leading increase and decrease crops showed some interesting features that seem to offer a partial explanation of the nature of shifts in the cropping pattern. The leading increase crop of wheat corresponded to the leading decrease crop of jowar in three districts (Agra, Mathura and Allahabad), of oilseeds in three other contiguous districts (Jalaun, Jhansi and Hamirpur), and of gram in another three districts (Banda, Kanpur and Varanasi). A fair portion of the relative increase in wheat in these districts seems to have occurred at the expense of the leading decrease crops though it can not categorically be stated that wheat was actually substituted for jowar or oilseeds or gram. Likewise, the leading increase crop of sugar-cane corresponded to the leading decrease crop of gram in six districts (Pilibhit and a contiguous area consisting of Bijnor, Saharanpur, Muzaffarnagar, Meerut and Bulandshahr), of barley in two districts (Aligarh and Kheri), and of other pulses and small millets in a horse-shoe shaped area comprising Basti, Azamgarh and Deoria (Table 10).

That the leading increase and decrease crops do constitute major components of crop substitution is borne out by a study of the changes in the cropping pattern of various districts. For example, in Jhansi the main increase crops were: wheat (7.6 per cent), jowar (2.3 per cent) and other pulses (1.8 per cent) while the main decrease crops were: oilseeds (6.2 per cent), small millets (1.4 per cent) and barley (1.0 per cent). Again, in Saharanpur, the main increase crops were: sugar-cane (5.6 per cent) and rice (3.6 per cent) while the main decrease crops were: gram (5.2 per cent), wheat (2.1 per cent) and bajra (1.4 per cent). It must be emphasized here that a comparison of the leading increase and decrease crops only points to the possible crop substitutions and detailed studies alone can provide more satisfactory answers to the problem.

Total Volume of Change: Measure of Agricultural Dynamism

Changes in the relative strength of some individual crops have been discussed above. We may now make an assessment of the total volume of change that has occurred in the cropping pattern. Obviously the districts in which a large percentage of total

cropland is involved in change, would be relatively more dynamic than those in which only a small percentage of the cropland is involved. The districts which show little change can be identified with a view to find out the inhibiting factors responsible for their stagnation.

For the purpose of assessing the total volume of change, positive changes and negative changes were separately added for each district. Normally, for any given district, the sum of positive changes should equal the sum of negative changes. Where the two values vary, the difference would be due to changes in crops not included in the study. However, the larger of the two values (from amongst the sum of positive and negative changes) may be taken to represent the total volume of change that the cropland has undergone.

In Uttar Pradesh as a whole, the crops showing positive change were: wheat (1.6 per cent), sugar-cane (1.0 per cent), maize (0.6 per cent), oilseeds (0.3 per cent) and cotton (0.1 per cent), all adding upto 3.6 per cent. The crops showing negative change were: barley (1.5 per cent), gram (0.7 per cent), jowar (0.6 per cent), fodder (0.5 per cent), other pulses (0.4 per cent), bajra (0.1 per cent), rice (0.1 per cent) and small millets (0.1 per cent), all adding upto 4.0 per cent. The sum of increase crops differs from the sum of decrease crops by 0.4 per cent. This difference is explained by the fact that some crops not considered here have gained by 0.4 per cent. A look at Table 1 confirms this view as the crops considered in this study occupied 97.2 per cent of cropland in 1950-51 and 96.8 per cent of cropland in 1960-61. Obviously, this decline of 0.4 per cent has meant an increase in the proportion of cropland under crops not considered here. The total volume of change in Uttar Pradesh has, as such, involved only 4.0 per cent of the cropland. This statement is applicable only for the state as a whole and the component districts would certainly present a different picture.

The total volume of change, as explained above, was computed for each district of Uttar Pradesh. The inter-district variations in the volume of change range from 2.7 to 18.3 per cent (the median value is about 8.6). Taking the volume of change in the entire state as a standard, the districts can be grouped into four categories: (a) those with less than four per cent

change, (b) those with a change of four to eight per cent, (c) those with a change of eight to twelve per cent, and (d) those with a change of more than twelve per cent. The first two categories, (a) and (b), include 23 districts while the remaining two categories, (c) and (d), include 24 districts. The former may be considered as relatively stable and the latter as relatively dynamic. In general, it can be said that the eastern half of Uttar Pradesh is relatively stable and the western half is relatively dynamic so far as agriculture is concerned.

On the basis of the total volume of change, it can be stated that the four districts in category (a), namely, Azamgarh, Basti, Gonda and Sultanpur, appear to be very stable and almost seem to resist change (Table 11). On the other hand, the three districts in category (d), namely, Dehra Dun, Etah and Mirzapur, may be said to be very dynamic. Here, crop shifts involved 18.3 per cent of cropland in Dehra Dun, 16.6 per cent in Etah and 13.5 per cent in Mirzapur.

Further, in the otherwise stable eastern half of the state, the districts of Deoria, Fyzabad, Varanasi and Mirzapur seem to stand out conspicuously with a higher volume of change. Likewise, in the relatively dynamic western half of the state, a block of three contiguous districts comprising Bareilly, Pilibhit and Shahjahanpur seems to be changing less rapidly than the surrounding area.

Table II: Total Volume of Change in Selected Districts

(As per cent of Cropland)

District	Volume of Change
Azamgarh	3.4
Basti	3.8
(a) Gonda	2.7
Sultanpur	3.6
Allahabad	5.3
Ballia	6.9
(b) Partapgarh	4.6
Shahjahanpur	4.6
Unao	7.0
Aligarh	10.1
Etawah	9.0
(c) Mathura	11.4
Meerut	9.4
Saharanpur	10.7
Dehra Dun	18.3
(d) Etah	16.6
Mirzapur	13.5

Conclusion

On the basis of the above, it may be said that during 1950-61, there have been considerable changes in the cropping pattern of Uttar Pradesh. However, these changes are not manifest when data are considered at the State level alone. Changes in the cropping pattern obviously need to be studied at least at the district level in order to comprehend their nature

Labour Party's Surrender to Racialism

From Our London Correspondent

BORN out of Leyton and Smethwick, the Government's White Paper on Commonwealth Immigration is a tragic surrender to racialism and colour prejudice in Britain. As David Pitt, the West Indian G P and Greater London County Counsellor and Chairman of the Campaign Against Racial Discrimination (CARD), said, the White Paper proves that the Labour Party has decided to base its immigration policy on colour prejudice. As a protest he has resigned the Executive of the London Labour Party. Lord Brockway, the Chairman of the British Overseas Socialist Federation, an official Labour Party organisation, also pointed out that the White Paper was "weighted against Commonwealth immigrants who are coloured". Even the *Observer*, commenting on the White Paper, says that it is a concession to colour prejudice, and blames the paper for not acknowledging this.

There is little in the White Paper to give cause for satisfaction. The positive measures that it recommends are so slight as to have very little effect on the problems, while the negative features give cause for considerable disquiet. Perhaps the most disquieting feature is the 60 per cent cut that has now been made in the number of Ministry of Labour vouchers issued to intending immigrants. The total number of entry permits that will be issued to professional and skilled workers from the Commonwealth will now amount each year to 7,500. At the same time, 1,000 immigrants from Malta will be allowed to come in each year, for after all, the Maltese are white! Such figures as are available seem to prove that it is not coloured immigrants from the Commonwealth who provide the largest number of entries into the coun-

and to bring out the real character of such changes within the State.

Further, the cropping patterns in different parts of the state have undergone change in varying degrees. Generally speaking, western Uttar Pradesh is relatively more dynamic than the eastern part where some districts, like Azamgarh and Basti, almost seem to be resisting change.

There also appears to have been

try. For example, in 1964, 14,000 Commonwealth citizens entered Britain, with labour permits, compared with 42,000 aliens, most of whom, with few exceptions, were white Europeans. It is interesting to note that the number of permits issued for Commonwealth citizens in that year amounted to 28,824. Therefore, it is quite obvious that the dangers of coloured immigration have been greatly exaggerated. The White Paper gives no reasons at all to justify the very drastic cut that has now been proposed.

Another dangerous section in the White Paper is the one which gives the Home Secretary arbitrary powers of deportation. It has even been suggested that immigration officers should be empowered to require students to register with the police. What a change from the attitude the Labour Party took when, during the Enahoro affair, they were castigating Henry Brooke for his action in deporting the Chief!

Shortage of Labour

This pandering to the colour prejudice of the electorate will do no good, and, indeed, might even harm the British economy. In the recent censure debate, the Chancellor of the Exchequer pointed out the gravity of the continuing labour shortage. In these circumstances, the Minister for Economic Affairs can hardly be happy about the new restrictions that have been placed on immigrant labour. The estimates made by the Government show that by 1970 there will be labour shortage of 300,000; the Federation of British Industries anticipates that this shortage will be nearer 500,000. Against this background, an annual quota of 8,500 immigrants is hardly enough, and the Government

some regional redistribution of crops. There are indications that the density of some crops is increasing in areas where it was already high, i.e., there is a tendency towards areal concentration. The process of concentration seems to have been rather slow during the period under study but it is discernable. Further studies are needed to understand the implications of this process in the context of changes in the cropping pattern of Uttar Pradesh.

is deliberately allowing colour prejudice to override economic considerations.

Immigrant labour is a convenient method of easing the shortage of labour in certain bottleneck areas and industries at particular periods when the economy has run into a high boom. The main attraction of immigrant labour is the fact that it is prepared to be mobile and move into areas and jobs where UK citizens are unwilling to go; immigrants move automatically to areas of most acute labour shortage because that is where it is easiest to get jobs. In this way they do a very useful service to the economy. Indeed, it is on the basis of immigrant labour that many of the countries in Western Europe, particularly Western Germany, have been able to achieve a faster rate of growth and a lower level of unemployment. Since 1961 when unemployment in West Germany dropped below 1 per cent (at around which figure it has since remained), the net influx of foreign workers has been about 150,000 a year. The UK Government seems to believe that foreign workers are difficult, and coloured people are an electoral nuisance and, therefore, they are not prepared to underline the lesson that Britain, like Germany, could have faster rate of growth and a lower level of unemployment if it followed Germany's example in accepting immigrant workers.

Brain Drain

Another disquieting feature of the Bill is that it could lead to a serious "brain drain" from Commonwealth countries, just at a time when they have the greatest need for their own trained personnel. Out of the total number of permits to be issued each year for Commonwealth immigrants, 6,000 of the permits are for doctors,

nurses, teachers and qualified scientists or technicians, whereas the unskilled labour which causes a burden to Commonwealth countries, but could be usefully employed in Britain, is denied entry. It is somewhat ironic that Barbara Castle's White Paper on the Ministry of Overseas Development should have been published shortly after the Immigration White Paper. Her document draws attention, quite rightly, to the large number of professional and skilled people who are continuing to emigrate permanently from the developing to develop countries with consequent damage to the growth of their own economies. Yet it is these very people in India, Africa and the West Indies to whom the Immigration Bill is giving fresh encouragement to leave their own countries, as they will be specially favoured entrants into Britain. While Barbara Castle is proposing to step up the supply of teachers and technicians for developing countries, the "brain drain" is being encouraged by the Immigration Bill!

The Black 'White Paper'

What are the positive aspects of the Bill? These mainly consist of half-measures. Some financial help will be given to local authorities to take on extra social service workers to help immigrants who are already here to settle down in the country and deal with problems of transition and adjustment, but the field in which the greatest financial help is required, that of housing, which lies at the base of many of the problems of the coloured immigrants, is to receive no assistance! Yet what chance is there for integration when the Bill and its new restrictions makes it quite clear that coloured immigrants are not welcome. With the Government itself setting a bad example of restricting coloured immigrants to 2 per cent of the population, is it all surprising that taking their cue from this, the same measures might be applied both by employers and landlords?

Of course, as was only to be expected, there have been a number of bitter protests. Chief among the organisations in Britain to protest is the Campaign Against Racial Discrimination which passed a resolution condemning the Government's policy as "a acceptance of prejudice ... harmful to the good name of the country and to race relations". The resolution added: "this policy is based on racialism. If implemented, it will destroy the Com-

monwealth. We call on members of parliament, all parliamentary candidates and members of local authorities, to reject this policy and compel the Government to base its immigration policy on economic considerations and the wellbeing of this country and the Commonwealth".

CARD has been in existence for seven months. In view of his own record in the matter of coloured immigration, it is not surprising that Hugh Gaitskell's daughter is one of the leading lights. The organisation had some success with the early drafting of the Race Relations Bill through lobbying individual members, but the Immigration Bill has shown that it is not really effective as a pressure group. Other organisations likely to take a more active role are the Racial Adjustment Action Society led by Michael de Freitas, a "black men only" movement which claims to have a national membership running to tens of thousands, and the West Indian Standing Conference with about 6,000 members.

A motion has been tabled to be presented to the Executive of the London Labour Party to call on the Government to reconsider its White Paper on immigration. The motion recognises "the social part played by Commonwealth immigrants in the life and economy of Greater London" and

seeks the withdrawal of proposals which will place them "at a disadvantage compared with aliens". The motion was tabled in an attempt to persuade David Pitt to withdraw his resignation from the London Labour Party Executive.

Eric Williams, the Prime Minister of Trinidad and Tobago, has frankly stated that the system of control of Commonwealth immigrants outlined in the White Paper is based on colour prejudice which is incompatible with the multi-racial Commonwealth. He said that the Commonwealth could well founder on the issue of sterner controls of immigration to Britain. The Jamaican House of Representatives unanimously passed a resolution accusing Britain of imposing restrictions on Commonwealth immigration on the basis of racial prejudice and not for economic reasons.

Whichever way one looks at it, the Immigration Bill is an unwise and unfortunate one. It will, of course, give encouragement to elements like Colin Jordan, Cyril Osborne and Peter Griffiths, to push for large-scale repatriation, and perhaps a total entry ban to coloured immigrants. So far, the only person who seems to be pleased is Peter Thorneycroft! No wonder the *Economist* has described the white paper on immigration as the "black paper".

Junior Technical Schools A Flop

ABOUT 36 per cent of students joining junior technical schools completed their three-year studies but only half of them secured industrial employment, indicating that almost 82 per cent of the facilities in junior technical schools remained unutilised. This is one of the conclusions reached by the Planning Commission after a factual survey of junior technical schools which were established during the Second Plan in a few States. The survey was undertaken as part of preparatory work for the Fourth Plan.

Junior technical schools have the objective of enabling students who pass out of these schools to join either a polytechnic for higher technical education or industry as apprentices or operators. As an experimental measure, 39 junior technical schools were approved in different States by 1960-61. The Third Plan provided for establishment of 96 more such schools.

The survey shows that there were considerable variations in the manner in which this scheme is being implemented by the States, in terms of the academic aptitudes of students catered to and the end-objectives of the course. In all the schools under the survey, there were not many students who had secured 60 per cent or more marks at the qualifying examinations. The survey indicates that junior technical schools mostly admitted students of 'average' and 'below average' academic scores. It had also been found that there was a large percentage of "drop-outs", that is, students who did not continue studies for the full period of the course, which involved, along with sizeable number of failures, a substantial wastage of facilities.

The findings of the survey will be taken into consideration in preparing schemes for improving the standards of junior technical schools in the Fourth Plan.

A New Role for Managing Agencies

Priyakant N Patel

The managing agency system has come to be associated with many malpractices and abuses, mainly the result of its long-established association with management of joint stock companies. There is a strong case, therefore, for forbidding management of companies by managing agencies.

However, the managing agencies which undisputably possess experienced personnel and an organisational framework that can be made use of for developing and vitalising the capital market in general and the new issues market in particular. This can be done by inducing them to form, or covert themselves into, issuing house companies.

A GREAT deal of light has been thrown on the managing agency system, especially its achievements and drawbacks, in recent discussions in the press and the Parliament. It would, therefore, be futile to repeat the arguments here. In this short note I have tried to suggest a new role which can be entrusted to the managing agency system, thereby enabling it to contribute its share to the industrial development of India.

The crux of the argument against the managing agency system is that the malpractices and abuses that have come to be associated with the system have sprung up mainly from its close association with the management of a joint-stock company. This means that to get rid of these malpractices and abuses, which are inherent in the present form, the close association of managing agencies with the management of company needs to be broken. This, in turn, leads us to the conclusion that managing agencies, at least in the field of company management, should be abolished. However, although the system is out-of-date, and should be stripped of its association with the joint-stock company, it need not be scrapped entirely. It can still play an important part, though in a quite different field, as it possesses an experienced and well-established organisational framework. In the following pages an attempt has been made to spell out what this part can be.

It is well known that the Indian capital market, otherwise well-organized, is conspicuously lacking in a machinery which can investigate and evaluate investment proposals; which can vet financial schemes and provide advice and guidance on raising finance for joint-stock companies in the capital market. The formation of the financial institutions, like issuing houses of Britain and investment banks of the USA, can go a long way in vetting, issuing and underwriting of new issues. They can also help small companies in meeting their financial requirements by nursing their issues in the initial stage of company formation, and putting them on the market when conditions

permit. Moreover, such institutions, if formed, can familiarise joint-stock companies with various special financial corporations, and help them in getting credit and capital to meet their increasing needs.

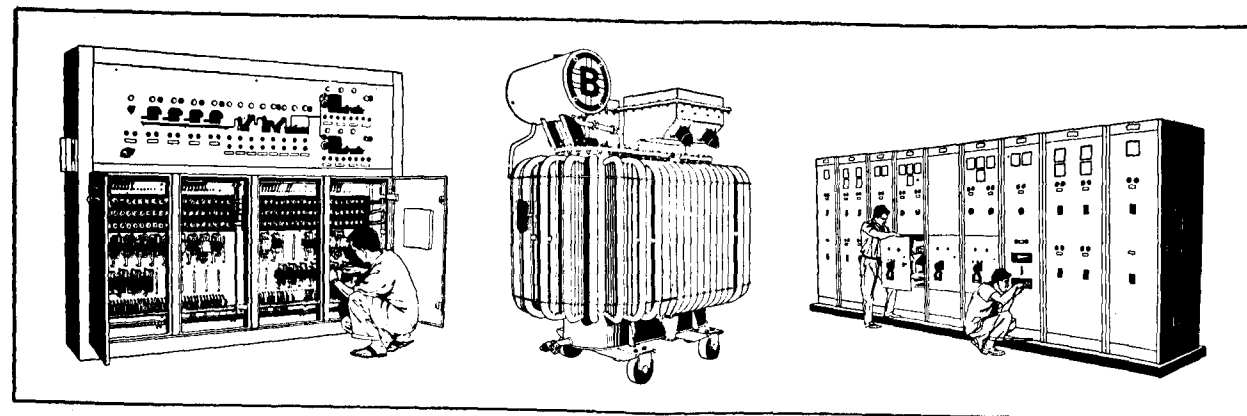
Having seen the need for "issuing house institutions", the question, which is generally not raised (or if raised, is not answered) is: How to form such institutions? It is here that the managing agency system comes into the picture. Assuming that the device of the managing agency is forbidden in the management of companies in India, and there is no reason why it should not be forbidden, the present managing agencies can be induced to form themselves into issuing house companies. For this to occur, the Government may be required to give them some incentives, monetary and fiscal, as well as others, such as legal. Some big managing agencies, viz, Martin Burn, Tatas, etc, may be encouraged to take up issue business. Moreover, a large number of small managing agencies may be encouraged to amalgamate and form issuing houses. However, since too many issuing houses will not be economical and conducive to the growth of the new issue market, the Companies Act can fix an absolute limit on their number, say, 25 to 30 issuing house companies, beyond which the permission for undertaking such business will not be granted. It is not necessary to say that the limit should be subject to periodical revision by the Company Law Department. Such a limit will act as a strong stimulus to get together on the part of the managing agencies and harness their resources and personnel, which are at present widely scattered and uneconomically utilised.

It should be noted that it is essential that the proposed issuing house companies should be allowed to be formed only in the form of public limited companies. The reasons are quite obvious: other forms of company formation, especially private limited company, may give rise to concentration of power and wealth, which is one of the problems that the abolition of the managing agency system is supposed to mitigate. Moreover, to safe-

guard them against such concentration, it should be obligatory that the shares of an issuing house company should be widely distributed, say among not less than 1,500 to 2,000 shareholders, discounting very small shareholdings. It is absolutely essential for such companies to have a strong capital base. This can be achieved by imposing some sort of legal requirement as to their net worth (paid up capital plus earned surplus). For instance, no company must have less than Rs 2 crores of net worth. Moreover, the capital requirement should be linked with their liabilities; for instance, their liabilities (including underwriting commitments) should not exceed, say, 20 to 25 times their net worth.

Coming to the functions they should perform, it is absolutely essential that they do nothing but issuing house business. The law should properly define this business. These may include all activities connected with issuing of new issues, underwriting, placing and distribution of new issues, advising on matters of investment and portfolio management, formation and management of unit trusts or investment trusts, etc. They should be legally forbidden to take any part in the management, and control of a company, participating in the profits of a company, and financing or subscribing (except for short periods or in case of underwriting commitments) to share capital of a company. It can be seen from the foregoing discussion that they should be expected to work purely as issuing house institutions and not as investment companies. The reasons for this are quite obvious: firstly, they will not be financially capable of financing industries. Secondly, there are a vast number of agencies, in the public as well as private sectors, catering to the financial requirements of the joint-stock companies and hence, there is no need for duplication of their functions. Finally — this is more important in the present context —, these restrictions will prevent them from acting as managing agencies in disguise.

Managing agencies are especially suited to form themselves into issuing

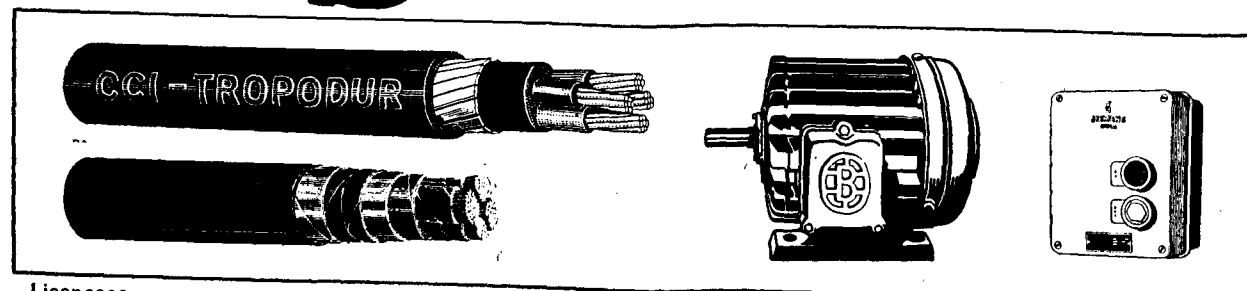


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house agencies because they, by have years of association with industry, have gained the required experience and expertise to undertake such a huge task. Moreover, it has been claimed, time and again, that the managing agents are responsible, to a large extent, in attracting share capital from the public by lending their good name and reputation to new issues. If there is any truth in this claim, and I personally do not question it, then they are perhaps the most appropriate instrument through which the suggested machinery can function. The issues floated by the issuing house companies, formed by the reputable managing agencies, can go a long way in revitalising the new issue market. Moreover, they can be of an immense help to the investor, who at present, as is well known, has to depend almost entirely on the integrity and reputation of the managing agents associated with the issue instead of relying on its intrinsic worth.

Finally, I would like to suggest a few measures which the Government may be asked to undertake in order to create a proper climate for the creation of such a machinery. Firstly, it is absolutely necessary for inducing the managing agencies to form the issuing house companies to give the managing agencies, which are prepared to form such companies and to carry on their business strictly in the line of the (proposed) Act, the tax incentives. Such a business is an untried one in India and, therefore, there is every likelihood that most of them will not be able to earn profits in the initial stages. The Government can allow a tax holiday for the first ten years and these concessions should be extended to the shareholders of the issuing house companies. Secondly, the special financial agencies, such as IFC, ICICI, SFCs, etc, should be asked to give first preference to these companies with respect to sub-underwriting. Thirdly, although they will be expected to meet their financial needs out of their own capital (equity and borrowed capital), they should be able to borrow, at least in the initial period, either from the Industrial Development Bank or from the Reserve Bank, to meet their short-term requirements. However, such short-term assistance should be limited to 90 days. It is absolutely necessary that they have a ready and reliable source of short-term credit since the activity of issuing new issues and underwriting them requires occasional, large sums of money. If they cannot get such assistance when needed, especially in times

of stringent money market conditions, the timing, and even the success, of new issues may be affected seriously, and this may disrupt the new issue market as a whole.

Conclusion

The managing agency system has come to be associated with many malpractices and abuses. This in turn is due to its long-established association with the management of joint-stock companies. It is, therefore, necessary that it should be forbidden as a form of company management, at any rate in the case of public limited companies. However, as we have discussed above, the system, which still possesses experienced personnel and an organisational framework can be utilized for developing and vitalizing the Indian capital market in general, and the new issue market in particular. This can be done by inducing (and even persuading if need be) the present managing agencies to form, or convert themselves into, issuing house companies. Of course, they will have to be completely forbidden to undertake management and financing activities. On the other hand, the prospects of their earning good

profits can be assured by fixing a limit on the number of such companies, and also, by encouraging managing agencies to amalgamate and form large and strong organisations. Moreover, they can be given fiscal and monetary concessions so that they can ride over the initial teething troubles easily, and may earn reasonable profits. It should be noted that a great deal of success of this scheme depends on the Government's goodwill and assistance in inducing the managing agents to explore the hitherto untrodden path. However, the rewards are worth trying for.

A Digression

Whether the managing agency system is abolished or not, it should be made obligatory on the part of the company management to employ a qualified company secretary on its staff, as is required under the English Companies Act. So long as such an obligation is not imposed by the law, the hereditary element involved in the Indian company management in general, and the managing agency form of management in particular, will be very difficult, if not impossible, to eliminate.

TISCO's Four-Year Agreement with Workers

INCREASED basic wages and dearness allowance for all categories of workers and supervisors in the Union sphere, conversion of all daily-rated grades into monthly rates, incentive bonus according to the revised basic salary, free primary and middle school education for employees' children, extensive medical facilities without charge for all categories of employees and their families, and quarters with greater amenities at concessional rent are some of the highlights of a four-year settlement signed this month between TISCO and the Tata Workers' Union at a conciliation meeting.

This settlement means an additional annual expenditure of about Rs 2.20 crores for the Company, as against the Wage Board's estimated figure of about Rs 1.85 crores. The cost of concessions and benefits, given by the Company, including those not covered by the Wage Board, works out to Rs 14.60 per tonne of finished steel.

In an appeal to the employees, on the occasion of the signing of the agreement, R S Pande, Resident Director of TISCO at Jamshedpur, said that the annual additional cost of about Rs 2.20 crores would be a great burden on the Company, but that it had

been shouldered gladly in the fullest hope that the employees, as always in the past, would extend their active co-operation in bringing about greater efficiency and increased productivity. Referring to the proposed large-scale expansion of the TISCO Works, he was confident that the employees would rise to the occasion and give of their best to make it a complete success, if and when it was launched. He described the Agreement as yet another landmark in labour-management relationship in TISCO, and expressed his firm belief that the understanding would grow in strength and lead to greater prosperity, both for the employees and the Company.

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A Streetcar Named Dementia

BRITAIN still remembers its General Strike of 1926 which Sir George Sitwell has told us, suddenly collapsed because Sir John Simon had thought up the idea of declaring it illegal; every striker, it is said, muttered, "Blimey, what I'm doin' a'n't legal", and called it a day. Calcutta is about to forget the two General Strikes it went through in a single week recently. The law of diminishing returns came into force, even if that was the only law that did; the second strike was not quite so successful as the first. The sponsors of the strikes, an assortment of Left parties with not much in common, are not very proud of their performance; the Government seems resigned to periodic stoppages of work which, in its complacent view, represent not popular dissatisfaction but only the malevolence of an opposition in dicarray. For the latter the property of the Calcutta Tramways has long been a convenient target. With the consent of the State Government, tram fares were recently "rationalised", meaning increased; and this came on top of a general rise in prices of most things.

Neither the Government nor the opposition showed much respect for the public's intelligence or convenience. The former, especially when represented by Saila Mukherjee, who takes care of both finance and transport, is so insensitive that it simply does not seem to care. The opposition, which did nothing about increased bus fares, was wrong in thinking that the partially foreign nature of CTC's capital structure would today produce the same antipathy as of old. What in the event held the field was massive cynicism. It did not seem to make any difference whether one went to work or one did not.

Like so much else in Bengali life today, Calcutta's trams are symbolic of the living corpse Bengali culture has become. The trams, an obsolete form of transport in most countries, once represented progress. There are men in Calcutta who still remember the horse-drawn trams; the switchover to electricity was progress in itself. With the exception of Geneva and one or two others, no city had more comfortable trams than Calcutta. For the true native of Calcutta the quicker buses, nationalised or private, held no temptation; "gentlemen" always preferred trams. When everything was going off the rails, the trams moved on them and gave a sense of security.

They still had first class and second, in conformity with the Hindu caste system without which no society seems cohesive. With trams one knew where one was; buses were so often wayward.

What with one thing and another, this stability has gone out of Bengali life, never to return. The longing remains. The bourgeois view still holds that the tram is not for burning; and politicians of the Left betray their total lack of rapport with the Babu when they burn trams and think the Calcuttan likes it. He does not. Something that is part of him is burnt when a tram car is on fire. For him the tram is not so much a mode of transport as a way of life; and neither the Government nor the opposition appears to have grasped the emotive content of Calcutta trams. In days gone by, the Time Ball at 1 p.m. from Fort William told everyone that the British Empire was there and all was well with the world; not to hear the familiar noise of the trams in the morning these days is to sense trouble, fear, turmoil, some derailment of norms.

Prafulla Sen seems fairly confident that he has got the better of the agitation against increased tram fares. He may even be right; and politicians are not always less dangerous when they are right than when they are wrong. The Government's consent to the increased tram fares was given in a manner which still has not been convincingly explained. The opposition has questioned CTC's book-keeping methods, in spite of the prospect of increased dearness allowances for workers from increased passenger fares. Both the Government and CTC had been saying that increased fares would contribute to the fund which would enable the Government to buy up the tramways and nationalise it. There have been hints lately that there may never be enough funds for the Government to buy out CTC; so the most sensible thing may be to abolish trams altogether. In this triangular game—the public, of course, does not matter—somebody is obviously not being strictly truthful.

It may well be that traffic in Calcutta is slower than in most other cities in India; the trams are probably the nuisance. Yet it is not at all easy to see how these can be replaced in the foreseeable future. Officially inspired talk of their abolition mainly suggests that somebody somewhere is

working hard to wriggle out of the commitment on nationalisation which alone was the excuse for official consent to a succession of increased tram fares. And this elaborate fraud would be pulled off in the name of progress. Trams are slow; out with them! Why then the increased fares? Sorry, no reply.

The trams are only a part of the steadily shrinking life of Calcutta. There is a "dry" day, Thursday, on which none can drink at a public place, which may seem no great deprivation in the even more benighted cities. Then there is a meatless day, on which one cannot get in a restaurant any mutton, pork or beef; happily it coincides with the "dry" day on which gentlemen make their own arrangements with apparently little difficulty put in their way by officialdom which is not always unaccommodating. Then there is the "fishless" day. Soon there may be no sandesh, the sweet without which Bengali hospitality is less than itself. Tramless days still seem hard to contemplate in Calcutta which has no real past worth talking about but lives in its defiance of all modern developments. It is significant still that Authority should speak of abolition of trams, especially when it is remembered that privately-owned buses have recently made their reappearance on routes long monopolised by the State Transport Corporation. Abolition of trams would create further opportunities for private bus owners, who are good friends of the ruling party.

Still and all, there is something to that term "rationalisation". It means, of course, that users of public transport will pay more; it also means that they will be made to believe that they are paying less and investing wisely in a future nationalised tramway system; simultaneously, they are being asked to believe that the acme of progress will be reached when there will be no trams at all. As a cure for his arthritis, Prafulla Sen is said to ride a bicycle every morning. No doubt this two-wheeler will soon be recommended to us all. Pedlars of further austerity will equally surely come forward to tell us how good it is for us to walk to work in the morning and walk back home in the evening. We must be very grateful, or very obtuse, indeed not to see that anything the Government does is for our good.

—Flibbertigibbet

Dalal Street Retreats Further

Wednesday Morning

DALAL STREET was forced to beat a further retreat last week; forced, because last week's setback in equity prices was not just due to lack of support but there was considerable amount of bear pressure. Sellers dominated the scene throughout the week and they appeared to be quite aggressive at times. The turnover was somewhat better but that brought little relief to the market which was long been starved of business. This is because quite a good deal of business was in the nature of 'distress' selling—whether it was from professional bulls or from investors.

The stock market's performance could scarcely have been very different; it might have fared much worse had it not been standing at its present low level—the lowest for over six years perhaps. It was not J R D Tata's statement that the crisis which had been an annual feature had now come in battalion strength that perturbed the market; industrialists have been known to be fond of using the language of crisis. The stock market felt a little uneasy over the Planning Commission's decision to fix the Fourth Plan target at Rs 21,500 crores involving a huge additional tax effort and it also felt disturbed on account of the growing internal unrest resulting from soaring foodgrains and edible oil prices. But it was the anxiety over the Kashmir situation which really shock the market.

With the economy under severe strains and the political situation very tense, it would be too much to expect any significant revival of confidence in the stock market in the immediate future. There are reports (unconfirmed of course) hinting the possibility of a supplementary Budget in September which while proposing further increase in import duties might include some tax concessions aimed at stimulating the capital market. There is a case for abolishing the capital gains tax on bonus issues and also for modifying the dividend tax. But it is doubtful whether such fiscal relief alone can contribute much to the revival of the capital market.

COTTON

More Time for Margins

THE trade's protests against the new margin restrictions on bank advances against cotton and 'kapas' have not been altogether in vain. The

Reserve Bank has decided to extend the time limit for enforcing the increased margin requirements (a minimum of 50 per cent) up to September 20 subject to the condition that the margin should not be less than 35 per cent by September 6. Under the Reserve Bank's earlier directive, the enhanced margin was to apply with immediate effect in respect of new limits and in respect of existing limits it was come into effect not later than August 20. While pleading for sufficient time for making adjustments in their bank borrowings, cotton traders had also urged the authorities to exempt imported cotton, indigenous cotton meant for export and cotton held on behalf of the mills from the purview of margin restrictions.

It is natural for the trade to resent any measure which restricts the scope of its operations. But considering that cotton prices are already quoted substantially above the statutory ceilings, it is difficult to understand why the trade should be carrying large stocks on its own account and/or on behalf of the mills. The trade has a very limited role to play when prices keep well above the ceilings all the time. The extension of the time limit for the operation of enhanced margin should enable traders to dispose of the stocks they are holding on behalf of the mills. Besides all the cotton intended for export would have been shipped during this period. There is still time for new crop Deshi cotton to move into the market.

Apart from the margin controversy there was hardly any new development in the cotton market to report. Business in the spot market was extremely limited and trading in futures was almost at a standstill with the August contract quoted nominally around Rs 795. Trading in the new crop contract has yet to commence. While most other details have been settled, the trade and the market authorities have not yet been able to agree on the unit of quotation for hedge trading. The jobbers and brokers are said to have opposed the Forward Markets Commission's suggestion that the unit of quotation in the hedge contract should be one quintal instead of three quintals as at present. The argument runs that the lowering of the unit of trading leads to much wider fluctuations which is fully borne out

by the behaviour of the futures contracts in oilseeds. But it is rather strange that people who live on fluctuations should be opposed to wide swings in prices. It should, in fact, be the other way round. The Commission and not the speculators should be really opposed to wide swings in prices.

All does not seem to be well with the weather. Many of the cotton growing areas are said to be in need of early rains for the proper growth of the plants. Rajasthan, Gujarat and Mysore need rains more urgently than the other tracts. To point out that the outlook for the crop depends on the progress of the weather is to state the obvious. Indigenous production of cotton has got to be stepped up very appreciably in order to be able to achieve the targets set for cloth production because it is becoming increasingly difficult to fill the gap through imports which cost so much of precious foreign exchange.

New Delhi has released the long-awaited global quota for the import of 2.14 lakh bales of cotton. Though this is the second instalment of the global cotton quota of 4.28 lakh bales for the current season, shipments under it will be allowed only from October with the result that actual imports will materialise only during the 1965-66 season. The delay in the announcement of the import quota is attributed to the acute shortage of foreign exchange. But the industry cannot complain that it has been deprived of adequate supply of foreign cotton during the current season. Actual imports of cotton since the beginning of the current season up to August 7 total 782,866 bales as against 607,093 bales in the same period of the preceding season. Exports of cotton from India during the same period total 234,600 bales against 254,150 bales.

OILSEEDS

Tendency Still Firm

IT has been a rather unexciting week for the oilseeds market. The turnover, both in ready and futures, was rather small. Price fluctuations were confined within narrow limits. But in spite of the recent spurt in prices, the market showed little inclination of beating a retreat. In futures, linseed April moved irregu-

larly between Rs 111.50 and Rs 109.50 (per quintal) and castor April fluctuated between Rs 89.75 and Rs 87. Cottonseed futures were neglected at around Rs 57. In ready, groundnut oil touched a new high at Rs 32.50 due more to scarcity of offerings than to any aggressive buying by consumers or vanaspati manufacturers. The Gujarat Government's move to seek New Delhi's permission to restrict the movement of groundnut oil outside the State added to the bullish fervour. So did reports of inadequate rains in most of the groundnut growing areas. Rajasthan, Madhya Pradesh, Khandesh and Gujarat were said to be in need of early rains. Production would suffer if the weather does not oblige in the next fortnight or so. Every thing depends on the unpredictable monsoon. How unfortunate!

Vegetable oil prices did not register any further net gains over the week; prices were, in fact, slightly easier which does not call for any comment. Linseed oil at around Rs 26.75 and castor oil Commercial around Rs 18.70 (per 10 kgs) are still on the very high side. Nobody really knows how far edible oil prices might go. It is not merely a question of assessing the overall demand and supply position. For, quite a good deal depends on the policies adopted by the State Governments in regard to the movement of these goods outside their boundaries. The Centre seems too weak to enforce its will on the States.

Export business has become slack. Only cottonseed cake is doing well. Export of groundnut extractions has lost much of its momentum because of the change in the export policy. Overseas prices have declined by about £1 per tonne over the past fortnight or so. Internal prices of groundnut extractions have also eased by about Rs 15 to Rs 20 a tonne. Informed marketmen have been heard saying that a representative of a giant international firm has been having discussions with the Government of India for the purchase of the entire quantity, on an exclusive basis, of groundnut extractions that India normally sells to the UK and the Continent annually. It is to be hoped that New Delhi does not play into the hands of big foreign firms.

MONEY AND BANKING

Stringency Continues

CONDITIONS in the Bombay short-term money market during the week to August 19 continued to be stringent. Supply, though well

around the previous week's level, was not enough in view of the additional demand during the week. The rate of interest was maintained at the previous week's level with little or no fluctuations during the week. The rate on Thursday morning was between 5 and 5½ per cent. Conditions in Calcutta were more or less similar. Though the turnover in Wednesday's session was comparatively low, the week as a whole recorded good business. Rates continue at 6½ per cent.

During the week to August 6 deposits of scheduled banks remained unchanged at the previous week's level of Rs 2,788.96 crores, according to the latest statement of the working of scheduled bank issued by the Reserve Bank. Bank credit however was higher by Rs 6.52 crores at Rs 2,032.46 crores. Borrowings from the Reserve Bank dropped by Rs 3.75 crores to Rs 5.87 crores. Balances held with the Reserve Bank were lower as well at Rs 95.80 crores against Rs 98.45 crores the week before. Investments in government securities were better by Rs 5.29

BUSINESS NOTES

Hindustan Motors

THE foreign exchange crisis is having its impact on the production of cars and trucks. During the past few months, manufacturers have received neither any import licences for necessary raw materials and components nor any indication as to when the licences would be issued. In the absence of a regular flow of materials, the manufacturers find it difficult to plan production. As in the case of Tata Engineering and Locomotive, the annual report of Hindustan Motors also narrates the difficulties being experienced due to shortages of essential materials. It says sometimes licences for components alone are received with no licence for raw materials, and sometimes licences for raw materials only are received with no licences for components. During the year ended March last, the company was able to substantially increase production of cars and also register a small rise in truck production. The output would have been higher in both the cases but for the difficulty in getting licences for components and raw materials. The prices of raw materials have constantly been increasing, and sometimes the company has to buy raw materials through barter deals which add to the cost. Besides, the cost of

THE ECONOMIC WEEKLY

crores at Rs 834.61 crores. Cash in hand with the scheduled banks increased by Rs 1.01 crores at Rs 68.64 crores. Money at call and short notice declined by Rs 6.37 crores at Rs 58.68 crores.

Notes in circulation during the week to August 13 decreased by Rs 3 crores at Rs 2,614.38 crores, according to the latest Statement of Affairs of the Reserve Bank. Foreign securities remained unchanged at Rs 68.35 crores but balances held abroad were slightly higher by Rs 9 lakhs at Rs 7.81 crores. Deposits of the Central Government were lower at Rs 71.28 crores against Rs 92.74 crores, while State Governments' deposits moved upwards by about Rs 7.71 crores at Rs 21.40 crores. Scheduled bank deposits were better as well at Rs 98.25 crores against Rs 91.49 crores. Loans and advances to governments were lower by Rs 18.80 crores at Rs 46.95 crores. Advances to the scheduled banks were also lower at Rs 3.83 crores against Rs 6.13 crores. Investments declined slightly by Rs 6 lakhs at Rs 298.25 crores.

production has increased considerably due to the all-round rise in wages, bonus, freight, electricity etc. In the absence of any increase in the price of products, the percentage of profit on production and sale has suffered a reduction.

Against the loan of Rs 7.5 crores from AID and Rs 60 lakhs from CDFC obtained for the first expansion programme, machinery worth Rs 6.27 crores has been imported, and most of it has been already installed. The remaining machines are expected soon. When these machines are installed, the company expects to exceed the target of 90 per cent indigenous content. Agreements for another loan from AID amounting to \$23 million for the next phase of the expansion programme as well as for the production of Bedford engines and for another loan for \$2.95 million to cover the cost of equipment for manufacture of shovels have been signed, and necessary import licences for both have been received. Some of the machinery is expected to arrive in the next financial year.

The company has negotiated with CDFC for a loan of £2,50,000 for the balance of capital goods required

THE ECONOMIC WEEKLY

for the manufacture of cranes and for the expansion of the steel structural shop. The production of cranes and scrapers has increased, but output of shovels could not be raised on account of non-availability of import licence for components. The steel foundry is expected to start working in the latter part of the year, and the truck engine manufacturing programme should start operation in the next financial year provided machines arrive in time.

In regard to the Government's proposal for manufacture of a small car, the company has represented to the Government that with a small amount of balancing equipment it can substantially increase its capacity. No decision has yet been taken by the Government on this proposal, nor any final sanction has been received yet for the collaboration agreements for the proposed manufacture of certain types of machine tools. The booking for cars has been steadily increasing, but the directors are unable to say what proportion of the bookings is fictitious. They expect, however, that the new procedure whereby Rs 2,000 will have to be deposited in postal certificates for registration of each car will bring down advance booking to normal proportions. Already a sharp decline in fresh bookings has been noticed.

Meanwhile, the company has produced good results for the year 1964-65, with sales up from Rs 32.56 crores to Rs 41.08 crores and gross profit higher at Rs 5.72 crores compared to the previous year's Rs 3.98 crores. Of this, depreciation has taken up Rs 1.85 crores (Rs 1.06 crores), development rebate reserve Rs 1.65 crores (Rs 30 lakhs) and taxation Rs 94.50 lakhs (Rs 1.43 crores). A sum of Rs 25 lakhs is allocated to general reserve after making provision for payment of preference and equity dividends, the former requiring Rs 0.60 lakh (Rs 0.70 lakh) and the latter at the rate of Rs 1.25, against Rs 1.15, per share, Rs 1.01 crores (Rs 93.09 lakhs).

Ahmedabad Electricity

HAVING regard to the fact that the option to purchase the company's electricity undertaking vests with the "purchasing authority" in the year 1975, the directors of Ahmedabad Electricity Company consider it desirable that there should remain with the company some other reasonably lucrative business apart from the

electricity undertaking which, if the option is exercised by the "purchasing authority", will have to be parted with. For this purpose they have examined several projects. They have now under consideration projects for the manufacture of production gauges, precision instruments, machine tools, industrial turbines, printing machines and accessories, etc. The company's Memorandum of Association is, therefore, proposed to be amended suitably to provide for such activities.

Meanwhile, the company has shown satisfactory performance during the financial year to March last when it sold 1,050,597,279 units of energy against sales of 948,446,166 units and 859,035,720 units, respectively, in the preceding two years. Net earnings from sale of energy brought in Rs 9.96 crores against Rs 8.28 crores in the previous year. After providing Rs 77.16 lakhs (Rs 71.28 lakhs) for depreciation and Rs 93.48 lakhs (Rs 44 lakhs) for taxation, the company earned a considerably higher profit of Rs 1.25 crores compared to the previous year's Rs 89.97 lakhs. Of this, contingency reserve gets Rs 6.53 lakhs (Rs 5.62 lakhs), consumers' benefit Rs 2.01 lakhs (Rs 1.11 lakhs), development reserve Rs 38.90 lakhs (Rs 20.96 lakhs) and dividend equalisation reserve Rs 5.72 lakhs (Rs 0.97 lakh). After writing off certain amounts from promotion expenditure, stamp duty, brokerage, etc, and making some other necessary provisions, an allocation of Rs 69.98 lakhs is made for payment of the total dividend at the unchanged rate of eight per cent inclusive of the three per cent paid by way of interim distribution.

The writ petition filed by the company against the order of the Gujarat Electricity Board appointing a Rating Committee was heard in December last and the High Court quashed the said order of the Electricity Board. The Electricity Board then applied for leave to appeal to the Supreme Court which has been granted by the High Court. In view of this, the arbitration pending before the Central Electricity Authority will not be proceeded with till the disposal of the appeal by the Supreme Court.

Estrela Batteries

DURING the year to March last Estrela Batteries experienced considerable shrinkage in margins as reflected in lower earnings despite higher

sales. Profit margins have been squeezed between a higher wage bill and a larger amount spent on purchase of necessary raw materials from the open market owing to the cut in import licences. The company is faced with problems arising from the restrictions of imports getting acute in the current year; it will have to buy bigger quantities of raw materials from the market in order to maintain the tempo of production. Meanwhile, on a review of the market for batteries of flat type construction, it is intended to implement the project of establishing 35 million cells capacity in stages. The company has applied to ICICI for a loan of Rs 5 lakhs for the import of plant and machinery for the first stage aimed at a capacity of five million cells.

The 1964-65 results show net sales turnover up from Rs 1.59 crores to Rs 1.80 crores and gross profit down from Rs 21.39 lakhs to Rs 17.99 lakhs. Of this, depreciation has absorbed Rs 1.94 lakhs (Rs 1.85 lakhs), taxation Rs 10.20 lakhs (Rs 12.10 lakhs) and development rebate reserve Rs 0.52 lakh (Rs 0.10 lakh). After setting aside Rs 0.71 lakh (same) for payment of preferential dividend, there remains equity profit of Rs 4.62 lakhs compared to the previous year's Rs 6.63 lakhs. The directors have recommended payment of the unchanged dividend of 10 per cent, but last year two per cent was paid extra by way of silver jubilee bonus. Equity dividend, therefore, demands a lower amount of Rs 1.89 lakhs (Rs 2.27 lakhs).

Bajaj Auto

A PRELIMINARY statement from Bajaj Auto for the year to March last shows impressive rise in gross profit from Rs 29.71 lakhs to Rs 39.08 lakhs. The advance, however, has been narrowed down at the equity earnings level, since all necessary provisions have absorbed more than in the last year. Depreciation has taken up Rs 14.34 lakhs (Rs 11.42 lakhs), taxation Rs 8 lakhs (Rs 5 lakhs) and development rebate reserve Rs 3.60 lakhs (Rs 2.84 lakhs). But even then net earnings are better at Rs 13.14 lakhs compared to the previous year's Rs 10.46 lakhs. The directors have yet not announced their decision about the dividend. Last year, it was paid at the rate of 10 per cent which absorbed Rs 7 lakhs. Per share earnings have improved from around 1.5 times to 1.88 times over the year.

Hindustan Twyford's

THE estimated investment in the Fourth Plan on housing is Rs 2,460 crores, and nearly six million houses are expected to be constructed. The demand for sanitaryware is expected to increase every year. Hindustan Twyford's has, therefore, scope for gradual expansion in its manufacturing activity that ranges from sanitaryware, earthenware, stoneware and China glass to insulators and refractories. The company's total production during the year to end-March last was 2,378 tons against the figure of 1,720 tons in the previous year and the licensed capacity of 5,400 tons. Production was hampered by a strike at the factory which lasted for a month. The current year's production will also be affected because of the need to effect certain repairs and overhauls to plant and equipment. During the year, pastel colours and sophisticated fixtures were introduced by the company, and these were well received in the market.

The 1964-65 results show impressive rise in turnover from Rs 45.98 lakhs to Rs 77.84 lakhs and in gross profit from Rs 19.65 lakhs to Rs 35.97 lakhs. Viewed against the background of the slow progress of housing programmes, shortage of cement, the Government's dear-money policy and the 25 per cent cut effected in prices to meet competition, the year's performance is quite pleasing. After providing for depreciation Rs 5.88 lakhs (Rs 12.23 lakhs), for development rebate reserve Rs 10.91 lakhs (Rs 1.03 lakhs) and for taxation Rs 0.50 lakh (nil), there is left a balance of Rs 18.68 lakhs which is utilised to wipe off the loss of Rs 5.11 lakhs brought forward from the previous year and to pay dividends on preference shares together with arrears and on equity shares at 10 per cent, to absorb a total sum of Rs 9.59 lakhs. Of the surplus, a sum of Rs 2.50 lakhs is allocated to preference share redemption reserve and Rs 1.45 lakhs to general reserve.

From the beginning of the current year, the company has further reduced its selling prices. Other producers with foreign collaboration have recently started production, and this is likely to result in some excess capacity. But the directors expect to be able to meet competition.

German Credit for ICICI

As part of the assistance from the Federal Republic of Germany to India for the final year of the Third

Plan, Kreditanstalt für Wiederaufbau (KfW) has made available to ICICI a further line of credit of DM 20 million. With this line, ICICI has so far received from KfW total funds aggregating DM 60 million in five lines of credit.

Of the four lines of credit aggregating DM 40 million received so far, ICICI has already sanctioned more than DM 30 million for assistance to Indian Companies. Both traditional industries like cotton textiles and sugar

and also newly developing industries, particularly in the metallurgical and engineering field have benefited. The number of companies assisted so far out of the KfW lines is about 60.

KfW funds have been an important addition to ICICI's finances. Besides the KfW funds, ICICI has obtained six lines of credit aggregating US \$140 million from the World Bank and one line of credit of US \$5 million from the United States Agency for International Development.

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CURRENT STATISTICS**Foreign Trade of India**

April 1965

PRINCIPAL EXPORTS					PRINCIPAL IMPORTS				
	(Rs crores)					(Rs crores)			
	April 1965	April 1964	1964-65 Apr-Mar	1963-64 Apr-Mar		April 1965	April 1964	1964-65 Apr-Mar	1963-64 Apr-Mar
Total	56.24	67.49	835.24	789.28	Total	96.06	140.11	1,263.30	1,222.85
<i>Food</i>	13.41	18.19	260.62	249.85	<i>Food</i>	18.11	32.86	248.47	214.40
Fruits and nuts	2.67	2.02	31.23	23.76	Wheat	11.28	22.70	175.53	134.84
Sugar	1.55	5.39	19.20	27.10	Rice	3.98	4.34	26.12	37.50
Coffee	0.27	2.19	13.35	8.32	Fruits and nuts	1.61	2.54	19.53	15.43
Tea	2.83	2.60	126.96	123.38	Dried fruits	0.62	1.23	6.00	2.91
Spices	1.64	1.62	16.79	16.02	<i>Beverages and tobacco</i>	0.04	0.05	0.77	1.11
Feeding stuff for animals	3.65	3.44	39.34	36.60	<i>Crude materials, except fuels</i>	10.03	11.08	125.07	124.45
<i>Beverages and tobacco</i>	3.86	3.45	25.91	22.52	Hides and skins	0.23	0.27	3.12	3.36
Tobacco unmanufactured	3.72	3.35	24.25	21.09	Oilseeds, oil nuts and kernels	0.27	0.76	7.04	9.16
<i>Crude materials, inedible, except fuels</i>	10.02	11.82	139.32	131.78	Crude rubber	0.51	0.85	5.43	9.75
Hides and skins	0.82	0.75	9.07	9.60	Pulp and waste paper	0.45	0.43	7.97	9.65
Oilseeds, oilnuts and kernels	0.02	0.65	1.73	4.30	Wool and other animal hair	0.81	0.84	9.64	15.72
Wool and other animal hair	0.70	0.64	8.84	7.42	Cotton	4.01	5.04	58.08	48.84
Cotton	1.12	1.31	14.23	16.84	Jute	1.81	0.22	7.37	2.06
Jute	0.42	0.29	3.57	2.94	Synthetic fibres	0.25	0.28	2.66	4.36
Iron ore and concentrates	2.42	3.80	38.76	36.40	Crude fertilisers	0.46	0.26	3.90	3.12
Ores and concentrates of non-ferrous base metals	0.86	0.83	14.87	9.39	<i>Mineral fuels, lubricants and related materials</i>	6.45	12.00	68.66	104.49
Crude animal materials	0.51	0.60	6.15	4.37	Petroleum crude	4.81	7.04	27.23	46.12
Crude vegetable materials	1.19	1.46	16.07	15.99	Petroleum products	1.63	4.94	41.33	58.27
<i>Mineral fuels, lubricants and related materials</i>	0.78	1.00	12.69	9.76	<i>Animal and vegetable oils and fats</i>	1.55	0.46	5.62	4.87
Coal, coke and briquettes	25.98	29.78	4.53	2.35	Vegetable oils	1.36	0.02	4.80	4.20
Petroleum products	0.52	0.70	8.17	7.41	<i>Chemicals</i>	6.33	10.11	90.75	95.88
Animal and vegetable oils and fats	0.48	1.28	7.42	20.60	Inorganic chemicals	0.56	0.64	13.96	13.07
Vegetable oils and fats	0.47	1.24	7.11	19.93	Organic chemicals	1.73	2.72	20.80	19.04
<i>Chemicals</i>	0.86	0.55	9.84	6.90	Medicinal and pharmaceutical products	0.71	0.62	8.27	8.64
Medicinal and Pharmaceutical products	0.09	0.07	2.11	1.05	Fertilisers manufactured	1.34	3.52	25.38	34.52
Essential oils, perfume and flavour materials	0.23	0.19	3.28	2.89	<i>Manufactured goods</i>	14.67	21.56	221.81	200.41
<i>Manufactured goods</i>	24.15	28.33	348.36	318.92	Paper and paper board	0.65	1.33	13.10	12.55
Leather	2.49	2.68	27.24	26.20	Textile yarn and thread	0.85	1.29	15.96	13.39
Textile, yarn and thread	1.42	1.19	14.40	16.68	Iron and steel	6.41	9.67	107.35	93.15
Made-up articles wholly or chiefly of textile materials	0.09	0.07	79.61	55.41	Copper	1.53	3.69	24.41	26.04
Textile fabrics, woven other cotton or jute fabrics	0.70	1.04	119.29	123.69	Aluminium	0.35	0.77	7.24	6.46
Cotton manufactures, excluding yarn, thread and clothing	5.42	5.53			Zinc	1.55	0.73	11.29	9.86
Jute manufactures	10.40	13.68			Tin	0.97	0.38	7.90	6.42
Floor coverings and tapestries	0.66	0.74	10.26	10.09	<i>Machinery and transport equipment</i>	31.81	49.49	472.68	436.98
Precious and semi-precious stones	1.22	1.43	12.97	14.18	Power generating machinery	2.94	4.52	43.78	38.83
Iron and steel	0.48	0.95	12.05	5.61	Metal working machinery	3.55	5.58	59.34	52.81
<i>Machinery and transport equipment</i>	0.80	0.74	8.72	5.93	Mining, construction and other industrial machinery	...	...	199.94	180.90
Electrical machinery and appliances	0.21	0.11	2.44	1.51	Railway vehicles	1.33	3.46	22.15	27.17
<i>Miscellaneous manufactured articles</i>	1.56	1.68	18.38	18.08	Road motor vehicles	2.16	3.18	33.10	28.33
Clothing	0.54	0.24	4.17	4.56	Aircraft	0.16	0.91	8.52	11.51
Footwear	0.20	0.37	4.27	3.61	Ships and boats	0.91	0.02	3.36	3.68
Developed cinematographic films	0.12	0.20	2.01	2.13	<i>Miscellaneous manufactured articles</i>	1.37	2.01	22.10	33.54
					Scientific, medical, optical, measuring instruments and apparatus	0.62	0.92	9.70	8.11

Source : Department of Commercial Intelligence and Statistics, Calcutta.

Source : Department of Commercial Intelligence and Statistics, Calcutta.

DIRECTION OF INDIA'S EXPORTS

April 1965

(Rs crores)

Region	April 1965	April 1964	1964-65 Apr-Mar	1963-64 Apr-Mar
Africa	3.30	3.38	49.32	46.33
North America	10.36	15.60	168.49	150.70
Latin America	2.26	0.95	15.37	19.06
Other American countries	0.12	0.14	1.70	1.66
ECAFE countries	10.86	15.44	181.23	184.42
Other Asian and Oceanic countries	2.10	2.59	27.07	29.73
East European countries	12.82	12.08	148.32	108.64
ECM countries	3.80	5.54	57.20	60.60
EFTA countries	10.38	11.32	179.23	174.72
Other European countries	0.24	0.43	7.61	13.43
Total	56.24	67.49	835.24	789.28

Source : Department of Commerical Intelligence and Statistics, Calcutta.

BANKING RETURNS

Reserve Bank	August 13	August 6	July 9	Aug 14 64
1. Note Circulation	2614.38	2617.38	2689.34	2452.97
2. Rupee Coins	99.17	98.58	93.46	105.12
3. Deposits				
(a) Central Govt.	71.28	92.74	77.42	68.80
(b) Other Govts	21.40	13.69	17.19	23.21
(c) Banks	100.94	94.27	114.05	115.79
(d) Others	235.66	326.89	228.41	188.57
4. Foreign securities	68.35	68.35	68.35	85.46
5. Balance abroad	7.81	7.72	4.46	8.80
6. Rupee securities	2339.72	2339.72	2414.72	2160.88
7. Investments	298.25	298.31	276.53	250.01
8. Loans and advances to Govts	46.95	65.75	44.22	19.20
9. Other Loans and advances	158.12	158.76	210.53	148.19

Scheduled Banks	Aug 6	July 30	July 9	Aug 7, 64
1. Aggregate Deposits (net)	2788.96	2788.96	2728.07	2442.94
Demand (net)	1370.68	1381.70	1364.97	1171.94
Time (net)	1555.51	1548.96	1506.68	1376.29
2. Cash in hand	68.64	67.63	72.42	65.60
3. Balances with the Reserve Bank	95.80	98.45	106.42	90.19
4. (2) + (3) as % of (1)	5.90	5.96	6.56	6.38
5. Borrowing from Reserve Bank	5.87	9.62	54.90	3.41
(a) Against usance bills and/or promissory notes	...	...	0.89	1.15
(b) Others	5.87	9.62	54.01	2.26
6. Advances	1789.90	1790.83	1821.21	1499.92
(a) State Bank	435.77	438.51	541.64	323.69
(b) Others	1363.13	1352.32	2272.85	1176.23
7. Bills discounted				
(a) Inland	152.99	155.50	173.42	171.61
(b) Foreign	80.57	79.61	77.67	68.80
(c) Total	233.56	235.11	251.09	240.41
(i) State Bank	23.78	24.02	24.87	21.15
(ii) Others	209.76	211.90	226.22	219.26
8. (6)+(7) as % of (1)	72.87	72.64	75.96	71.24
9. Investment in Govt Securities	834.61	829.32	745.66	766.34
10. (9) as % of (1)	29.93	29.74	27.33	31.37

1322

ROLE OF MANAGING AGENCIES IN DIFFERENT INDUSTRIES

(As on March 31, 1964))

Industry	Number of Companies Managed by Managing agencies	(2) as Per cent of total Number of Companies in Industry	Paid-up Capital of Companies Managed by Managing agencies	(4) as per cent of total Paid-up Capital of All Companies in Industry
	(1)	(2)	(3)	(4)
Tea plantations	124	22	15.47	44
Other Plantations	42	28	4.30	82
Coal mining	55	13	10.19	7
Sugar	66	34	32.07	61
Tobacco	3	6	1.42	7
Cotton textiles	250	35	97.09	35
Silk spg and wvg	9	10	1.10	26
Woollen spg and wvg	10	31	3.88	54
Rayon or artificial silk	46	18	20.60	84
Jute textiles	4	46	25.78	71
Iron and steel	25	4	60.49	11
Engineering	70	4	27.46	10
Basic industrial chemicals	20	6	13.53	22
Chemical fertilisers	9	14	2.55	5
Medical and pharmaceutical preparations	21	3	3.09	12
Cement	12	29	39.19	85
Rubber and rubber manufactures	9	7	3.24	17
Paper and paper products	26	14	27.07	49
Printing, publishing, book-binding, etc	12	1	0.58	5
Electricity generation and supply	78	39	31.93	73
Wholesale trade	32	1	2.53	2
Road transport	14	1	0.83	9
Water transport	14	13	5.94	10
Recreation services	13	1	0.75	6
Hotels, restaurants, etc	5	4	1.84	33
Others	303	2	100.65	15
Total	1,272	5	533.57	21

Source : Research and Statistics Division, Company Law Board

SOURCES OF INDIA'S IMPORTS

April 1965

(Rs crores)

Region	April 1965	April 1964	1964-65 Apr-Mar	1963-64 Apr-Mar
Africa	5.13	6.50	65.75	50.77
North America	25.12	58.64	462.66	473.94
Latin America	0.34	0.52	4.69	1.27
Other American countries	...	0.01	0.07	0.36
ECAFE countries	19.55	19.40	196.17	189.18
Other Asian and Oceanic countries	0.78	4.98	23.29	32.03
East European countries	10.27	13.61	143.86	129.30
ECM countries	14.65	15.53	169.36	141.01
EFTA countries	14.73	20.88	192.88	202.19
Other European countries	0.09	0.53	3.38	2.85
Total	96.06	140.11	1,263.31	1,222.85

Source : Department of Commercial Intelligence and Statistics, Calcutta.

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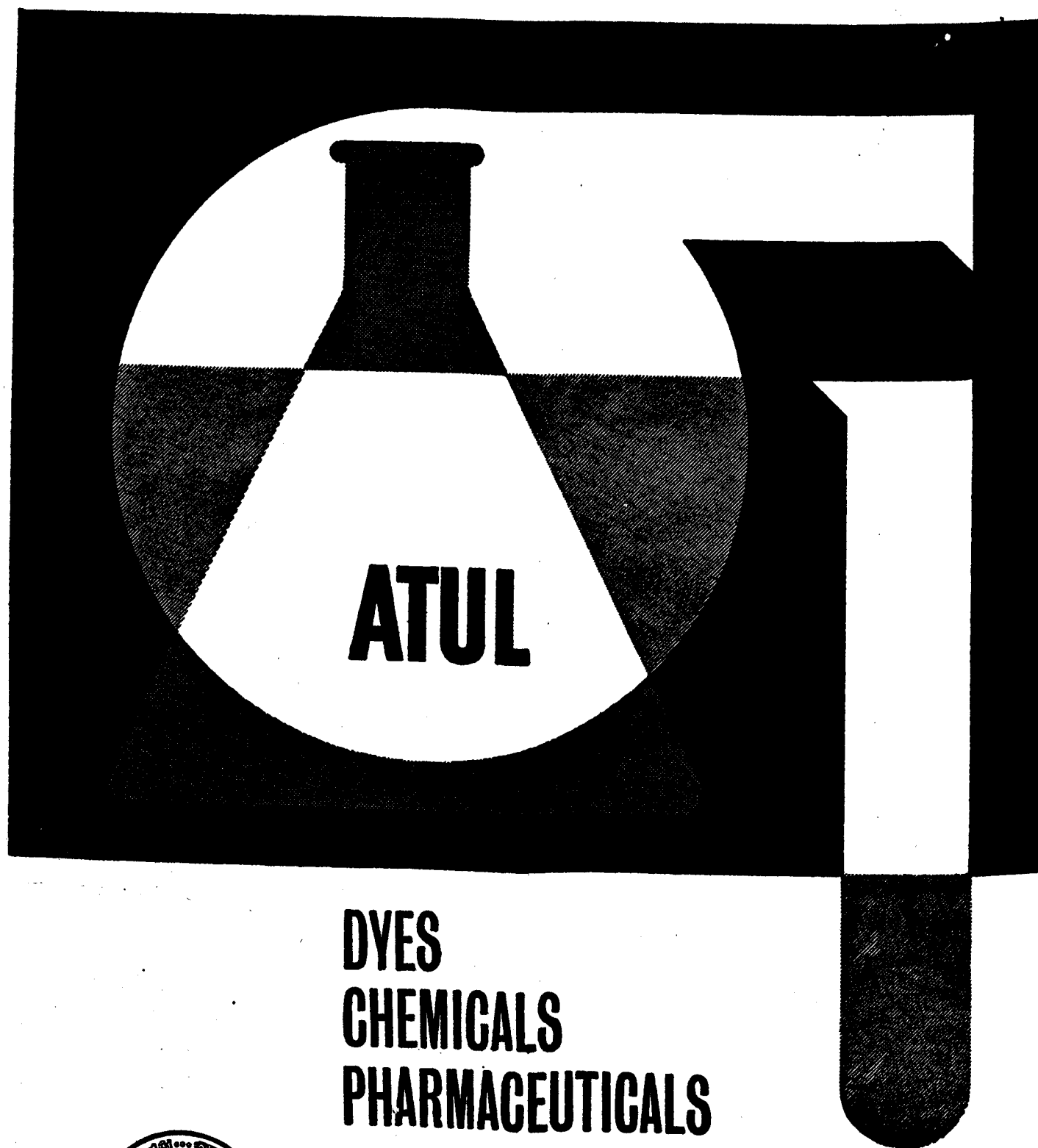
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**SUPPLEMENTARY BUDGET
SIZE AND EFFICIENCY IN INDUSTRY
AFTER THE ROMANTIC PHASE IN CUBA
CLASS AND CASTE**

VOLUME XVII NO 35

AUGUST 28, 1965

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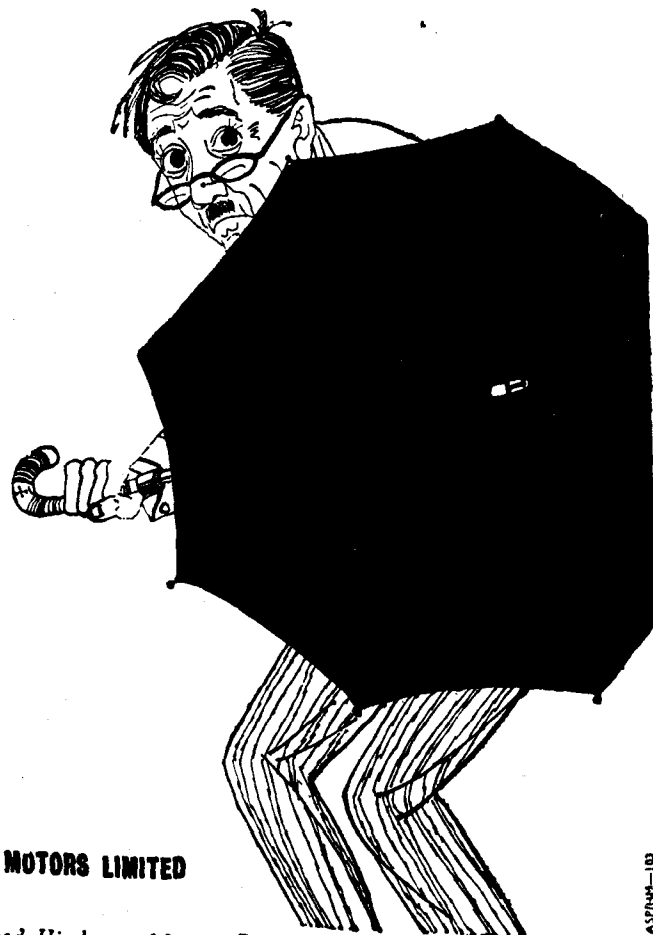
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NOT
HIDING OUR
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THE ECONOMIC WEEKLY

Vol XVII No 35 August 28, 1965

EDITORIAL

In Lieu of Devaluation 1323

WEEKLY NOTES

Opposition in Disarray—Pakistan's Game in Kashmir—New Prop for Japan's Prosperity—Exchange Earnings of Shipping—Sugar: No Decontrol 1325

LETTER TO EDITOR

PL 480 Once Again 1328

CAPITAL VIEW

Much Hangs in the Balance — Romesh Thapar 1329

A CALCUTTA DIARY

Bengal's Bitter Sandesh — Flibbertigibbet 1324

FROM THE LONDON END

Heading Towards Recession? 1330

BOOK REVIEWS

Industrial Relations: Two Points of View — Harold Crouch 1333

Asia's Dismal Export Prospects — G C da Costa 1334

SPECIAL ARTICLES

The Supplementary Budget Class and Caste — Nirmal Kumar Bose 1337

Cuba, 1965 — Joan Robinson 1341

"Indian Economic Growth: Performance and Prospects" Reply — K N Raj 1347

Firm Size and Efficiency in Manufacturing Industry — S Hajra 1349

AROUND BOMBAY MARKETS New Delhi Gives In 1353

BUSINESS NOTES Big Advance in Co-operative Banking — India Steamship 1355

FROM THE CHAIR The South Madras Electric Supply Corporation Ltd 1336

CURRENT STATISTICS 1357

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In Lieu of Devaluation

THE Finance Minister's new tax proposals are designed primarily to cover, firstly the short-fall in capital receipts of Rs 65 crores, including the expected short-fall of Rs 15 crores under annuity deposits, and secondly the unanticipated increase in expenditure by way of additional dearness allowance to Government employees and additional financial assistance to the State Governments. These tax proposals are designed to yield an additional revenue of Rs 173 crores in a full year. But in the current year, the Finance Minister expects to collect over Rs 100 crores.

Broadly speaking, the tax measures fall into two categories. First, the import tariff has been restructured to yield higher revenue to the tune of Rs 119 crores a year. The imports will hereafter fall into four classes: (1) machinery; (2) basic industrial raw materials; (3) processed industrial raw materials; and (4) consumer goods. The respective import duty rates are fixed at 35 per cent, 40 per cent, 60 per cent and 100 per cent. Of course, exceptions have been provided for, but the broad picture of the restructured tariff will be as indicated above.

In the second category fall the increases in excise duty on petroleum products, and on ferrous and non-ferrous metals. Together with countervailing import duties these increases in excise duties are expected to yield an additional Rs 55 crores in a full year.

Krishnamachari has justified the introduction of the supplementary budget on the ground that he wants to avoid deficit finance during the current year, so that resources for growth are raised without inflation. At the time he presented the current year's Budget he took great pride in presenting a surplus budget after so many years. Now he finds that he had over-estimated the receipts and under-estimated the expenditure and has, therefore, to raise additional revenue. He cannot now take cover behind the fortuitous circumstance that Pakistan has decided upon a suicidal policy of full scale confrontation against India for whatever short-falls in receipts or increases in expenditures he omitted to provide for in his original estimates for the current year.

In restructuring the import tariff, Krishnamachari hopes not only to raise additional revenue but also to rationalise it with the objective of promoting maximum import substitution—an objective which in the context of foreign exchange difficulties is most unexceptionable. Let us try to appraise his proposals on the basis of the criterion set by the Finance Minister himself. It must be conceded that higher rates of duty on import of machinery and processed industrial materials should induce industrialists in the country to look for locally fabricated machines and equipment and also to go in for maximum processing of industrial raw materials at home. In fact, this is precisely what industrialised nations of the West have for decades done with the help of their tariff structure. Even today, the ECM tariff discriminates against imported processed industrial materials and treats unprocessed material imports more liberally.

But it is difficult, to appreciate what persuaded the Finance Minister to retrace his steps with respect to the development rebate at the same time. A development rebate at the rate of 35 per cent for priority industries amounts to reducing the effective rate of import duty on machinery to such industries, according to one calculation, from 35 per cent to 14 per cent. Is it that import substitution is not called for in priority industries? Or is it that there is no scope for import substitution in these industries? Recent reports regarding the extent to which import substitution has been possible at Koyali suggest that, given imaginative leadership and constructive orientation, even in industries involving complex technology considerable savings of foreign exchange cost can be effected through local fabrication. But what the Finance Minister attempted to achieve with one hand is nullified by the other.

Even on its own merits, development rebate has no place in the fiscal system of an under-developed country with surplus manpower.

Experience has shown that the existing five-year tax holiday is availed of very little at present in view of the existing liberal development rebate. It is, therefore, doubtful what real impact the extension of the holiday to the Fourth Plan will have. Certainly with the abolition of development rebate, tax holiday would be availed of on a much larger scale but without providing the wrong incentives. In fact, one would go further and recommend a more liberal tax holiday coupled with more liberal depreciation allowances scaled to the rate of utilisation of capacity in place of the development rebate with a view to promoting import substitution as well as full utilisation of productive capacity, including manpower.

These objectives, close now to the heart of our Finance Minister, are unlikely to be fulfilled by the measures taken through the supplementary budget. Whatever the Finance Minister may claim for it, it is a most uninspiring budget, a budget that misses the mark and once again fails to seize the opportunity.

This is about the impact of the tax proposals on import substitution and on speeding up development — the criteria laid down by the Finance Minister himself. But since the bulk

of the resources are to be raised from an enhancement of import duties, the foreign exchange aspect of these proposals are obviously of even greater importance. The Finance Minister is actually trying to kill two birds with one stone. The recasting of import tariffs is to be taken as an earnest of the measures to come in the future "to liberalise imports to the maximum possible extent" in support of which endeavour the Government proposes to seek the co-operation of friendly foreign countries and international institutions. A preliminary condition for getting such friendly assistance, it has been well known for quite some time, is the liberalisation of imports through devaluation and substitution of the market process of pricing out of imports for the present administrative and physical controls. The sharp increase in import tariff is a partial move in that direction. Whether higher duties will appreciably relieve the pressure on imports and thus make some relaxation of controls possible or not, remains to be seen but meanwhile this gesture is made in the hope that, though the Finance Minister has not actually said so, it will be accepted as partial recompense, taken in conjunction with the schemes of subsidising exports, direct and indirect, that are already in operation.

acceptance of a steady contraction in life, which has led almost to a total elimination of the "margin" beyond the minimum which distinguishes civilised existence from the primitive and elemental, is also typical of Bengal today. There is no creative response to contemporary challenges; only acceptance or futile and noisy resistance dissipating itself in demonstrations either wasted on the streets or made violent from the university campus. Nobody told the Government what the Government could, within its means, do to ensure milk supplies for infants and the infirm without asking sandesh to vanish from Bengali life. (I am forgetting Bengali culture for the moment, as I so often seem to do these days)

Several red herrings—this fish is mentioned because not many Bengalis eat it; otherwise this might cause a riot—have already been drawn across the trail. The Centre, a very convenient whipping boy, often deservedly, has refused the requisite foreign exchange for importing tinned milk powder. The *gowallahs*, almost exclusively from Bihar, are not co-operating with Haringhata, which has some 2,000 or more unoccupied cowsheds. But why are they unoccupied? That the *gowallahs* can be cursed is not doubted; yet it is difficult to see them turn away the higher profits the amenities of Haringhata are, in theory, promising them. There has been more than one highly publicised "Operation Khatal" by the Calcutta Police to rid the city limits of unhygienic cowsheds next to or within residential areas. None availed. The inescapable conclusion is that the *gowallahs* make more money now even after paying higher rents for cowsheds within the city than they would under Haringhata patronage. Behind it all lies official incompetence; and a local daily has suggested borrowing men from Bombay's Aarey to teach Haringhata how to run its milkless colony. "What Bengal thinks today... ha, ha, ha!"

One had seen some of the queues of mothers, middle class Bengali wives, outside shops selling baby food; and one had heard stories about milk shortages in Calcutta hospitals. Then one read the Bengali dailies; and one could not help a feeling of total unreality. At least one ebullient reporter wrote that the Bengali had already lost his "lathi", once so gloriously idolised by no less a man than Bankimchandra Chatterji; now he was going to lose also his sandesh, alas! It had

sometimes in excellent prose, heavily on what has been called the "cultural" aspect. This aspect of Bengali life today will require fuller treatment later in the report.

Meanwhile the mundane details, all locally ignored: Bombay was so proud of its Aarey Milk Colony that the State Government made it obligatory on poor Khrushchev to go and see it. (Well served, though, for this reporter was once taken to see a dairy in the Soviet Union.) So Bidhan's Bengal could hardly lag behind. Thus was began Haringhata; and, as with so many things in Bengal, it did rather well briefly. Then everything went awry, and few have been asking why.

Instead, the confectioners themselves have been suggesting that there be a sandeshless day; Bengal, incidentally, already has a meatless day, a fishless day and a drinkless day in restaurants. This docile and resigned

apparently not occurred to the estimable colleague that there might be a causal connection between the two, that a people which had lost or forgotten its "lathi" was almost certain to lose its sandesh.

The reaction, as I was saying, is as significant as the event. There has indeed been a feeble official attempt to introduce soya bean milk, which serves China, Japan and all East Asia well enough. There has been no evidence of popular enthusiasm for the substitute. There have been no suggestions for local alternatives. There have been no exhortations to forget sandesh and get on with life. There has been no demand that Haringhata make available sufficient milk for sandesh and all else, no demand that the Ministers and officials guilty be openly punished. All we have had is a pathetic whine for the loss and a

nostalgic and literary sigh for what is passing away.

The dearth of split milk for sandesh represents only a small part of the much bigger split in Bengal. Partition was a many-splintered thing of which only a few have so far surfaced. Casein for sandesh is not the question at all. Many Bengalis have already lost their taste for sandesh for one reason or another; the fare provided on ceremonial occasions had already been going down fast in quality. Vulgar *borphis* with louder sweetness had already begun to replace the sandesh, even in Bengali weddings. Some of the greatest traditional sandesh-making families in Calcutta had already got involved in protracted litigation of one sort or another, disputing the rights of splinters of fragmented joint families. Congelation, the essence of the process of sandesh

making, had been falling apart long before the unfeeling order from Fazlur Rahman, the Minister responsible for doing the *halal* on sandesh.

"Things fall apart, the centre cannot hold", wrote Yeats without knowing anything about sandesh which was a favourite of Tagore, whom Yeats in a sense introduced to the big world outside Bengal. The sentimental Bengalis, perhaps me included, are silly to lament the lack in so literary and futile a manner; but the whole process, from the order banning sandesh to its ineffective enforcement to the accompaniment of lament on a scale no non-Bengali can fully understand, symbolises the whole Bengali predicament today. The sweetness is gone; the bitterness is faced only in bits and pieces.

—Flibbertigibbet

Weekly Notes

Opposition in Disarray

THE 'no confidence' motion which came up in Parliament at a time when infiltrators from Pakistan had broken into Kashmir and the danger to that border was greater than at any other time since the Pakistani raiders were pushed back in 1947. But for the timing of it, perhaps, the opposition parties cannot be blamed. They could not possibly have anticipated it. What made it so grotesque, however, was the complete lack of cohesion among the opposition parties who supported it, lending point to the Prime Minister's objection that when censures became a routine annual affair, they served little useful purpose and only set an unhealthy precedent. How grotesque it became could not have been better put than by Hiren Mukherjee, the most accomplished of debaters in Parliament, when he had to explain that his group had been disappointed that M R Masani had not in his reply reflected the common feeling of all the opposition groups! What did he really expect? That Masani would put forward the Right Communist line? While voting for the motion the Communists and PSP groups made it clear that they did so for their own separate reasons, and did not associate themselves with the views put forward by the Swatantra group which had

sponsored the motion. What purpose could such a motion serve? Yet the Government's failings on the food front and its ditherings in Plan implementation cry to the high heavens for redress and needed to be ventilated. But for that, too, it was not the time. No country can put up its best front in fighting aggression while its Parliamentarians wrangle over failures on the domestic front.

Even so, the motion has served more than one useful purpose. It brought out the full support of the opposition parties to the stand taken against the infiltrators into Kashmir and it wrested a statement from the Prime Minister of the Government's intention to appoint a high-powered commission to examine the need for improvement in the administration, and for more effective implementation of programmes and policies, in the Secretariat, the various Directorates and in the Districts.

Also welcome would have been the assurance from the Prime Minister that the resources gap in the Fourth Plan will be filled, had it not been preceded by a disturbing statement by him that land revenue would not be touched, because it would create 'tension' among agriculturists. This is discon-

certing, indeed. A large part of the growth during the last three plans, the figures for which he threw at the face of the Swatantra critics, has taken place in the agricultural sector which accounts for merely half of the national income. Shouldn't the latter contribute its fair share to the investments in agriculture which is proposed to be vastly increased and which, the Prime Minister assured, would not be cut under any circumstance. Against this background, the Finance Minister's optimism in regard to foreign aid and adequate untied aid to step up the industrial growth rate to 14 and 15 per cent looks deceptive and ill-founded.

Pakistan's Game in Kashmir

PAKISTAN'S objectives in launching the large-scale infiltration into Kashmir remain unclear. The most facile assumption, and the one which is naturally most current in this country, is that this was Ayub Khan's own Bay of Pigs: the infiltrators had been sent in the expectation that the local population would rise in support of them, sparking off a war of liberation at a suitable stage of which the Pakistani army would enter the arena. This expectation was belied, which is hardly surprising; what would be sur-

A CALCUTTA DIARY

Bengal's Bitter Sandesh

IT is the considered opinion of this writer that the biggest safeguards of freedom in this country are our politicians' fear of unpopularity and our officials' wonderful incompetence. One or the other, or a combination of both, will probably see to it that even after August 24, when an order under the Defence of India Rules is to abolish public manufacture and sale of Bengal's dearest sweet, sandesh, there will be sandesh galore; perhaps under the counter but assuredly at higher prices. Meetings and demonstrations were held, as after the Gold Control Order, to impress upon the people and the Government that the order would end not only sandesh, officially, but also employment for many, actually. The Government on this occasion has at least spared the public mendacious promises of unbounded alternative employment. The economic aspect of the order has, however, been the least discussed in the Press; the emphasis has been,

prising is that the leaders of Pakistan had really believed that it would not be. It is not only that security arrangements in Kashmir have always been elaborate, but that, as was pointed out in these columns last week, while large sections of Kashmiris may be sullen nobody could consider them ripe material for revolt; in fact, it is not unlikely that they were as much taken aback by the infiltrators from across the borders as the Indian army.

Any way, if it was Pakistan's hope to start a revolt in Kashmir, there is every reason for relief, if not rejoicing; but the progress of the Indian army's operations to mop up the infiltrators during the three weeks since they were first detected is such as to cause some uneasiness. The Government now seems to have revised upwards its estimate of the number of infiltrators; Nanda's figure less than two weeks ago was 3,000, but in his statement to the Lok Sabha this Monday the Defence Minister estimated that "our operations have to take account of the fact that about 3,000 to 5,000 infiltrators still have to be dealt with in the Jammu and Kashmir area" — that is, excluding the almost 1,000 who, the Minister claimed in the same speech, had been either killed or captured or otherwise put out of action by the army. While very little is revealed about the activities of this large body of hostile men within our borders, except for reports of stray encounters with Indian troops or of depredation against the civilian population, the mere fact of their continued survival at large is a matter for concern, however well they may have been provisioned before they crossed over. The mystery deepens with the confident assurances by the most authoritative quarters that the infiltrators had met with nothing but unrelenting hostility from the local population. And they are not merely surviving; the very low figure of those captured — less than a 100 — compared to about 800 killed or put out of action in encounters with the Indian army, seems to indicate that they are neither down and out nor even lying low.

An alternative to the Bay of Pigs theory about Pakistan's intentions is that she is aiming to keep Kashmir on the boil for a long time. No immediate or spectacular successes are sought; what is, is to keep up tension by engaging the Indian army and by forcing the Government to snuff out civil liberties as would be unavoidable

in a state of hostilities across the cease-fire line and of sabotage and subversion by the infiltrators who manage to evade the Indian army. This will be consistent with the tactics which Pakistan has adopted in Kashmir in the past. It may also explain why Pakistani leaders have reacted with surprising lack of belligerence even to the capture by Indian troops of not only Kargil, which had been occupied earlier in May, but also three other posts. Pakistan may be preparing for a long drawn out harassing operation. The implications of this for the eastern border between the two countries may be no less serious than those for Kashmir itself. The inevitable consequence of Indo-Pak tension here will be persecution and squeezing out of minorities on both sides, a problem which is not amenable to the military *modus operandi*.

New Prop for Japan's Prosperity

THE conclusion of the Japan-South Korea normalisation agreement registers a new developing *status quo* in East Asia. Despite Korea's experience of Japanese imperialism (1910-45) and continuous anti-imperialist pressure within South Korea, President Park has opted for 'normalisation' after some 14 years of desultory negotiation.

Japanese industry faced with an increasingly serious labour shortage that threatens in the long term to curb economic growth and stimulate wage increases faster than productivity, has thus located again its former source of cheap labour. Japanese companies are falling over themselves to establish factories in Korea now, and even last April, before 'normalisation', seventy such companies were said to be waiting in Seoul (*Asahi*, April 13). In the short-term recession currently depressing the Japanese growth rate (slightly) and Tokyo stock exchange (dramatically), the economic clauses of the agreement are welcome to hard-pressed business on other grounds. Japanese reparations payments in goods and services, a useful and lucrative element in past booms, has slackened (payments to Burma and South Vietnam ended recently), and 'normalisation' includes a Japanese offer of 800 million dollars of grants and loans to South Korea. One Japanese newspaper recently noted that cynics observe that "reparations agreements happened to materialise whenever there were signs of an impending economic slump in Japan" (*Yomiuri*, May

10). For the old Japanese Right (what little is left of it), dreams of the Greater East Asian Co-Prosperity Sphere must seem less remote, especially when normalisation is taken in conjunction with simultaneous continued encouragement to China (Prime Minister Sato's 'high posture' foreign policy, or rather foreign trade policy) and to Taiwan (150 million dollars credit was offered last April, and more over the next five years). To the 50 million dollars credit given Indonesia last year has been added a further 24 million last May, including, to the horror of the British and Malaysians, eight Kappa space-sounding rockets in July. These are small signs, but do indicate the recognition of Japanese business that further expansion in a world market, the rate of increase of which seems to be contracting, demands generous injections of tied aid to its immediate neighbours. South-east Asia takes a third of Japan's exports at the moment, but cannot expand this proportion without massive help. That help might be the beginning of a new pattern of economic imperialism.

For the United States, 'normalisation' has been the long-term aim as the first tentative step towards a North East Asian Treaty Organisation (Japan-South Korea-Taiwan-US) that will skim off some of the froth of the Japanese export boom and divert it into armaments: so simultaneously relieving US defence costs in the area and relieving some of the merciless competition in the world market. This is a delicate operation that involves countering the profound anti-war neutralism of many Japanese and revising the Constitution to permit Japanese rearmament — 'Japan's defence budget is far too low today', McNamara put it bluntly last April. The needs of Vietnam that strain US military resources throughout East Asia have added an immediate edge to this demand. On June 28, coinciding with some of the worst stock exchange crashes in the current Japanese recession as well as a large popular revulsion from the Vietnam war, the US offered Japan at a third of their normal price, two battalions of Nike air-to-ground missiles. Further, the payment for these (200 million dollars) was then to be used by the US to purchase military equipment in Japan, an astonishingly 'generous' offer. Japan responded eagerly, although there are still many outstanding points of friction with the US. US investment in Japan at 500

million dollars is substantial (roughly 5 per cent of one estimate of the total value of investment in Japan), but this has not shielded Japan from measures to strengthen the dollar; nor has recent Japanese moves to liberalise its trade prompted the US to revise restrictions on its wool and cotton imports, its Buy American schemes, its ban on Japan Airlines overflight of the US, nor has it ended the boycott of Japanese goods by the US fishing industry (retaliation for alleged unfair competition in the Alaska salmon waters). Japanese business has a long memory and current experience of the 'liberal' attitudes of Western business when, and only when, it is in a position of overwhelming supremacy. Where serious Japanese competition threatens, Western liberalism abruptly ends. But the US is still Japan's biggest market, and thus the ties are more than immediate frictions can disturb, *ceteris paribus*.

The 'normalisation' agreement is thus a crucial step in the expansion of Japanese business and the decentralisation of US hegemony in the area. Korean students, fighting to keep open the door of possible future reunification of Korea, and Japanese students and trade unionists, fighting to prevent Japanese incorporation into the Western defence system, have both thus reacted sensitively — the implications are clear in the short term, even if in the long other possibilities become apparent.

Exchange Earnings of Shipping

Our Shipping Correspondent writes: THE Minister of Transport, in his speech to the National Shipping Board in Madras, has once again brought up the question of Indian ships trading between two foreign countries. The Indian fleet carries 10 per cent of the country's international trade today and it could carry 17 per cent, according to the Minister, if all our vessels were plying to and from India. Seven per cent of capacity is therefore lost to India in cross-trades.

This does not necessarily mean that cross-trading is bad; obviously if an Indian vessel is plying between two foreign ports, its earnings and expenses are in foreign exchange and if the earnings exceed expenditure, the excess would be *net* foreign exchange earning for India. Secondly, even if more Indian ships wanted to ply to and from India, this may not always be possible because shipping arrange-

ments are controlled by foreigners. Japanese steel mills buying iron ore seldom give any cargo to Indian vessels if Japanese vessels are available; nor is India in a position to dictate shipping terms — the Japanese could easily go elsewhere for their requirements, it is not a seller's market at the moment.

Any policy is best determined by going back to first principles: Why does India want a merchant navy? Briefly, (1) to earn or save foreign exchange, (2) to have a say in the international cartels which liner trades have, and (3) as a second line of defence in case of a major catastrophe. Having said this, one has to go a little further; foreign exchange earning or saving is possible both by cross-trading and home-trading, and which is more profitable can only be decided in a given set of circumstances. Sometimes cross-trading is more profitable, sometimes it is better to have the ships plying to and from India. What to do in a particular case requires skill and judgement — the kind of judgement that very few Indian shipowners have. One of the difficulties of an outsider, however, is a question of data: there are no statistics available to tell us how much net foreign exchange (i.e., foreign earning less foreign expenditure) any particular Indian company makes.

The fault here lies with the Reserve Bank; the Exchange Control Department is interested in keeping a sort of control on shipping expenses without fully understanding what they are controlling. In practice, the most ludicrous system is followed, the control is severest not where it is needed most, but where the Government understands most. For instance it is well-known that the three Indian lines plying in the UK trade pay widely differing commission ranging from an average of 5 per cent for one company to 12 per cent for another. *Prima facie* there is no reason why commission should differ so widely, but Exchange Control does not enquire into this because it does not have the necessary technical knowledge to investigate; on the other hand if a ship needs essential stores or repairs, the entire elaborate procedure of import licences and haggling with the Government has to be gone through. From an operational point of view and from that of the country's larger interest, it is very much better if the exchange is spent on maintaining the ships than on commissions to freight forwarders.

This criticism of the method of exchange control may seem to have an only oblique relevance to cross-trading, until one realises that the only way of adequately knowing how much a shipping company earns in foreign exchange is by allowing it to operate its own foreign accounts. The scheme that is therefore suggested is that shipping companies should be allowed to maintain a foreign account with the proviso that they will not be entitled to any remittance of exchange from India. They would then have to meet their foreign expenses from their foreign earnings and their performance in exchange earnings could be judged from their net remittances to India.

It will no doubt be argued that this is advocating nothing less than complete freedom from exchange control. In effect that is so, but international shipping, like international airlines, differ from other exports to the extent that not only is their earning in foreign exchange but so also their expenditure. Under the present system of Exchange Control there is no way to know whether shipping or airlines in fact spend more or less in foreign exchange than they earn, and until one knows how much exchange a ship in a particular trade is earning, no useful policy decision on trading of Indian ships can be taken.

Sugar: No decontrol

THE sugar industry's petitions to the Government for decontrol of distribution are quite clearly premature. The expected production of 32 lakh tonnes or very slightly more in the 1964-65 season is no doubt the highest so far; it is also true that the industry has come a long way since 1962-63 when a total production of only 21 lakh tonnes forced even so staunch a proponent of the free market as S K Patil, then Food Minister, to control sugar price and regulate distribution through a system of State quotas. But flushed as they are with the record output of this season, the sugar mills will do well to remember that their achievement has been made possible by a circumstance which may be ephemeral and definitely is beyond their control — a bumper sugarcane crop.

It was not so long ago, in fact it was only in the last season, that the sugar industry was scouring the countryside for cane. In that season and the one before mills were threatening to close down for want of cane. Why, even with this year's good

Much Hangs in the Balance

Romesh Thapar

THE debate in Parliament continues to disappoint. There is anger, but little coherence. There is little concentrated effort to focus on crucial, inter-related aspects. Even the violence we have witnessed during the past few weeks at widely separate points is anarchic, calculated to create the chaos from which fatalistically it is believed something will emerge. Without coherent anger, without dedication to some worked-out perspectives, without a frame of action, the situation can only deteriorate. This is the brutal truth. All else is peripheral.

U N Fails

In Kashmir, the cease-fire line has been eroded dangerously. The U N observers are either thoroughly incompetent or they have decided to permit an escalation in the hope that it will bring India and Pakistan face to face with the reality of war. The escalation is certainly pronounced. The failure of the U N stems from the lack of decisiveness which Secretary-General U Thant has displayed, particularly after India inexplicably delayed the publication of his immediate reactions which were very largely critical of Pakistan. After this delay, the active Pakistan lobby seems to have paralysed him.

However, the fact is that both countries are today closer to a full-blooded armed clash than at any time since the cease-fire in Kashmir. Pakistan's traditional friends are, of course, disturbed by the conclusive evidence of her aggressive actions, and they might still succeed in salvaging the situation for her, but there is no denying that in the Indian consciousness Pakistan is again fast replacing China as the main enemy. Meanwhile, our friends (the Soviet Union, included) continue to play hide-and-seek.

A large number of the raiders or marauders or infiltrators or commandos — call them what you will — have apparently evaded capture. While some have withdrawn to the mountains and woods, others appear to have concentrated at a few points in the hope of holding out until reinforcements arrive from across the cease-fire line. Reports imply that the failure of the Indian army to act speedily against the infiltrators has made possible this new attempt to establish so-called 'liberated areas'.

Perhaps, this was part of Rawalpindi's plan in the event of a setback. How else the name, 'Gibraltar Forces'? The old Sandhurst-trained boys who rule in Pakistan have limited imagination.

Fortunately, we have shown some faint skill in dealing with Foreign Minister Bhutto's trip for the first phase of the Kutch talks. A surprised Foreign Office learned rather late that Bhutto was planning a three-day trip to India — one day in Delhi, one day visiting the grave of his sister in Poona, and a day sight-seeing in Bombay! This was quickly stopped, and Swaran Singh was rescued from what could have become a rather ludicrous conference. But, as always, we failed to properly publicise the background to our decision.

We are still unclear as to how the India-Pakistan military confrontation will develop over the next few weeks, but at least Prime Minister Lal Bahadur can rejoice in the fact that the rains have arrived in north India to save the withering crops and to push back the prospect of a crop failure. The relief is widespread. Food Minister Subramaniam has been receiving congratulations from many regions. His 'stars' obviously are auspicious! Now, we expect to harvest more than last year.

Of course, Subramaniam's troubles are not over. From reports reaching the capital, President Johnson has decided that PL 480 food must be made difficult to get. The assumption is that the more difficult it is to get, the more it will be valued. Being an old political manipulator, Johnson will stage manage technical hold-ups of the legislation in the U S Congress. It is easy to forecast the disastrous repercussion of this kind of fiddling, but then who is to enlighten the self-opinionated President of the USA? A damaging interruption in PL 480 supplies has been prevented for the moment by the intervention of the U S Ambassador in India. But one can feel the fears mounting in Delhi because buffer stocks are not as yet adequate.

Subramaniam knows that there is no sympathy for those who continue to depend on food gifts. He has despatched a memorandum to the U S Government, explaining the perspectives sketched by the Food Ministry and linking these with the declared aim of the Fifth Five-Year Plan to bring foreign economic aid to an end of

before 1975. These assertions, it is hoped, will make Johnson responsive to serious and constructive petitioning by India. In this, he has the solid support of Asoka Mehta at the Planning Commission who knows that the food problem cannot be solved overnight.

Thank the Plan Framework

It is fortunate that we still have the framework of the five-year plans to provide some guidelines during the critical period now unfolding. This framework — under heavy assault from a variety of groups and interests who have become richer and more powerful under these plans but who are now convinced that the massive development of the public sector envisaged in the Fourth and Fifth Plans will be at their expense — is the only one to have been presented. None of the opposition parties, whether Communist, Swatantra, Jan Sangh or Socialist, possess carefully thought-out alternatives. Indeed, their experts talk as if they oppose merely for the sake of opposing.

If the critics of the GOI's economic policies only realised that this crisis-ridden, sprawling country retains some degree of cohesion and strength because of the cement provided by the planning process, then it would be possible to concentrate political attention on the urgent, neglected task of more affective and efficient implementation. It has still to be seen whether the Planning Commission can carry this understanding to the critics and compel them to apply their minds to the grave realities we face. This means, in essence, that the Planning Commission should be curbed or disciplined or encouraged by the formation of shadow planning commissions by the opposition parties. Until this happens, the discussions on targets, investments and resources will remain at a puerile, agitational level.

That we have not even begun to create a base for this institutional development can be seen from the confusion on the Fourth Plan which exist within the ruling hierarchy. When the National Development Council meets early in September, the Chief Ministers will probably add to the confusion. The truth is that the Congress Party has to re-affirm its commitments. In the absence of these commitments, every political *dada* becomes a law unto himself.

crop, according to the President of the Indian Sugar Mills' Association, sugar production "would have been higher had the factories, especially those in west UP, been able to get adequate cane supplies. The working of these factories was seriously disrupted by largescale cane diversion to gur and khandsari manufacturers. The growers completely or partially stopped cane supplies to a large number of factories in west UP demanding higher cane price, and consequently factories had either to stop crushing operations or to work intermittently". It is perhaps natural for the sugar industry to view the diversion of sugarcane to gur and khandsari as a "problem" which "needs to be tackled effectively and permanently", by imposing statutory controls on these industries if necessary. The fact, however, is that our total production of sugarcane is not sufficient to meet the requirements of the three competing users, commensurate with the growing demand for sweetening agents.

In any case, the industry's fears of being left with onerously large stocks out of this year's production are clearly unwarranted. With a carryover of about one lakh tonnes at the beginning and the production of 32 lakh tonnes, total supply this season will be 33 lakh tonnes. On the basis of the present State quotas, internal consumption is estimated at 26 lakh tonnes; in addition, 2.25 lakh tonnes are scheduled to be exported, leaving stocks of less than 5 lakh tonnes, equal to two to three months' consumption, at the end of the season. This can hardly be regarded as excessive. On the contrary, a buffer stock of this size is the minimum considering the volatility of sugarcane crops and the consequent sharp ups and downs in sugar production.

The Food Minister is, therefore, entirely right to react to this year's record sugar output with caution. He has merely raised the quotas of the States modestly by about 15,000 tonnes a month and made slight increases in the allotment of sugar to food processing industries. This should be all

for this season and the policy for the next will naturally depend on the output. Next season the position will need careful watching so that the Food Ministry does not find itself in the predicament of 1961 when, faced with burgeoning stocks, S K Patil had to take the obvious but short-sighted step of ordering a cut in production—a step which had a disastrous impact on the sugarcane crop of 1961-62

LETTER TO EDITOR

PL 480 Once Again

IN a letter published in *The Economic Weekly* of August 7, Bashuri Ghosh has found fault with our analysis of the impact of PL 480 transactions on money supply. It is her discovery that we have committed an 'egregious blunder' in concluding that the initial payments by the Government for imports of PL 480 commodities under the existing arrangements do not produce any effect on monetary circulation.

But for the provocative tone of the letter of Bashuri Ghosh, I would have refrained from flogging this dead horse over again. Let me put simply what happens to the balance sheet of the Reserve Bank when the payment is made by the Government to finance PL 480 imports. There are, in all, four steps involved in the initial payments:

- (1) the government sells *ad hoc* treasury bills to the Reserve Bank;
- (2) it pays the U S Embassy;
- (3) the U S Embassy invests the sums received in Special Securities; and
- (4) government uses what is received through Special Securities for retirement of the treasury bills. It is open to government, however, to maintain cash balances higher than before rather than use the excess of cash balances to retire the treasury bills. But this is not of any consequence for measuring the impact as I would show below.

and was responsible for the three seasons of short output of sugar which followed. Instead of alternating between control and decontrol from year to year, what the sugar industry needs is a long-term policy which will relax controls on distribution gradually in pace with output, while striving to raise production, mainly through bigger and better quality sugarcane crops.

These four steps are illustrated in the table below by tracing the changes in the balance sheet of the R B I. It should be clear from the illustration that at the end of all these transactions, neither the assets nor the liabilities of the Reserve Bank have changed. It is an elementary principle of monetary analysis that if money supply is to rise or fall either the financial assets of the banking system including the Reserve Bank or the net non-monetary liabilities of the banking system have to change. Since as a result of the transactions referred to above nothing has changed in regard to the balance sheet of the Reserve Bank (and commercial banks do not come in under the existing arrangements adopted for payment of P L 480 transactions), money supply cannot vary.

Bashuri Ghosh makes also the curious statement that "... on the assets side, the Reserve Bank finds surplus assets in the form of *ad hoc* treasury bills because it has received sale proceeds of Special Securities tendered by Government. It is thus forced to retire the surplus *ad hoc* treasury bills. If it does not do so, it would have earned equivalent profit...". I am afraid the so-called surplus (*sic*) assets which Bashuri Ghosh talks about is not profit. The mere rise in assets or a fall in liabilities in a balance sheet does not mean that the Bank earns profit.

D R Khatkhate

Bombay,
August 26.

Balance Sheet of the Reserve Bank of India

(Assume Rs 100 crores are to be paid for PL 480 imports)

Liabilities		Assets	
First step	+ Rs 100 crores	— cash balances of the government	+ Rs 100 crores
Second step	+ Rs 100 crores	— other deposits of the R B I which includes the U S Embassy account	+ Rs 100 crores
Third step	+ Rs 100 crores	— government cash balances	+ Rs 100 crores
Fourth step	— Rs 100 crores	— government cash balances	— Rs 100 crores
		— <i>ad hoc</i> treasury bills	— <i>ad hoc</i> treasury bills
		— <i>ad hoc</i> treasury bills	— <i>ad hoc</i> treasury bills

The Finance Ministry, under the moody stewardship of T T Krishnamachari, is sampling some of the confusion which it has itself helped to generate. The despondent, despairing reactions to the surprise supplementary budget are thoroughly out of focus because the business and commercial world has been subjected to so many twists and turns in financial policy that it has lost its bearings. TTK's supplementary budget represents partial devaluation, an attempt to meet some of the criticism of the World Bank, a result of the re-thinking over the past few weeks. It is clear, even

FROM THE LONDON END

Heading Towards Recession?

THE latest economic indicators show quite clearly that, at long last, the restrictive measures introduced by the Labour Government in order to protect the balance of payments are beginning to bite. This raises once more the fundamental dilemma which faces Britain, how is the country to obtain a satisfactory rate of economic development, and at the same time get her balance of payments position right? The burden of operating a reserve currency requires that unless some new measures are taken to increase international liquidity, the British will have to continue to damp down internal demand in order to protect the pound and prevent a run on sterling brought about because of the adverse balance of payments. This means that once more the axe has got to come down on the rate of economic growth inside the country itself.

Two recent economic reports by independent organisations on the state of the economy—by the National Institute for Economic and Social Research and the *London and Cambridge Economic Bulletin*—both seem to agree that the only way in which Britain can achieve a payments surplus sufficiently large to pay off her debts by 1970 is by putting up with quasi-stagnation at home.

To deal first with the verdict of the National Institute. When this organisation produced its report shortly after the budget in May, it believed that the Government would not achieve its aim of eliminating the balance of payments deficit by the end of 1966. However, the various restrictive measures undertaken in rapid succession by the Government are beginning to take effect. This is clearly reflected in the disappointing production figures for June, when the index of industrial production showed a fall of one point

to the dullest, that this necessary re-thinking will continue right through September — and we will have more surprises offered us in October.

However, this is no time to speculate. We are hemmed in by too many critical decisions awaiting to be taken. One decision influences the other; so they have to be taken together. Who will take them? The Centre or the *satraps* in the States? The ministerial wing of the ruling party or the organisational? The chaos-makers or those who build on the solid achievements of the past? Much hangs in the balance.

to 131 (1958=100). The index for the second quarter, seasonally adjusted, is provisionally estimated to be about $\frac{1}{2}$ per cent lower than in the first quarter. This, together with the fact that unemployment figures are now beginning to rise, has made the Institute change its mind, and it now believes that by the second half of next year, Britain's deficit will have been eliminated, even if the import surcharge is abolished altogether. But in order to obtain this objective, the Institute expects that there will be a year-and-a-half's pause in the growth of national output, and a rise in the level of unemployment by the end of 1965 to $1\frac{1}{2}$ per cent and by the end of 1966 to as much as $2\frac{1}{2}$ to 2 per cent. Thus, if the present trend continues, by the end of 1966, output will have been stagnant for well over a year, and unemployment will be relatively high and still rising.

The *London and Cambridge Economic Bulletin* points out that Britain is once more in the middle of a "stop-go" cycle, and claims that events have continued to unfold in a sequence very like that of the previous cycle four years ago. In 1961, and now again in July 1965, the Government has felt compelled to impose fresh deflationary measures at a time when there was already clear evidence that the pressure of demand had begun to ease off.

Devaluation Unavoidable?

These gloomy economic forecasts, together with the information that Fords have begun to work on short time and that their example will shortly be followed by other motor-car companies, have led to an air of gloom in business circles. The general view among industrialists seems to be that until the end of 1966, there can be

no question of resuming the fast rate of growth that the country has been aspiring for. It appears, however, that the view that Britain is in for a long spell of unbroken stagnation and rising unemployment is almost certainly too gloomy, and surely one that, for political reasons alone, would not be permitted by the Labour Government. Once the balance of payments becomes healthier, it is more than likely that the Government will work for a modest reflation which will keep the economy growing in line with capacity and prevent unemployment from rising. Therefore, in 12 to 18 months some reflation of the economy is to be expected, although direct action on imports may still be necessary to prevent the trade balance getting out of hand. The question that remains is whether the rate of growth can then be anything like the 4 per cent target of Brown's development plan. Does it now mean that recent developments indicate that this target must be radically amended.

It is indeed a tragedy that in view of the serious balance of payments position they inherited, the Labour Party had to adopt a policy of deflation which cuts right across the whole spirit of their general philosophy. Obviously, there are deep-seated difficulties in the British economy which cannot just be shrugged off, but is there then no hope, short of devaluation, which most people agree will not really be of any basic assistance to the economy?

Naturally, the Government is most anxious to see that depressing economic reports do not spread pessimism which in its turn could prevent business from investing, and so bring about the recession which everyone wishes to avoid. Brown's Department of Economic Affairs is still sticking to the objective of a 25 per cent increase in output for the period 1964 to 1970. The Ministry of State, Department of Economic Affairs, Austen Albu, last week at a Yorkshire Miners' Trade Union summer school said quite clearly that the forecast made by the National Institute of Economic and Social Research that Britain would face near stagnation in production need not necessarily come true. The type of economic forecasts made by institutions like the National Institute were based on the assumption that present trends could be projected, and that they would be accepted passively. The whole object of economic planning was to improve on the situation, to find out what had to be done

to improve the present trends, and then to decide how this action could be taken. The trouble with economic forecasts was that they "tended to become self-fulfilling prophecies". These types of prophecies created alarm and despondency and persuaded industrialists to reduce investment plans and Trade Unions to resist changes in methods or abolition of protective practices. The net result was that the country would get exactly what has been prophesied.

A great deal could be done both by the Government and by industry to change the trends on which these fore-

casts were based. Indeed, a new economic situation could be created if Britain could raise the proportion of her manufactured production sent overseas by 2 per cent, and make a similar small reduction in imports. It appears likely that the Economic Plan which is soon to be published by the Department of Economic Affairs, will still be designed for a sustained rate of growth, and a target of 25 per cent expansion by 1970. This would imply an annual growth rate of 3.8 per cent, and in the light of the present economic situation, it looks as if it will all have to be crammed into the last two

The Supplementary Budget

THE reasons which have led the Finance Minister to present a supplementary budget are many. The price situation has deteriorated again and the foreign exchange position is worse than ever. It has been found necessary to prune the borrowing programme of the Centre by Rs 20 crores from Rs 270 crores in view of the conditions in the money market. Small savings collections are expected to be Rs 125 crores against the Budget figure of Rs 135 crores and there would be a shortfall of Rs 15 crores under annuity deposits. Customs revenue so far has been somewhat higher than expected but excise and income taxes are not upto expectations. At the same time, there have been increases in expenditure owing to higher dearness allowances to staff and larger disbursements to the States, apart from the large increase that is now bound to take place on security and defence.

In order to keep the promise of no deficit financing and at the same time to stave off devaluation, a number of changes have been effected mainly in customs and excise duties to raise an additional amount of Rs 131 crores from import duties and Rs 50 crores from excise duties in a full year. Some minor changes are also proposed in direct taxation without, however, involving the rates of tax on individuals and companies. There are significant increases in the rates of development rebate.

Custom Duties

The customs tariff is proposed to be rationalised and simplified and considerably raised in the process, in the interest of raising additional revenue and for encouraging import substitution. The duties on fabricated and

unfabricated items would in general be raised to 60 and 40, per cent, respectively. For instance, the various specific and *ad valorem* rates with varying incidence averaging about 20 per cent on iron and steel material would be raised to 40 per cent *ad valorem* for unfabricated and 60 per cent for fabricated items to raise Rs 32 crores. Non-ferrous metals which bear duties ranging from nil to 50 per cent with an average of 25 per cent would be charged at 40 per cent and 60 per cent on the same basis to yield Rs 9 crores. Machinery (main items) taxed at present at 15 to 20 per cent (a few categories are free and some GATT-bound at 10 per cent) would be taxed at 40 per cent (statutory) and 35 per cent (effective) to yield Rs 58 crores. Machinery imported for projects would now be assessed in bulk instead of each item being assessed separately. The duty on chemicals would be raised from varying rates, mainly 40 per cent standard and 30 per cent preferential, to 60 and 50 per cent, respectively. The rate on lubricating oil would be raised from 16 per cent to 40 per cent and that on art silk yarn from 75 per cent to 100 per cent. The *status quo ante* would be maintained for GATT-bound articles (though attempts are being made to secure releases from binding agreements), certain imports from Pakistan and Burma, fertilisers and pesticides, raw cotton and raw jute, raw cashewnuts, newsprint, raw hides and skins, family planning materials and educational and research material. Sulphur, of which there is an extreme shortage and imports of which from the USA under aid agreements are at prices much higher than international prices and which is at present taxed at 10 per cent would be admitted duty free. The surcharge of 10 per

years of the period.

Perhaps the actual prospects for Britain lie somewhere between the gloomy forecasts of the National Institute, and the optimistic tone of the Department of Economic Affairs. However, one thing is very clear. Without a complete overhaul and modernisation of Britain's industries and industrial outlook, and without some far-reaching and viable solution to the problem of international liquidity to which the British economy through its reserve currency is so firmly tied, there can be no permanent solution of Britain's economic dilemma.

cent of duty is being withdrawn but the regulatory customs duty of 10 per cent is being retained.

Countervailing import duties to offset the impact of higher excise duties are being imposed on petroleum products, iron and steel, and non-ferrous metals to fetch Rs 12 crores, of which non-ferrous metals account for Rs 9 crores.

Excise Duties

The main burden of excise duties is on petroleum products (Rs 29 crores), and iron and steel (Rs 13 crores). The duty on inferior kerosene is left unchanged while that on light diesel oil has been substantially lowered. The duty on internal combustion engines of 10 h p or less is abolished altogether to benefit users of stationery engines for irrigation purposes. The purpose of these measures is to raise revenue as well as to restrain consumption. The duties on iron and steel products are to some extent graded in such a way as to discourage the use of the scarcer varieties. Simultaneously, the control over the price and distribution of pig iron has been removed altogether as a further step towards the implementation of the Raj Committee's recommendations.

Direct Taxes and Concessions

The principal change in the field of direct taxation relates to the raising of the development rebate for essential industries from 25 per cent to 35 per cent, as partial compensation for the higher rates of duty on imported equipment and to give a further incentive to investment in high priority industries; this rate will stay constant till March 1970, after which it will come down to 25 per cent. This

is in keeping with the policy announced earlier to assure continuity of both tax rates and concessions. The coal industry was getting a development rebate of 35 per cent till March 1966 after it was to get 20 per cent till March 1967 and 15 per cent thereafter. Coal and lignite will now be included among priority industries and will get the same development rebate as other priority industries for the same period. Other industries were to get a development rebate of 20 per cent till March 1967 and 15 per cent thereafter. This will now be 20 per cent thereafter.

The tax holiday for income upto 6 per cent on the capital employed in a new industrial undertaking or hotel would be available for investment from April 1966 when it is due to expire till March 1971.

The amount of tax credit admissible to an assessee for export performance was to be allowed at the end of 12 months. Now it would be payable immediately.

To encourage investment in equities further, the tax credits which were announced for investment in fresh equity issues would not be treated as the income of an individual who has given funds to his spouse or minor children for the purchase of these issues.

A person who happens to make an excess deposit of annuity payable by him would be entitled to a refund instead of waiting to having it offset against his future annuity liabilities.

A new and relatively long-term scheme for voluntary disclosure of concealed income and wealth has been brought into force. It will not apply to assets which have been discovered in the course of raids, etc, or have been detected or deemed to have been detected in the course of any proceedings by any government agency. On the amount disclosed, a non-company assessee will be charged the current rate of tax, without any unearned income surcharge and without any personal allowances in the case of individuals and HUF's. A firm making a declaration will be assessed as an unregistered firm. A company making such a declaration would be charged at the standard rate applicable to it, i.e., 50 per cent if the public is substantially interested, 60 per cent if the public is not substantially interested, and 65 per cent if it is a foreign company. In the case of a narrowly owned company, the voluntarily disclosed amount will not be

taken into account for any penal tax on account of non-distribution of the statutory percentage of profit as dividend.

The assessed tax is payable within 35 days of the notice of demand. With the previous assent of the Commissioner, and the deposit of satisfactory security, 10 per cent of the amount payable as tax can be paid within the period of demand notice and the balance in instalments over a maximum period of four years, at an interest of 6 per cent on the balance due. The income so declared will not

be assessed to any other direct tax levied by the Centre.

The rate of interest payable on any defaults by an assessee or by Government in case of refunds has been raised from 4 to 6 per cent. Provision is being made to allow relief on surtax under avoidance of double taxation relief agreements. To clarify the intention of the original legislation, it is being expressly laid down that donations for religious purposes would not be treated as charitable and, therefore, eligible for relief as donations.



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India Steamship Co., Ltd., has a steady record of progress... Since Independence, its tonnage has increased from about 85,000 D.W. tons to over 200,000 D.W. tons—more tonnage being still on order.

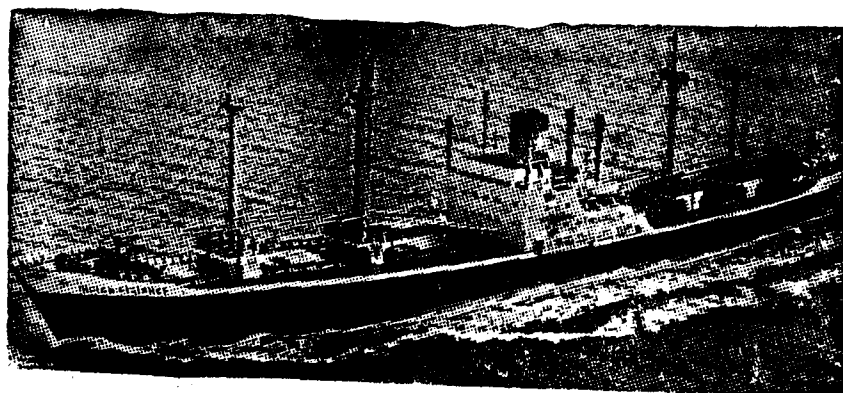
Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in

1956 and later to Rumanian ports. In 1959 the Company forged still another link in the overseas with South America, and in 1960 it extended its service to Poland.

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BOOK REVIEWS

Industrial Relations: Two Points of View

Harold Crouch

Industrial Relations: What Is Wrong with the System? An Essay on Its Theory and Future by Allan Flanders; Faber and Faber, 1965; pp 63, 12s 6d.

Industrial Relations: A Point of View by G Ramanujam; Indian National Trade Union Congress, 1965; pp 127, Rs 5.

IN the past the study of industrial relations has been treated as an off-shoot of economics, law and other disciplines. It has not been treated as a separate discipline in itself. Instead of a general theory of industrial relations we have had empirical studies of particular aspects of industrial relations in particular circumstances. Allan Flanders, who is a senior lecturer in industrial relations at Oxford, has felt the need to approach his discipline from a more theoretical point of view, and after creating a theoretical framework, he examines the industrial relations system operating in Britain, identifies certain changes that have taken place in recent times, and makes some predictions and recommendations for the future.

Without going into descriptive detail, Flanders points to three essential principles which have constituted the spirit of the British system of industrial relations. It is not so much the institutions of the system as such, as the spirit in which the system actually operates, that distinguishes one system from another.

The first principle is that of a preference for collective bargaining for the settlement of disputes. As Flanders points out, collective bargaining "did not rise like a phoenix out of the ashes of individual bargaining" (p 22) but developed to suit historical circumstances. In Britain it was found that governmental control of industrial relations in the earlier stages of industrialisation "was far too inflexible to suit a dynamic industrial society" (p 22).

A second major principle distinguishing the British system is its preference for voluntary procedural rules for collective bargaining. Unlike collective bargaining as practised in the United States, the system in Britain "has provided little work for lawyers" (p 23). Agreements are kept because it is in the interest of the parties to keep the agreement, not because of any legal force behind such agreements, and if an agreement is broken, the parties themselves must settle the question again. The system depends

very heavily on the continued recognition of a mutual interest in settling disputes without the intervention of the state.

The British system is further distinguished by an emphasis on procedure as opposed to substance. The parties seem less concerned with obtaining "justice" than with reaching a workable compromise through the accepted machinery. In the USA, the emphasis is on the substance of the agreement, wages, hours, and so on, whereas in Britain it seems that it is enough that an agreement be reached.

It is Flanders' central thesis "that the principles of any national system of industrial relations... are derived from the values by which the nation judges and legitimizes the system's working and results" (p 30). The values which have determined the British system are a belief in economic freedom and a desire for industrial peace.

However, since the second world war changes have been taking place in the system, partly because other values are being added to the traditional two. The system is consequently in a state of flux, being affected by an increasing recognition of the role of government in promoting economic development, and by the tendency for the shop stewards in the factory to take on certain negotiating functions that had previously been in the hands of the national union leaders.

The "challenge from above", that of increased governmental intervention in the economy and, as a result, in industrial relations, must inevitably alter the traditional system of collective bargaining. Flanders believes that it is essentially because of Britain's recurring balance-of-payments crises rather than any theoretical case for an incomes policy, that the post-war governments at first tried to introduce some measure of "wage restraint" or "planned growth of wages" as the Labour Party now prefers to call it. The adoption of a national incomes policy, which has been supported by both the previous Conservative and the present

Labour government, must necessarily restrict the scope of traditional collective bargaining.

The power of the national unions in collective bargaining and the success of the government's incomes policy are both undermined by the "challenge from below". With full employment the workers in a particular work-place have gained sufficient bargaining strength to negotiate with their own management. One consequence of this is an increase in "unofficial strikes", conducted without the sanction of the top leadership of the union; another consequence is the "earnings drift" which can seriously affect any planned wage policy. Full employment and even labour shortages have enabled shop stewards in particular factories to negotiate for wage payments above those agreed on after industry-wide collective bargaining. In 1959 it was estimated that average earnings were 26 per cent higher than the rates agreed on by collective bargaining at the industry level. In addition an increase in overtime widened the gap further between actual earnings and negotiated rates of payment.

How can the traditional system of collective bargaining at the national-industry level adjust itself to the recognised need for economic planning including the planning of wage levels? Flanders has identified the problem but has been unable to provide anything but generalities for a solution (for which he can hardly be blamed, as the problem is just about insoluble). Each side must accept the need for economic growth and an incomes policy. Planning of wage movements must necessarily be "indicative" if the goodwill of both sides is to be kept, but, as Flanders accepts, "Probably some breaches will not be avoided" (p 53). Flanders seems to be reduced to a plea that management and unions should each adopt a more long-run approach and more responsible methods, and that the government should encourage them in this. The success of the incomes policy will apparently depend more on the personal qualities of industrial leaders than on any basic institutional changes.

The problems of industrial relations in a country like India have only a superficial resemblance to the situation in countries like Britain. If the underlying values of the British system have been economic freedom and industrial peace, the central requirements in India have been rapid economic growth and the maintenance of political stability. These requirements have resulted in a system of industrial relations based on government control. The government actively works to secure industrial peace, partly because strikes hinder economic development and very largely because the development of a strong, militant trade union

movement represents a potential threat to political stability.

In addition to setting up machinery to regulate industrial relations the Congress government has also encouraged the growth of the Indian National Trade Union Congress, the present general secretary of which is G Ramanujam. Ramanujam's book of essays is not meant to be a scientific analysis of the Indian system of industrial relations. Its interest lies less in any intrinsic merit than in the fact that it authoritatively sets out the INTUC position on a wide variety of topics.

Like most Indian trade unionists,

Ramanujam goes through the ritual of denouncing party-policies in trade unionism, but perhaps we can take him a little more seriously than most others, as he is not, in fact, a member of the Congress party. (This may, of course, be more a result of the apparently friendly relations between the Congress Government and the Hind Mazdoor Sabha in Ramanujam's home state of Madras, rather than any differences in principle between Ramanujam and the Congress). While denouncing party-policies, Ramanujam does point out that trade unions must inevitably concern themselves with politics in the wider sense.

Asia's Dismal Export Prospects

G C da Costa

Trade Prospects for Developing Countries by Bela A Balassa; Richard D Irwin, 1964; pp xii + 450.

IN this book Bela Balassa examines, in considerable detail, the trade problems of developing countries. These problems are examined both in retrospect — 1928 to 1960 — as well as in perspective — 1960 to 1975. The study has been divided into two parts. In the first, the trade patterns of less developed areas are examined and the following aspects receive attention: (1) exports and economic growth in the developing countries; (2) economic growth in the developed countries; (3) future of exports from the developing countries; (4) import requirements of the developing countries and the consequent trade gap; (5) current account gap and alternative policies that can fill the gap. In the second part, the prospects for individual commodities have received somewhat detailed consideration.

Balassa finds that during the years 1928-1955, the exports of the developing countries grew at a rate considerably below that of the GNP of the developed countries — an 88 per cent increase in the GNP of the developed countries was accompanied by a 38 per cent increase in the volume of their imports. This, of course, does not suggest any uniformity during the period. For example, whereas between 1928 and 1938 export growth into the developed countries was only slightly lower than the latter's GNP the gap widened considerably from 1938 to 1955. In this latter phase a 68 per cent increase in GNP was accompanied by a 27 per cent increase in the exports of the less developed countries. The explanation is to be found in the

policy measures introduced during the War and technological changes in production that have taken place since. The substitution process might also be said to have developed during this period. Thus, whereas there was no synthetic rubber production in 1938, in 1955 in the United States the share of natural rubber in rubber consumption had declined to 42 per cent and in Western Europe to 85 per cent. Similar was the case with other synthetic substitutes. However, in the period 1955-1961 the growth of the exports of the developing countries exceeded the growth of the GNP of the developed countries. It is of interest to note that about half the increase is accounted for by fuels. Mineral exports, in particular to Western Europe, also showed some buoyancy. Manufactures fared well but their role in the aggregate was insignificant as they accounted for only about 7 per cent of the aggregate exports of the developing areas.

Future Trends

In order to estimate the future export prospects Balassa has calculated the future trends in incomes in the developed regions: North America, Western Europe and Japan. Several variants of the income variable have been used. These are per capita disposable income, gross national product (total and per capita), industrial production and in the case of certain raw materials specific indicators regarding the individual industries. Two alternative estimates have been used: (I) a 'most likely' estimate based on past

trends; (II) a high or optimistic estimate which could become a reality only if suitable economic policies were followed. Under the first assumption the projected increase in GNP is 80 per cent and under the second it is 96 per cent.

A detailed presentation of the conclusions here is, of course, impossible and uncalled for. But a few highlights are revealing of the trends that might be expected. We shall concern ourselves only with the 'most likely' assumption. First of all, in overall terms, he finds that the exports of the developing countries at 1960 prices would rise from \$19.5 billion in 1960 to \$29.1 billion in 1970 and \$36.0 billion in 1975. This would yield an income elasticity of import demand, for the developed countries, exceeding unity. This he compares with the period 1953-54 to 1960-61 when the imports of the developed countries rose by 48 per cent as against the 31 per cent rise in their GNP. The export prospects to Japan appear relatively the best. This is due to the special features of the Japanese economy; viz, earlier stage of development as compared with W Europe and the United States, lack of domestic sources of raw materials, in particular, minerals and the character of the Japanese diet. In Western Europe exports of fuel and minerals are expected to fare well. This is again due to the special features of the Western economy as compared with that of the United States: (a) the substitution process of liquid fuel for coal has been completed in the United States whereas it

is still taking place in W Europe; (b) W Europe has insignificant oil reserves; and (c) W Europe is at a lower level of technological and economic development. Export prospects in the United States and the Canadian markets appear least encouraging.

The bulk of the increase in the value of the exports of the developing countries will be accounted for by fuels and non-fuel minerals. Thus taking into account the fact that only in a few developing countries do these feature as important exports the position of the developing countries is much less optimistic than might appear in the aggregate projections. In fact there are some who would even prefer to exclude the exporters of fuel from the category of developing countries and include them in the category of the developed countries. It is no surprise then that Balassa finds the income elasticity of demand for cereals and potatoes negative and zero or slightly above zero for fish, oils and fats, sugar and tea. The case of tea is interesting for two reasons: first it is so important in India's exports; and, secondly, Balassa's results in respect of it corroborate the present reviewer's own findings.* The 'world' income elasticity of demand for our tea was found to be +0.07. As against this, the UK income elasticity of demand was -0.71, of the US +1.40 and of Canada -1.04. In view of the overwhelming importance of the UK in our tea exports the weighted average of these three countries' income elasticity closely approximates our global estimates.

Balassa confirms the view that the income elasticities of demand for primary commodities is low. Here he expects that by 1975 while the GNP of the developed countries would grow by 80 per cent their imports of this group of commodities would grow by only 31 per cent. The prospects for coffee, cocoa and bananas appear only slightly better: the exports are expected to rise by 44 per cent during the same period. He does not, for well known reasons, envisage any bright prospect for cotton and jute textile exports. On the other hand, non-fuel mineral exports may double and fuel exports more than double. Exports of manufactures may rise by about 120 per cent. All these projec-

* Period 1953-1962. The detailed study will appear in the next issue of the *Indian Economic Journal*.

tions are worked out in considerable detail.

Balassa next turns to the study of the import requirements of the developing countries. Here he finds, on the basis of past experience, that the greatest increases are likely for the Middle East and Asia and relatively smaller increases for Latin America and Africa. Together with his findings that the exports of the Latin American countries, Africa and Middle East are expected to rise by more than 66 per cent while those of Asia will rise by only 50 per cent he concludes that the trade gap of the Asian countries will comparatively worsen. How much it will worsen may be seen from the following figures. While the trade gap of all the developing countries together is likely to rise from \$1.3 billion in 1960 to \$5.2 billion in 1975 for Asia alone the trade gap is likely to grow from \$1.5 billion in 1960 to \$5.2 billion in 1975. Thus the entire gap will be concentrated in Asia. This he attributes to the slower growth of Asian exports and the faster growth of its import demand.

Several measures for filling the 'current account' gap are considered: accelerated growth in the developed countries, reduction of trade barriers, increased trade to the Sino-Soviet area, regional integration and capital inflow. He has, however, ignored the possibility that domestic measures by the developing countries might also help. His concentration on the demand side to the exclusion of the supply side prevents the emergence of a more realistic picture of the problem. Too often inflationary policies in the developing countries tend to divert resources away from the export sector. An export-oriented pattern of investment might go a long way in raising export earnings in the developing countries.

In the second part of the book Balassa examines the export prospects for individual countries. This is the more interesting part of the book. The commodities have been classified and studied under seven separate heads; (1) temperate zone food items; (2) competing tropical food items; (3) non-competing tropical food items; (4) agricultural raw materials; (5) non-agricultural raw materials which include all non-fuels minerals and metals; (6) fuels; and (7) manufactures. The export prospects for products falling within these groups have been examined with refer-

ence to North America, Western Europe, Japan and Oceania. The prospects vary both in respect of the group as well as the markets.

The methodology followed to forecast the trends in imports and exports is extensively discussed in the Appendix. Here too we find almost 80 pages of useful tables. In conclusion we may make two observations: First, as the study is general the export prospect facing an individual country should be deducted from it only with care. A separate study would naturally be best and Balassa's work lays the groundwork for it. Second, his conclusions are not new. There is a considerable amount of literature today that has arrived at broadly the same results. The merit of the work lies in its painstaking attempt to quantify economic relationships in the international trade of the developing countries. The expected relative deterioration in the trade position of the Asian countries would seem to suggest that this region deserves the most attention in international efforts designed to boost the exports of the developing countries.

Vaikunthbhai Mehta Committee An Appeal

HIS great devotion and life-long service to the co-operative movement and his patient work for developing the decentralised sector of the economy which, he firmly believed, held the key to the egalitarian society of the future are to be commemorated in a fitting manner by raising a memorial to the late Vaikunthbhai L Mehta. A trust has been formed for this purpose with the following trustees:

U N Dhebar	Chairman
D R Gadgil	Vice-Chairman
B Venkatappiah	Treasurer
Shantilal H Shah	
Dhwaja Prasad Sahu	
V P Varde	
Vadilal Dagli	Secretary

The trustees and Vaikunthbhai's admirers and co-workers have issued an appeal to the public, especially to those engaged in the activities which he had made the concern of his life, to contribute funds for the memorial.

Contributions are to be sent to the Treasurer, Vaikunthbhai Mehta Smarak Trust, Royal Insurance Building, 4th Floor, 14, Jamshedji Tata Road, Bombay-1. (BR).

The South Madras Electric Supply Corporation Ltd

Registered Office:

Power House, Tennur, Tiruchirapalli

THE following are extracts from the speech of Sri K A P Visvanatham, Chairman, delivered on the occasion of the 25th Annual General Meeting of the Company held on the 18th August, 1965.

I have great pleasure in welcoming you to this Twentyfifth Annual General Meeting of the Company.

This year marks the Silver Jubilee of the amalgamated Company, which as you would no doubt remember, was forged out of three independent companies, styled the Trichinopoly-Srirangam Electric Corporation Ltd, the East Tanjore Electric Supply Corporation Ltd, and the East Ramnad Electric Supply Corporation Ltd, in August, 1940.

As you will see from the Directors' Report as well as the Accounts that have been in your hands for sometime now, the working of the Company has been very satisfactory in the year under review. Power restrictions affected us somewhat in June/July 1964 and were sources of great annoyance to consumers. Fortunately, this spell was brief, thanks to Neiveli Thermal Power. This year too we had anxious moments almost upto end of July, due to the onset of the monsoon, but thermal power availability averted a crisis.

Expansion

The tempo of expansion has been kept up, by a capital investment of Rs 22 lakhs as against Rs 17 lakhs last year; the addition to the total number of consumers was 5,923 and 161 Kilometers of new lines were constructed, 32 new substations were put up. The revenue collections for the year at Rs 1,36,11,885/- touched a new peak which is indeed gratifying.

I am glad to say that the Company's programme envisages the keeping up of this tempo and for this purpose it is fortunate that the Government of India has approved the renewal of the Managing Agency

agreement of this Company with Seshasayee Brothers Private Limited for a further period of 5 years.

Though the Government had indicated to us that we should not expect any financial assistance from them, by way of loans for rural expansion work, I am glad to say that they have come forward with help for specific programmes aimed at increasing food production.

An immediate case in point is the "Agricultural Crash Programme" in Thanjavoor district. As you are aware from the press reports it is proposed to install a very large number of tubewells in the proximity of river beds to draw water in the non-irrigation season (February to June of every year) to raise seed beds in advance and thus accelerate and increase food production, making it possible to raise two crops. In our area, for the 1965-66 season it is proposed to install 700/800 such pumps and the electrical works involved to supply power to these pumps, estimated at about Rs 15 to Rs 20 lakhs, will be advanced by the Government.

Deposit Scheme

Apart from specified agricultural expansions, the Company's capital programmes as regards urban expansion system improvement and other industrial and domestic lighting schemes continue to be attended to in the best possible manner, though I must admit, that due to paucity of finance there has been considerable discontent among users of power on the delays in our meeting their needs. To raise capital to meet this category of supplies the Directors have decided to raise short term deposits on attractive rates of interest and notices describing this activity have been posted to all of you. I am sure this will commend to all of you and in the interest of the Company's expansions, I hope you will avail of this attractive investment opportunity and also recommend the same to your friends. The deposit scheme is not necessarily

restricted to shareholders or consumers, but is open to all friends.

Electrification of Model Village

In the context of our expanding activities, I would like to also mention to you of the electrification of a model village 'Ahli' we undertook near Delhi. The Government of India's Ministry of Irrigation and Power invited several Electricity Boards to select a few model villages and electrify them, so that standards of workmanship and costs may be examined. Your Company had the unique privilege of having been invited to participate in the scheme as the only representative of the private sector in public utility services.

I would also take this opportunity to warmly thank all ranks of staff for their loyal and enthusiastic services and efforts in creating greater prosperity to your Company.

The Company's working as I have mentioned, has been satisfactory and this is reflected in the recommendation that your Directors have made that the dividends on equity shares be raised from the 11 per cent paid last year to 11½ per cent this year. I am sure this meets with your approval and it is my hope that in the years to come we will be able to keep to this level.

Note: This does not purport to be the record of the proceedings of the 25th Annual General Meeting of the Company.

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Class and Caste

Nirmal Kumar Bose

It is not the purpose of this paper either to find fault with the Marxian viewpoint or to show up its differences with the Gandhian method of bringing about social change through constructive work and satyagraha, to which the author is personally committed. The author has only tried to present the Marxian viewpoint with regard to caste as faithfully as possible.

But the conclusion that he arrives at is that the Marxian system is as much an idealistic system, an instrument of social re-organisation, as the Indian system of four varnas happened to be in the past. One may, of course, claim that Marx worked for 'human emancipation', while Mānu worked for preserving the rights and privileges of Brahmins. That is, however, an argument which can be modified and controverted from the social historian's point of view. That exercise, however, need not be attempted here.

The point that is sought to be made is that class in the Marxian sense is an intellectual instrument of action, and not a pure description of social phenomena into which Weber tried to convert it.

IT is necessary to draw a distinction between the way in which Weber and Marx have used the term class.

Weber tried to discover by means of comparison and analysis how some societies were actually stratified into classes. One part of a community might be distinguished from another by differences in the level of consumption, or in the distribution of economic or political power, or in some other way. After having examined various ways in which classes were marked off from one another, and also how they had evolved in course of time, Weber tried to find out a suitable definition of the term class, so that the widest range of observed phenomena might be covered under it with precision.

By contrast, the intention of Marx was something more than a scientific description of a particular kind of social phenomenon. After having examined the history of many societies, he came to the conclusion that all of them were divided into privileged and unprivileged classes; although the dividing line might be obscure in many cases. The real difference between classes lay in the manner in which one class laboured and produced wealth, while another, which exercised private rights of ownership over the means of production, lived more or less on the toils of the labourers.

In their own time, Proudhon, Tolstoy or Gandhi also held that, all over the world, men were divided into those who toiled, and the rest who lived on the toils of others, and were therefore thieves. (For Gandhi see Bose 1962a, pp 1-125).

It is interesting that the ideal distinction of Marx, Tolstoy or Gandhi into producers and non-producers is never neatly defined. There may be a hundred ways in which the dividing line may be rendered obscure. Even labourers may be divided into sub-

classes, distinguishable from one another by the proportion between what they produce and what they consume, or by the power which they exercise over their fellowmen, which helps them in gathering for their own interest and use, varying fractions of the surplus value produced by the toilers. In addition, the same sub-class may function as 'exploiter' in relation to one below it, and 'exploited' in relation to another above it.

According to Marx, it is this indistinctness which is responsible, to some extent, for the persistence of many of these stratified societies all over the world. This is true as much of the present age as of the past. Marx saw through, or he felt that he saw through, this camouflage placed over basic and real class differences. His reading of history led him to the conclusion that progress has taken place through a succession of class conflicts. Every conflict does not necessarily lead to victory of the labouring section of mankind; but it may be guided to that end. At least, that was the view strongly held by Lenin who thought that the moral responsibility of this leadership lies with the True Party which represents the interests of the proletariat.

Both Marx and Lenin, therefore, held that anything which masks real class-contradictions should be unmasked, class-consciousness accentuated, so that class-conflicts may come nearer home. Indeed, even defeats are not useless. Every conflict can, at least, be utilized for augmenting class-consciousness by laying bare the involved contradictions. This line of action has to be intelligently pursued, and with determination; because it leads to a shortening of the process of progressive evolution which is already taking place in human history. The revolutionist's task is to render the process of social change more economical and more efficient. He thus helps consciously and participates

actively in the process of 'natural' change. The polarity of interests has to be heightened by him before progress can take place with rapidity as it ought to in the present age of science.

Marx was thus not so much interested in describing what was happening in the world. This he did occasionally; and then he played the role of a social philosopher rather than that of a revolutionist in action. For him, the primary duty of a philosopher is not merely to understand, but to change. Marx thus used the concept of class as an operational instrument rather than as a descriptive term which would cover a wide range of camouflaged and un-camouflaged class antagonisms.

It is, therefore, not fair to say that Marx now and then contradicted himself in his use of the term class. To say that Weber is logically more consistent, and thus an improvement upon Marx is also not quite correct. One was interested in classifying social phenomena, the other in fashioning an intellectual concept which would pierce through obscurities, and serve as a tool of action. In the use of the same term, Marx and Weber thus stood widely apart from one another.

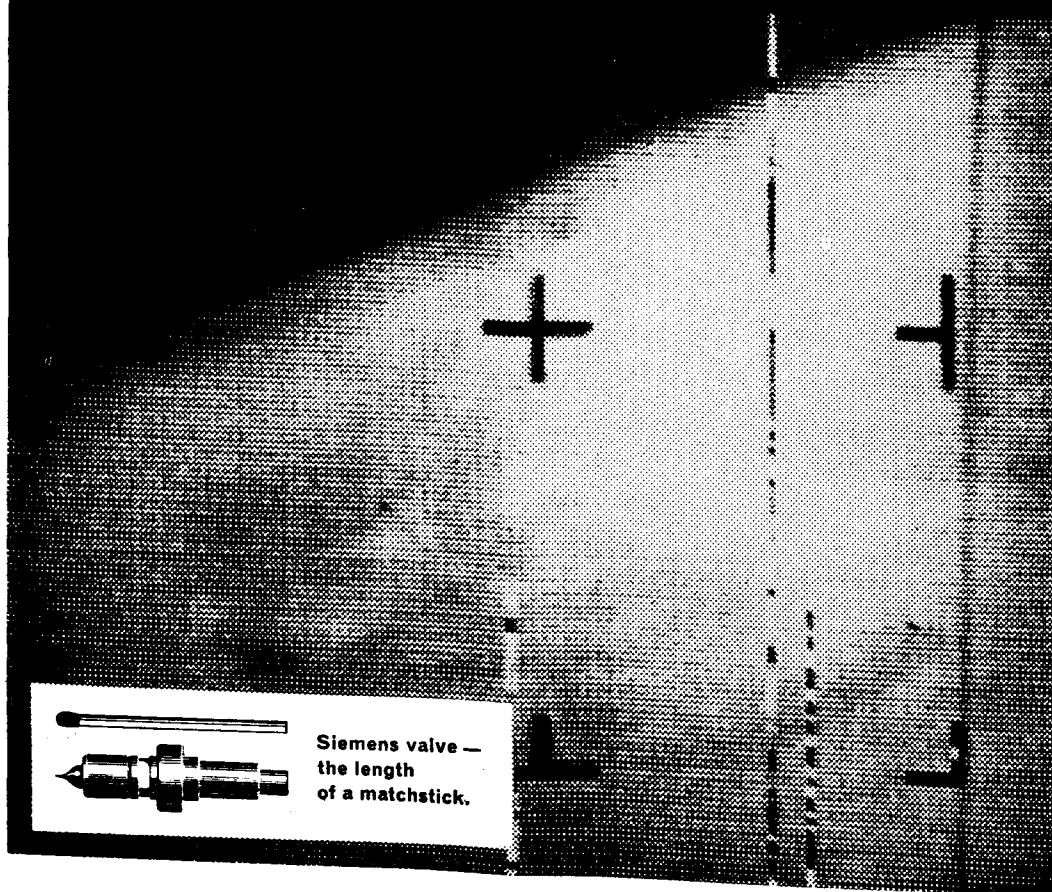
Caste: The Four Orders

It is possible to look upon the Indian concept of Varna in the same manner as Marx's class, i.e., as an instrument of social re-organisation rather than as a description of historical facts.

The Brahminical peoples were confronted in the past by the presence of many communities with whom they came into contact either in peace or in war. Such communities were frequently marked off from the Vedic people by sharp contrasts of language, beliefs or social customs. Brahmins had already developed a system of preserving the text of the Vedas by relegating sections of it to the keep-



A Siemens valve transmits FIRST MARS PICTURES



Siemens valve —
the length
of a matchstick.

A transmitter valve the length of a matchstick played an indispensable role in the USA's Mariner IV space project. It kept scientists on earth informed of Mariner IV's exact location in space. It transmitted the first pictures ever of the planet Mars. This vital component was specially manufactured and developed by Siemens.

Photos from 230,000,000 kilometres in space

6.10 a.m. Indian Standard Time, 15th July 1965. This was the historic moment. After 229 days, hurtling 230,000,000 kilometres through space, the capsule approached the mysterious planet to give us the closest-ever look. Within a few hours the priceless photographs were seen on television by millions the world over. Mariner IV had achieved one of the greatest triumphs in space exploration.

15,000 meshes per square centimetre

The guided tube in the valve had a plane control-grid of guided tungsten wires, each wire 1/100 of a millimetre in diameter. These wires formed a network with 15,000 meshes per square centimetre. Such a delicate design called for the most thorough testing possible. A 500-hour test was part of the rigorous selection programme. In addition, each sample valve was X-rayed and minutely examined both before and after the test. A major challenge to Siemens engineers, the valve was built to endure all the conditions of a long space flight. Special manufacturing and design techniques were employed — the latest at the time.

A product of unrelenting precision, the transmitter valve (called the RH-Cc) provided yet another link between Siemens and scientific progress.

POWER FOR PROGRESS—THROUGH SIEMENS

ing of specific lineages. This system had worked perfectly, and it can be imagined that its success led them to transfer the pattern to the economic organisation of society as well.

The rule was established that separate communities or *jatis* should be in charge of separate technological processes, or of services like priesthood, trade, defence and so on. They were theoretically to be in enjoyment of monopoly in respect of their allotted function in each regionally distinct area; and there was to be no competition between such groups. Yet, a sufficient amount of resilience was introduced into the system by means of 'alternative rules', or *apad-dharma*, from fairly early times. Manu has recorded this elaborately in his *Institutes* (X, 74 ff).

Legislators like Manu had in their time, to examine the situation arising out of the economic and social mingling of many *jatis*. Some of these were evidently of foreign origin; while others arose out of progressive differentiation of occupations, and as a few among them tired to rise high in social status by concealing their birth and adopting the ways of castes 'superior' to them. (See, for instance, *Mahabharata*, *Shantiparvan*, ch 65). In order to bring a system into this chance conglomeration of *jatis*, social legislators tried to reduce them ideally into a scheme in which only four *Varnas* were recognized.

It is interesting to note in this connexion that the classification into Brahmin, Kshatriya, Vaishya and Sudra was not confined to the world of men. Soils, temples, gems, gods and even the stars were actually classified into the same four orders. (See Bose 1963, 45-47; Tagore 1879.)

Manu believed in the possibility of transmission of character-types from parents to children; and he also held that a person or a community or *jati* eventually drifts into the occupation for which it is temperamentally equipped by heredity. If the origin of a *jati* is not known, it can be found out by reference to the ideal order in which the Brahmin is contemplative, selfless, devoted to learning; the Kshatriya is fond of fighting or ruling; the Vaishya interested in trade, and the Sudra in service. By applying this four-fold scheme, he claimed to find out the origin of every *jati*; and then he assigned each to one or other of the four *Varnas* by means of some other rules.

The *Manu Samhita* in its present form is considered to have

been written between 200 B C and 100 A D*. The following quotations illustrating Manu's Theory of Heredity are from Sir William Jones' translation entitled "The Institutes of Manu according to the Gloss of Kulluka" (Calcutta, 1794):

IX, 31 Learn now that excellent law, universally salutary, which was declared, concerning issue, by great and good sages formerly born.

IX, 33 The woman is considered in law as the field, and the man as the grain: now vegetable bodies are formed by the united operation of the seed and the field.

IX, 34 In some cases the prolific power of the male is chiefly distinguished; in others, the receptacle of the female: but when both are equal in dignity, the offspring is most highly esteemed:

IX, 37 Certainly this earth is called the primeval womb of many beings: but the seed exhibits not in its vegetation any properties of the womb.

IX, 38 On earth here below, even in the same ploughed field, seeds of many different forms, having been sown by husbandmen in the proper season, vegetate according to their nature.

IX, 40 That one plant should be sown, and another produced, cannot happen: whatever seed may be sown, even that produced its proper stem.

X, 69 As good grain, springing from good soil, is in all respects excellent, thus a man, springing from a respectable father by a respectable mother, has claim to the whole institution of the twiceborn.

X, 70 Some sages give a preference to the grain; others to the field; and others consider both field and grain; on this point the decision follows:

X, 71 Grain, cast into bad ground, wholly perishes, and a good field with no grain sown in it, is a mere heap of clods;

X, 72 But since, by the virtue of eminent fathers, even the sons of wild animals, as Risyasringa, and others, have been transformed into holy men revered and extolled, the paternal side, therefore, prevails.

X, 59 Whether a man of debased birth assume the character of his father or of his mother, he can at no time conceal his origin:

X, 60 He, whose family had been exalted, but whose parents were criminal in marrying, has a base nature, according as the offence of his mother

* Kane, P V: "History of Dharmasastras", Vol 3, p xvii.

was great or small.

X, 8 From a Brahmana, on a wife of the Vaisya class is born a son called Ambastha, or Vaidya, on a Sudra wife a Nisada, named also Parasava.

X, 9 From a Ksatriya, on a wife of the Sudra class springs a creature, called Ugra, with a nature partly warlike and partly servile, ferocious in his manners, cruel, in his acts.

X, 40 These, among various mixed classes, have been described by their several fathers and mothers; and, whether concealed or open, they may be known by their occupations.

By such rules, the people of Bengal became divided into two orders, namely, Brahmin and Sudra, although there are numerous *jatis* or castes among them. In other parts of India, all four Orders are present; and this is how many *jatis* became federated into an ideal system invented by Brahmin thinkers.

Class and Caste

Many authors have described caste as one variety of the class system. There is no doubt that Brahminical communities reserved for themselves a position of privilege in society, while the work by means of which people lived was relegated to the 'lower' orders. Caste was thus class; and this is a fact which has been emphasised by many historians in the past, as well as by sociologists like Bhupendra Nath Datta, M N Srinivas and Narmadeshwar Prasad in more recent times.

We must, however, remember the fact that class-antagonisms within the caste system failed to generate a sufficient amount of opposition and revolt among the subordinated communities. Narmadeshwar Prasad has tried to account for this by saying that the Brahmins successfully prevented reaction and revolt by the creation of a widespread 'myth' about their own holiness and infallibility, by a belief in the Law of *Karma* and transmigration of the soul, and so on. M N Srinivas is of opinion that the concern and value attached to ritual purity is so deep-rooted among Hindus, and the belief in *Karma* so pervasive, that both the privileged and un-privileged remain content with the status and role into which they have been born. So much so that there is no desire to rise and revolt against gross inequality.

Srinivas also says that the 'upper' classes have succeeded in retaining their positions of advantage, not only by extensive indoctrination of the 'lower', but also by usurping positions

of authority in other ways. In the past, they did so by ownership of land and an alignment with the ruling powers. In the present age, the same upper castes have taken advantage of modern education, and progressively 'westernised' themselves so as to join the ranks of the new ruling class. This they do by joining the administrative services, or by alliance with one or other of the political parties as they come into power. The 'upper' castes have thus adapted themselves to change, and still form the upper class; while those who are below, because of poverty, lack of education and social subordination retain their attachment to caste's ancient values, and prefer to raise themselves in rank by 'sanskritization' instead of by 'secularization' or 'westernisation'.

In the opinion of the present author, however, these hypotheses as explanations of the continuity of caste through the ages, in spite of political or cultural upheavals, do not appear to be wholly adequate. In case, there are several other elements which help in creating a *positive* sense by loyalty among the subordinated classes, even when some of them know that they are suppressed. These possible causes are enumerated below:

(1) In an economy of relative scarcity, particularly when there were swift changes of rulers, the rules of caste were devised in a manner so that various communal groups were woven together into a network of mutual interdependence.

(2) Competition was positively discouraged. An artisan or priest could seek the protection of the king, or of the local college of Brahmins, or even of the caste—or village-panchayat if he was threatened by competition by anyone who infringed upon his preserves.

(3) Each caste was left free to pursue its specific regional or communal customs in an atmosphere of comparative freedom and equality. In other words, cultural autonomy was thus guaranteed to each of the federated communities.

(4) If class differences brought about a growing inequality of income, as they were likely to do, the evils of increasing polarisation were offset by the custom of 'conspicuous expenditure'. Anyone who spent lavishly in beneficial acts, or even in sheer exhibitionism, was applauded more than one who hoarded. A practice was likewise built up in connection with birth, marriage or funerary ceremonies in which even the poorest householder

had to make gifts to priests, scholars and the indigent. The more lavishly one spent, even by incurring debts, the more approbation one received.

These elements in the culture of the people mitigated, but did not obliterate, the evils and strains resulting from class-differences within the caste system. And, it is the belief of the present author, that it is this fact, which might either be labelled as a camouflage or a conscious limitation of the growing ills of caste's productive system, which prevented the progressive polarisation of class-differences. The latter could have led to class war in India; but actually did not on account of the various safeguards thus built into the social structure.

Marxian Class and Caste

According to the Marxian way of thinking, this ingenious system helped the Brahmin-Kshatriya or upper class leadership to preserve itself intact through centuries. This was achieved by not allowing the contradictions in the distribution of power between class and class to develop as it did in the West.

The contradiction between technological progress and growth of population could not, however, be solved by this ingenuity. People remained poor, famine was followed by famine; and caste persisted because it gave a feeling of security even under the most straitened circumstances. Under the exigency of famine or natural calamity, people turned either to their joint families, or their own kinsmen or caste-men for protection or support. Ancient governments were frequently powerless to cope with such calamities, except by an extensive system of doles or gifts.

The remedy, according to the Marxian, lies in tearing aside the arrangements in the superstructure of caste, which prevent the 'natural' sharpening of class-antagonisms. That alone can prepare the ground for an already belated class-conflict, which will inevitably lead to the victory of the organised proletariat under the guidance of the True Party.

Comments

It is not our purpose in the present paper either to find fault with the Marxian viewpoint, or show up its differences with the Gandhian method of bringing about social change through constructive work and *sa'ya-*

THE ECONOMIC WEEKLY

graha, to which the author is personally committed. We have only tried to present the Marxian viewpoint with regard to caste as faithfully as possible.

But the conclusion to which we arrive is that, the latter is as much an idealistic system, an instrument of social re-organisation as the Indian system of four *Varnas* happened to be in the past. One may, of course, claim that Marx worked for 'human emancipation', while Manu worked for preserving the rights and privileges of Brahmins. That is, however, a point which can be modified and controverted from the social historian's point of view. But we need not indulge in that exercise for the present.

The point which we have been trying to build up is that class in the Marxian sense is an intellectual instrument of action, and not a pure description of social phenomena into which Weber tried to convert it.

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Cuba, 1965

Joan Robinson

There is a different atmosphere in Cuba nowadays. The romantic phase of the Revolution was beautiful while it lasted, but it was too extravagant. It was magnificent, but it was not economics. This phase is now over.

Unromantic economics is now the order of the day.

The Cuban authorities have to evolve their system of planning, control and management just at the time when all established ideas in the European socialist countries are being questioned.

From one point of view this is a great advantage: it saves Cuba from the pressure of the dogmatists. On the other hand, the new ideas arising in the Soviet Union, after half a century of experience, are irrelevant to a young Revolution and cause confusion.

"THE romantic phase of the revolution is over." There is regret as well as pride in the words. The romantic phase was beautiful while it lasted, but it was too extravagant. Luxury flats were built for the slum dwellers, with elegant fittings in the bath rooms. An economist defended it to me at the time: "We have a building industry for luxury, so why not use it for the benefit of the poor?" Now it is realised that too few get rehoused that way. Factories were built to give urban employment without thought of the import bill for materials. The agricultural workers were rescued from the misery of the dead season by all-the-year-round farming, and then there was not enough labour to cut the sugar cane. All the young people who took part in the literacy campaign were offered scholarships when there was already a scarcity of teachers. It was magnificent, but it was not economics.

There is a different atmosphere nowadays, though there are still food shortages, there is urban unemployment and there is heavy dependence on foreign aid. Observers from other socialist countries are apt to criticise or even scold the Cubans for the way they go on. But they themselves have found that installing socialist institutions does not change national character overnight. The remarkable thing is how much, not how little, liberation has transformed Cuban life. Every people is what history and geography have made them. Neither the traditions of Spain and of Africa, nor the example of wealthy American pleasure seekers, were propitious to economic development. The Cubans have responded to the Revolution, not only with heroism in a crisis, but with cool resolution under continuous menace. (Timid characters left). For this they command respect as well as admiration. But foresight, exactitude, and steady slogging do not come easily to them. Moreover they feel that it is their task to prove to Latin

America that socialism can be gay. (Their new dance, the Martinique, will go like wild fire in the capitalist world once it gets out). The Cubans have had plenty of advice on economic affairs, and in technical details they rely upon it entirely but foreign advisers cannot teach people how to manage themselves.

Even the romantic period of Cuban revolution had considerable achievements to its credit. The greatest achievement, of course, is just to have carried on under the fantastic threat hanging over them. Besides, they survived, somehow or other, the abrupt switch of trade from a haul of a few days to a haul of several months, with changed specifications of all goods imported. The industry left on their hands was kept running, more or less. Agriculture, somehow or other, was organised. A network of education and health services was thrown over the whole country. In same period they had to repel an invasion, undergo an emergency requiring general mobilisation, and repair the damage of a devastating hurricane. It was the romantic, heroic, revolutionary spirit, not economic commonsense, that carried them through.

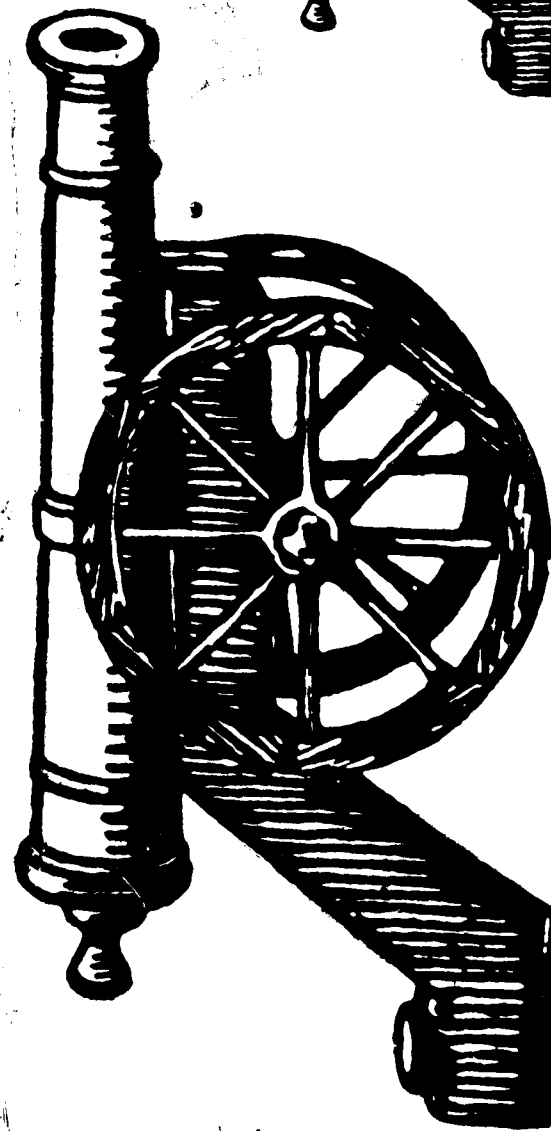
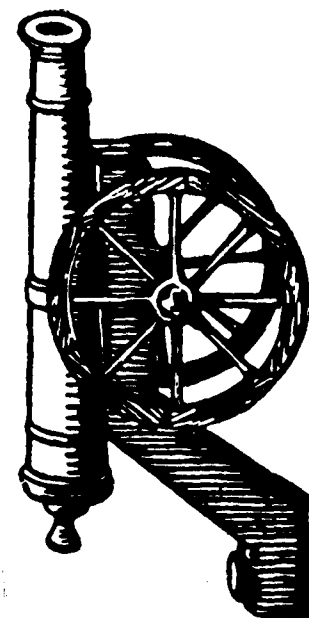
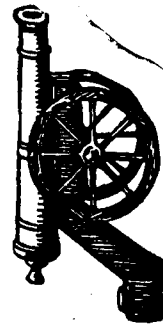
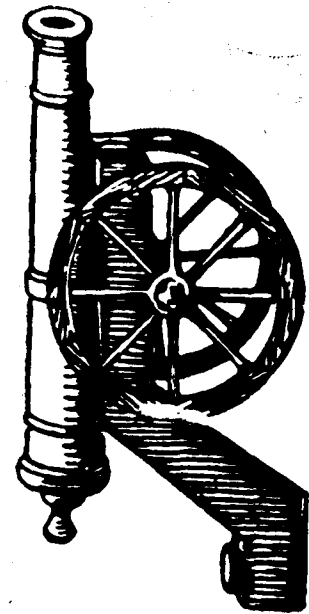
II

Unromantic economics is now the order of the day. The situation of Cuba is unlike that of other developing countries. The problem is not to industrialise so as to make use of surplus labour from an overcrowded rural population. On the contrary, there is potentially rich land still uncultivated and a shortage of hands for the area already being worked. About a third is now in small holdings, (small that is by Cuban standards; the legal maximum under the second land reform is 60 acres) but there is no self-subsistence peasant economy. Even in the mountains, the small farmers sell their crops and buy bread at the bakery. The majority of agri-

cultural workers were not peasants at all, but paid hands who had to live from half a year's employment on the sugar estates. From one point of view this was favourable for the development of socialism. It was possible to go straight to state farms on the greater part of the cultivated land. This form of organisation, certainly has its own problems, but it is the shortest cut to modern, capital-intensive agriculture. On the other hand, the lack of the traditions of an old native peasantry means so much the less comfort at a given statistical standard of life. For instance, there is plenty of bamboo and coconut in the country, but no one thinks of using them for furniture and household utensils. What the family cannot afford to buy at the shop, they have to do without.

The main problems for Cuba were the seasonal unemployment of sugar raising and the under-cultivation of land in cattle ranches. The state farms, giving work all the year round, created the opposite problem—a drop in sugar production for lack of hands in the harvest season. For the time being the gap is filled by the army and by volunteers—office workers, factory workers, students and so forth, led, of course, by Fidel himself. It is said that after three seasons they have become expert cane cutters, but this is a solution in the heroic rather than the economical style. All this people, who receive their normal salaries, are leaving their own work undone for several months. Mechanisation is relied upon for a permanent solution. Grabs for lifting the cane (supplied from USSR) have already made a big contribution in 1965; the hope is that in a few years' time almost the whole job will be done by combines, at least on the level ground. In many underdeveloped countries mechanisation is causing rural unemployment, or has to be restrained for fear that it will. In Cuba it has to be pressed on to make development possible at all.

UP IN ARMS



FOC-44

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The official statisticians reckon that there is unemployment of 7 per cent of the labour force. Since 40 per cent of workers are in agriculture, this means more than 11 per cent of urban unemployment, largely because the abrupt change in way of life has left many misfits. (At one time they had a plan for training ex-housemaids and prostitutes as taxi drivers, but this did not turn out well). All the same Havana shows little of the obvious signs of disguised unemployment, so obvious in, say, Mexico City (not to mention New Delhi)—beggars, shoe blacks, street sellers and little boys competing to mind the car—perhaps because the children are in school. Luxury restaurants and night clubs have been kept going and provide for shoals of employees. This cannot be considered unproductive work, for it fulfils the useful function of syphoning back excess purchasing power into the exchequer.

The grand strategy that has been adopted is to continue to develop sugar, and to push ahead with cattle raising and fruit (as well as increasing home food production), thus building up foreign earnings from whoever will buy, using the proceeds for import-saving industrial investments, and so getting the spiral of development going. This is a sharp break with conceptions hitherto current in the socialist world. The achievement of more than six million tons of sugar in 1965, a striking success in intensive poultry farming and a promising start with cattle, inspire confidence that the new programme can succeed.

Formerly the cattle (of Indian breed) were left to graze on huge ranches, and it was perfectly normal for thousands to die when the summer rains were a little late. Now the arts of making hay and silage are being learned. An agriculturalist remarked to me that a hard winter is a training in discipline and foresight which the Cubans never had. The half-wild cows are being broken in to milking; crossing with bulls imported from Canada is relied upon to improve the herds. Three systems are being introduced—strip grazing, dry-lot feeding with grass and molasses, and intensive feeding based on cultivation of cereals. Each method has passionate advocates; the authorities are sensibly allowing them all to be given full scale trials to see which answers best, taking the human element as well as the climate into account. When production is in hand, problems of refrigeration and marketing will loom up.

III

The Cuban authorities have to evolve their system of planning, control and management just at the time when all received ideas in the European socialist countries are being questioned. From one point of view, this is a great advantage—it saves them from the pressure of the dogmatists. On the other hand, new ideas arising in USSR, after half a century of experience are irrelevant to a young revolution, and cause confusion.

In particular, there seems to be a great deal of confusion, in the debate going on in Cuba at present between incentives to achieve success and criteria of what success consists of. Thus arguments against a particular method of accounting, in which the profits of an enterprise appear as an item, are often conducted in terms of the case against using material incentives to promote production. There is, at present, a small element of bonus in the pay packet for norm-fulfilment for the ordinary worker, and fines for absenteeism but there seem to be no bonuses to management or to enterprises as a whole. Reliance is placed mainly on "socialist emulation", very little on the money motive.

There are two very strong arguments against putting much weight on monetary incentives. The first is political. It would undermine the process of socialist education, which is still rudimentary. Socialism came to Cuba as a by-product of national liberation (while the opposition, whatever liberal principles they may have thought they believed in, turned out in practice to be Quislings to the United States). There was neither a traditionally revolutionary working class, soaked in Marxist philosophy, nor an old liberated area where a whole generation could experiment and study. There were professed Marxists in Cuba but it was not they who made the revolution. Socialism came to the insulted and injured in Cuba from Fidel promising:

the right of peasants to land;
the right of the worker to the fruit of his labour;
the right of children to receive education;
the right of the sick to receive medical and hospital care;
the right of the young to work;
the right of students to receive free instruction, practical and scientific;
the right of Negroes and Indians to a full measure of human dignity;
the right of the aged to a secure old age;

the right of intellectuals, artists and scientists to fight through their works for a better world;
the right of States to nationalize imperialist monopolies as a means of recovering national wealth and resources;
the right of countries to engage freely in trade with all other countries of the world;
the right of nations to full sovereignty;
the right of the people to convert their fortresses into schools and to arm their workers, peasants, students, intellectuals, Negroes, Indians, women, the young, the old, all the oppressed and exploited; that they may better defend, with their own hands, their rights and their future. (Declaration of Havana, September, 1960).

It was this which gave charm to the romantic period of the revolution, but a way of life cannot be changed in a single burst of enthusiasm. Habits of co-operation, of self-denial and service, of the honesty which comes from self-respect are not permanently formed in a day. To appeal to individualism now might uproot the plant before it had grown. It may be necessary later, when a generation has grown up for whom the revolution is a commonplace, but the time is not yet.

The second reason for avoiding monetary incentives is purely practical. There is not yet enough with which to implement them. There is no advantage in larger money earnings (except to spend in the black market) when the individual can already buy his rations. The greatest needs are for housing, improvements in the medical service and in access to education. These are gradually being met collectively and individual earnings would not help.

On the other hand, something will have to be done about the income scale, which is chaotic. The old regime left an ill legacy to the revolution in the relatively high wage rates of a small group of urban workers, mostly in public utilities, which for obvious political reasons could not be attacked. The rule is that no one, when he changes his job, gets less income than before, so that after personnel has been shuffled about, in offices and enterprises, individuals doing the same job get widely different rates of pay, and there is no correspondence between the hierarchy of income and the hierarchy of responsibility. There is no painless

Scientific packaging must keep pace with the planned growth of consumer goods industries

Each of the products listed below needs scientific packaging for its preservation and distribution. And so, as their production grows from Plan to Plan, it is essential that the consumer packaging industry keep pace.

The packaging industry like any other, must grow by its own efforts. By utilising its resources to maximum advantage. By undertaking ceaseless research and imaginative development. By keeping constantly in touch with the mainstream of international packaging know-how.

And while the packaging industry is doing and will do all these things, it must be

assured of one thing—adequate supplies of the basic raw materials it needs to keep production moving and growing.

Especially supplies of tinplate—the primary consumer packaging medium. Until such time as the expanding local production of tinplate meets the packaging industry's requirements fully, this essential metal will have to be imported.

Without adequate tinplate the growth of the packaging industry will be seriously hindered—much of the fruits of planning go waste.

PRODUCTION TARGETS FOR SELECTED INDUSTRIES

(Third & Fourth Plans)

Industry	Unit	1965-66	1970-71
FOOD PRODUCTS			
1. Biscuits	'000 tonnes	40	73
2. Confectionery	"	25	50
3. Vanaspati	"	450	550
4. Fruits & Vegetables (Preserved)	"	75	150
NON-FOOD PRODUCTS			
1. Lubricating Oils	"	100	800
2. Paints & Varnishes	"	120	200
3. Cosmetics	Rs. million	150	250
4. Arc Welding Electrodes	mill. meters	274	550
5. Soap	'000 tonnes	220	320
6. Drugs & Pharmaceuticals	Rs. million	1750	3000

Commodities	1965-66 +		1970-71	
	Quantity '000 tonnes	Value Rs. Crores	Quantity '000 tonnes	Value Rs. Crores
FOOD PRODUCTS				
1. Fish & Fish preparations	23.90	9.02	89.90	33.80
2. Fruits & Vegetables	121*	30.73	193*	49.00
3. Cashew, Kernels & Nuts	63.48	24.52	83.61	32.40
4. Vegetable Oils	137.9	18.80	249.8	34.00
NON-FOOD PRODUCTS				
1. Medical & Pharmaceutical Products	246*	2.46	1000*	10.00
2. Soaps & Cleansing Preparations	200*	0.84	714*	3.00

EXPORT TARGETS

(Third & Fourth Plans)

METAL BOX
protective packaging

* Represents index with base 1961-62: 100. + Revised

Source: Notes on Perspective of Development—India: 1960-61 to 1975-76.
New Delhi, Perspective Planning Division, Planning Commission.

IWTMB 2633

EXPORT TARGETS (Third & Fourth Plans)



[WTMB 2633/]

way to move from this to a rational wage scale—an inheritance from the romantic phase which is source of concern to the would-be economists.

In the debate going on in Cuba, the question of incentives is mixed up with the question of accounting. Most enterprises are run on the "budget system", according to which the management, say, of a factory is given certain tasks, and is allotted drawing rights on the bank for the sums estimated to cover the costs. Some, however, are run on the system described as "self-finance" which seems to mean normal accounting principles of profit and loss. The difference, in practice, affects the manner in which the bank keeps its records, more than anything of substance, for in either case an enterprise whose costs prove to be excessive will be scolded and bailed out, and in either case net earnings are paid into the exchequer.

The point of substance is the relationship of management to the bureaucracy. In principle, the "budget system" gives the Ministry more direct control over the business, but in practice, once more, the difference is formal rather than real. When there is a manager in charge of a plant who knows his technique and has the natural authority that comes from ability and self-confidence, he will get his way from the Ministry whichever system he works under; and contrary-wise.

The problem of management is acute in a country emerging from semi-colonialism, which has scarcely any trained personnel accustomed to take responsibility. (The general view is that, with a small number of exceptions, those who left would not have been much use if they had stayed.) The old dilemma, that it is not safe to let a child into the water till he has learned to swim, seems to be inhibiting the growth of a breed of managers who have enough initiative but not, as is common in Cuba, a little too much.

The choice of the criterion of success has caused endless trouble in the European socialist countries. To fall back, as is now being suggested, upon net profit seems to be a counsel of despair. It certainly would have no meaning in Cuba, where the pattern of prices is admittedly arbitrary, where there is no turnover tax to mop up the consequent surpluses, and where costs are erratic, depending largely upon deliveries of sea-born supplies. The method of regulating

production through detailed contracts between enterprises, within the broad framework of a loose-jointed central plan, which appears to work well in China, evidently requires a Chinese capacity for foresight and exactitude. The Cubans are only now beginning to give serious attention to the problem of choosing the method that is least unsuitable to their particular situation. Meanwhile bureaucracy and excessive paper work are being scolded from posters, themselves printed on paper.

All the same, the style of work that Fidel Castro has established has the qualities of its defects—candour, open-mindedness and capacity to admit mistakes. It is a pity to have lost so much time zigzagging about, but more has been lost elsewhere by carefully following an inappropriate model.

IV

Social change, also follows a zigzag. The rate of growth of population is alarmingly high and women in the country are oppressed with family cares, but birth-control is only mildly encouraged and abortion is kept illegal (mainly with an eye to the "image" of socialism in Catholic America). Communist ideology, in spite of the militia girls, does not seem to have made much dint in the "male chauvinism" characteristic of Latin culture. There is something priggish in pressing legal marriage upon well-established couples who, by old custom, had not formerly registered; and, in the back areas, abruptly, breaking up an accepted and respectable polygamy. The campaign against homosexuality was excused by some scandals which would have been no better if girls had been involved. But the artists, so far, have been left free to follow "decadent" capitalist fashions as much as they please.

The Trade Unions, modelled in those of other socialist countries, represent the view of the Party and the government rather than of the workers. As a corrective, Workers Councils have been set up, elected from the rank-and-file, to adjudicate on cases where an employee claims to have been unfairly treated. The plaintiff and the management each has the right to appeal from decisions of a Council to the Ministry. A wise manager prides himself on avoiding cases by satisfying the workers' sense of justice in the first place.

Notwithstanding the curb upon extravagance much imaginative social

work is still going on. Dedicated young people have gone into the mountains to teach. At one place the teachers got together and set up a boarding school on the coast for the older children. Those remaining with the first grades come down on Saturdays to work out the next week's lessons. Only after this scheme was well established the Ministry took it over and is now providing a school house. The stinking shanty towns around Havana have been wiped up. At first whole colonies of slum-dwellers were moved together into new quarters, which did not sufficiently change their outlook. Now a new system has been developed. An overcrowded neighbourhood is surveyed, some new places are found, scattered about the city and prepared (in Old Havana sometimes in co-operation with the department for preservation of national monuments); then the people are asked to suggest whose needs are greatest and the designated families are shown the new flats and asked if they would like to move. The romantic spirit of the revolution is still working in the new harness of commonsense.

V

The 64 dollar question that visitors returned from Cuba are asked is always: Does Fidel Castro still command the loyalty of the people? The short answer seems to be: Yes, he does, and, if he did not, President Johnson is making sure that he would.

British Aid to India

INDIA and Pakistan have been among the chief beneficiaries of British financial aid to developing countries in recent years, according to a British Government White Paper published in London this month by the Ministry of Overseas Development.

Bilateral financial aid to India for 1964-65 amounts to £30 million (Rs. 40 crores), all of it in loans. The figure for 1963-64 was £26 million (Rs. 34.66 crores). Bilateral financial aid to Pakistan for 1964-65 amounts to £9 million (Rs. 12.4 crores), almost all of it in loans. The figure for 1963-64 was £8.25 million (Rs. 11 crores). Bilateral financial aid to Ceylon for 1964-65 amounts to £0.55 million (Rs. 7.3 million), all of it in loans. The figure was the same for 1963-64.

In 1964-65 India and Pakistan received about 27 per cent of all British bilateral financial aid.

"Indian Economic Growth: Performance and Prospects"

Reply

K N Raj

I HAVE read with interest Ashok Rudra's comments (*The Economic Weekly*, July 3, 1965) on my lectures at Nalanda last January. It seems a pity that he deliberately refrained from writing a full critique or presenting an alternative thesis, as I have had some difficulty in making out what precisely was the sort of "clarification" and "discussion" he was seeking.

For instance, Rudra wants to know why I picked on a 7 per cent rate of growth for the economy as a whole and a 5 per cent rate for the agricultural sector as the targets to be achieved, and why I have not argued the case for these rates "in terms of a model with realistic and plausible values for the parameters". I would have expected him to recognise them as the estimates of the Perspective Planning Division and, since the details have been published, he should have had no difficulty in understanding the assumptions on which they are based. I have, of course, seen Rudra's paper (published earlier in your journal) contesting the correctness of the estimate for the agricultural sector and have also had the privilege of listening to him on this subject at a seminar in the Delhi School of Economics; but, as he might recall, a large number of us were not very convinced by his reasoning and had doubts in particular about his estimate of income elasticity of demand for food based on time series data. The suggestion that I should have developed my argument in terms of a model gives me also the impression that Rudra has perhaps misunderstood the purpose of the lectures and the kind of audience for which they were intended.

Similarly, I do not know what to make of his concluding comment about the income-distribution aspect of the growth experience during this period. If he was implying that I had ignored this aspect of the growth experience he was being inaccurate and less than fair (as he would find if he took a second look at p 27 of the brochure). If, however, he was wanting me to accept his reasoning that, since the marginal rate of saving during the period was almost double the highest

average rate achieved, "the obvious conclusion to draw is that the incremental income has been distributed more unequally than the average income", all I can say is that the conclusion does not necessarily follow. The marginal rate could be higher than the average at either the beginning or end of a period without having itself risen during the period. Even if it rises it could be due to a variety of reasons other than a more unequal distribution of income. For instance, if the marginal propensity to save is higher in the rural than in the urban sector for comparable income-groups a shift in income-distribution in favour of the rural sector can raise the marginal rate of saving in the economy as a whole without increasing the overall concentration ratio. Further empirical work seems to be therefore necessary before one can assert with confidence that there has been a change in income distribution towards greater inequality.

I am also at a loss to understand what exactly Rudra means by a "tautology". Apparently he concedes that agricultural production is affected adversely by instability of agricultural prices; that the existing tenurial system does not provide sufficient incentive for the optimal use of inputs; and that more intensive application of inputs could raise agricultural production. How is it then a tautology to say that a higher rate of growth can be achieved in agriculture if the tenurial system is reformed (such that at least there is incentive at the margin to apply more inputs), prices stabilised (through measures too well known now to need repetition), and larger supplies made available of the necessary inputs (water, fertiliser, credit, etc)?

Perhaps what Rudra wants to say is that he is not convinced that all these measures will be adequate to raise the rate of growth in agriculture from 3 to 5 per cent. If so, he might well be right, but I think it is upto him to say why precisely he is sceptical. Those who think a higher rate of growth is realisable can give a number of reasons, such as the following:

(i) The rate of growth of agricultural production has been

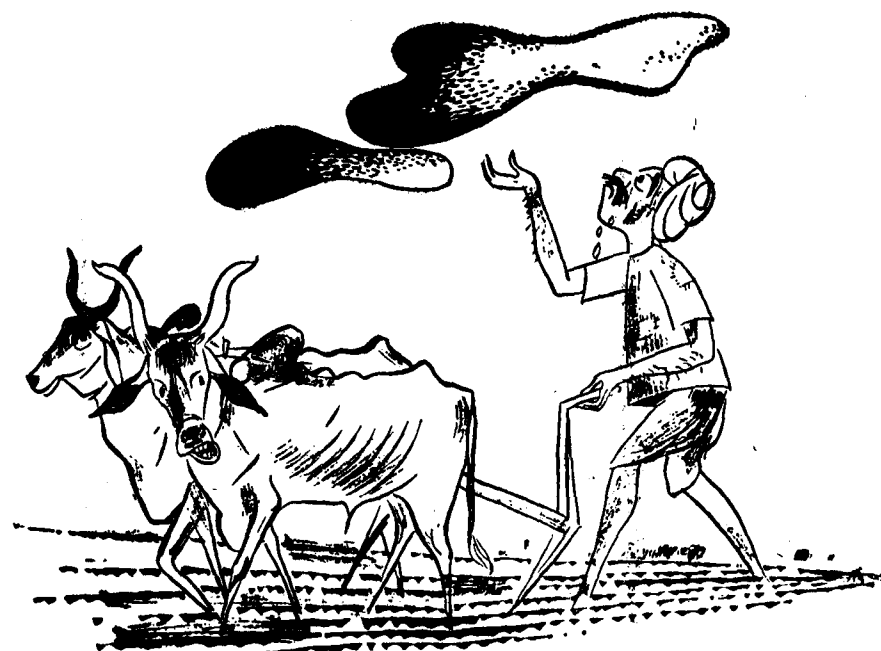
stepped up since 1951 to a compound rate of 3 per cent per annum, from 1 per cent or less in the earlier British period, despite very little progress being made in reform of tenancies, stabilisation of agricultural prices, and provision of inputs like fertilisers.

(ii) Farm management studies in package programme areas like Tanjore have shown that tenants who are required to pay 60 per cent or more of their produce as rent have incentive to apply only about one-third of the recommended package of inputs, and that the inputs and productivity increases realised are greater in the case of peasant proprietors. There is, therefore, a strong presumption that reform of tenancies will lead to a substantial increase in productivity.

(iii) A number of studies have established that farmers in newly irrigated areas take a long time (as much as 15 to 20 years) to get used to irrigated cultivation and make the best of the facility. The full impact of the heavy investment in irrigation since 1951 may, therefore, be evident only in the next decade.

(iv) Rates of growth of around 5 per cent per annum in agriculture have already been achieved in the last decade in the Punjab and Madras, and in some districts even higher rates of growth. There is, therefore, no reason to assume *a priori* that rates of growth of this order cannot be achieved.

(v) While it is true that, a large part of the increase in agricultural output in the last decade has come from extension of cultivated area, it is significant that productivity per acre has gone up in the case of many crops whose prices have remained relatively stable and where there



A tired man working on exhausted soil. That has been the picture of the Indian farmer. The freakish monsoons have kept him eternally in prayer.

Changing the pattern of agriculture is part of the Plan. Fertilisers lend energy to the soil, while research makes available improved varieties of seed. The vagaries of the monsoon and turbulent rivers are checked by irrigation projects that bring an assured supply of water to more and more land.



Agriculture is the base of our economy

July 28, 1965

has been incentive for more intensive application of expensive inputs.

One cannot, of course, be too sure about one's forecasts in a sector like agriculture, particularly in an economy at this stage of development. But is Rudra's apparent presumption that a higher rate of growth cannot be achieved in agriculture based on any stronger grounds than the hypothesis that it can be? If he feels that he has stronger grounds for believing otherwise he should state clearly what they are.

Rudra seems to think also that there is some contradiction in assuming for foodgrains an upward sloping curve for production and a downward sloping curve for market supply. "Why", he asks, "should in the first instance the farmer increase output in response to price rise if he is going to sell less?" Surely it is one of the elementary propositions in economic theory that production can be elastic with respect to price and yet, if the producer is a consumer of his own product, the income effect of a price change may be such as to produce a backward sloping curve. All I had said was that the decline in output of wheat after 1960-61 was "likely to have made a more than proportionate difference to the amounts marketed by producers", and that one of the probable reasons was increased self-consumption by small producers following the sharp rise in the price of wheat. Of course, if the relevant elasticities are "suitably chosen" (as Rudra argues), "increase in price, increased production, increased self-consumption and increased market supply may be shown as consistent". But is Rudra trying to establish merely a logical possibility (with which no one can have any quarrel), or is he suggesting that the actual elasticities are such that despite the rise in prices the self-consumption of wheat by producers must have fallen by at least the same proportion as output? If he is making a strong assertion of the second sort I would be interested to know more about the basis of the assertion.

Rudra has also drawn attention to what he regards as factual errors and misleading interpretations of statistical data. He says that my statement that the level of wholesale prices remained "at around the 1960-61 level till 1963-64" is factually wrong. I have therefore checked my statistics once again. I find that the index number

of wholesale prices (1952-53=100) stood at 127.5 in 1960-61, fell to 122.9 in 1961-62, and rose again to 127.4 in 1962-63. It remained at 128.2 even in the first week of April, 1963 and began rising only from then on. I fail to see what is the factual error Rudra is referring to. Perhaps he has been misled by comparing the level of wholesale prices in the calendar year 1960 with its level in the calendar year 1963.

Rudra also questions the meaningfulness of my statement that "wholesale prices in 1960-61 were only about 12 per cent higher than in 1951-52 and about 25 per cent higher than in 1952-53". He says that it loses much of its force "when one examines the paths actually followed by prices instead of comparing two end-points". He also draws my attention to a statistical statement showing not only the index numbers of wholesale prices but the consumer price index numbers (which he says, quite correctly, are

more relevant if one is concerned with the welfare aspects of the problem). I do not quite understand, however, why the path followed by prices over the period takes away the force of my statement (based on comparing prices at three points of time) unless Rudra has some reason to think that the low level of prices in 1954 and 1955 following bumper harvests should be taken as normal in some sense. I have also compared the movement of the whole price index numbers with that of the consumer price index numbers and find that they moved remarkably closely over the entire period 1952 to 1964; the correlation coefficient for the two series given by Rudra is in fact as high as 0.939. The other point Rudra apparently wishes to establish, namely that the rise in consumer prices has been very much higher than the rise in wholesale prices, is true only if we compare their levels at the two end-points he has chosen to show in his statement.

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Firm Size and Efficiency in Manufacturing Industries

S Hajra

In his article in *The Economic Weekly* of July 24, 1965, I C Sandesara examined the Cotton Textile Industry and found that higher capital-labour ratio size groups were inefficient as compared with lower capital-labour ratio size groups. His study showed that firm size had consistent relationships with (a) labour productivity; (b) capital productivity; (c) wage rate; and, (d) surplus per unit of labour and capital. But the relationship with capital-labour ratio was what was contrary to common belief, i.e., smaller size-groups had higher capital-labour ratios. The stability of these relationships over a period of six years made it likely that they are not of an accidental type.

An attempt is made here to examine how far other industries support the results which Sandesara found to hold good for the cotton textile industry.

WE consider in this paper seventeen industries. All the statistical data are from the Census of Manufacturing Industries of India. The concepts are also the same as used in the Census.

The data are given in detail for 1955 and 1958 in Tables 1 and 2. The notations in the tables are: K = total productive capital; Y = ex-factory sales value of output; V = net value added, i.e., ex-factory sales of output less raw material and other costs and less depreciation; L = total employed persons; W = total payments in wages and salaries and benefits; M = total material costs, fuels, electricity, etc., consumed, and amount paid to other concerns for work done by them.

We compare two size groups for 1955 and 1958: one size group is in the lowest quartile and the other in the highest quartile. The results are interpreted below.

Firm Size and Capital-Labour Ratio

It can be seen that capital-labour ratio is higher for the larger size group in all industries with the exception of wheat-flour, distilleries and breweries, and cotton textile in 1955 and wheat flour and distilleries and breweries in 1958. On the whole, therefore, the evidence suggests that the relationship between firm size and capital-labour ratio is direct for the group of industries examined here.

From Tables 1 and 2 it can be seen that the general tendency is: higher capital-output ratio for smaller units and conversely. For 1955 it can be seen that capital-output ratio was higher for smaller size groups for 12 out of the 17 industries. The industries for which capital-output ratio was higher for the larger size-group are, paper, tanning, woollen textile, chemicals, and aluminium-copper and

brass. For 1958 capital-output ratio was higher for the smaller size-group for 13 out of 17 industries. The industries for which capital-output ratio was higher for the larger size-group are, sugar, chemicals, bicycle, and general engineering and electrical engineering. It can be seen that the only industry for which capital-output ratio was higher for the larger size group in both 1955 and 1958 is chemicals.

Firm Size and Productivity

It has been seen earlier that capital-output ratio and firm size tend to have an inverse relationship. Capital-output ratio is the inverse of partial productivity of capital. Higher capital-output ratio for the smaller size group thus means lower productivity of capital. The values of V/K which is the inverse of capital-output ratio are given in Tables 1 and 2. The values of V/L which is the partial productivity of labour are also given in the

tables. From the tables it can be seen that the smaller size group also has lower labour productivity. The important feature of firm size and productivity thus suggests lower productivity of capital and lower productivity of labour for smaller size-group. For 1955 it can be seen that the same 12 industries for which capital-output ratio was lower for the larger size group have both: higher productivity of labour and of capital. For the rest it can be seen that productivity of labour is higher for the larger size group and of capital lower. From all the industries therefore the unmistakable evidence is that of higher labour productivity for the larger size group and, to a large extent, higher productivity of capital also. This suggests that the larger size group, because of higher capital intensity, saves both labour and capital.

The definition of surplus value here is the value added net of wage cost, which may be defined as the share of

Table 1

Industries	Ratio of Labour Productivity of Small and Large Size-Group		Ratio of Unit Material Cost of Small and Large Size-Group	
	1955	1958	1955	1958
(1) Wheat flour	0.2834	0.8149	2.67	—
(2) Biscuit making	0.2871	0.3187	2.68	3.57
(3) Sugar	0.2971	0.2093	1.38	1.44
(4) Distilleries and breweries	1.0814	0.5742	1.09	0.99
(5) Ceramics	0.5141	0.3619	1.34	1.85
(6) Paper and paper board	0.4710	0.3346	4.60	2.32
(7) Vegetable oil	0.2084	0.2057	5.04	4.37
(8) Paints and varnishes	0.5176	0.4658	2.21	2.12
(9) Soap	0.1103	0.0802	2.20	2.84
(10) Tanning	0.6013	0.8408	3.22	2.25
(11) Cotton textiles	0.4262	0.6584	2.16	1.84
(12) Woollen textiles	0.8077	0.5983	—	3.27
(13) Chemicals	0.9103	1.2419	1.12	1.07
(14) Aluminium, copper and brass	0.8171	0.4985	0.69	1.96
(15) Iron and steel	0.3127	0.2854	5.74	4.96
(16) Bicycle	0.3295	0.3055	1.66	3.75
(17) General engineering and electrical engineering	0.4996	0.7085	2.08	1.32

Table 2 : 1955

Industry / Size-group	K/L	K/V	Y/V	V-W K	V-W L	W/V	M/V	M+W V	V/L	V/K
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Cotton textiles										
20-49	4090	4.0400	4.38	0.0782	326	0.6800	3.3769	4.0569	1019	0.2475
5000 above	3034	1.2600	1.56	0.0275	811	0.6600	1.5601	2.2201	2386	0.7937
(2) Woollen textiles										
50-99	4012	2.3200	5.52	0.2215	876	0.4900	4.5287	5.0187	1718	0.4310
2000-4999	7899	3.6900	3.17	0.0253	191	0.9100	—	—	2127	0.2710
(3) Chemicals										
50-99	8561	1.5200	2.34	0.5032	4224	0.2400	1.3345	1.5745	5558	0.6579
500-999	16899	2.7400	2.85	0.2490	4152	0.3200	1.1870	1.5070	6106	0.3650
(4) Aluminium and brass										
50-99	5139	3.0400	6.23	0.1283	660	0.6100	5.2287	5.8387	1693	0.3289
2000-4999	6530	3.1800	8.62	0.0597	352	0.8300	7.5643	8.3943	2072	0.3145
(5) Iron and steel										
100-249	3746	2.1100	5.40	0.2119	802	0.5500	4.4041	4.9541	1782	0.4739
5000 above	10064	1.7600	1.80	0.3367	3363	0.4100	0.7676	1.1776	5700	0.5682
(6) Bicycle										
100-249	4145	2.9300	3.98	0.1114	469	0.6700	2.9712	3.6412	1422	0.3413
1000-1999	5413	1.2300	2.79	0.5968	3150	0.2700	1.7892	2.0592	4315	0.8130
(7) General engineering and electrical engineering										
100-249	5153	2.6500	3.07	0.1338	675	0.6500	2.0889	2.7389	1929	0.3774
2000-9999	5765	1.4900	2.01	0.4141	2355	0.3900	1.0065	1.3965	3861	0.6711
(8) Wheat flour										
20-49	11337	3.7946	17.04	0.1716	1946	0.3490	16.0339	16.3829	2989	0.2639
500-999	7307	0.6926	7.00	1.1852	8658	0.1791	6.0057	6.1848	10547	0.1443
(9) Biscuit manufacturing										
20-49	3515	2.1631	1.56	0.1120	770	0.5256	3.5752	4.1008	1624	0.4630
250-999	9207	1.6262	2.32	0.4360	4020	0.2886	1.3320	1.6206	5651	0.6151
(10) Sugar										
50-09	2676	3.4384	4.58	0.1477	323	0.5846	3.5846	4.1692	778	0.2908
2000-4999	6447	2.4622	3.60	0.2423	1562	0.4034	2.5988	3.0022	2618	0.4062
(11) Distilleries and breweries										
20-49	8684	2.1494	2.24	0.3498	3037	0.2481	1.2423	1.4904	4039	0.4653
250-499	7778	2.0830	2.14	0.3156	2455	0.3427	1.1422	1.4849	3735	0.4801
(12) Ceramics										
20-49	2735	2.5045	1.82	0.1567	429	0.6019	0.8414	1.4423	1077	0.3992
2000-4999	3697	1.7648	1.63	0.1601	592	0.7175	0.6281	1.3456	2095	0.5664
(13) Paper and paper board										
50-99	3073	1.5283	3.86	0.3668	1127	0.4394	2.8589	3.2983	2010	0.6546
2000-4999	8059	1.8995	2.18	0.3805	2759	0.3554	0.6220	0.9774	4267	0.5263
(14) Vegetable oil										
20-49	5532	6.0134	23.14	0.0725	411	0.5642	22.1449	22.7091	920	0.1663
500-999	8512	1.9280	5.40	0.2668	2271	0.4856	4.3981	4.8837	4415	0.5187
(15) Paints and varnishes										
20-49	7751	2.7555	4.65	0.2228	1727	0.3861	3.6474	4.0335	2813	0.3623
1000-1999	7953	1.4599	2.65	0.4565	3622	0.3336	1.6516	1.9852	5435	0.6489
(16) Soap										
20-49	4932	3.8734	5.71	0.1147	566	0.5558	4.7103	5.2661	1274	0.2584
1000-1999	15557	1.3465	3.14	0.5780	8987	0.2219	2.1371	2.3590	11550	0.7407
(17) Tanning										
20-49	3271	3.3098	11.01	0.0768	251	0.7459	10.0051	10.7510	988	0.3021
500-999	5812	3.5373	4.11	0.1218	708	0.5690	3.1108	3.6798	1643	0.2825

Table 3 : 1958

Industry/Size-group	K/L	K/V	Y/V	V-W K	V-W L	N/V	M/V	M+W V	V/L	V/K
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Cotton textiles										
20-49	3045	2.0200	4.34	0.2219	677	0.5500	3.3361	3.8861	1505	0.4950
5000 above	3875	1.6900	2.81	0.1428	549	0.7600	1.8163	2.5763	2286	0.5917
(2) Woollen textiles										
50-99	7457	3.5900	6.14	0.1460	1109	0.4700	5.1303	5.6003	2093	0.2786
2000-4999	8778	2.5300	2.58	0.2070	1854	0.4700	1.5712	2.0412	3498	0.3953
(3) Chemicals										
50-99	8792	1.5800	2.73	0.4609	4058	0.2700	1.7420	2.0120	5559	0.6329
5000 above	27714	3.3200	1.39	0.0956	2641	0.4100	1.6247	2.0347	4476	0.3012
(4) Aluminium and brass										
50-99	4214	1.6400	5.44	0.3209	1364	0.4700	4.4528	4.9228	2574	0.6098
2000-4999	7242	1.4000	3.26	0.4218	3046	0.4100	2.2734	2.6834	5163	0.7143
(5) Iron and steel										
100-249	10018	5.6100	7.18	0.0643	641	0.6400	6.2098	6.8498	1781	0.1783
5000 above	25425	4.0700	2.23	0.1345	3432	0.4500	1.2524	1.7024	6240	0.2457
(6) Bicycle										
100-249	2103	1.0900	2.35	0.3838	808	0.5800	6.4163	6.9963	1924	0.9174
2000-4999	7475	1.1900	1.96	0.3701	2771	0.5600	1.7116	2.2716	6298	0.8403
(7) General engineering and electrical engineering										
100-249	4924	1.9200	3.01	0.2542	1265	0.5100	2.0191	2.5291	2582	0.5208
2000-4999	9874	2.7000	2.03	0.1598	1567	0.5700	1.5262	2.0962	3644	0.3704
(8) Wheat flour										
20-49	9750	2.0770	14.58	0.3589	3499	0.2546	13.5777	13.8323	4694	0.4848
250-499	7860	1.3647	10.02	0.5351	4241	0.2637	—	—	5760	0.7353
(9) Biscuit making										
20-49	2639	1.4127	5.15	0.3634	961	0.4852	4.1476	4.6328	1867	0.7106
500-999	8040	1.3724	2.16	0.5235	4209	0.2816	1.1617	1.4433	5859	0.7299
(10) Sugar										
50-99	1365	3.0353	5.22	0.1140	155	0.6549	4.2157	4.8003	450	0.3305
2000-4999	7147	3.3286	3.98	0.1565	1118	0.4799	2.9315	3.3349	2150	0.3020
(11) Distilleries and breweries										
20-49	7725	2.7253	2.45	0.2290	1769	0.3760	1.4489	1.8249	2835	0.3683
250-499	6220	1.2599	2.46	0.4998	3107	0.3706	1.4603	1.8309	4937	0.7937
(12) Ceramics										
20-49	2779	2.7553	2.20	0.1344	373	0.6298	1.2043	1.8341	1008	0.3623
2000-4999	3616	1.2989	1.65	0.2619	947	0.6599	0.6522	1.3121	2785	0.7752
(13) Paper and paper board										
50-99	6014	3.0419	5.05	0.1724	1036	0.4756	0.0498	4.5254	1976	0.3290
2000-4999	12177	2.4875	2.75	0.2624	4205	0.2879	1.7461	2.0340	5905	0.4097
(14) Vegetable oil										
20-49	6080	4.3864	18.53	0.1458	885	0.3614	17.5260	17.8874	1386	0.2286
500-999	14121	2.0958	5.01	0.2884	3073	0.3955	4.0125	4.4080	6738	0.4799
(15) Paints and varnishes										
20-49	9098	1.7562	3.39	0.4521	3926	0.2424	2.3940	2.6364	5182	0.5734
500-999	11773	1.0578	2.13	0.7284	8575	0.2295	1.1285	1.3580	11129	0.9434
(16) Soap										
20-49	6373	3.8453	6.11	0.1334	838	0.4946	5.1133	5.6079	1658	0.2607
1000-1999	19056	0.9229	2.80	0.9137	17412	0.1568	1.8013	1.9581	20650	1.0860
(17) Tanning										
20-49	4717	3.3178	8.26	0.1267	597	0.5797	7.2548	7.8345	1421	0.3028
500-999	5398	3.1937	4.23	0.0898	485	0.7129	3.2304	3.9433	1690	0.3139

capital in the extended sense, and this is equal to (V-W). The surplus-labour and surplus-capital ratios are given in the table as V-W/L and V-W/K. For 1955 it can be seen that surplus per unit of capital and labour are higher for the larger size groups in 12 out of the 17 industries. For 1958 the surplus per unit of capital and labour are higher in 13 out of the 17 industries. The industries for which the surplus per unit of capital and labour is higher for the small size group in 1955 are distilleries and breweries, cotton textiles, woollen textiles, chemicals, aluminium, copper and brass. The industries for which surplus per unit of capital and labour is higher for the smaller size group in 1958 are: tanning, cotton textiles, chemicals, bicycles and general engineering and electrical engineering.

On the whole, it can thus be said that the larger size group, by and large, has:

- (1) higher capital-labour ratio;
- (2) higher productivity of both capital and labour; and,
- (3) higher rate of surplus per unit of labour and capital.

Firm Size and Production Cost

Two costs, (a) wage cost, and (b) material cost, are compared here for the two size groups. Both the costs have been expressed as unit cost, i.e., cost per unit of values added. W/V represents unit wage cost and M/V represents unit material cost. Both these costs are given in Tables 1 and 2. From the tables it can be seen that unit wage costs were higher for the smaller size group in 1955 for 12 out of 17 industries; in 1958 it was so for 9 out of 17 industries. Unit material cost was higher for the smaller size group both in 1955 and 1958 for all the industries. Unit wage cost and material cost together are given in the tables as M+W/V. This is equivalent to total operating cost of production. From the tables it can be seen that the smaller size group of all the industries both in 1955 and 1958 had higher unit operating cost. The larger size group, therefore, had differential cost advantage, which added greatly to its efficiency in generating higher surplus.

From the above analysis it can be seen that smaller size group tend to have:

- (a) lower capital-labour ratio;
- (b) lower productivity of capital and labour;
- (c) lower surplus per unit of labour and capital; and,
- (d) higher unit operating cost.

The difference in labour productivity

and the difference in unit material cost between the smaller and larger size groups for most of the industries are quite remarkable. Labour productivity and unit material cost of the smaller size group as proportion of those of the larger size group are given in Table 3 for 1955 and 1958. From the table it can be seen that there is good deal of inter-industry variation in labour productivity and unit material cost between small and large size groups, and that this variation is persistent. What is even more important is that there is for a particular industry a good deal of variation in labour productivity and unit material cost between small and large size groups, which is also persistent. In 1955 it can be seen that the productivity differential for labour is between one-third and one-half for 10 out of 17 industries. Higher capital intensity of the large size group can, however, explain higher labour productivity but the wide variation in unit material cost is difficult to explain. However, if higher capital intensity represents also better technique, it can to a certain extent explain the differential in unit material cost but the differentials for many observations in the table are possibly beyond any technological explanation.

One possible explanation of inefficiency of the smaller size group may be that the raw material market is tight for the smaller size group and that it has to buy material at prices much higher than those paid by the larger size group. The measure of output that has been used in this study is that of value-added, which is equivalent to output at factor cost. This measure of output is ex-factory sales value of output less all material costs. Since raw material costs themselves are so very different between smaller and larger size groups, it is questionable how far the value added measure of output can be used for analysis of technical efficiency that is imputed to capital-labour ratio (as Sandesara has done).

In Tables 1 and 2 the proportion of ex-factory sales per unit of value added is given as Y/V. If we examine the Y/V column we find that Y in relation to V is bigger for the smaller size group in nearly all the industries. This sales-value added ratio can be taken as one possible indicator of the efficiency of firms: sales-value added ratio will mean inefficiency and conversely. How far the smaller sales-value added ratio of larger firms can be attributed to technical efficiency

because of higher capital-labour ratio, it is difficult to say in a situation where cost differentials are spectacular. Variations in capital labour ratios between the smaller and larger size groups may be due to the differences in the degree of utilisation of capacity, and it may also be expected that scarcity of raw material for the smaller size group as evident in higher material cost may lead to under-utilisation of capacity and hence higher capital-labour ratio.

For the cotton textile industry unit material cost is twice as high for the smaller size group and it is quite possible that this may be responsible for under-utilisation of capacity of smaller size groups and hence higher capital-labour ratio. A study of unit operating cost in relation to degree of utilisation of capacity may give at least a partial explanation of higher capital-labour ratio of the smaller size groups as found by Sandesara.

In conclusion, therefore, it can be mentioned that the larger size group is definitely more efficient than the smaller size group for the industries examined here. But Sandesara's finding of higher capital intensity for the smaller size group in cotton textiles cannot be accepted for other industries also.

The fundamental problem of the smaller size group lies in higher cost-structure and unless something specific is done to mitigate the cost differential, policies intended to encourage small industry will be frustrated. The higher cost structure of smaller size group, it seems, is not a purely technological phenomenon; it rather seems that the raw material market in India has many imperfections as a result of which the smaller size group suffers. Failure to remove these imperfections will leave firms in the smaller size group with two alternatives: either to merge into the larger size group or is go out of business. A third alternative, however, may be mentioned here. The smaller and large size groups can be made to depend on one another through sub-contracting, i.e. instead of having common production programmes, they can evolve a production programme where the smaller size groups are complementary to the larger size group. The need for different policies for smaller and larger units can be avoided only if the extent of sub-contracting can be increased and common production programmes abandoned. (In another article the author will discuss the role of sub-contracting in Indian manufacturing industries.)

AROUND BOMBAY MARKETS

New Delhi Gives In

Wednesday, Morning.

GROUNDNUT OIL has been in the news again. It is not just that the Gujarat Government has reimposed the ban on its movement outside the State, which is probably bad enough, but, far more disturbing is the sequence of events which has culminated in the ban, unless, of course, one is to disregard completely the news that has been appearing in daily papers. According to Press reports dated August 19, New Delhi had rejected Gujarat's plea for reimposing the ban on the export of groundnut oil from the State. On August 21, the president of the Ahmedabad City Congress Committee, Trikamlal J Patel called for the creation of an oil zone and an end to free trade in edible oils to avoid "a wave of consternation and anger" in Gujarat over the rising trend in groundnut oil prices. Not only that; in a communication to the Union Food Minister Patel warned that "if there is any bloodshed in the State on the issue, the responsibility will be of the Centre and not of Gujarat". The very next evening New Delhi permitted Gujarat Government to have its way and reimpose the ban on the movement of groundnut oil, solvent oil, refined groundnut oil and any mixture containing groundnut oil. Apparently, the threat worked and New Delhi bowed before the State Government. This is most unfortunate, to say the least. Far more serious than the possible repercussions of the export ban on the relative movements in the prices of groundnut oil both within and outside the Gujarat State is the Centre's inability to exercise an effective control over the States even when it is equipped with all the necessary powers.

The announcement of the export ban has led to a sharp decline of nearly Rs 450 a tonne in the price of groundnut oil within Gujarat, the quotation having been marked down from around Rs 3,200 to Rs 2,750 in Rajkot. Prices of groundnut and groundnut oilcake have also moved down in sympathy. In Bombay, groundnut oil which had eased from Rs 32.25 to Rs 30.50 over the preceding week under the spell of beneficial rains in nearly all the groundnut producing areas, was again marked up to Rs 32.25 on August 23 and the latest quotation is only a little lower around

Rs 31.80 (per 10 kgs). Gujarat has always been the main source of supply to Bombay. If the price of groundnut oil has not registered a sharper rise following the reimposition of the ban, it is because the price of Rs 32 is considered to be high enough in the context of improved supply of edible oils this season to attract supplies from other States, more particularly from Andhra and Madras. Besides, the more recent rains have considerably allayed fears of serious damage to the new groundnut crop following the prolonged dry spell. The future trend of groundnut oil prices, as also of other vegetable oils, is difficult to forecast partly because of the unpredictable nature of the weather in coming weeks and partly because of the not-infrequent interruptions in the free movement of goods between different States. All that one can say is that edible oil prices are unlikely to register any appreciable decline even from the current high levels, which are not unusual for this time of the year, unless there is an appreciable improvement in the overall supply position because demand, of which no reliable estimates are available, continues to expand with the growth of population and rising money incomes.

The Press Note on the export ban says that the Order applies, besides groundnut oil, to solvent oil, refined groundnut and any mixture containing groundnut oil. This has quite naturally caused considerable confusion in the trade because the State authorities have not yet been able to clarify whether the export ban also covers groundnut expeller cake which contains some 7 per cent oil and vanaspati which is made from groundnut oil. Fears of possible restriction on the movement of groundnut expellers outside Gujarat have imparted strength to groundnut expeller cake prices in Bombay. The position in regard to vanaspati is even more uncertain because vanaspati falls within the jurisdiction of the Central authority. If the export of vanaspati outside Gujarat continues to be allowed freely, the five factories operating within the State, of which Bhavnagar Vegetable Products is the largest unit, will earn a huge windfall resulting from the substantially lower price of groundnut oil within the State compared with prices

elsewhere in the country. Will these factories be allowed to get away with these windfall gains? It is hardly necessary to point out that the reimposition of the export ban suggests that the Gujarat Government has been unable to procure sufficient stocks of oil through the voluntary levy of 22.5 per cent of production of the crushing units which was later raised to 35 per cent, along with the increase in the purchase price from Rs 1.75 to Rs 1.90 per kg.

Oilseeds futures in Bombay which had developed a slightly easier tendency under the influence of highly beneficial rains have again turned firm following the renewed strength in groundnut oil. Castor seed April which had been marked down from Rs 88 to Rs 85.75 is up again to around Rs 88.50 (per 100 kgs). Linseed April had eased from Rs 111.25 to Rs 108 but it has again risen to Rs 110.50. Cottonseed futures have continued to be neglected around Rs 56.50.

Export houses reported fairly good business in groundnut extractions, with U K mentioned as an important buyer. There was also a good deal of buying for export to Communist countries, presumably against previous sales. Groundnut expeller and extraction prices showed distinct firmness last week. Export activity in cottonseed cake continued to be normal. Castor oil continues to be neglected by exporters, but domestic demand, mainly for mixing it with other edible oils, is large enough to sustain its price well above the world parity. Nobody seems really bothered about the export prospects for castor oil which has been a very valuable foreign exchange earner in the not-distant past.

COTTON

Weather Obliging

ALMOST all the cotton growing areas which had begun to feel uneasy on account of the prolonged dry spell have reported quite satisfactory rains over the past few days. Good luck. The prospect of a poor harvest is extremely disturbing. Cotton prices are already quoted higher than the revised ceilings for the 1965-66 season which are nearly Rs 75 to Rs 100 per candy over the present ceilings. And the disparity between

Indian and foreign cotton prices has continued to widen year after year; indigenous cotton is reported to be 35 to 40 per cent costlier than comparable foreign cotton after making necessary allowance for spinning values. Nobody seems much bothered about the rising trend in cotton prices, presumably because consumers of cloth have to satisfy their needs anyhow and exports of cloth have to be subsidized anyway. As against this, high cotton prices have the political advantage of securing for the Government the support of the agriculturalist community.

The production of cotton will have to be considerably higher than in the 1964-65 season if prices are to be contained within the revised ceiling prices in the new season because consumption of cotton is on the increase. Output of cloth and yarn during the first seven months of the current year at 3,000 million yards and 1,228 million lbs shows an increase of 69 million yards and 22 million lbs over the corresponding figures for 1964. Consumption of cotton is bound to increase with the sizable increase in spindleage. And if the Government were to implement quickly its proposal for the setting up of 50 to 55 spinning mills in the cooperative sector, the gap between the supply and demand for cotton will widen considerably unless cotton production is stepped up to take sufficient care of the increased demand resulting from additional spindleage. Considering the ridiculously low average yield of about 120 lbs an acre, the scope for increasing cotton production is immense. And yet, if one goes by past experience, the prospect does not appear very promising.

Apart from the favourable turn in the weather, there has been very little to report about the developments in the cotton market over the week. Turnover in cotton remains restricted. Arrivals of the immature crop in Punjab and of new early maturing crop in the Baramati tract have been very slow and prices are reported to be on the very high side. Fresh inquiries for Deshi cotton from Japan have also been restricted recently and the prices quoted by the Japanese importers are considerably lower than the prices prevailing here. Export performance this year has been quite encouraging; despite a smaller Deshi crop, exports have been well maintained. The recent announcement of the global quota has revived inquiries for imported cottons and moderate

business has been reported during the week.

Activity in cotton futures continues to be at a standstill, with the August contract firm between Rs 795 and 797. It can go hardly any further because of the ceiling at Rs 798 per 3 quintals. Efforts are being made to start hedge trading in the new crop contract at the earliest and it is quite likely that all the differences would be thrashed out within a few days and the new contract will make its appearance on the board before the end of this month.

STOCK EXCHANGE

'To Hell With Stock Markets'

WHILE dealing with the question of revival of the capital market in the course of his talks with newsmen in Bombay on Saturday, August 21, the Union Finance Minister asked "Is it to be argued that industry will not get the necessary resources if the stock market close down?" and declared angrily "to hell with the stock markets". Apparently, T T K had been annoyed with the stock market's reaction to his Supplementary Budget. He saw no justification for share prices to fall when he had given incentives for higher production. But the stock market's reaction to a Budget which seeks to mobilise some Rs 100 crores in the course of the current fiscal year could scarcely have been bullish.

In fact, it is somewhat surprising that the stock market did not turn panicky over the unexpected announcement of additional import and excise levies. The lows recorded in kerb deals on Thursday evening following the announcement of the Supplementary Budget were not seen again during the week. Not only that, the market recovered most of the ground that had been lost through hasty selling, indicating that it was not unaware of the concessions that the Finance Minister had offered to the industry by way of increased development rebate for certain priority industries, extension of tax holiday to new undertakings, removal of the import surcharge and abolition of the import deposit scheme. But the steadiness that has been noticed after the Budget seems to be more due to technical considerations and hopes of fresh support from the Life Insurance Corporation than to the belated realisation of the incentives that the Finance Minister has provided while raising sizable additional

funds through the Supplementary Budget.

Not much need be made of the modest recovery in equity prices over the past few days. The market had been declining for a long while and it had seen a new low only on August 20. No explanation is really necessary for occasional spells of steadiness which are caused mainly by technical considerations — the oversold position of the market from time to time. With the Kashmir situation continuing to cause serious anxiety, the stock market cannot be expected to put up a firmer appearance. Certainly not when the food situation also continues to threaten peace within the country.

Many will share Finance Minister Krishnamachari's view that mere tax relief will not help revive the capital market, though for different reasons perhaps. The capital market is in bad shape because the country's economy is under severe strain. But if T T K were to concede this point he would not feel intrigued over the stock market's disappointing performance. T T K does not need to say "to hell with the stock markets" because the conditions obtaining there are not any better. Very few stockbrokers are really able to make their both ends meet. Activity on the stock market has been declining year after year despite the impressive increase in the number of companies listed on the exchange.

MONEY AND BANKING

Comfortable Conditions Prevail

CREDIT conditions in the Bombay short term money market during the week to August 26 displayed an all round comfortable trend. Demand for funds during the earlier part of the week was strong due, largely, to drawals for subscription in Government loans. Supply was good with customers able to find accommodation. Rates of interest were more or less maintained at the previous week's level of 5 per cent but some transactions at 5½ per cent were also recorded. In Calcutta business was restricted as both demand and supply of funds were limited. Demand during the earlier part of the week was slightly lower but firmed up towards the week end. Rates of interest was unchanged at 6½ per cent.

During the week to August 13 deposits of the scheduled banks improved from Rs 2788.96 to Rs 2795.69 crores according to the latest statement of affairs of the scheduled banks

issued by the Reserve Bank of India. There was, however, a decline in the total credit granted by the banks by Rs 6.51 crores at Rs 2025.95 crores. Cash in hand was slightly lower by Rs 30 lakhs at Rs 68.34 crores against Rs 68.64 crores during the previous week. Balances with the Reserve Bank moved down from Rs 95.80 crores to Rs 94.75 crores. Investments of scheduled banks declined by Rs 5.57 crores at Rs 829.04 crores. Money at call and short notice increased modestly by Rs 35 lakhs at Rs 59.03 crores.

Notes in circulation during the week to August 20 showed a decline of Rs 33.80 crores at Rs 2580.58 crores, according to the latest Statement of Affairs of the Reserve Bank. Reserve

Bank holdings of rupee securities were lower as well by Rs 44.99 crores at Rs 2294.37 crores. Foreign securities continued unchanged at Rs 68.35 crores while balances held abroad showed a small improvement of Rs 12 lakhs at Rs 7.93 crores. Central government deposits advanced by Rs 18.09 crores at to Rs 89.37 crores but State government deposits declined from Rs 21.40 crores to Rs 10.61 crores. Scheduled bank deposits increased by Rs 9.40 crores to Rs 107.65 crores. Loans and advances to governments were higher by Rs 10.42 crores at Rs 57.37 crores. Advances to scheduled banks moved down from Rs 3.83 crores to Rs 1.92 crores. Investments during the week are better by Rs 16.30 crores at Rs 314.55 crores.

Big Advance in Cooperative Banking

THE inauguration last week in Bombay by the Finance Minister, T T Krishnamachari, of the mutual arrangement scheme initiated by the All-India State Co-operative Banks' Federation marks a new phase in the history of co-operative banking in India. This scheme places co-operative banks in the same position as joint stock banks so that transfer of funds or remittance facilities are made available to constituents at reasonable cost, as also collection of cheques, bills and hundies. With the growth of banking habits and increase in inter-State business, the need for such services and facilities is assuming greater importance in banking transactions. There is no co-operative bank of a federal type at the national level. We have instead 21 State co-operative banks, one in each State and the Union territories, and central co-operative banks at district level and at taluka or tehsil level in some States. All the central co-operative banks, which number 387, are affiliated to the state co-operative banks in their respective State. Now all these participating banks will transact business of issue of demand drafts and mail transfers, collection of bills, cheques and hundies as if they were part and parcel of a single institution.

What is more, this scheme may pave the way for laying the foundation of an integrated approach to numerous other problems confronting the co-operative banking sector which is fairly widespread in the country. The volume of co-operative credit is of considerable significance in the economy as is indicated in the Government's proposal

to bring co-operative banking under fuller regulation and supervision of the Reserve Bank of India. The Finance Minister has already recognised the need to extending the deposit insurance scheme to the co-operative banking sector as it will help in deposit mobilising of a high order.

The development of co-operative banking has been rapid during the last 10 years. The working capital of the State co-operative banks expanded from Rs 47.6 crores in 1954-55 to Rs 281.5 crores in 1962-63. Progress in the subsequent two years is also expected to be equally encouraging. Whereas ten years ago the spread and development of co-operative banking was fragmentary and uneven, the position has undergone visible changes since then. State co-operative banks have been established for each State as the apex of the co-operative banking structure, with central banks for every district or part of a district in almost all the States in the country. At the base are the primary village credit societies or service societies. The co-operative banks at the district and State level do not deal with individuals; their main function being to supply finance other co-operative societies. In 1962-63, the State co-operative banks gave loans to individuals amounting to Rs 5.7 crores only against Rs 208.4 crores to societies. The corresponding figures for the Central banks were Rs 3.4 crores and Rs 288.7 crores respectively.

As on June 30, 1963 there were 2,11,000 primary agricultural societies in India with a membership of 217,00,000 and 12,850 non-agricultural

credit societies with 55,00,000 members. They had deposits of over Rs 115 crores and the loans advanced by them to members during 1962-63 amounted to Rs 166 crores. In 1963, commercial banks in India had 5,495 offices located at 1,860 places, the corresponding figures for co-operative banks were 2,360 offices at 1,864 places. The number of places served by co-operative banks were larger even though number of their offices was almost half that of commercial banks. If co-operative banking spreads all over the country with the same full coverage as within States like Maharashtra, it is estimated that within the next decade nearly 5,000 to 6,000 places will be covered by offices of co-operative banks. Moreover, if the primary credit societies further extend their field of service and begin to cater to the needs of the weaker sections of the society, at present not included in any institutional service, the bulk of the population will be within their fold.

The legislation regarding co-operative banks passed recently by the Lok Sabha would enable the co-operative banking institutions to be put on a more sound footing, and these institutions will help in spreading the banking habit in rural areas. The co-operative banking sector has to mobilise resources needed for economic development and to substitute the unorganised credit sector.

India Steamship

A RAMASWAMI Mudaliar, Chairman, India Steamship, has pleaded for increase in the freight rates of liner services which suffer on the one hand from rising expenditure and on the other, limitation on earnings. In his annual statement circulated to shareholders with the latest report of the company, Ramaswami Mudaliar says that apart from increase in wage bill, amenities and staff welfare expenses and port charges, shipping companies have been faced with certain extraneous factors which have a bearing on consideration of the freight rates and on the normal earnings of shipping lines. Both the Governments of Great Britain and India, with whose trade India Steamship is most concerned, have had to face the serious problems of balance of payments during the past year. In September last year, the Government of Great Britain imposed a surcharge of 15 per cent on all imports which, however, was reduced to 10 per cent in April this year. The Government of India

has recently put an embargo on practically all imports, though Ramaswami Mudaliar hopes that a relaxation of this drastic cut may come about shortly.

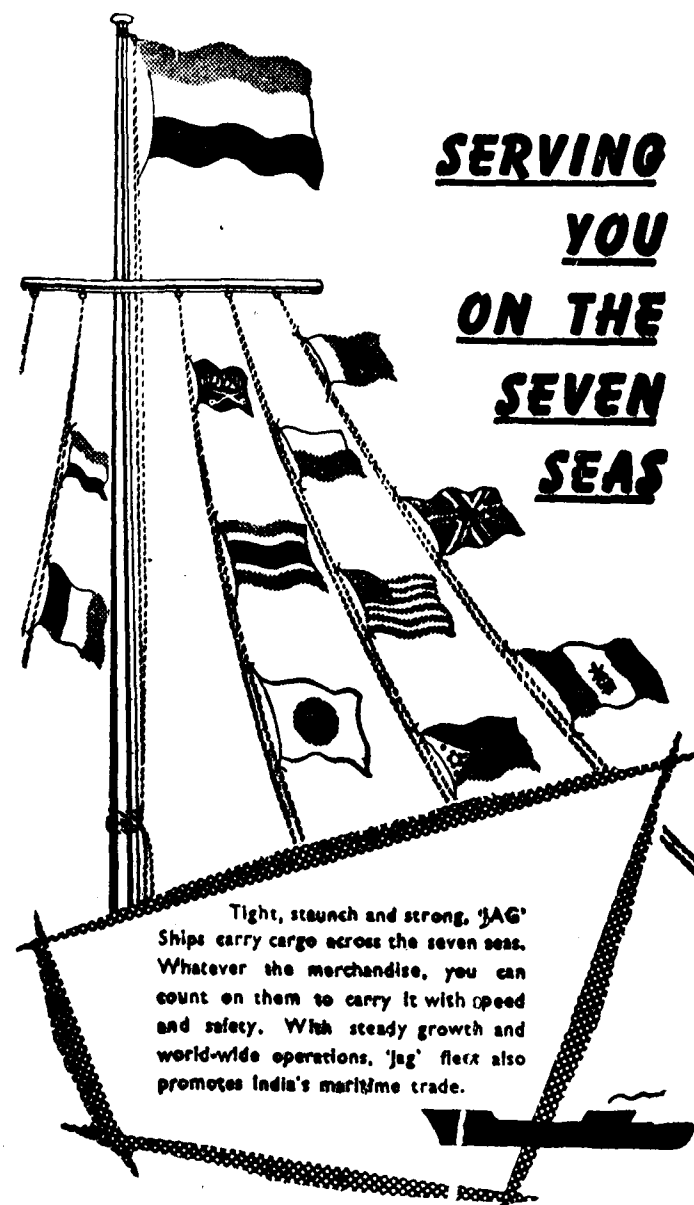
The effect of such fiscal policies is to reduce the volume of international trade, and it gravely affects the earnings of shipping lines, in the liner trade particularly. The difficult balance of payments position induces Governments to export goods and encounter competition in international markets. This fact in turn prompts Governments to rely on freight reductions for enabling goods being sold in extremely competitive markets abroad. Ramaswami Mudaliar argues that Governments have to appreciate that shipping companies also have to sustain themselves by earning a reasonable amount of profit on their stock, and this cannot be achieved unless freight rates are increased.

While other Conferences have increased their freights considerably time after time, there has been undue emphasis on maintaining low freight rates in the India/U.K./Continent Conference, possibly, because Indian trade in this route forms the largest percentage of its external trade. If the level of service has to be maintained by liner companies, freight rates both eastward and westward should be increased simultaneously and at the same level. Bearing in mind the necessity of export promotion, however, Ramaswami Mudaliar has suggested that there should be two levels of freight, whether eastward or westward; one, a general level which will be fixed by the Conference concerned taking all factors into consideration, and the other, a lower level which can be constantly reviewed for certain specific commodities called 'sensitive commodities' which may not move without a certain amount of lowering of freight rates. He adds that the clamour of some shippers who want very low freights without examining diverse factors which militate against their ability to compete with like goods abroad, should not form the main criterion for inclusion of commodities in the list of 'sensitive commodities'.

During the year to March 1965, India Steamship completed 50 voyages of which 40 were liner voyages and 10 coastal voyages, as against 68 voyages in the previous year, of which liner and coastal voyages were 43 and 25, respectively. In spite of the increased cost of operation in every direction and strikes and go-slow tactics of dock workers in various

ports in U.K., freight earnings were slightly better at Rs 8.30 crores compared to the previous year's Rs 8.28 crores. After charging depreciation of Rs 1.08 crores (Rs 1.29 crores), the working resulted in a profit of Rs 32.36 lakhs (Rs 9.57 lakhs). Of this, Rs 31 lakhs have been set aside for development rebate for which no

amount could be provided during the last few years owing to unfavourable trading results. A sum of Rs 10.65 lakhs is to be transferred from general reserve and Rs 1.99 lakhs from dividend equalisation fund in order to pay the usual dividend on preference shares and dividend at five per cent on ordinary shares.



THE GREAT EASTERN SHIPPING COMPANY LTD.

CURRENT STATISTICS

Pakistan

Net National Product (At Constant Factor Cost of 1959-60)				
(Rs crores)				
Sectors	1960-61	1961-62	1962-63	1963-64*
1 Agriculture	1642.0	1727.5	1735.8	1839.8
(a) Major crops	951.4	1018.0	1007.5	1095.0
(b) Minor crops	211.7	220.0	226.2	231.6
(c) Livestock	360.4	367.4	374.5	381.6
(d) Fishing	108.0	111.1	115.8	119.2
(e) Forestry	10.5	11.0	11.8	12.4
2 Mining and quarrying	7.9	8.6	9.4	10.3
3 Manufacturing	292.1	316.1	343.3	373.4
(a) Large scale	158.9	179.4	202.9	229.5
(b) Small scale	133.2	136.7	140.4	143.9
4 Construction	77.6	95.8	106.0	147.2
5 Electricity, gas, water and sanitary services	11.3	11.9	16.5	22.0
6 Transportation, storage and communication	162.3	166.2	182.1	190.6
7 Wholesale and retail trade	381.5	405.7	428.8	460.3
8 Banking and insurance	23.8	25.7	28.7	31.2
9 Ownership of dwellings	133.4	137.3	141.0	146.0
10 Public administration and defence	129.8	134.8	139.4	159.8
11 Services	209.4	217.1	225.3	233.6
12 Net domestic product	3071.1	3246.7	3356.3	3614.2
13 Net factor income from rest of the world	(-)-3.1	(-)-3.6	(-)-7.6	(-)-9.3
14 Net national product	3068.0	3243.1	3348.7	3604.9
15 Population (in lakhs)	1014.5	1040.9	1067.9	1095.6
16 Per capita income (in Rs)	302	312	314	329

* Provisional estimates.

Index of Agricultural Production (Base : Average of 1949-50 to 1952-53—100)				
Year (July-June)	All Crops	Food Crops	Non-Food Crops	Fibres
1953-54	110	113	121	76
1954-55	105	103	128	92
1955-56	99	94	119	116
1956-57	112	112	121	105
1957-58	109	105	127	113
1958-59	108	103	145	108
1959-60	117	117	129	104
1960-61	122	125	130	92
1961-62	131	127	154	124
1962-63	128	122	178	120
1963-64*	136	134	172	116

* Provisional.

Balance of Trade (Rs crores)				
	1960-61	1961-62	1962-63	1963-64
Imports on Private account	212.08	225.89	279.98	319.14
Imports on Government account	106.68	85.02	101.90	123.88
Total imports	318.76	310.91	381.88	443.02
Exports on private account	178.21	176.81	188.42	161.69
Exports on Government account	1.73	7.53	14.95	7.19
Total Exports	179.94	184.34	203.37	168.88*
Balance of Trade	-138.99	-126.57	-178.51	N.A.

* Covers July 1963-May 1964 period.

Pakistan Government's Budgetary Position (Rs Crores)

Head of Accounts	1950-51	1961-62	1962-63	1963-64	1964-65
(1)	(2)	(3)	(4)	(5)	(6)
EXPENDITURE :					
I Revenue Expenditure	126.62	188.59	180.52	246.59	278.56
(1) Direct Demand on Revenue	2.21	4.07	4.03	4.65	5.02
(2) Defence Services	64.99	101.01	95.43	122.88	129.65
(3) Beneficent Departments	3.49	8.74	8.48	9.94	11.29
(4) Civil Administration	13.44	34.95	27.55	35.02	36.65
(5) Debt Services	6.94	20.24	24.17	31.82	41.43
(6) Miscellaneous	35.55	19.58	20.85	42.28	54.52
II Capital Expenditure	49.95	191.79	260.62	307.06	348.23
(1) Direct Capital Outlay	35.09	80.59	56.16	75.73	102.67
(a) Defence	5.31	1.38	0.64	—	—
(b) Development	7.06	73.19	47.01	66.11	93.99
(c) Currency, Mint and Pensions	22.72	0.58	2.31	2.09	0.41
(d) Others	—	5.44	6.20	7.53	8.27
(2) Expenditure from Reserve Fund*	—	0.41	0.43	2.53	4.35
(3) Loans and Advances to Provinces and Others	14.86	110.79	204.03	252.42	242.45
(4) Schemes of State Trading (Net)	—	—	—	1.63	1.76
(5) Likely short-fall	—	—	—	-28.00	-18.00
(6) Contingency Items	—	—	—	2.75	15.00
III Total Expenditure	176.57	380.38	441.14	553.65	626.79
FINANCED BY					
I Revenue Receipts	127.32	219.85	213.85	266.22	297.37
(1) Customs	77.62	67.03	67.56	74.70	81.90
(2) Central Excise Duties	6.72	33.93	40.90	60.18	68.40
(3) Income Tax and Corporation Tax	13.24	37.37	27.72	29.72	33.26
(4) Sales Tax	7.11	24.26	21.58	27.30	29.45
(5) Other Tax Heads	4.59	3.37	0.83	1.08	1.06
(6) Non-Tax Heads	18.04	53.89	55.26	73.24	82.46
II Capital Receipts (Net)	69.41	176.09	225.97	292.76	319.15
(1) Permanent Debt (Internal)	9.30	2.28	2.89	35.18	19.50
(2) Permanent Debt (External)	—	55.52	110.77	178.30	243.72

Budgetary Position (Contd)

	(1)	(2)	(3)	(4)	(5)	(6)
(3) Floating Debt (Net)	19.42	2.05	20.56	5.70	3.71	
(4) Unfunded Debt	2.23	10.09	10.57	9.78	9.98	
(5) Foreign Aid Fund	—	53.90	51.08	34.58	11.87	
(6) Depreciation and Reserve Funds	33.49	39.60	9.17	13.19	17.62	
(7) Recoveries of Loans and Advances	3.86	12.36	17.91	12.24	12.73	
(8) Other Deposits and Advances	-5.88	-5.08	1.91	3.50	-0.50	
(9) Miscellaneous Capital Receipts	6.99	5.37	1.11	0.29	0.52	
III Drawals on Cash Balances	-20.16	-15.56	1.32	-5.33	10.27	
IV Total Financing Items	176.57	380.38	441.14	553.65	626.79	

Notes : Financial years up to 1957-58 cover April to March period : 1958-59 April to June and subsequent years July-June period.

*Up to 1959-60, Development Expenditure from Reserve Fund is included in Direct Capital Outlay on Development.

Source : "Report on Currency and Finance, 1963-64", State Bank of Pakistan.

India : Utilisation of Aid

(As on June 30, 1965)

(Rs Crores)

Name of lending Country/ Institution	Amount for Which Agreements Have Been Signed Up To 30.6.65	Value of Equipment Stores Ordered Up To 30. 6.1965.	Loans Amount Disbursed Up To 30. 6.1965
(1) USA	1,249.76	1,065.29	905.16
(2) U K	335.97	314.87	256.05
(3) Germany (West)	411.01	379.36	303.63
(4) Japan	173.53	131.99	90.61
(5) Canada	46.68	43.73	23.93
(6) U S S R	484.31	303.75	256.20
(7) Czechoslovakia	63.10	25.04	7.93
(8) Yugoslavia	21.43	12.44	5.36
(9) Poland	40.30	13.61	10.22
(10) Italy	81.32	22.96	9.21
(11) France	47.61	31.98	13.55
(12) Switzerland	15.25	12.68	3.41
(13) Netherlands	15.78	14.02	4.09
(14) Belgium	11.42	7.05	1.17
(15) Denmark	2.41	0.98	0.41
(16) Austria	6.59	5.71	3.49
(17) Sweden	2.18	0.70	...
(18) I B R D	465.76	381.74	363.28
(19) I D A	230.93	198.86	136.20
Total	3,705.34	2,966.76	2,393.90

Note : The Statement excludes :

(1) U S Commodity Assistance (P L 480 and P L 665).

(2) Drawings from I M F.

(3) Grants.

(4) Kuwaiti Loan of Rs 34.19 crores on account of repatriation of special Indian notes which were in circulation as legal tender in Kuwait.

Source : Ministry of Finance, Government of India.

1358

Index of Industrial Production
(Base: July, 1959-June, 1960=100)

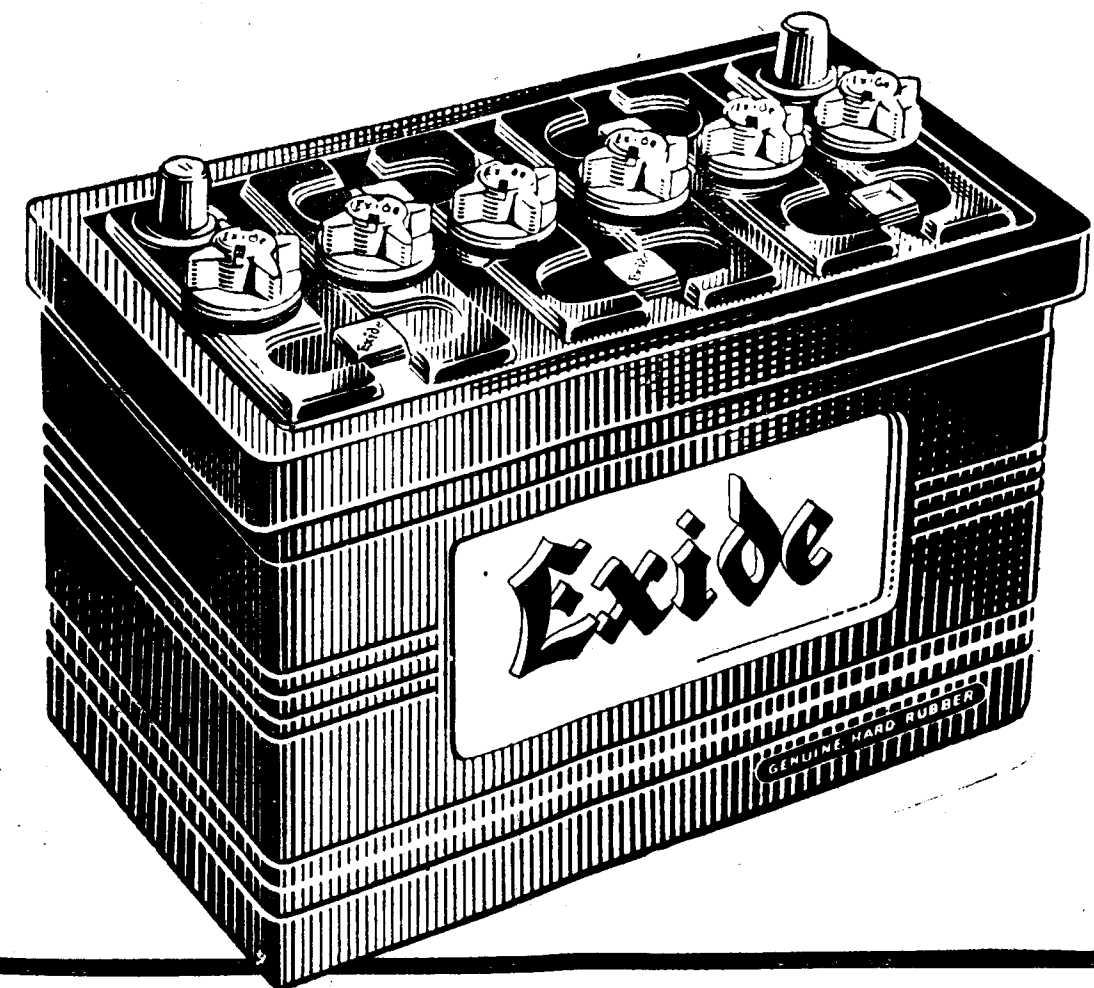
Period	Mining	Manufac- turing	Industrial Production (Mining and Manu- facturing)
(Revised Interim Index)			
1959-60	100.0	100.0	100.0
1960-61	114.7	107.3	107.8
1961-62	124.0	118.9	119.2
1962-63	144.7	134.2	134.9
1963-64	160.5	150.4*	151.0*
July-September, 1963	140.1	147.8*	147.3*
October-December, 1963	164.0	156.5*	157.0*
January-March, 1964	166.0	149.1*	150.1*
April-June, 1964	172.0	148.8*	150.2*

* Provisional.

Source : "Report on Currency and Finance, 1963-64", State Bank of Pakistan.

BANKING RETURNS

Reserve Bank	Aug 20	Aug 13	July 23	Aug 21, 64
1 Note Circulation	2580.58	2614.38	2607.31	2423.82
2 Rupee Coins	101.08	99.17	98.60	106.78
3 Deposits				
(a) Central Govt	89.37	71.28	87.71	78.24
(b) Other Govts	10.61	21.40	16.57	13.09
(c) Banks	101.66	100.93	113.44	126.94
(d) Others	234.46	235.66	243.22	187.90
4 Foreign securities	68.35	68.35	68.35	85.46
5 Balance abroad	7.93	7.81	7.24	13.00
6 Rupee securities	2294.72	2339.72	2329.72	2135.88
7 Investments	314.55	298.25	311.30	247.28
8 Loans and advances to Govts	57.37	46.95	61.54	25.77
9 Other Loans and advances	156.43	158.12	168.41	142.62
Scheduled Banks	Aug 13	Aug 6	July 16	Aug 14, 64
1 Aggregate Deposits (net)	2795.69	2788.96	2751.48	2448.48
Demand (net)	1369.63	1370.68	1372.13	1177.45
Time (net)	1564.09	1555.51	1521.46	1378.31
2 Cash in hand	68.34	68.64	72.66	65.11
3 Balances with the Reserve Bank	94.75	95.80	102.45	105.52
4 (2) + (3) as % of (1)	5.83	5.90	6.36	6.97
5 Borrowing from Reserve Bank	3.00	5.87	26.39	2.37
(a) Against usance bills and/or promissory notes	—	—	—	.60
(b) Others	3.00	5.87	26.39	1.77
6 Advances	1793.15	1798.90	1817.13	1501.33
(a) State Bank	432.53	435.77	447.81	324.84
(b) Others	1360.62	1363.13	1369.32	1176.49
7 Bills discounted				
(a) Inland	152.50	152.99	166.41	167.47
(b) Foreign	80.29	80.57	79.16	68.52
(c) Total	232.79	233.56	245.57	235.99
(i) State Bank	23.33	23.78	23.60	21.38
(ii) Others	209.46	209.78	221.97	214.61
8 (6) + (7) as % of (1)	72.47	72.87	74.97	70.95
9 Investment in Govt Securities	829.04	834.61	764.88	754.88
10 (9) as % of (1)	29.65	29.93	27.80	30.83



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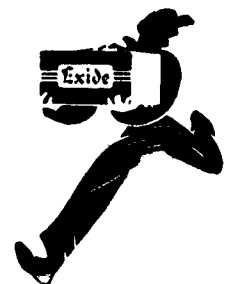
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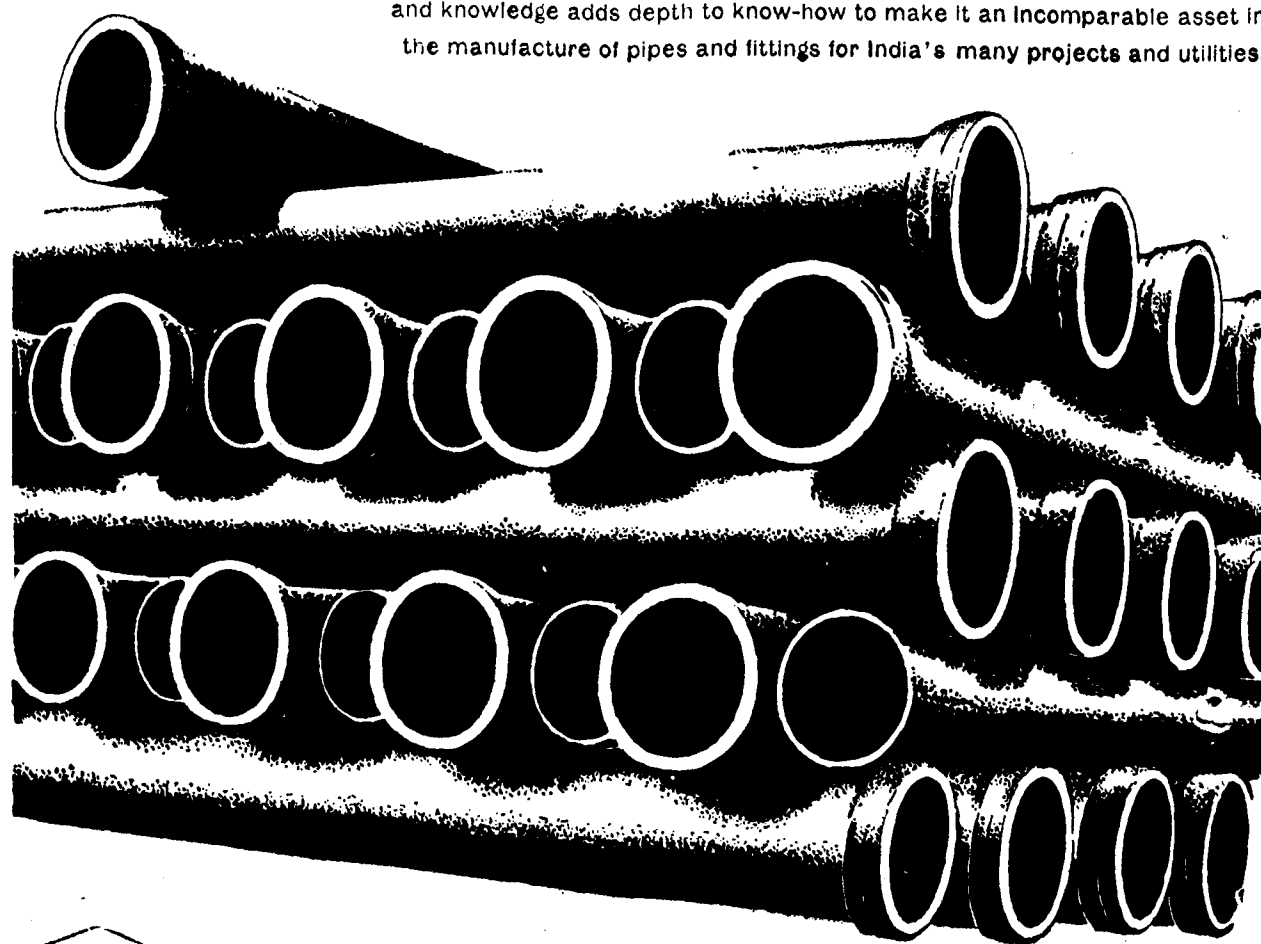
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THE ECONOMIC WEEKLY

JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

**AGGRESSION WILL NOT PAY
NATIONAL ACCOUNTS FOR INDIA
WHAT'S WRONG WITH OUR INTELLIGENCE
MINISTRY MAKING IN ANDHRA**

VOLUME XVII NO 36

SEPTEMBER 4, 1965

SEVENTY-FIVE PAISE

When do I get my Ambassador? When would it be my turn?

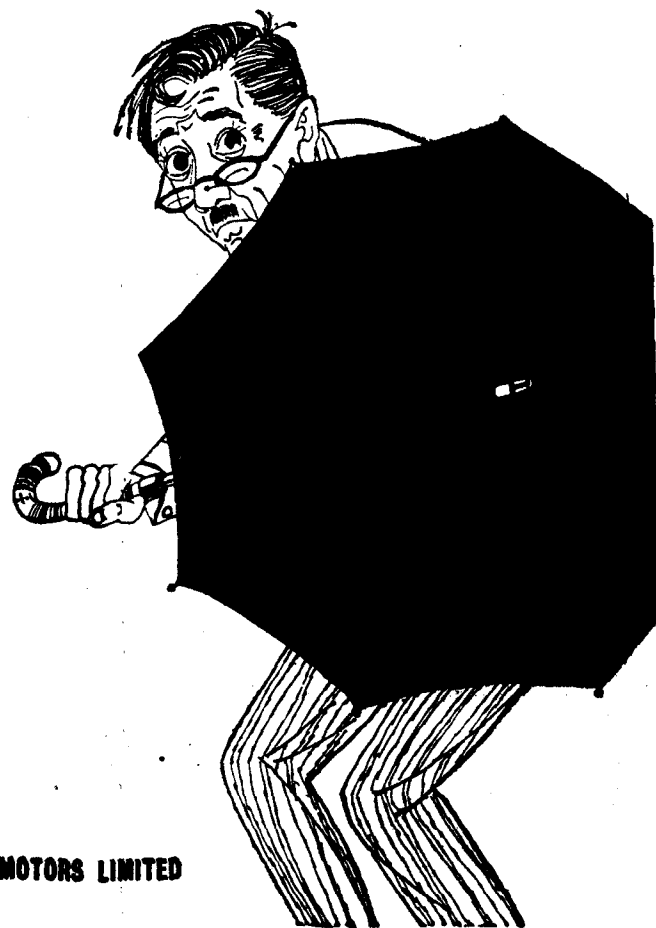
These are the questions you put to our dealers. Their supply depends on our production. Though we have doubled our production in the last five years, we can't cope with ever-increasing demand. Orders pour in day after day; the rate of booking for Ambassador far outstrips our production.

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Hence, production can't cope with demand. So, the waiting period. Irritating, yet unavoidable. Beyond our control. We are doing our best to meet your demand, and certainly not hiding our face.

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NOT
HIDING OUR
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THE ECONOMIC WEEKLY

Vol XVII No 36 Sept 4, 1965

EDITORIALS

- Aggression Will Not Pay 1359
Crack in Fund's Theology 1360

WEEKLY NOTES

- Facts without Light — Growth
Rate, No Worse — Unavailing
Vigilance — Soviet-American
Condominium — Non-Asian
'Asian' Bank — A Lesson
from Africa — Delivery
Contract in Groundnut 1361

LETTERS TO EDITOR

- In Lieu of Thinking 1367
Make Liquor Pay for Plan 1369

CAPITAL VIEW

- Our Intelligence Service
— Romesh Thapar 1365

LETTER FROM SOUTH

- Ministry Making in Andhra 1366

BOOK REVIEWS

- Students and Social Change
— Karuna Chanana 1370
Indian Army in Second War 1371

SPECIAL ARTICLES

- Leadership in a Community
Development Village
— K Ranga Rao 1375
Construction of National Ac-
counts for the Indian Union
— Uma Datta Roy
Choudhury 1381

AROUND BOMBAY MARKETS

- Turn in Sentiment 1389

BUSINESS NOTES

- Kirloskar Electric — Alumi-
nium Industries — Mysore
Electrical — Thana Electric
— B O A C 1390

CURRENT STATISTICS

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Aggression Will Not Pay

THE sequence of response and counter-response in Kashmir has developed dangerously, bringing India and Pakistan to a state of undeclared war. As we go to press, a regular aerial war is raging in the Chhamb sector and also perhaps at other points along the cease-fire line in which India has lost four planes and Pakistan two. Pakistani troops have advanced six miles into Indian territory in Chhamb, having crossed not only the cease-fire line, which both Indian and Pakistani troops have breached at innumerable points, but also, for the first time, the international boundary between the two countries. The objectives of this operation may well be to gain control of the road which connects Akhnoor to Poonch near the cease-fire line and, further away, the Pathankot-Srinagar road which is the vital link connecting Jammu and Kashmir with the rest of India. Whatever its tactical objectives, the massive Pakistani drive into Indian territory in Chhamb is a direct response to the capture of Pakistani posts by Indian troops across the cease-fire line in Kargil, Tithwal and Uri.

This deliberate escalation of the war situation by Pakistan is a desperate attempt to cover up the failure of the planned infiltration of armed raiders into Kashmir to stir up turmoil which could be given an air of a popular revolt. Now Pakistan has thrown in regular troops and its commitment becomes irreversible. India's duty is clear and its position unequivocal. Not only are the infiltrators being mopped up and hunted down, all the possible inlets of further infiltrations on the cease-fire line have also to be sealed. This is an elementary security measure and could not have been avoided. The action of the Indian troops, however, has been purely defensive and beyond the cease-fire line no incursion has been made than what was strictly necessary as a measure of security. The large scale armed attack by regular Pakistani forces in Chhamb sector has escalated the conflict and as Defence Minister Chavan rightly pointed, India has to take an overall view of defence.

What has driven Pakistan to desperation is the failure of its attack on Kashmir, its naked claim to that part of Indian territory being based on nothing more substantial than the two-nation theory. The manner in which Delhi has responded to the challenge, the cool determination, competence and efficiency with which it has been acting has not only greatly heartened the Indian people but, what is more, it has brought forth unity and resistance among the Kashmiri people themselves who have been the object of the Pakistani attack. Having staked everything, even war, on this one gamble over Kashmir, whatever the consequences of this mad folly even for his own people, President Ayub Khan can be made to see reason only by the use of the language which he as a soldier understands. India is replying to him in that language. At long last, India has painfully learnt that the only way to stabilise relations with Pakistan is to make Pakistan realise that aggression will not pay.

There are as yet few signs of a deceleration of the war in Kashmir. Unlike at the time of the Kutch hostilities, no definite international initiative for peace has emerged so far. The U N Secretary-General has called for an end to violation of the cease-fire line by both sides, withdrawal of the armed forces of each side from the positions occupied on the other and a halt to actual fighting. Both the US and the UK have supported this appeal and the Soviet Union has separately appealed for talks. However, the task of discovering grounds on which hostilities can be ended and some kind of talks initiated will be no easy one, to put it mildly. The withdrawal of Pakistani troops from the Chhamb will depend on evacuation by the Indian army of the Pakistani posts captured by it elsewhere across the cease-fire line. But while India has no intention of occupying these posts indefinitely, the purposes for which they were occupied—to prevent further infiltration into Kashmir and to make the operations against infiltrators already in the State more effective—have by no means been fully achieved. At the very least, their evacuation will call for an

assurance from Pakistan that there would be no further infiltration—an undertaking which it will find it difficult to give, at least publicly, in view of its pose so far that it had nothing to do with the “alleged infiltrators”. And taking the situation as a whole, it is not amenable to the kind of arrangement which put an end to the fighting in Kutch. Even then India had rejected Pakistan's attempt to bring the Kashmir question within the purview of the Indo-Pak talks provided for in the agreement. India's position all along has been that all that there is to talk about Kashmir is Pakistan's aggression there—which Pakistan is hardly likely to be anxious to discuss.

In short, therefore, as long as Pakistan refuses to accept the *status quo* in Kashmir there can be no end to

the recurrent outbursts of Indo-Pak hostility. Pakistan is realistic enough to know that she cannot annex Kashmir by war and, after the latest adventure, that it cannot even hope that with the help of its agents it can provoke a revolt of sufficient dimensions to seriously worry India. However, what it can try for is to prevent the *status quo* in Kashmir from freezing through long inactivity and to periodically bring the Kashmir question into the focus of international attention. In view of India's determination to block all debate on the subject in the United Nations, Pakistan will try to achieve this by military action, the extent of which will depend on the sequence of response and counter-response which, in the present case, has brought the two countries to the state of undeclared war.

Crack in Fund's Theology

THE International Monetary Fund is now at the cross-roads in its chequered career as its latest report proves conclusively. Though there is much rethinking going on in the Fund about its future policies, the indications about their directions are vague. The two strands which run through the report are the tricky problem of international liquidity and the payments problem of the developing world. While in respect of the first, the discussion in the report is in general terms and on familiar lines, the discussion of the difficulties of the developing countries in their quest for rapid economic growth shows refreshing signs of new awareness in the councils of the Fund, which is all to the good.

The Fund has clearly acknowledged a slow-down in the accumulation of international liquidity in the recent months. International resources increased in 1964 by \$2.5 billion which was lower by \$0.9 billion than that in 1963. The main reason for this was the growing reluctance of most of the rich countries to hold their reserves in dollars. This declining trend has continued even in 1965. As things stand, it is gold alone which can fill the gap in reserves. However, the rate of gold production in the non-communist world is not adequate to meet this need and hence the pressure on international liquidity.

How does the Fund get round the problem? Suspicious of any radical change and orthodox in its philosophy, the Fund has resorted to quota increases. The latest resolution of the

Executive Board has provided for a general increase of 25 per cent in members' quotas, together with additional increase for 16 countries whose quotas were considered to be out of line with their present state of economic development. After the proposed increases, total quotas in the Fund would rise from the current figure of \$16 billion to about \$21 billion. While raising quotas, the Fund has adopted other policies to prevent gold subscriptions from attenuating unduly the resources available to individual member countries and to mitigate the impact of the subscription of other members on the gold stock of the two major reserve centres.

All these, however, are mere palliatives and the basic problem of international liquidity persists with force. The Fund report does give out the liquidation of dollar balances by countries such as France as one of the reasons for slower expansion of international liquidity. But what is far more disturbing is that even if these countries desire to hold their reserves in dollars in the future, supplementing their gold holding, they may not be able to do so, in view of the slow but perceptible improvement in the payment situation of the United States. If that happens, the world may lapse into a period of dollar scarcity as in the immediate post-war era. The growth in international liquidity would then be constricted further. And if in such a situation the Fund wants to implement some of the suggestions for augmenting international reserves such as those put forth

by Triffin, or Bernstein, or Stamp, it would be firmly resisted by the United States. Politics would again be a deciding factor. It is for this reason that Triffin has pressed that the Fund or, for that matter, those deeply concerned with the problems of international liquidity should strike the iron while it is hot — that is to say, while the U S payments position is vulnerable.

And yet the Fund is hesitant in the extreme. All that it proposes to do is to extend quasi-automatic drawing facilities beyond the gold tranche up to some part of the credit tranche and to undertake operations whereby the Fund simultaneously would offer assets and assume additional liabilities. But aren't these only a truncated version of the proposals put forth by Triffin and Stamp? The intractable problems require bold tackling not merely tinkering if the world is not to be faced with a new crisis in the immediate future.

The second issue on which the Fund is showing a welcome awareness is the payments problem of the developing countries. It has been succinctly argued that this is not a mere consequence of general monetary inflation. It is partly the off-shoot of the basic weaknesses in the trading structure of these countries and partly of the conflict between the requirements of growth and the compulsion of internal stability. The external deficits of developing countries are linked up with an “inadequate rise in the purchasing power of their exports” and they can be remedied by “international measures to improve their export earnings, including reinforcing their access to markets in the industrial countries”. The thin end of the wedge is discernible in the realisation that “By and large, the developing countries, hampered by structural problems, notably the unsatisfactory development of their export earnings, have found it difficult to achieve simultaneously the goals of rapid growth and internal and external stability”. This is all very reassuring but is the Fund willing to refashion its policies in regard to developing countries? Or is it passing on the baby to Prebisch and his new set up in Geneva? The advice it tenders to developing countries — to India for example — is on the same old lines: if external deficit occurs, reduce it through scaling down investment. If internal inflation arises reduce quantity of money and throttle the new industries. The latest report of the Fund, however, shows a crack in the Fund's theology.

Facts without Light

OVER the years the Reserve Bank's annual “Currency and Finance Report” has assumed formidable proportions. The latest Report, covering the financial year April 1964 to March 1965, has just been released. There is no doubt a wealth of information and statistical data in this Report. Thus, in Part I the major economic developments of the year are reviewed, and in Part II developments in the various sectors of the Indian economy are treated in considerable detail—especially output and prices, money and banking, capital market, budgets and public debt, and trade and tariff developments. All this is supplemented by a large statistical section. It is perhaps mean to complain when there is such a feast of facts. The blurb states that all these data and information are “for the benefit of all those who are interested in these developments”. Our complaint is, however, only this—is not the manner in which these developments are portrayed capable of modifications so that they become more meaningful and reveal not only the inter-connections that exist between developments in different spheres but also the connection between the kind of steps taken by Government and the Reserve Bank to influence particularly sensitive sectors of the economy through fiscal and monetary measures.

The Report starts off by pointing to three basic features of the economy in 1964-65, viz, the rise of prices, difficulty in raising adequate resources for investments, and the alarming fall in the foreign exchange resources of the Reserve Bank. While discussing these key features practically every important facet of the economy has been covered. Considerable space has been devoted to narrating a “major” revision in the credit policy of the Reserve Bank “against the background of renewed inflationary pressure and a marked deterioration in foreign exchange position”. But has anyone stopped to think what particularly insidious connections there may be between balance of payments troubles and credit control in a situation where drafts on foreign exchange are severely controlled? Secondly, how much success this major revision in credit policy was able to achieve has not been indicated. The fact that 1964-65 witnessed an extraordinarily large in-

Weekly Notes

crease of prices may, conceivably, point to the relative ineffectiveness of the measures, particularly in the limited period over which they were operating. One is also entitled to know if the Reserve Bank has formulated certain criteria to assess the impact of its credit policy measures.

In other fields as well the developments of the last year make dismal reading. Agricultural production, in 1963-64 was stagnant and the growth rate of industry was slow. National income grew at a disappointingly slow rate. One of the measures that Government took towards the end of the year for containing the foreign exchange difficulties was to impose the regulatory duty on imports. This is said to be favourable to import substitution, revenue raising and a mop-up of excess profits. A wonderful panacea—if only these objectives could be made mutually consistent.

A confusing picture of an almost hopelessly confused position perhaps sums up the total impression of the Report. Why is it that a publication like this cannot give a crisp and analytical presentation of the major economic developments in the country? Why resort to heavy pseudo-academic language which is an unfortunate by-product of planning in India? One could point to numerous instances where language has been used which is certainly not conducive to clear thinking. The opening sentence “The Indian economy was under considerable pressure during 1964-65” barely conveys anything substantial. Then again, in reporting on the rise in the lending rates of IFC, ICICI, SFCs, etc, after the Bank Rate went up to 6 per cent in February, it is stated “...consequent on the rise in the Bank Rate from 5 per cent to 6 per cent in mid-February 1965, there was an upward revision of the cost of financial accommodation of the term lending institutions towards the close of the year”. Merely “to assist investment” must be too prosaic as compared with “with a view to aiding investment activity in the economy”!

Growth Rate, No Worse

THE “quick estimate” of national income for 1964-65, released by the Central Statistical Organisation, shows a sharp rise in the rate of growth of real national income during 1964-65. Though doubly welcome,

coming at a time of so much misgiving about the progress of the Plan, it should not surprise anybody. All other sectors of the economy are so much overshadowed by agriculture and allied industries that such an upward turn was expected ever since it was known that foodgrain production had reached the peak of about 88.6 million tons. Wide fluctuations in agricultural production hide from view the trends in the rest of the economy which are not equally exposed to the vagaries of weather and which are more responsive to the promotional activities of planning and development.

The extent to which agriculture imparts a fluctuating character to the rate of growth of income is seen from the rate of growth during the first three years of the Plan—2.6 per cent, 1.9 per cent and 4.5 per cent reflecting rates of growth in agriculture of 0.2, -2.0, 2.0 per cent — and the sudden jump in the rate of growth of income to 7.5 per cent following a rise of 10.2 per cent in agricultural production!

Mining, manufacturing and small enterprises have been meanwhile growing at a steady rate of around 5 per cent per year (4.7, 4.0 and 6.1 per cent in the first three years; the last year's figure is not as yet known). This rate is probably an under-estimate, for there are reasons to believe that the contribution of small scale industries to growth is not correctly measured in our national income statistics. If we take large scale manufacturing industries along with mining, an average rate of 7.4 per cent has been achieved during the first four years. The last year's growth rate of this group is however only 5.9 per cent, which shows a decline from the rates achieved earlier. As a matter of fact, judging from the index of industrial production, the rates of growth of production in the large scale industries were 7 per cent in calendar year 1961, 7.5 per cent in 1962 and 9.3 per cent in 1963.

The decline was not unexpected. As a matter of fact, a slowing down of the rate was forecast in the “Economic Survey” this year which had given up the Third Plan target of 11 per cent per annum as unattainable and did not expect for the Third Plan as a whole a rate more than 8 per cent or 9 per cent. It appears now that the actual performance may be even worse:

If one takes all the non-agricultural sectors together, one notices a more or less steady rate of growth of around 5 per cent per annum — 4.6, 5.1, 6.5 and then 5.2 per cent. This goes to show that the slow rate of growth of income is not all due to the tardy growth of agriculture; the rest of the economy too has not been growing at the rate required for the growth rate of about 5 per cent for the whole of the economy which was the Third Plan target.

The most striking feature brought out by the analysis of the national income figures is the continuity and near uniformity of the rate achieved during the decade 1951-61! The average rate of growth during that period was around 3.5 per cent and it appears more than likely that the Third Plan will end up with a rate of growth no better than 4 per cent. With food-grains production expected to be 92 million tons, agriculture will not record a growth of more than 4 per cent during the last year of the Plan, and rest of the economy is not likely to improve upon its past average of 5 per cent. There is little indication therefore that the growth rate of income during the last year would rise much above the average rate of the last four years.

Unavailing Vigilance

THOUGH the Central Vigilance Commission was set up over a year ago, not many seemed to be aware of its scope and functions if not of its very existence. But for a meeting at Bangalore of the Central and State Vigilance Commissioners, nothing much was heard about their activities. At the Bangalore meeting the Commissioners had complained of lack of powers and cynics had promptly drawn their own gloomy conclusions about the efficacy of the whole arrangement. They were not far wrong either. For, the statistics presented in the first annual report of the Central Vigilance Commission hardly add up to a promise of break-through in the fight against corruption. The Commission did receive a large number of complaints of corruption among public servants — 3,514, to be exact. To those who have some idea of the dimensions of corruption in the country and who are aware of the statistics of cases handled by the various anti-corruption agencies, including the Special Police Establishment in Delhi, even this large number comes as something of a disappointment — either people are not aware of the role of the Vigilance

Commission or they do not have confidence in its ability to set matters right.

An analysis of the statistics indicates that the more plausible reason may be the latter one. As many as 58 per cent of the companies were anonymous. Many of these anonymous complaints were perhaps accusations based on malice and little proof. But the predominance of anonymous complaints could also indicate the complainants' lack of trust in the Commission. Employees of the Government or people having dealings with officials are not likely to reveal their names lest they should be victimised. This apprehension seems amply warranted. For, the report points out, as many as 436 complaints were forwarded to the Ministries or departments concerned for appropriate action. In doing this, the Commission has functioned as a post office, a far cry from the concept of the ombudsman which many had hoped the Commission would evolve into. This abdication of responsibility needs to be adequately explained by the Chief Vigilance Commissioner. Lack of confidence on the part of complainants might also explain a large proportion (783) of vague and unverifiable complaints.

Of the 1,482 signed complaints, as many as 624 were against gazetted officers and 487 against non-gazetted officers in the Government and 371 against officials of public undertakings. Twentyseven complaints were referred to the Central Bureau of Investigation and 236 to the Chief Vigilance Officers of the Ministries or departments concerned for inquiry. This practice is again open to criticism. Vigilance officers of the department cannot have the appearance of independence and impartiality which is essential if the public is to have confidence in the anti-corruption machinery; they raise suspicion, often unjustified, of matters being hushed up. What is necessary, therefore, is that the whole vigilance set-up should be centralised under the Central Vigilance Commissioner to give it independence, as well as the appearance of independence, from departmental pressures.

Soviet - American Condominium

THE next move towards a closer Soviet-American detente waits upon the West German elections on September 19. Both powers have, however, continued to tiptoe in order not to provoke the other to hostility, not least on Vietnam. Russia did not

summon the Security Council over the bombing of North Vietnam; America did not reply to Russia's relatively mild criticisms; Russia sent aid, but complained it was held up by the Chinese in transit; when it arrived, in the shape of anti-aircraft missiles, US bombers on raids to within 45 miles of Hanoi, refrained from bombing these most obvious targets. Friction threatened certainly when a US plane was downed, allegedly by a missile, but US retaliation on the site demonstrated that it, and its immediate neighbour, were only dummy missile sites.

On the positive side, the US has continuously invited Russia to resume disarmament talks at Geneva, to resume the path of collaboration summarised in the 1963 Test Ban treaty. Russia replied that America's efforts to defend NATO from French sabotage by creating the Multilateral Defence Force (with collective control of nuclear weapons for the NATO powers) made any suggested new treaty to prevent nuclear proliferation to non-nuclear powers impossible — the one flatly contradicted the other. From February, Russia added to this basic objection the demand that the bombing of North Vietnam cease before more disarmament talks — a superficial objection, since it was dropped as soon as Washington changed its line on 'non-proliferation'.

This change of line is the most dramatic shift this summer. Seven months ago when the Gilpatric Committee on a non-proliferation treaty reported to President Johnson, he suppressed the report, but on July 1, the late editions of the *New York Times* reported that this report has recommended an agreement with Russia on non-proliferation as superior priority over any efforts to salvage NATO. William Foster, Director of the US Arms Control and Disarmament Agency, then wrote an article, presumed to have been vetted by the President, making the same point and noting that a non-proliferation treaty might cause an

"erosion of alliances resulting from the high degree of US — Soviet co-operation which will be required if a non-proliferation pro-

A Correction

In the issue of August 28, the date on pages 1331 to 1350 and on the front and back inside covers was printed wrongly. The error is regretted. Ed.

gram is to be successful. Within NATO there could be concern that the detente would lead to a weakening of our commitment to Western Europe. The problem will be particularly acute in Germany where there will be added concern that the amelioration of the East-West confrontation could lead to an increased acceptance of the *status quo* in Central Europe" (*Foreign Affairs*, July, 1965).

To back up this apparently major American concession to Russia, the President despatched Averell Harriman to Moscow on July 25 where he met Kosygin and renewed the invitation to Geneva. Russia accepted the invitation, despite the massive US build up in Vietnam.

But Foster's warning on West Germany was opposite. Adenauer promptly accused America of trading with Russia at the expense of Europe, and Dr Schroder, West German Foreign Minister, warned Washington that West Germany would have to acquire nuclear weapons of its own if it was not permitted to participate in NATO nuclear control. West Germany, torn economically between expansion through full integration into the Common Market (resisted by France), and expansion through freer trade outside the Market through the Kennedy Round, thus becomes the crucial variable in the equation. Russia has already said that a non-proliferation treaty which permits West Germany any sort of nuclear say is out of question. France supplies the other pole of attraction, and the current crisis in the Common Market will perhaps decide West German loyalty one way or the other. On its side, Washington has now to decide between a detente with Russia and NATO, without promoting more damage to its interests than any agreement is worth. Its strategy to contain Gaullism and weld West Germany to Washington now directly confronts its attempt to neutralise Russian power through a detente.

For the moment Geneva is at a standstill (although publicly mulling over proposals for a treaty) until after September when the West Germans pronounce on Erhard's government, and the monsoon ends in Vietnam, so bringing to bear US air power against the Vietcong (a preliminary to negotiations). However, the drift is clear: Russia, despite the biggest type of Cold War provocation by Washington in Vietnam, despite its exposure to full Chinese attack (at hysterical pitch at

the Helsinki Congress for Peace in mid-July), despite the strongly asserted nationalism of its former satellites (both Russians and Chinese amicably tiptoed at the Rumanian Party Congress, July 19) has opted to accept American hegemony of the world. Russia can ill-afford a sustained clash with the West at the moment. Its economy is still weak after the 1963 agricultural crisis, and it needs Western trade. Khrushchev's policy, which partly cost him his job, is back as the orthodoxy of Moscow.

The implications of this return to collaboration are manifold, not least as an encouragement to European nationalism and Gaullism. Competition to give aid to the neutral powers is likely to wane. The Afro-Asian bloc as a whole tends to lose its identity in the fragmentation of nationalisms. The old ring of alliances — CENTO and SEATO as much as NATO — are likely to grow increasingly redundant. A world of myriad nationalisms, surmounted by the unprecedented power of the United States, freed of the last main restriction on that power, the Soviet Union, seems the pattern that will increasingly replace the bifurcation of the Cold War.

Non-Asian 'Asian' Bank

THE Philippino Chairman of the Committee of Officials appointed by the ECAFE to draw up a Charter for the Asian Development Bank stated in a press interview in Manila on his return that during the Committee's visit to France, the French official had dubbed the Asian Bank as mainly an American proposition and that this was a "misconception". If it is a "misconception" it is one which is widely shared in many countries in Asia. This view has been expressed in these columns long before Batmaceda took the Manila public into confidence on the French view about the proposed Bank (*The Economic Weekly*, July 31, 1965). That it is not a misconception will be clear from a comparison of the proposed Asian Development Bank with the African Development Bank. The capital of latter is provided in its entirety by the African countries unlike the Asian Bank which is being organised as another International Bank with equity participation open to USA and the countries of Europe. In this respect, the African Development Bank has acted much more wisely. Paragraph (1) of Article 65 of the Constitution of the African Development Bank and para (2) lay down the conditions of

membership which is open only to independent African States. This does not exclude the Bank from drawing additional resources from outside Africa either as loans or grants but such outside capital is to be obtained without giving to the lenders or aid givers any share in the Bank's management.

To begin with, the African Development Bank has aimed at a modest capital of \$ 250 million so that it could all be subscribed by the African countries. For a bank, after all, the vital part is not the equity capital but the resources that the bank can mobilise by pursuing sound and practical policies. A bank not on sound lines will not succeed, however large may be its equity capital to begin with.

The amount of capital, it will be noted, is too large to be taken up by the Asian countries alone and it is by no means true that for its success the bank should start with a capital of this magnitude. As has already been indicated in these columns, of the billion dollar equity, USA and Japan will take up 200 million dollar each. As they will be able to count not only on Australia which comes in as a shareholder, among others, but also on Asian countries like Philippines and Thailand, not to speak of European members like the Netherland and others, the Bank will be Asian only to the extent that the USA collaborates with Japan. The preponderant role of the USA will thus be fully assured.

There is of course nothing to be said against Japanese participation as such. What can be objected to by the other Asian countries is that USA and Japan will between them exercise absolute control over the Bank which will be an undesirable feature of its management. In that case, what is the particular need of an Asian Development Bank? Is not the International Bank sufficient? As an industrialised country, Japan has acted and voted far more conservatively than even the European and American delegations in the many of the United Nations Committee on Trade and Development in Geneva. There is little assurance that Japan will not be more inclined to sympathise with the US policies rather than with the policies of the developing countries in Asia.

A Lesson from Africa

ON the subject of outside participation the position taken by the African Development Bank ("Report of the

Commission on Capital Subscription and Other Technical Matters", pp 229) may be commended to those who will be called upon to ratify the Asian Bank Charter: "It was realised that in a financial organisation of this nature (The African Development Bank) there should be some differences between the voting power assigned to large contributors as compared with small subscribers, the aim, of course, being that no single country or group of countries should be able to exercise undue influence on the policy organs of the Bank."

This is a viewpoint which needs to be pressed. Every provision in the Asian Bank's Charter should be carefully examined in the light of the healthy principles enunciated by the Technical Commission of the African Development Bank in order to ensure that USA and Japan, Europe and Australia, along with their Asian satellites, do not dominate the management of the Asian Bank. If Western domination is the price to be paid for it, it should be seriously considered whether it would be worthwhile having an inferior version of a World Bank merely because it is located in Tokyo, Manila or Bangkok.

It cannot be a mere accident that the ECAFE's Technical Adviser for the preparation of the Charter of the Asian Bank happens to be an expert from Costa Rica and a member of the staff of the Inter-American Development Bank; that its legal consultant is a Philippino; and that the Chairman of the Group of Officials who prepared the Charter is a civil servant from the Philippines. There are many countries in Asia which have a lot of experience in national and international banking and it is surprising indeed that the ECAFE should have gone all the way to the Inter-American Development Bank and picked an expert from Costa Rica to advise on setting up the Asian Bank. If Asians must look outside for expertise, the time has come for them to look to Africa and learn how to deal with the West in setting up the right type of institution to serve regional interests.

The Ministerial Conference which will be called upon to ratify the Charter of the proposed Asian Development Bank must see to it (a) that non-regional powers do not have a share in the bank's management; (b) that the share capital is kept to a reasonable level, — say \$ 500 million at the outset — in order to ensure effective participation by the Asian

countries; (c) that the voting rights are so adjusted that no single country — whether it be Japan or India — has the decisive voice in management; and (d) that the Bank becomes an efficient institution, reasonably non-political rather than one likely to get involved with regional political aid programmes of any of the powers engaged in the cold war in Asia.

This is not being suggested in a spirit of narrow parochialism. Asia, and South Asia in particular, is passing through difficult times and anything which helps to bring in the influence of large non-regional powers into the operation of the regional institutions will spell their doom.

It is by no means too late yet. There is still a lot of time to act and rectify the situation if only the Asian countries concerned will take off their blinkers and learn to trust one another. Needless to say, India as a non-aligned power, is freer to act than some others and has a very special responsibility in the setting up of the Asian Bank. In an institution sponsored by and established under the guidance of the United Nations, India can greatly help even if she may not lead the others in resisting the political manoeuvres of the big powers. To be able to act effectively, however, she must first see through the move that is afoot. There has been warning enough.

Delivery Contract in Groundnut

A Market Correspondent writes:

DESPITE a substantial increase in oilseeds production this year and the ban on exports and imports of soyabean oil and tallow, edible oil prices have continued to rise to unprecedented levels. Government has tried curbs on bank advances and restraints on Hedge contracts in oils and oilseeds through margins and price ceilings. These restrictions, however, have been easily evaded through the misuse of Non-transferable Specific Delivery Contracts. Government has now brought these contracts under regulation. It is through Non-transferable Specific Delivery Contracts that industrial consumers and wholesale dealers ensure smooth flow of supplies for maintaining their production or re-sale trade. Delivery of goods of the prescribed quality at the agreed time are the essence of such contracts. The Forward Contract Regulation Act, however, empowers Government to undertake regulation of Non-transferable Specific Delivery Contracts in

specific commodities at its discretion when they are abused. Some time ago Government enforced regulation on such contracts in mustard seed, cake, etc. Now groundnut and groundnut oil contracts will also be regulated by the Forward Markets Commission.

All forward contracts do not necessarily provide scope for speculation. Any contract which requires delivery of goods or payment after 11 days from the date of the contract is a forward contract. To ensure that genuine trade in groundnut and groundnut oil is not adversely affected, Government has recognised a number of Associations. Among them is the Vanaspati Manufacturers' Association of India for groundnut oil. The vanaspati industry is the largest single purchaser of groundnut oil, buying annually about 30 per cent of the total groundnut oil production in the country. Vanaspati manufacturers have used their own contracts for the purchase of groundnut oil since the beginning of the industry in 1930's. To enable manufacturers to continue purchases on all-India basis on the same terms, the Vanaspati Manufacturers' Association has been asked to regulate the purchases of the industry. Similarly, Bombay Rice and Oilseeds Merchants' Association which traditionally regulates actual trading in oilseeds has been recognised for groundnut. The recognition of different Associations for Hedge contracts and for specific delivery contracts correctly reflects their different functions in the oilseeds trade. Through recognition of a chain of such Associations for specific delivery contracts the Commission will be able to prevent abuse of the non-transferable specific delivery contracts for speculation.

By regulating Non-transferable Specific Delivery Contracts, the Commission does not wish to disrupt the normal channels of trade. Since it is common practice for oil millers to indent tank wagons and despatch the oil to terminal markets like Bombay, Delhi or Calcutta and pass on the Railway Receipts to the commission agents for sale, the Commission has permitted one transfer of Railway Receipts. It does not permit transfer of the rights under the contract for delivery of goods in other forms. Therefore, the attempt to create confusion between N-T S D contracts and the speculative hedge contracts by interested parties should not mislead the public about the distinctive roles of the different contracts and the objectives of their regulation.

CAPITAL VIEW

Our Intelligence Service

Romesh Thapar

IF there were a public opinion poll to locate the most damaging failure of these last few years, I am convinced that millions of fingers would point to our so-called intelligence network. So unreliable has been the information gathered that even on a rare occasion when a good job has been done no one has bothered to take note of it. Indeed, we seem to have lost faith in our capacity to undertake this kind of work—for, we now tend to entrust it to the most lazy and ill-equipped of the personnel at our disposal. It is a state of affairs which persists despite declarations to the contrary.

Nehru's Distrust of Espionage

Perhaps, our neglect of this vital arm of government, and the very visible tendency to hamstring it with petty rules and regulations about the expenditure of funds and such things, was rooted in Jawaharlal Nehru's deep antipathy to the idea of espionage. Politically, too, he viewed the growth of organisations like the CIA, the FBI, MI 5 as a constant threat to the democratic process. He saw espionage, internal and external, as the equipment of an authoritarian State and did not want his dream of an enlightened India subverted by morose undercover agents. Only after many years of persuasion was his open hostility even to the CID and policemen curbed.

The shock of the 1962 events in NEFA, the realisation that military intelligence was literally non-existent, that the army was relying solely on the intelligence operations of the Home Ministry and that these were of the most rudimentary kind, cleared the way for the build-up of co-ordinated intelligence services, civil and military, to cope with defence problems. However, our attitudes have remained incoherent. Defence Minister Chavan, for some strange reason, has failed repeatedly to explain the continuing lag in military intelligence. The conflicting summaries of the still secret Henderson-Brooks Report on the NEFA battle might have confused him. Or, maybe, he and his colleagues, civil and military, in the Ministry do not have the energy to do what is expected of them.

There is little point in referring to

the so-called Joint Intelligence Committee set up recently by the Cabinet as proof that we are moving at last in the direction of co-ordinated intelligence services. This body has all the flavour of a bureaucratic get-together from various departments of the GOI to avoid the contradictory and embarrassing postures so typical of the Kutch and Kashmir crises. Basically, the problem is to organise civil and military intelligence services which ensure efficiency and effectiveness—and under the guidance of men specially chosen for their skills. The intelligence services—and, for that matter, the Joint Intelligence Committee—are based upon those antiquated notions which hold-up for months even the indent for hammers and nails in a museum. We need a new breed of men for this work, not the comfortable gentlemen who live by the book of rules and regulations.

Failures of CBI

It is necessary to stress this rather obvious assertion because we cannot afford to take any more chances with the security of the State. During the NEFA crisis, the civilian Central Bureau of Intelligence could not tell the difference between three battalions and three divisions of Chinese troops. Later, prior to the Kutch developments, the same civilian body was surprisingly enough able to give warning of Pakistani movements—but the army, once bitten, did not pay attention. In Kashmir, the less said the better. All the now confident talk of Home Minister Nanda and Defence Minister Chavan about being fully informed at the end of July about Pakistani infiltrator tactics is suspect and, what's more, is belied by the sequence of events.

Similarly, when we test the capacity of the intelligence services in terms of the internal threat, we are surprised at the gullibility which prevails. Whether it is in dealing with Congress factionalists, Communist adventurers, Akali fanatics and Hindu incendiaries—or with those who would pull the whole structure down into a sea of chaos—the intelligence arm of the GOI is seldom ahead of events. The recent eruptions in Bihar for instance, are indicative of a massive failure to understand what is afoot.

And if Fateh Singh and his Subaists are permitted to rock the Punjab, it will represent another failure to act in time. Political agitations in the States have become highly ramified. It is no longer possible to rely on easy formulations as to who threatens and who does not. In other words, our intelligence services have to develop a sophisticated and perceptive approach.

The knowledge that those hostile to us—Pakistan, for instance—are as badly serviced by their intelligence agencies provided small comfort. These minor powers, despite all their pretensions, do not face the related challenges which an India has to cope with. We need to possess information of a special kind which assists us in assessing the threats to our national interest. This information cannot be picked up cheap at cocktail parties and via the gossips. Nor can it be analysed, when skillfully collected, by dull bureaucratic minds, unable to comprehend the subtle shadings of the changes taking place around us, minds conditioned by the illogical system of promotion and reward which prevails in our administrative system. Professionals are called for—and these are lacking at every level.

Professional Body Needed

When Foreign Minister Swaran Singh indulges in what amounts to irresponsible gossip about the so-called differences between Ayub and Bhutto, he shows that he is not only unaware of diplomatic norms but is publicising unconfirmed rumours provided by an intelligence service which functions at the gossip level. A professional approach would demand intensive study of the repercussions of Pakistan's present policies on the political set-up in Rawalpindi. Rumours could perhaps be released through appropriate sources, but surely not through the mouth of the Foreign Minister. What was the cumbersome Joint Intelligence Committee doing? If this is a sample of its work, it will earn the nickname of 'Jokers In Committee'!

There is nothing wrong with the idea of the Cabinet being served by a committee which co-ordinates significant analysis of intelligence prepared by the civil and military organisa-

tions, but the committee cannot be what it is at the moment—a mix of various heads of government department and intelligence networks. What is needed is something more high-level, more professional, non-civil service, able to sift materials and co-

LETTER FROM SOUTH

Ministry Making in Andhra

THE recent Cabinet reshuffle and expansion in Andhra has gone largely unnoticed. This is all to the good in so far as the reason is that the factional squabbles in the ruling party in this State have nowhere reached the spectacular level of Congress in-fighting elsewhere, e.g., U P or Punjab. The other reason is not at all flattering. Andhra still does not count on the national scene. It is still regarded as something of a backwater and without much all-India weight to throw around. This attitude is the usual superficial one that besets most political commentators who do not seem to have either the time or the perspicacity to attempt to probe beneath the surface in order to discover underlying currents. Andhra is reaching a point where its potential will soon enough be displayed to the surprise of many and the consternation of some.

Signal from Sanjeeva Reddy

Brahmananda Reddy had taken a great deal of time before venturing on the remaking of his Ministry. He had waited, for obvious reasons, till the Election Tribunal had decided in his favour. It was not at all certain that the verdict would have gone the way it has. The charge of corrupt practices at the time of the 1962 elections was fairly well substantiated, though not in a fool-proof way as the learned judge pointed out. Though the respondents have gone on appeal to the High Court, it is rather unlikely that anything upsetting will take place before the 1967 elections. Barring the very unexpected, the Andhra Chief Minister is now quite secure.

There was another reason for delay. Sanjeeva Reddy had resigned dramatically enough, following the strictures passed by the Court on the motivations of his decision to extend the nationalisation of the bus services to Kurnool. After Nehru's death he had become an important all-India figure and one of the top king-makers.

relate them. The present approach is haphazard, without perspectives. The Prime Minister must apply his mind to this urgent business which is likely to become quite critical in the coming months when one alarum follows another.

But he was by no means confident whether this importance would last, whether he would be able to retain his position for long. Consequently, he did not relinquish his detailed control over local Congress politics. Fairly frequent trips were made to the State often enough to decide upon changes in various Zilla Parishads and Panchayat Samitis. He was not inclined to give his successor too much elbow room, despite the extremely cordial relations between the two. It now appears that the Union Steel Minister is more confident that he will continue to count in the Central Cabinet as well as in the Congress High Command. The prospects of moving up the ladder and, who knows?, becoming the first Southern Prime Minister, do not seem utterly unattainable. Thus the control over Andhra, though not relaxed significantly, will be exercised more remotely and through trusted intermediaries, among whom the present Chief Minister is pre-eminent.

Tussle for Foothold in Nellore

With the way clear, Brahmananda Reddy did the job in as diplomatic a manner as possible. The changes have sparked off some trouble but this was inevitable. Ministerial posts are scarce goods compared to the very large number of those not only eligible but who vociferously feel themselves to be so. This is itself a sociological fact of considerable significance. There is nobody, or very few, so outstanding, that his inclusion would seem to be a foregone conclusion. At the same time, the average level is high enough to tackle the responsibilities of Ministership and the average is a considerable number. The Congress in Andhra has few, if any, "stars" but the "extras" are to be had in abundance. Competent mediocrities are what the situation requires and provides. When challenging times come there may be serious difficulties. But not now.

The inclusion of a Harijan in the Cabinet was long awaited following Sanjeevaiah's departure. The man

chosen, T V Raghavulu, comes from the cobbler caste and is a leading lawyer in one of Andhra's richest districts, West Godavari. His appointment is yet another indication that the Union Labour Minister's group has more or less disintegrated and that he has practically ceased to count in State politics. Perhaps he has had his day. The other newcomer is a dark horse. N Chenchu Rama Naidu appears to have little to recommend himself beyond the fact that he is a Kamma by caste and comes from Nellore, where Brahmananda Reddy wants to secure a foothold.

This attempt to consolidate himself as the second man in Andhra would seem to be the reason behind the cutting down of A C Subba Reddy, the boss in Nellore and the only possible challenger. The trifurcation of the powerful Public Works Department and the removal of Power and Irrigation from Subba Reddy has clearly reduced his strength and indicated that the Chief Minister is confident to tackle his most powerful rival. The battle, however, is not over and A C might retreat for the moment only to launch a strong offensive at the time when election tickets are about to be handed out. He must have enjoyed the scene of 30 MLAs from the Rayalaseema region staging a demonstration in the Chief Minister's room in the Assembly and felt even more pleased when a different assortment of 30 MLAs kept away from the swearing-in ceremony, among whom Sanjeeva Reddy's newly-elected son-in-law was a conspicuous absentee.

Chief Minister Strengthened

Trouble there is bound to be in the future but, on balance, the reshuffle has strengthened the Chief Minister. He has now a bare year in which to establish himself and project his image. It is not yet clear what sort of image he would like to create.

This would not have been much of a problem had the Communist movement in Andhra not been split. The Swatantra hardly counts except in some pockets, largely due to the personal hold of Ranga over sections of the Kamma peasantry. The SSP is no force at all. But the Communists were in quite a different category. The debacle of 1955 had not been able to demoralise them for long. Skilful tactics, combined with solid mass work, had provided good results in the 1962 elections. If this had been consolidated and followed

up there was quite a chance of 1967 giving them some 100 seats and Andhra an opposition that the Congress would not have been able to ignore. With this type of opposition the Andhra Congress might well have been pushed to the Left, especially in matters of industrial and national policy. (On the question of land the resistance would have been much more difficult to overcome.) Now this prospect has dimmed considerably. Joint mass campaigns would, perhaps, take some of the edge off the bitterness but the elections are too near

for the realisation of the aim of a single Communist ticket, though on a two-party basis.

Groping in a Radical Direction

There are, however, indications that the Chief Minister and some of his colleagues are groping in a radical direction. The Communist motion recommending the nationalisation of banks was powerfully supported by Chenna Reddy, the Finance Minister, even though he urged its withdrawal so that the "sense of the House" might be conveyed to the Centre.

LETTERS TO EDITOR

In Lieu of Thinking

I AM moved to write this letter to you after reading the issue of July 3 and the article "In Lieu of Foreign Policy". Some of the comments therein seem to call for an answer.

Apropos of the postponed Afro-Asian Conference, you make the following remarks:

"There is scarcely any cause for expressing jubilation over the postponement. Rather, it is a set-back for the whole of Afro-Asia..."

"...the antics of a number of Indian diplomats and journalists over the postponement of the Conference seem bizarre. It is an index of how much we worry about relatively inconsequential matters of foreign policy..."

"True, in Algiers, Indian diplomats have been outmanoeuvred by the smart Pakistanis. This has been a continuing story for some years... doing the reverse of whatever China and Pakistan do might be exciting cocktail talk, but it cannot constitute foreign policy...petulant immaturity has obviously taken over our external policy making..."

May I examine each of the paragraphs one by one for the sake of clarity of thinking?

The second Bandung Conference was to have been held to mark the tenth anniversary of the first meeting held in Indonesia under special circumstances. The first meeting was an occasion for stressing Asian unity; you may remember that as one of the more active sponsors, India played a notable part in bringing China to the meeting. The question was whether the second Bandung would have been useful to bring about that unity so

essential to the welfare of the Asian people. That question has never been answered.

As long as India and China remain at loggerheads, as long as China, Indonesia and Pakistan insist on continuing on the warpath, any talk of another Bandung must only be regretted. If the Algiers meeting had been held, the occasion would have been chosen by China especially, to launch an ideological tirade against India that would have served no purpose. The hope of unity would have been ill-served by that conference. Of necessity it had to be postponed in the larger interests of Asia and Africa.

From the very beginning, China had made it clear that it intended to use the Algiers platform for purposes other than promoting Asian unity. The Algiers meeting would have ended in shambles with China accusing India, with Indonesia attacking Malaysia and Pakistan in its turn seeking to introduce controversy that was, at best, kept for bilateral talks with India. And what good would that have served the peoples of Asia and Africa?

Even if there had been no political coup in Algeria, even if Ben Bella had not been overthrown, even if arrangements for holding the conference in Algiers were pluperfect, it would have been wisdom not to hold the meeting. As it turned out, events conspired to postpone it.

A second Bandung is necessary, but not before most of the intra-Asian disputes have been settled at bilateral talks. In my opinion, India must strive to get the conference postponed *sine die*. It evokes no response from the French African States, and if the meeting had indeed been held in June,

The bigger Fourth Plan concept, with an expanding public sector in industry, has been firmly backed. As a matter of fact, the Andhra recommendations to the forthcoming National Development Council meeting are likely to be startlingly radical. The exigencies of the States development, the desire for industrial take-off and the lack of powerful local industrial-financial groups, impel even the present Congress leadership in the State in that direction. Given a powerful socialist education and mass action drive, a good deal might still be achieved.

it would have been a disaster, if only on this count. We have, therefore, every reason to feel jubilant that it was postponed, even temporarily.

The issue is important. It is not, if I might say so, a "relatively inconsequential matter of foreign policy". On the contrary, India did very well indeed to seek the postponement of the conference. To refer to the good work of the Indian diplomats as "antics" reflects poor understanding of the basic issue which is that no international conference should be held without first making sure that seeds for understanding have been sown earlier. If those "seeds of understanding" have been lacking, it is not India's fault. Are you suggesting that it is India that is responsible for the border conflict with China and Pakistan? If that is what you sincerely believe, then your readers demand a certain amount of intellectual honesty from you.

India's fault has been that she allowed herself, for sentimental reasons, to agree to the holding of a second conference to commemorate Bandung. And yet, it is not a fault. To hope for peace, for mutual understanding in a world grievously lacking both, is not a fault. But India, surely, has a right to change her mind, if that is called for? India did a signal service to the cause of Asian unity by trying to get the Algiers conference postponed. If India is to be blamed, it is for not trying still harder.

Your remarks about Indians being outmanoeuvred by the "smart Pakistanis" in Algiers not only shows an abysmal ignorance about the events in Algiers but a total lack of understanding of either manoeuvres or smartness. Pakistan was in league with

China and Indonesia and with Algerian leaders who were not necessarily sympathetic towards the Pakistanis but, for their own reasons, desperately wanted to keep the conference going. When the Algerians realised that the conference could not possibly be held, they asked the Chinese and the Indonesians what to do. Neither could suggest a postponement without losing face. Pakistan was, therefore, asked to do the honours, which it did, clumsily.

Hostility to Pakistan from the international press was so great that when Zulfikar Bhutto held a press conference he was smothered by hostile questions from the international press to a point where he finally lost his temper and insulted, among others, a Japanese correspondent and an Indian correspondent. If it is smartness to lose temper at a press conference, then obviously we have been studying two different dictionaries.

The Pakistanis, in fact, were isolated, though, when the host country is in league with Pakistan, its leaders may appear to be having more influence. At the meeting of the Standing Committee when the decision was taken to get the Prime Ministers' meeting postponed, Pakistan's diplomats were practically under orders from the Chinese and every comma of the final resolution had to get the Chinese leaders' approval. If this is what you call great diplomacy, then there is an urgent need for you to define words.

I had always thought that it was Pakistan which used to do the reverse of what India did, but obviously you are making very important discoveries of late. Can you cite instances of India doing the reverse of what Pakistan and China have been doing? That would be far more convincing—and constructive—than to talk about "petulant immaturity" or even "the antics of a number of Indian diplomats and journalists". This kind of writing does not reflect highly on the standards of your editorials, which in the past have been informed for their sobriety and dignity. For Christ's sake, attack the Government of India with might and main, but have a regard for the use of language.

India's foreign policy admittedly has not been sharp and clear in recent months. Those who make foreign policy, no doubt, are equally aware of this. But foreign policy is not something that is shouted at from house-tops. Neither can it be consistent—except that it should be in the national interests.

India is finding herself in a situation where the lines are not clearly drawn, where she has to tread very warily and not commit herself to positions that she cannot sustain. It was a different story when India first came to adopt her policy of non-involvement in the cold war. That attitude was comparatively easy to adopt and in the circumstances the only attitude that India could adopt. Today alignments are hard to define. The United States and the Soviet Union are no more at loggerheads; in fact, they are both themselves trying to re-fashion their foreign policies and the process is painful to watch. And when it is remembered that it is primarily these two world powers that act leaving it to other nations to re-act, then India's dilemma can well be imagined.

There are times and occasions when it is prudence not to talk, not to act, but to wait and watch. It is easy for China or Indonesia or Pakistan to make great pronouncements, for they have played most of their cards against India and been trumped. After having tried to trip India through American and British assistance and failed, what is more natural than to expect Rawalpindi to fall into the arms of Peking? India has not alienated the Soviet Union; on the contrary, the Soviet leaders have received Prime Minister Shastri with pleasure and honours. India has not alienated the United Arab Republic; on the contrary, Nasser has kept his friendship with India. Prime Minister Shastri has been received at the airport by President Tito, a great honour, not prescribed by protocol. It does not have to be stressed that Canada maintains the most cordial relations with India and even Britain has ceased to tease India on the Kashmir question. This is something to be applauded.

And what is it that either China or Pakistan have gained in Africa? Can you say with any kind of certainty that China has won friends in Kenya or Uganda or even in Ghana? Or, for that matter, Pakistan? On the contrary, Indian leaders have been heard with respect; they have been received with courtesy.

It is true that Indian leaders have ceased to talk out of turn; for which, thank God. It is also true that we have stopped trying to "lead" Asian and African nations at the United Nations for which again, thank God. No nation wants to be "led"; it irritates them. It irritates them even more when word goes round that it is India that is doing the "leading". It is wisdom to

stand on the sidelines and mind the national interests. So long as these interests are safe, we have no reason to complain.

And what are our national interests? First, the safety of our borders. We have now some sort of assurance from the United States and Britain against further Chinese depredations. China may still attack us: but the fact is, she has not. This is an important factor.

Then there is aid to our five year plans. Considering what a snub Pakistan has been administered to by the United States, there is no need for us to seek one. Let those with Jocrinaire views on non-alignment shout: in politics—even the most exalted politics—concessions have constantly got to be made. What is at stake is not just prestige, but the happiness and welfare of the people. India remains non-aligned, but those in power must know the limitation of their power. It is a matter of pride that we now have a Prime Minister who puts the people's welfare above doctrines. Haven't we done enough shouting in years past about our virtues? And where did that get us?

He-manship in foreign policy may make good editorial copy, but is not necessarily consistent with India's best interests. Mr Swaran Singh may or may not be a good Foreign Minister, but he has not made any mistakes so far. He very sensibly kept away from Algiers: that was as it should be. The situation there did not call for his presence. As long as he keeps silent and lets others do the guessing, we shall be doing very well. May it be remembered that India for all her many virtues is not a power in the military or economic sense. It is a wise Foreign Minister who knows both his and his country's limitations.

India's model should be Japan; and Japan, lest it is forgotten, is a major economic power and a major industrial power and could be a major military power if it wants to be one. Have you ever heard the Japanese making great pronouncements of policy on international affairs? They do not: and that is their greatest strength. The Japanese wait and watch; they listen, they seek answers. But they will not talk. Their interests are in business, trade, economic activity. India could do well to concentrate on the same front instead of on leadership. We do not have to feel called upon to give our judgments on disputes, when we have no power to impose them on the

disputants. In politics only power counts. Politics is strictly amoral. Our sense of morality did not prevent the French from attacking Suez or the Soviet Union from taking Hungary by the neck. It was not John Foster Dulles' presbyterian morality that finally induced the British and the French to retract, but Moscow's threat of retaliation and Washington's negative threat of not giving any aid.

Foreign Policy is most effective when it is least publicised. Take France. France recognises Israel, but there is quiet Arab-French collaboration. The Arabs talk a great deal, but do you think that is great diplomacy? The Arab nations have been able to strangle only the weak Asian nations. The strong get away with recognition of Israel and with no blood-curdling speeches.

It is therefore uncharitable, to say the least, on your part to condemn India for her alleged "petulant immaturity" or inactivity.

A READER

August 10.

[The letter is a example of the 'petulance' the editorial had commented upon: it reveals an attitude of mind which pervades current Indian foreign policy making. Despite what the writer contends, Indian officials are happy that the Algiers Conference was postponed because (a) China and Pakistan wanted it to be held, and (b) they were scared stiff that they would be outmanoeuvred by the Chinese and the Pakistanis and the Indonesians in case the Conference was held. It is the view of this journal that there might be some contributory negligence on our part which would account for our present alienation from the three most populous nations of Asia. Our unseemly haste to embrace Malaysia, which has annoyed Indonesia no end, has now been rendered an infructuous exercise by last month's development. And if we are that much loved and respected in Asia and Africa, why this reluctance on our part to face a Conference. Even President Nasser, the one 'who has kept his friendship with India', has pressed us to resolve our quarrel with China.

The philosophy which the writer of the letter thinks should guide our foreign policy is reflected in his statement: 'Considering what a snub Pakistan has been administered by the United States, there is no need for us to seek one'. This journal holds other values—Ed.]

Make Liquor Pay for the Plan

A SMALL news item in the London Times of August 20 may give us the clue for solving the problem of financing the Fourth Five-Year Plan. In a very wet June, the British beer drinker contributed more than a million pounds a day to the National Revenue. The Chancellor has estimated that in a full year the beer duty alone (leaving aside that on whiskey, etc) will yield £326 million or about Rs 450 crores, from a population of 50 million people.

It is not to be supposed, of course, that an Indian population of 500 million would therefore yield Rs 4,500 crores, which is equal to the annual budgets of the Centre and all the States, but the magnitude of the figure does indicate the potential of drinks as a revenue earner. The Tek Chand Committee estimated that the total additional revenue if Prohibition were removed would come to Rs 146 crores per year. Its estimates are no better than mine or of the readers, as any estimate of this nature is pure guesswork; on the whole, however, it is not unreasonable to suspect that this is an underestimate, especially if one looks at consumption figures of food-stuffs, particularly energy giving food-stuffs like sugar which has gone up from one million tons to 3 million tons in 12 years. At present duty on beer in India is frankly prohibitive; when a bottle of beer costs Rs 5 you do not expect large scale consumption; it is out of the reach of most families. If duties on alcohol were reduced to more reasonable levels, there is no reason to suppose that the revenue would be only Rs 146 crores; it could be very much more — perhaps even double the figure suggested by the Tek Chand Committee, which would be equal to twice the revenues levied by the supplementary budget of the Finance Ministry.

At this stage the Economist drops the argument to the moralist. Is it right, is it proper to make money out of the poor by pandering to their weaknesses? Horror stories come out, husband spending the major portion of their income on alcohol leaving his poor wife and child to starvation and hunger. The duty of the State, therefore, is clear; rescue the poor from themselves; make them really free by taking away their right to drink what they want to. As Rousseau said it is a State's duty to force the people to be free.

These subtle contradictions no doubt amuse the intellectual social reformer,

the ordinary social worker is only interested in telling some one else what is good for him; the point has therefore to be made over and over again that you are not stopping people from drinking by Prohibition nor are you assuaging the hunger of our children by not taking money from their evil fathers. To the drinker there is an every-ready source of supply from the boot-legger, from the illicit distiller, from the gangsters who run this racket. Social and personal responsibility does not come through edicts from Delhi, but through education; self-restraint comes not from listening to unrestrained platitudes endlessly delivered by ministers, but from experience.

The question before the Government is not whether prohibition is good or bad, most intelligent people think it is bad. The question is, does the Government have the courage to drop a basic tenet of Gandhiji in the name of the Fourth Plan? That would require more courage than the Congress has displayed since independence.

SUDHIR MULJI

Bombay,
August 26.

First Compressed Airline Equipment Plant

A NEW Company, Shavo Norgren (India) Private Limited, has been registered to manufacture world-renowned Norgren Compressed Airline Filters, Regulators and Lubricators, with technical and financial collaboration of C A Norgren, U.S.A. The Government's approval for the collaboration has already been obtained, and the plant and machinery is being supplied by the American collaboration against their equity participation in the new company, saving considerable amount of foreign exchange for India. The company will be obtaining

The land for the new factory has been secured in the new industrial area of Thana-Belapur Road, Maharashtra, and the factory is expected to go into production in early 1966. Vital requirements of Indian industry for compressed airline equipment which is solely dependent on imports, will be met in full by the new company, saving considerable amount of foreign exchange. The Indian factory will be the seventh overseas unit of the 40-year-old Norgren, U.S.A., who are the world's largest manufacturers of pneumatic filters, regulators and lubricators.

Students and Social Change

Karuna Chanana

Social Change and College Students of Gujarat by B V Shah; M S University of Baroda, 1964

B V SHAH'S book is one of the first systematic studies concerned with the form assumed by social change among Indian students. The book attempts to study the impact of social change on the behaviour of and values held by students.

The purpose of the study is to examine, what the author considers to be, a few relatively important aspects of the changes taking place in Indian social life. The aspects selected are: joint-family organisation, caste endogamy, caste commensality, adult boy-girl relationship, married women's outdoor employment, time of marriage, bride selection and selection of occupation and of the place of livelihood by the students. The first two are the most important or the central areas of Indian social life because the Indian social structure rests on them. The remaining seven are but peripheral. The author concludes that change in the first two constitutes social change whereas change in the other areas, independently of the first two, does not amount to social change.

The study is based on field-work undertaken in 1958 among the undergraduate male students of the M S University of Baroda. A random sample of 200 college students was selected for interview and analysis. This formed 20 per cent of a total of 990 Hindu (including Jain) students. All the students selected had Gujarati as their mother-tongue and belonged mainly to "high-caste and high and medium class" urban families.

The proportion of students from low castes and from rural areas is very low. This indicates that the principle of the equality of educational opportunity is still not operating in reality. Various factors such as intellectual ability and achievement, rural/urban residence, caste, income, and educational and occupational background obstruct the actual realization of this principle. Therefore, there will be little change in the occupational structure of India in terms of its caste composition.

On the theoretical plane, Shah makes a meaningful distinction between action, attitude and mere verbal behaviour (p 9). He emphasises the point that the first two are more relevant and important for his study.

Another positive contribution on the conceptual level relates to his

treatment of society as a system, various parts of which are closely inter-related. He tries to relate the behaviour, attitudes and opinions of students (towards the selected aspects of Indian social life) to their social background, i.e., to their family and also to the wider social set-up. Thus, he views the students in their social context. The term 'social background' denotes the income, educational and occupational levels and the rural/urban residence of the family. The rural/urban background and the education of the parents are the most decisive criteria in determining their preferences and views.

The approach in this analysis is comparative inasmuch as change in the present century is measured with reference to the behaviour pattern and values of the 18th century. To this end, the author constructs a model or an ideal type of the 18th century urban Hindu society. Accordingly, the joint family is the norm and caste endogamy, caste commensality and the strict segregation of the sexes are all traditional forms of behaviour. In addition, women do not have rights to education, inheritance and employment, the son follows the hereditary occupation of the father and the parents select marriage partners for the children.

The students' actions are divided into three categories depending on the ends pursued by them. By fitting their responses (vis-a-vis the nine aspects of social life) he divides them into 'Traditional' and 'Non-Traditional' or 'Fully-Deviated' according as they conform or do not conform to his model. Those coming in between are called the "Partially-Deviated". As a result of this analysis Shah concluded that notwithstanding some change in the seven peripheral areas, the hard core remains unchanged and is likely to remain so (p 195).

Both rewarding and revealing as his conclusions are, it is difficult to accept his model as a basis for comparison, because no model, however sound, can replace reality. Shah, however, identifies his model with reality and tries to fit in the various responses therein, recognising no exceptions.¹ Moreover, this model is not based on any historical material. A study of change should be undertaken over two points of time or alternatively, a previous

study can serve as the first point in certain cases. In the absence of either of these, Shah has had recourse to an imaginary model.

Secondly, in trying to construct a model, the author seems to have gone a bit too far in drawing a generalised picture. As it is, there is no evidence of a universal pre-British pattern. The pattern varied from region to region and from group to group. But he assumes that the joint family was the ideal and the most prevalent form of social organisation especially in the rural areas. Exceptions to it were possible only in the urban areas (p 53). To say the least this is a mere reiteration of an ethnographic myth about the traditional Hindu society at a time when it is a well-known fact that, at least, in the rural areas the joint family was related to land and property ownership as well. This basic weakness of his model has considerably affected his study.

Shah's work also suffers from his predisposition towards tradition. He believes that the behaviour pattern and the values of the students remain unchanged notwithstanding change in society at large. His keenness to demonstrate the validity of his opinion makes him ignore all the contrary data collected by him. For instance, 80.5 per cent students state that they would set-up separate families (p 62), 78 per cent of them have friendly relations with non-kin girls (p 110); only one per cent of the students would not like to exercise individual choice in bride-selection (p 85). But Shah passes over these in silence.

No wonder, he shifts his stand from opinion to attitude, from action to opinion, as required. As is already mentioned, 80.5 per cent of the students would like to settle away from their family, but for the author this is not important because "the separation in residence and settlement in a different place does not necessarily mean a separation of minds also" (p 78). Thus the actual separation of families is much less important than the joint-family mindedness. Besides this last term is a purely subjective category which the author determines by the students' "interest" in family matters, "considerations" behind settlement in occupation, and by the "ideology" behind their intentions. We need not add that his understanding of "ideo-

logy" as the students' desire of expecting their own brothers to be similar-minded, is somewhat restricted as an interpretation of the term in question. Sociologists working on family organisation have considered two levels of jointness, structural and functional. It almost seems that Shah adds a third, the joint-family-mindedness.

Not only does he ignore the distinction between action, attitude and mere verbalisation, he also emphasises the third to the detriment of first two. In other words, he rejects the concrete evidence in favour of the vague inasmuch as he insists that the behaviour and attitudes of students are not an indication of change since "actual relations may not be indicative of ideological deviation" (p 110).

Ideas, intentions, desires and ideology carry more significance for Shah than actual behaviour or attitudes. Admitted that thought and action are not mutually exclusive categories, it is the social scientist's task to decide which of the two is more relevant for his study. Shah's failure to do so lends an inconsistency to his approach. This lack of consistency in his analysis gives one the feeling that either his model is faulty or that his data is unworkable or that his conclusions are not fully based on the facts collected by him.

It is also difficult to agree with his method of quantitatively measuring change. In the absence of an appropriate index or technique to measure the same, Shah arrives at wrong conclusions. His scale has the 'Traditional' and the 'Non-Traditional' as two ends. Firstly, these are not clear-cut categories. What is 'Non-Traditional' in one situation may not remain so depending on intentions, ideas etc. For example, even though one selects an occupation different from that of one's father, (which is 'Non-Traditional' according to Shah's model) one remains 'Traditional' if this choice is conditioned by family considerations. This also shows that the opposite of 'Traditional' may not necessarily be 'Non-Traditional'. This leaves the reader wondering if the author does have any distinct criteria of differentiation. Secondly, he tends to merge the 'Partially-Deviated' with the 'Traditional'. Probably he views the scale as something static and merges the two because of the lesser gap between these two as compared to that between the 'Partially-Deviated' and the 'Fully-Deviated'. But the process of social change being continuous,

the movement of the 'Partially-Deviated' from the 'Traditional' end of the scale is significant in that it indicates further movement. Therefore, this merger of the two appears to be a marriage of convenience to negate change. Lacking as it does an objective basis, it justifies the feeling that his argument is one-sided. He seems to accept whatever conforms to his traditional pattern and brushes aside the non-traditional responses. At best he labels them as "temporary accommodation to certain specific situations in those spheres" (pp 200-201, 110).

This apart, the value of the work lies in the fact that it is the first of its kind in the field of sociology of education and on Indian students. Although quite a few studies are available on Indian students and social change² this one far excels those in many respects. It is an intensive study based on the use of sociological techniques of field-work. It easily stands out from other works which have been surveys of one kind or another. Moreover, this is the first systematic attempt to view students in their social context, instead of viewing them as units *per se*, isolated from the families they belong to and the society they live in.

It also makes an important contribution by highlighting the role of education and urbanisation in the changing social and economic set-up. One may suggest, in passing, that the author could have fruitfully utilised his data to denote the relationship

between education and occupation of the parents on the one hand, and students' behaviour and values on the other, at one point in time.

Notes

- ¹ This reminds one of Claude Lévi-Strauss: "*le but est de construire un modèle, d'étudier ses propriétés et les différents manières dont il réagit au laboratoire, pour appliquer ensuite ces observations à l'interprétation de ce qui se passe empiriquement et qui peut être fort éloigné des prévisions.*" *Tristes Tropiques*, Paris, 1955; p 49-50. In English, "A World on the Wane", p 61, London, 1961.
- ² (a) Merchant, K T: "Changing Views on Marriage and Family", B G Paul and Co, Publishers, Francis Joseph Street, Madras, 1935.
- (b) Desai, I P: "High School Students of Poona", Deccan College Monograph Series No 12, 1953.
- (c) Cormack, Margaret: "She Who Rides a Peacock—Indian Students and Social Change", Asia Publishing House, 1961.
- (d) Youth in India Today: A Report of the Survey on the Attitudes of Youth and the Values to which They Remain Attached", sponsored by the World Assembly of Youth, Allied Publishers, 1963.

Indian Army in Second War

A Roll of Honour: The Story of the Indian Army, 1939-45 by Maj-Gen J G Elliot; Cassel; pp 392, 36s.

WHEN the second world war broke out and the Indian National Congress was caught in the dilemma of wanting to oppose Nazism and Fascism but wanting to do so only as representative of a free people, it became the prevailing view that those Indians who joined the Indian Army were "rice soldiers". In some quarters there was resentment that any Indian should join the Army of the Occupying Power, namely, Britain. There is no doubt that a few Indians took service under the British flag simply because there was no other avenue of employment open to them. But undoubtedly many joined the Indian Army either out of a sense of adventure, or a desire to follow an ancestral profession, or to keep up with a martial tradition or out of loyalty to Britain. There must also have been

quite a few who wanted to fight Hitler out of a sense of idealism. It is never too easy to guess what made so many thousands join the Indian Army in the days following 1939 and especially when the Congress was at odds with the government. It has been said that many joined to gain fighting experience for future use. Perhaps. But the fact remains that the Indian Army covered itself with glory. Even if it was made up of "rice soldiers", it gave a first class account of itself.

The story of the Indian Army has never been fully told, but now a major attempt has been made by an Englishman, which is as it should be; the tribute to the Army and the officers and men who led it, has been fulsome. To the tributes paid by the author is added another by Field Marshal Sir Claude Auchinleck who

Reserve Bank of India

APPLICATIONS are invited for the posts of Banking Officers in the Department of Banking Operations and Development in the Bank in the scale of Rs 430-430-55-815-EB-55-925-60-1045.

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

In addition to pay, the selected candidates will be eligible to draw local pay at 10% of grade pay (at centres where it is admissible) and allowances mentioned below as may be admissible from time to time. The present rates of allowances are as under:—

- (a) *House Rent Allowance* : At 15% of pay with a maximum of Rs 300.00 per mensem.
- (b) *Dearness Allowance* : At 20% of pay on basic pay of less than Rs 500.00 per mensem and thereafter at 16½% of pay with a maximum of Rs 125.00 per mensem.
- (c) *Temporary Ad-hoc Allowance* :
 - (i) *For pay under Rs 700/- per mensem* : 15% of pay with a maximum of Rs 100.00 per mensem.
 - (ii) *For pay of Rs 700/- per mensem and above* : 12½% of pay with a minimum of Rs 100.00 and a maximum of Rs 125.00 per mensem.

The continuance of the Ad-hoc Allowance is subject to review before the end of September 1965.

QUALIFICATIONS:

Applicants should

- (a) have a minimum of five years' commercial banking experience out of which not less than three years should be in a responsible position. Preference will be given to applicants with high academic qualifications who have made a special study of Economics, Banking, Commerce or Accountancy, OR (b) be Chartered Accountants with a minimum standing of five years.

Note: Candidates who had applied for the posts in response to the advertisements issued during the last three years need not apply again.

THE SELECTION BOARD WILL INSIST ON A VERY HIGH STANDARD OF SUITABILITY IN MAKING SELECTIONS FOR THE ABOVE POSTS AND ONLY THOSE CANDIDATES WHO POSSESS HIGH ACADEMIC QUALIFICATIONS AND/OR ADEQUATE EXPERIENCE OF THE TYPE SPECIFIED ARE ADVISED TO APPLY.

AGE LIMIT AS ON 1ST AUGUST 1965:

Candidates should not ordinarily be over 35 years of age but the age limit may be slightly relaxed in the case of candidates with exceptionally good qualifications and/or experience of value to the Bank.

2. An applicant must remit with his or her application a fee of Rs 7.50 by cheque or bank draft on a *Scheduled Bank* payable at Bombay or by Postal Order in favour of Reserve Bank of India. *The application fee is in no case refundable.* In the case of candidates belonging to Scheduled Castes/Tribes, the fee is Rs 2/-. Bonafide displaced persons who have migrated from East Pakistan on or after the 1st January 1964 and who are not in a position to pay the application fees are exempted from payment of any application fee.

3. Applications in the *candidates' own handwriting* in the prescribed form obtainable from the Reserve Bank's offices at Bombay, Calcutta, Kanpur, New Delhi, Nagpur, Madras, Bangalore, Hyderabad, Trivandrum, Lucknow, Patna and Jaipur accompanied by copies (originals should not be sent) of certificates regarding age and educational qualifications, statements of marks secured in the graduate and post-graduate degree examinations and two testimonials should be sent to the Secretary, Central Recruitment Board, Reserve Bank of India, Department of Administration and Personnel, Central Office, Post Box No. 406, Bombay No. 1, so as to reach him *on or before the 18th September 1965.*

4. Candidates already in service will be required to produce a proper discharge certificate from their employers (in the event of their being selected) at the time of their appointment in the Bank's service.

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

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

7. For the purpose of selection, the candidates may be required to appear for interview before the Selection Board at any of the Bank's offices. Such of the candidates as are called for interview will be reimbursed single first class railway/bus fares by the shortest route from their places of residence to the office/s of the Bank where they are called for interview and back.

8. Appointments will be subject to the candidates being declared medically fit for service in the Bank by the Bank's Medical Officer.

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

10. Canvassing in any form will be regarded as disqualification.

says in the preface: "It is well that we should remember our debt to them and try to retain that mutual affection and esteem which was so steadily built up through two centuries of service in many parts of the world".

A happy feature of the book is its refusal to engage in controversy. An Englishman may well have been excused if he had sought to question the rights and merits of the "Quit India" resolution passed by the Congress or to denigrate the Indian National Army built by Subhas Chandra Bose. Maj-Gen Elliott has sensibly desisted from such temptation, which, in the circumstances, must be considered wise as that would only have taken away from the essential purpose of the book which is to give praise where praise was due.

By steering clear of controversies, the author has enhanced the value of his record. His understanding of the Congress case is sound. Congress abstention from current war efforts, according to him, was "regrettable". "It is difficult" he writes, "to assess the result of this abstention". And he adds: "It certainly had an adverse effect on the recruitment of officers, particularly for the medical services. The educated were the most politically conscious and, in sympathy with the stand taken by their leaders, many who might have made good officers did not come forward".

Maj-Gen Elliott's chapter on the growth of the Indian Army, however, is only by way of introduction to the more exciting story to come. That story is as exciting as any that has been written. It is necessary to ponder over it if only to answer those who have taken upon themselves the task of questioning the fighting qualities of the Indian soldier.

The Indian Army, let it be known, fought practically on every battle front. It fought in North Africa, in Iran, in Syria, in Italy, in East Africa, in Burma and the Far East, against Rommel's panzer divisions and against the cream of Japanese warriors. The exploits of the men brought unsought praise from friend and foe. One French officer was reported to have said: "*Ce que vous avez fait, c'est incroyable. Vos Indiens sont vraiment formidable*". Truly formidable. Indeed they were.

There is the story of young Kamal Ram, a 19-year old Jat who won the Victoria Cross, one of the youngest probably to get that coveted honour. The locale is Italy, the time, September 1943. Two leading companies of

3/8 Punjab Regiment had crossed a river, but had suffered terribly; one platoon of Sikhs had been wiped out to the last man. The support companies now crossed to make good the ground won. As the author recounts the story:

"The advance was pinned down by a sheet of fire from front and flanks. Movement meant death. A volunteer was called for to deal with a gun firing from the right flank. Kamal Ram, a nineteen year old Jat sepoy, in action for the first time, crawled through the wire and leapt upon the crew single-handed. He shot the gunner and bayoneted his leader, swinging to kill a German officer who sprang at him from a slit trench firing a pistol. With the post silenced, he pressed on. Having sniped the gunner of a second nest, he bombed the remainder of the crew into submission. Together with a havildar he attacked a third machine gun post and dealt with it in a similar fashion. The line was open. The Punjabis moved forward to secure their objective. Later, in a forward reconnaissance, Kamal Ram wiped out a fourth machine gun nest, an unsurpassed day's work which earned this gallant youngster the Victoria Cross".

There were other times when gallantry ended in death, as in the case of Naik Yeshwant Gadge of the 3rd Mahrattas who won the first V C for his regiment but who died in the process after having single-handedly saved his company by a brave charge upon the enemy. There is the fantastic story of Havildar Umrao Singh in the Arakans who, though twice wounded by grenades, kept fighting the Japanese till they were within five yards range. He was seen fighting in hand-to-hand combat to the last; when his body was recovered he was found beside his gun "almost unrecognisable with seven severe wounds and ten dead Japanese beside him". He was the first and only Indian mountain gunner to be awarded the V C and the only other rank of the Royal Regiment of Artillery to be so decorated in the years 1939-45.

It is impossible not to be impressed by the bravery of men such as, for instance, Sepoy Namdeo Jadhao of the 3rd Mahrattas in battle against the year Germans in Italy. Sepoy Jadhao found himself on the banks of the Senio with two wounded comrades. As is reported: "In the face of pelting fire, he half-dragged, half-carried the men

back across the stream, struggled up the inner slope and deposited them in safety. Having saved his friends, he resumed the battle single-handed. He dashed at the nearest machine gun and wiped out the crew. A bullet tore his hand, so he dropped his Tommy gun and closed with bombs. Two more enemy posts were silenced in quick succession. Standing on the lip of the bank he shouted his war cry and waved his comrades forward. Three company commanders had fallen but the Mahrattas, responding to such dauntless leadership, swarmed back across the river. With both hands clear they pushed on into the night, to deal with the obstinate garrisons of a number of houses in fields adjoining the river..."

Sepoy Jadhao won his V C as did another soldier of the Indian Army, a Pathan, within a few hundred yards of each other, "twin feats of arms" says Maj-Gen Elliott, "for which it is hard to find a match".

There were occasions of bravery and humour. We have the story of company commander Damar Singh trying to capture a hill occupied by the Japanese. At 3 in the morning, Damar Singh proceeded with his men to charge the hill and for a time there was no news of him. There was only the sound of firing. Time passed slowly and his comrades at headquarters began to worry seriously about his fate and that of his platoon. Then, as dawn began to break out, came the cry of "ayo" from the hills. Had Damar Singh been killed? Amidst the sound of continuous firing, Damar Singh's Commanding Officer called him on the air to ask if there was anything he wanted. "No" came the answer, "only breakfast!" And well he might have asked for it. He and his men had killed 40 Japanese and captured seven guns.

"A Roll of Honour" comes at a time when the Indian Army is again being tested in the thick of battle. It is good to remember that it has a great tradition of fighting behind it and that when it comes to valour, it is second to none. The story of Damar Singh, of Sepoy Jadhao, of young Kamal Ram and of Havildar Umrao Singh deserves to be repeated. We have the right kind of men; if only politics is kept out of the Indian Army, if only the Army is kept well-equipped and officered, India does not have to fear any enemy. Maj-Gen Elliott does not analyse all the causes that left the Indian Army so weak in 1939 in detail. But we have to take

our lessons from what happened in 1962.

Field Marshal Auchinleck's acknowledgment of the help of the Indian Army in saving Britain must be acknowledged in return. Sometimes, reading the novels and books written about the second world war, one gets the impression that it was only the Soviet Union, the United States and Great Britain that did the fighting. They fought and fought very bravely, of course. But on occasions one

wondered when the tribute to the Indian Army would come. It has at last come.

"For many years now" writes Auchinleck in his preface to the book, "I have wished that the story of the old Indian Army in the second world war might be written, so that the people of this country (Britain) could learn what they owe to those soldiers who fought for them against the Germans, the Italians and the Japanese. Without their aid, the war

could not have been won".

"Without their aid the war could not have been won". For this unequivocal and categorical statement, the Indian Army would be grateful. India can even afford to forgive the Churchills and the Amerys, and the many *koi-hais* in the civil service who wanted to keep India enslaved, after this straightforward acknowledgment of a debt that was never before acknowledged from so high a quarter in so fulsome a manner.

Leadership in a Community Development Village

K. Ranga Rao

The development of responsible village leadership and village organisations and institutions is accepted as vital for the success of development programmes in village communities. Accordingly, with the introduction of Panchayati Raj local leaders have been entrusted with more responsibilities besides being vested with certain powers.

But the devolution of powers is bound to create a new situation by introducing a new method of evaluation of individuals and their status in the present caste-dominated social structure besides having its impact on the pace of social progress through Community Development.

An attempt is made here to analyse the present pattern of leadership vis-a-vis development of a village community with special emphasis on the three elements of leadership:

- the way individuals rise to leadership;*
- their qualities and affiliations; and*
- the nature of their goals.*

THE village under study is situated on the road-side four miles to the west from the Pendurti Panchayati Samiti headquarters in Visakhapatnam district, Andhra Pradesh. It has a population of 1,400 distributed over 14 caste groups consisting of 348 households. The panchayat consists of one hamlet besides the main village.

In the village the Velama Caste is numerically very strong with about 2/3rds of the entire village population. Out of the remaining 13 caste groups all, except Padmasalis, Harijans and Gollas, are negligible in number. About 2/5ths of the entire land cultivated is irrigated and 4/5ths of the land is owned by Velamas alone. On the whole 90 families do not own land (8 Velama families and others non-Velamas). While the average size of land owned per family is about 2.25 acres, the size of land owned per family ranges between 50 cents and 8 acres. Because of the general backwardness of the area and mounting unemployment, about 110 individuals from about 100 families (including 70 Velamas) every day go to the Port and other industrial centres at Visakhapatnam by train or cycle, to work as industrial labourers.

Present Leadership Pattern

Currently the village is known to be faction-ridden. A Cooperative Milk society (now split into two societies) is working since 1959 with a membership of about 200. Except this there is no other association of any type in the village. The present Panchayat was unanimously elected early in 1964. But it is very inactive. Its members were selected from among the so-called neutrals keeping the active leaders out of the Panchayat. Out of the nine members of the Pan-

chayat all except two, the vice-President and one member, are illiterate. Except the president no one has any recognition as a leader in the village. As against this the previous panchayat (1959-63) consisted of five active leaders in the village and seven of the members were literate. Interestingly, while the average age of the previous panchayat members was around 42, in the case of the present members it is around 50. As it is, the present panchayat feels unable to undertake any developmental activity — even repairs to roads — for want of support from the active leaders of the village who are split in two rival groups since early 1961. At present the two rival groups are headed by two primary leaders in the village: the Village Munsiff and the ex-president of the panchayat.

Almost up to fifteen years ago the main village was dominated by a Vysya businessman-cum-money lender and two village officers, the Karnam (Brahmin) and the Munsiff (Velama). With the demise of the Munsiff and the emigration of the businessman the son of the former became the Munsiff (the present V M) of the village and began to wield authority assisted by the then Karnam and the then Panchayat President (Velama). When the Panchayat President also died in 1952, the Munsiff managed to make the son of the deceased the president. In the following year the then Karnam relinquished his post because of old age and the present one succeeded his father. Thus by the end of 1953 the present village Munsiff virtually became the undisputed leader of the village. The Karnam, a poor and mild Brahmin, and the president, well off but new

to his post, followed the footsteps of the Munsiff.

In the year 1958 the Munsiff, with active support of the Panchayat and one big land owner (the present Panchayat President), collected Rs 10,000 for donations from the village and also from a number of neighbouring villages and constructed a temple. This act gave additional prestige to him. That is why when the Panchayat elections were to take place in early 1959 the Munsiff could make the President continue in the same capacity by selecting all members of the Panchayat uncontested. Then in the year 1959, in association with the

Table 1: Number of Households in Each Caste Group.

Sl No	Name of the Caste	No of Households
(1)	Brahmin (Priest or Karnam i.e. Accountant)	1
(2)	Vysya (Businessmen)	3
(3)	Kamsali (Smiths)	4
(4)	Telaga (Agriculturist)	1
(5)	Velama (Agriculturist)	233
(6)	Golla (Shepherd)	20
(7)	Padmasali (Weaver)	21
(8)	Telaka (Oil crusher)	1
(9)	Baliya (Toddy Tapper)	8
(10)	Chakali (Washermen)	14
(11)	Mangali (Barber)	3
(12)	Muslims	6
(13)	Harijans (Leather workers)	32
(14)	Sachary (Fruit seller)	1

No of caste groups = 14;
No of Households = 348;
Population = 1,400.

Note: The above serial order roughly approximates the ranking of the Caste groups in the village. Traditional occupation of each caste is given in parantheses.

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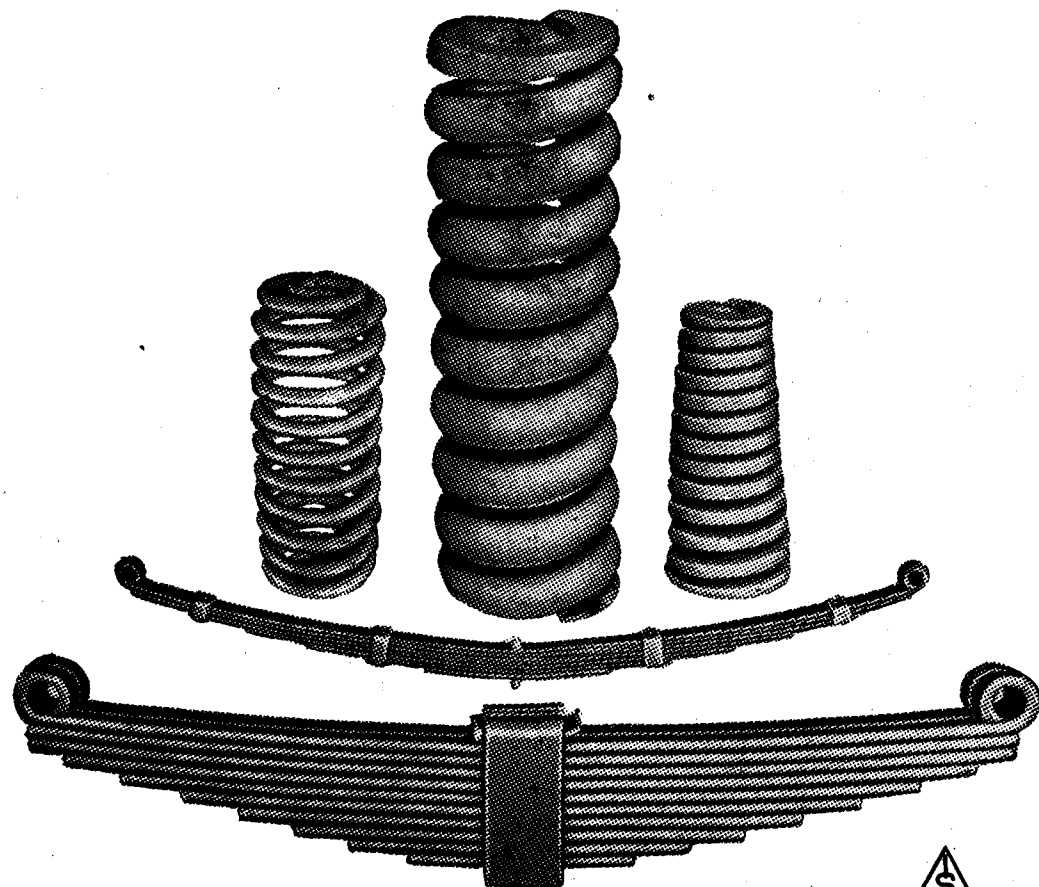
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Munsiff and leaders of a neighbouring village, the Munsiff could start a Co-operative Milk Society of which the Panchayat President was Secretary, and the Vice-President and one member of the Panchayat were two of its directors. The society made a very good start with about 100 members from the village itself. Subsequently the Panchayat laid two village roads and constructed a school building in the village.

External Political Influence

It is important to note here that while the Munsiff continued to have added prestige in the village, the President, the Vice-President and the above said member of the Panchayat gradually came to be trained in the arts of leadership and ways of influencing people as well as officials. Further, since the Panchayat came to assume more powers from the year 1959 and consequently got involved more and more in construction of Community Works these leaders also got more and more acquainted with the work-contracts. Virtually it was the Panchayat leaders and the Munsiff who were actually in charge of construction of works even though someone else used to be appointed a sponsor, for official purposes, for each work. But gradually misunderstandings developed between the Munsiff and the Panchayat leaders over the sharing of profits made out of these works and these misunderstandings went a long way in creating among the Panchayat leaders a desire to be independent and free from the influence of the Munsiff. At the time when this was the thinking process of the Panchayat leaders, there developed some domestic trouble between the President and his paternal aunt's son who was also a member of the Panchayat. The Munsiff seized the opportunity to denounce the President. Then ultimately when a meeting of the villagers was called on January 15, 1961 to discuss the problem of building an extension to the school building, there took place an exchange of words between the Munsiff and the President over the names of the sponsors and allegations and counter-allegations of corruption were made in public. This was the beginning of active group rivalry and factions in the village. Subsequently, the Panchayat got split into two groups: one group of five members headed by the President and the other group of four members headed by a Panchayat member (who had a quarrel with the President) but

guided by the Munsiff himself. During this process the Panchayat President rose to the level of a primary leader from that of a secondary leader while a few Panchayat members rose to the level of secondary leaders.

It may be recalled that about 100 members from the village were working as labourers in the Port of Visakhapatnam. The labourers were members of two rival labour unions: the INTUC and the AITUC. The President, on account of his quarrel with the Munsiff, had to have some support at the block and taluk levels to get contracts sanctioned. He, therefore, decided to take the help of the INTUC labour leaders through the local port workers. Having had the support of the labour leader the President committed himself to support the leader who was contesting on a Congress ticket for the Assembly in the general elections. Consequently, the Munsiff supported a rival candidate who was supported by the Communists as well as the Village Officers' Organisation. This candidate for the Assembly also had a good reputation in the area. Therefore, for all these reasons, the village Munsiff gained more popularity and with the result more and more local backing.

On account of all these changes 60 members belonging to the President's group withdrew from the Milk Society and formed a separate one (unregistered). The main society with a membership of about 120 is dominated by the Munsiff. The effect of the split is that village factions came to be well defined with clearcut membership from the Velamas, who were mainly the members of the Milk Societies.

Unanimous Panchayat Elections

As the Panchayat elections approached in early 1964, each group was ready to set up its candidates for all the seats. Meanwhile a group of neutrals emerged under the leadership of the present Panchayat President. Their interest was to avoid any open conflict between the rival groups and also to secure Rs 5,000 as a grant as announced by the government for unanimously elected panchayats. Now that the neutrals were about 40 Velama families, leaving about 90 Velama families in each of the rival groups, they could become a potent blanching force and therefore the rival groups had to concede and give in. Even though the Munsiff was supposed to have more influence among the non-Velamas yet he could not completely depend upon them since their voting

behaviour was quite uncertain for various reasons.³ Ultimately, when no compromise could be arrived at regarding the selection of the candidates from the rival groups for all but two seats, all the seven were filled up from among the neutrals including the leader of the neutrals who subsequently became the President of the Panchayat. All the members were new entrants without any experience of public work before and most of them belonged to lower classes. Even so, the factions continued to be present and no group gave active support to the new panchayat. Hence the present inaction on the part of the Panchayat. However, of late, the illiterate President appears to be leaning on the ex-president for purposes of looking after the day-to-day business of the Panchayat.

Caste and Class Affiliations

By comparing caste-wise membership in the past and present Panchayats, it could be seen that while the ex-Panchayat consisted of 6 Velama members, one Golla, one Padama Sali and one Harijan, the present Panchayat also presents the same picture. The only change is that while the former had a Velama as vice-president the present vice-president is a Padama Sali. However, one difference is visible between the group of castes represented in the Panchayat and the group of castes which is not. While in the latter group the caste heads continue to have hold as in the past, in the former there is gradually developing a parallel leadership along with the caste heads because for certain reasons⁴ members other than the caste heads were selected for the Panchayat. This trend ultimately may undermine the status of the caste heads. However, there seems to be no immediate threat to the caste heads because the representatives of these poor castes in the Panchayat do not, as yet, have any considerable influence. In fact, the active leaders are those who belong to Velama caste and to those who are comparatively well off.

The following are some of the opinions⁵ of the villagers regarding the village leadership:

- 65 per cent of the respondents wanted that representation be given to each caste group in the Panchayat (at least by rotation), while 20 per cent opposed the system of caste representation. The other 15 per cent however were indifferent

- to the question of caste representation.
- (b) While 75 per cent expressed their agreement with the present arrangement of giving compulsory representation to one Harijan, only 30 per cent supported the idea of a Harijan becoming Panchayat president.
 - (c) While 35 per cent only opposed special representation to women in the Panchayat, 85 per cent opposed a woman becoming president.
 - (d) While 50 per cent wanted youth leadership, 26 per cent wanted old leadership. The other 24 per cent did not bother about the age.
 - (e) Finally, while 75 per cent of the villagers think of the present leaders as being uninterested in the village development, only 40 per cent feel that the village troubles were due to them.

Opinions of the Leaders

All the leaders generally expressed their appreciation of Community Development activities and each blamed the other group for the present state of affairs in the village. But they were one in expressing themselves strongly against such activities of the Community Development Programme as construction of latrines and starting of protected water supply scheme. The ten latrines constructed in the village have been demolished and the protected water is not being made use of. The leaders felt that the Government could more profitably spend the amounts on irrigation schemes, construction of schools and the like which were of immediate use to the village and avoid asking for contributions from the public.

At this stage it is necessary to touch on the problem of money making and profit sharing by the leaders. The active leaders expressed the opinion that they as leaders were forced to spend much money on a number of items like receiving officials and non-officials, visiting towns and the like which could not be accounted for in the Panchayat accounts and such expenditure had to be met by other means. Further, now and then the leaders are forced to purchase bonds like 4 per cent loan bonds and prize bonds, etc, and all such amounts have to be ultimately recovered by various means — legitimate and illegitimate.

Conclusions

On the basis of the above analysis the following conclusions may be drawn:

- (1) Leadership pattern in the village, since the inception of the Community Development blocks and more particularly since the establishment of Panchayati Raj, has been undergoing considerable change. Even though still only one or two primary leaders dominate the village, there is a gradual growth of multiple secondary leadership.
- (2) While the old authoritative leadership is giving way to some new leadership, the former is still strongly working against the growth of democratic leadership as such. In fact, the village officials and others who have been holding authority for a long time are becoming more and more 'benevolent despots' and are taking to different methods for holding their influence over the masses. The democratic leadership has not as yet emerged for various reasons: two of the important reasons being poverty and illiteracy of the masses who feel unable to take any active interest in village affairs and face the dominant people. Some of those who have few opportunities are trying to hold power or take to con-

tracts and thereby become rich as quickly as possible.

- (3) The present day leadership is not in position to create confidence and encourage group morale among its followers. The public doubt the sincerity of the leaders to help the poor. Frequent rivalries and change of loyalties on the part of the leaders is strengthening this feeling. In fact, it has to be noted that as it is "low income groups tend to have indifferent or negative attitudes toward any situation which seems to create their low estate." Therefore, unless special efforts are made to improve the economic conditions of the public at large and the poor sections in particular, there cannot develop group morale and a well defined democratic leadership as such. It is also important to note that "morale is that pervasive attitude of voluntary, enthusiastic and effective mobilisation of a group's efforts for the accomplishment of some purpose. And that attitude is called out and sustained by a good leader." It is because of the lack of the morale that the voting behaviour of the public or its support for the leaders at present is determined purely by exigencies of the situation and nothing else.

Table 2: Number of Households from Each Caste Group in the Fraction Groups in the Village

Sl No	Caste	Number of Households				Total
		Number of Panchayat Members	Ex-President's Group	Munsiff Group	Neutral Group	
(1)	Brahmin	...	...	1	...	1
(2)	Vysya	...	...	...	3	3
(3)	Kamsali	...	...	4	...	4
(4)	Telaga	...	...	1	...	1
(5)	Velama	6	99	96	38	233
		(including two women)				
(6)	Golla	1	3	17	...	20
(7)	Padmasali	1	2	13	6	21
(8)	Telaka	...	1	...	...	1
(9)	Baliya	...	...	7	1	8
(10)	Chakali	...	...	14	...	14
(11)	Mangali	...	...	3	...	3
(12)	Muslims	...	...	6	...	6
(13)	Harijans	1	2	27	3	32
(14)	Sachari	...	...	1	...	1
Total		9	107	190	51	348

Note: Majority of the Munsiff's group are sympathisers of the Communists; while majority of the Ex and present Presidents' groups are Congress sympathisers. About ten from the ex-President's group are also members of the Swatantra Party.

- (4) Quite naturally the present-day leadership is concentrated in the numerically and also economically important caste group. This supports Professor Srinivas's theory of the "Dominant Caste". The upper but minority castes do not have any hold over the village. Even though there is no evidence of overt caste antagonism as such, yet the upper castes do not seem to relish the idea of the lower castes and particularly the Harijans holding Presidentship of the Panchayat. There is no evidence of a strong political feeling either. The factions clearly cut across the upper and majority caste groups and also political groups. Even so, external political influence and internal kinship affiliations are made use of as and when necessary. The minority caste groups, particularly those which are not represented in the Panchayat, seem to have more caste solidarity and consequently more regard for the caste heads than others. (See Table 2).

- (5) Even though unanimity in the selection of the panchayat members seems desirable, it is not always so from the point of village development.

- (6) What is of immediate concern is the increasing tug-of-war between the leaders. This by itself may not be bad. But the problem is that individuals without any experience whatsoever in any organisation are straight-away aspiring to panchayat membership mainly with a view to holding power. In fact, this is the greatest weakness of the Panchayati Raj with special reference to its relation to Community Development. It is not appreciated that the opportunity to lead in a democracy is hardly confined to the panchayat; "the opportunity to lead fairly shouts aloud for its chance in every organisation and institution which brings the citizens of a democratic community together." In fact it was with a view to give scope for the emergence of as many leaders as possible to take part in Community Development activities that the "Guide to Community Development" strongly recommended the establishment of special committees of Panchayats "with the powers to co-opt additional members from among the villagers...and encourage associate organisations like Mahila Mandal, Yuvak Mandal and utilise them for Panchayat activities". Because of the absence of such associations the potential leaders instead of participating in constructive programmes and there-

by getting trained in arts of leadership are dissipating their energies. Once such organisations become effective they are sure to become active agencies of extension as well as centres for the growth of democratic local leadership.

- (7) Undue pressures from government officials (as pressing the leaders to purchase all sorts of bonds) with a view to get things done easily and quickly, and indiscriminate support by the political parties, are also responsible for forcing and encouraging local leaders to take to various malpractices at the cost of the community as a whole.

- (8) In spite of such shortcomings it is to be noted that without the active support of the local leaders the Community Development activities will go waste as happened in the case of latrines and protected water supply scheme in the village. Whatever might be the demerits of the present leaders, they are the only effective 'opinion leaders' in the village who can mould the opinions of the public. We have to work with leaders as they are, besides trying to locate potential democratic leaders and help them grow. Extension agents trained in social skills can involve leaders of different factions in constructive activities. The Social Education organisers and V L Ws need to be intensively trained in the principles of community organisation and working with groups.

Notes:

- ¹ In fact, up to the middle of the year 1959, i.e, the establishment of Panchayat Raj, neither Panchayati membership nor Presidentship attracted anybody, for the Panchayat prior to that date did not have such powers as at present.
- ² See Table 2.
- ³ Two important reasons being: the patron-client relationship and the possibility of purchasing votes.
- ⁴ The Golla caste head was opposed by the Munsiff while the Padama Sali caste head was opposed by the ex-president. The Harijan caste head being a Barrka, a Government servant, could not be taken as a member of the Panchayat.
- ⁵ Based on opinion survey of 75 individuals (males) other than Harijans.
- ⁶ Even today only 120 children from 348 households attend school.
- ⁷ Tead, Orway—"The Art of Leadership," p 14.
- ⁸ Tead, Orway, "The Art of Leadership", p 268.
- ⁹ Government of India: 'A Guide to Community Development' (revised), 1962; p 121.

Campaign to Boost Tea Sales Among British Youth

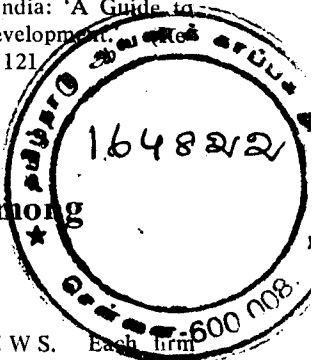
AN advertising campaign to boost tea sales among teenagers is to be launched throughout Britain on October 1 by the London advertising agency, Mather and Chowther. The campaign is financed by the Tea Board Committee, whose members include the tea associations of India, Ceylon, Pakistan and Indonesia, besides British tea distributors and brokers. The campaign will cost approximately Rs 80 lakhs annually and will run initially for three years.

India and Ceylon, who supply about three-quarters of the world's tea, have promised to provide Rs 40 lakhs annually and this sum will be exactly matched by British firms like Brooke

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Construction of National Accounts for the Indian Union An Example

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It is the purpose of this paper to explore the possibilities of constructing national accounts for the Indian Union with independent data on consumer expenditure, savings and investment available from three independent sources, viz, National Sample Survey, Reserve Bank of India and Central Statistical Organisation respectively, and to examine the extent to which they give mutually consistent results.

The exercise gives sufficiently encouraging results though there is, as expected, no exact balance between revenue and expenditure in the accounts. These differences are, however, within reasonable limits, except for the first year of the study, and one would be justified in assuming that they can be explained as also reduced to a great extent by further detailed examination of the estimates themselves.

It is hoped that the present study which highlights the marginal differences between related aggregates would lead to a further careful examination of the individual aggregates and preparation of balanced accounts in the near future which is the first step towards national budgeting in the perspective of plan formulation and balanced economic development.

ECONOMIC analysts and planners in India work with the great handicap of absence of reliable estimates of even such broad aggregates as capital formation, savings and private consumer expenditure, leave aside finer classification and more detailed economic measurements. The present assessment of India's performance in the economic field is merely in terms of national income by industrial origin. This makes national income statistics practically superfluous for plan formulation as also for other economic policy considerations. Thus national income serves no purpose other than measuring the overall growth of the economy.

In India plan formulation is primarily in terms of fiscal and monetary policies and resource allocation within the broad framework of a set of objectives quantified in terms of physical targets. This process of plan programming however is not accompanied with a co-ordinated picture of the economy as it is likely to emerge from the interplay of the various economic factors and the planning process as such. National budgeting is one of the most effective means to this end. Besides, since in India, government takes an active role in the different allocation of resources in the course of plan formulation, national budgeting would ensure a balance between available resources and the competing claims, given the demands on resources which follow from specific policy decisions already taken and the extent of control found to be acceptable. Such a balanced presentation of the economic system would not only give confidence in the objects laid down

but would enable a satisfactory assessment of the achievements as also of the failures and suggest ways of adjustments. In spite of these and many other uses which could be listed, so far no attempt has been made to present, in the process of plan formulation, such a comprehensive picture of the economy and show the interplay of the various factors as a result of the policies laid down and decisions taken.

The first step towards the preparation of this national budget is the availability of national accounts for judging the actual economic position and the ways in which the various economic factors are related to one another. Volumes can perhaps be written on the gaps in statistical data which stand in the way of a comprehensive analysis of the economic system and the construction of national accounts. These have been repeated too often to lose most of their originality. This is not to say that no gaps exist or that the available estimates have no limitation but only to emphasize that careful and critical examination of the existing material might throw light on the interactions between various economic factors about which very little is known now and also help in improving the existing estimates themselves. Also, the basic data to be used for estimating these economic aggregates would primarily be the same as for national income and the errors in these estimates would not be substantially different from those of national income. Moreover, it is not always that no estimates exist but often they are either not final or are available

from more than one independent source. To cite a concrete example one might consider the components of domestic product/expenditure viz, private consumer expenditure, capital formation and saving measuring financing of investment.

Estimates of consumption expenditure of households and individuals can be prepared by any one of the following methods (a) Direct analysis of family budget sample enquiries, (b) censuses of total retail sales of goods and services of current consumption and (c) commodity flow approach. Of these, the last is most involved demanding large mass of data on details regarding the distribution of each individual commodity between different types of final consumers as well as their intermediate use in the course of production. This also requires details on distributor's margins at every stage to obtain the values at the stage of final use. On the other hand, details of retail sale censuses or family budget surveys, if available over a number of years give a convenient method of measuring private consumer expenditure. In India surveys on household consumption expenditure form a regular feature of the multi-purpose National Sample Survey (NSS) initiated in 1950 and carried on since then in the form of successive rounds with an all India coverage. Besides information on other aspects of Indian economy, NSS collects data on household consumption expenditure from a sample of households by the interview method and the data on per capita expenditure are published both by items and by size classes. Attempts have been made in the past by individual research workers also to prepare

independent estimates of private consumption expenditure¹ using 'Commodity flow' method. But, neither have the consistency of these estimates with other related aggregates been examined carefully nor are they available over a number of years. The NSS estimates on the other hand, are available over a number of years more or less on comparable basis. In the earlier rounds there have been differences regarding the reference period and duration and time of each round.² From the seventh round (October 1953 — March 1954) onwards, 'month' preceding the date of enquiry has been adopted as the period of reference for the collection of expenditure data for all items. Similarly standard methods regarding evaluation of home-grown produce, duration and timing of the survey etc, have been adopted in the more recent rounds.

All these changes introduced from time to time are likely to have affected the comparability of the data over rounds. However these points of difference have not been of significance particularly from the seventh round onwards and one would be justified in using these results for an overall measurement of levels of household consumer expenditure. Besides, the results are available separately for two (or more) independent and interpenetrating sub-samples and the comparison between the two sub-sample estimates give a broad measure of the sampling and non-sampling

errors of the combined estimates. A broad examination shows that the variability between the sub-sample estimates are within reasonable limits as compared to the combined estimates. As regards the non-sampling error, these can be expected to be to some extent, consistent between rounds and comparison over time may not be affected.

Internal consistency and comparability with other independent data are the alternative means of judging the validity of the results. It would be useful therefore to compare the results on household consumption expenditure available from the NSS with the estimates of national income both from the points of view of the consistency of the levels of the estimates as well as the trends. The most convenient way of making such a comparison is to use these estimates along with the independent estimates of capital formation, savings and other related macro-economic aggregates to present the national accounts for the Indian Union. Household consumer expenditure form a very large proportion of the total national expenditure of the country and without any independent and reliable estimates of consumer expenditure any attempt at construction of national accounts would be futile. The present exercise would give an indication as to whether NSS data could be used for the purpose. As already indicated, methods of

collection, concepts etc, were more or less standardised from Seventh round (October 1953-March 1954) onwards and for the present study NSS data on household consumer expenditure from the Seventh round onwards only have been used. The estimates of total consumer expenditure have been worked out separately for rural and urban areas using the data on per capita expenditure and the estimates of population used for national income aggregates.

For simultaneous use of independent aggregates for analytical studies, it is necessary to ensure comparability of basic concepts and scope of the different estimates. Between the estimates of national income and household consumer expenditure, the only major point of conceptual difference is with regard to the treatment of house rent. Where as NSS data includes no imputed expenditure on rent by households, for national income estimates the rental incomes of owner occupied houses are imputed. It would be reasonable to assume that such imputation would be much larger for the rural sector than for the urban sector and would form a very large proportion of total rural rental income. Assuming that the total value rental income estimated for national income purposes would cover the imputed rent (for both rural and urban sectors) which is not included in the NSS household consumer expenditure data, these have been added to the NSS aggregates and the adjusted totals used for the present study.

Besides household consumer expenditure, capital formation and savings are the other two aggregates of prime importance for which estimates should be available before presenting the national accounts for the Indian Union. While the Central Statistical Organisation (CSO) alone have so far made attempts to measure the annual levels of capital formation in the country, National Council of Applied Economic Research (NCAER) and Reserve Bank of India (RBI) have primarily put their attention to measurement of savings simultaneously determining the levels of investment after adjustment for net inflow of capital. These estimates are not very satisfactory and several mentions have been made in research papers³ regarding the limitations of data and the unsatisfactory nature of these estimates. In view of these limitations

—about which the estimators themselves are fully conscious—these have been continuously under revision along with the availability of additional data. It is true that inspite of these improve-

ments from time to time, the estimates of both capital formation and savings are far from satisfactory and one is not sure of even the annual levels of investment and savings, leave aside

Table 2: Estimates of Capital Formation, 1950-51 to 1960-61

GROSS					(Rs Crores)
Year	Public Administration and Dept Undertakings	Government Companies	Total Public Sector	Private Sector	Total
1950-51	236.0	18.1	254.1	562.0	816.1
1951-52	262.0	20.9	282.9	841.0	1123.9
1952-53	262.3	54.6	316.9	701.0	1017.9
1953-54	297.5	39.3	336.8	982.0	1318.8
1954-55	369.3	37.7	407.0	861.0	1268.0
1955-56	505.3	43.1	548.4	1001.0	1549.4
1956-57	591.2	67.8	659.0	1384.0	2043.0
1957-58	630.4	326.2	956.6	1013.0	1969.6
1958-59	598.0	266.8	864.8	1236.0	2100.8
1959-60	574.9	425.3	1000.2	1174.0	2174.2
1960-61	674.2	421.5	1095.7	1407.0	2502.7

NET					(Rs Crores)
Year	Public Administration and Dept Undertakings	Government Companies	Total Public Sector	Private Sector	Total
1950-51	197.6	16.8	214.4	303.0	517.4
1951-52	213.5	18.9	232.4	552.0	784.4
1952-53	215.6	51.2	266.8	399.0	665.8
1953-54	252.2	34.7	286.9	647.0	933.9
1954-55	315.8	31.6	347.4	522.0	869.4
1955-56	371.6	35.5	407.1	609.0	1016.1
1956-57	531.2	55.9	587.1	976.0	1563.1
1957-58	539.3	299.3	838.6	556.0	1394.6
1958-59	477.4	248.4	725.8	733.0	1458.8
1959-60	474.9	397.3	872.2	641.0	1513.2
1960-61	566.3	383.0	949.3	824.0	1773.3

Table 3: Estimates of Net Savings 1950-51 to 1960-61

					(Rs Crores)
Year	Public Sector	Domestic Corporate Sector	Household Sector	Total	
1950-51	119.4	35.0	411.0	565.4	
1951-52	201.2	63.6	278.8	543.6	
1952-53	93.9	1.1	305.1	400.1	
1953-54	73.8	25.9	446.5	546.2	
1954-55	94.0	50.3	620.5	764.8	
1955-56	96.6	60.0	799.1	955.7	
1956-57	152.2	58.5	841.2	1051.9	
1957-58	160.3	18.0	623.1	801.4	
1958-59	141.7	32.4	761.0	935.1	
1959-60	179.1	57.6	841.6	1078.3	
1960-61	209.0	106.7	1025.8	1341.5	

Table 1: Household Consumer Expenditure, 1953-54 to 1960-61

Year**	Rural		Urban		Total All-India
	As estimated from NSS Data	Expenditure on Imputed Rent*	(as estimated from NSS Data)		
1953-54	6408.4	198.8	6607.2	1922.2	8529.4
1954-55	5665.6	197.9	5863.5	2024.8	7888.3
1955-56	6331.2	198.7	6529.9	2044.8	8574.7
1956-57	6749.6	205.8	6955.4	2197.5	9152.9
1957-58	7470.0	306.8	7676.8	2234.7	9911.5
1958-59	8257.0	210.8	8467.8	2492.4	10960.2
1959-60	8507.5	214.1	8721.6	2496.6	11218.2
1960-61	9181.4	218.0	9399.4	2746.7	12146.1

* Assumed to include urban counterpart also.

** NSS rounds assumed to represent levels for financial years:

1953-54: Seventh (October 1953 — March 1954)

1954-55: Eighth (July 1954 — March 1955)

1955-56: Average of Ninth (May 1955 — November 1955) and Tenth (December 1955 — May 1956)

1956-57: Eleventh & Twelfth (August 1956 — August 1957)

1957-58: Thirteenth (September 1957 — May 1958)

1958-59: Fourteenth (July 1958 — June 1959)

1959-60: Fifteenth (July 1959 — June 1960)

1960-61: Sixteenth (July 1960 — June 1961)

their actual measures. In spite of these limitations for the present study use has been made of the most recent estimates of investment⁴ and savings⁵ primarily with the object of highlighting these differences and focusing attention on the fact that no estimates are of much use unless they are consistent with other related aggregates as well as between themselves.

Similar to household consumer expenditure, estimates of both capital formation and savings need to be adjusted to ensure their comparability with the national income estimates. Capital formation estimates prepared by CSO are comparable with the revised estimates⁶ of national income and not with the official series⁷ released annually. It would therefore be necessary to adjust these estimates before using them along with the official series of national income for constructing national accounts. The estimates of overall capital formation are prepared by the 'product flow' method. The estimates for the public and the private corporate sectors prepared independently—by the analysis of budgets for government administration and departmental undertakings and the balance sheets and profit and loss accounts for public non-departmental undertakings and private corporate sector — are deducted from the total to obtain the estimates for private non-corporate sector. It would appear therefore that points for adjustment are with regard to (a) estimates of public administration where changes have been introduced in the analysis of the budgets in the revised estimates for purposes of capital formation estimation and (b) value of output of such capital goods which change as a result of revision of method of national income estimation. The figures of public administration capital formation in the estimates by Tiwari and others⁸ have been replaced by the estimates available in the official annual publication on national income⁹ to make them comparable. One point of departure, however, needs to be mentioned. According to the revised method of national income estimation "what was shown earlier as gross capital formation was actually 'gross gross capital formation.' It was, therefore, decided to drop the item 'maintenance' altogether and to retain the other expenditure as gross capital formation." This is an improvement which removes the possibility of over-estimation of gross capital formation in public administration and it was consider-

Table 4: National Accounts for the Indian Union, 1953-54 to 1960-61

(Rs. Crores)

Domestic Product Account					Revenue				
Expenditure	1953-54	1955-56	1957-58	1960-61	1953-54	1955-56	1957-58	1960-61	
1. Indirect Taxes					5. Current expenditure				
1.1. taxes	473	558	789	1044	5.1. consumers	8529	8575	9911	12146
1.2. miscellaneous fees	109	143	148	201	5.2. govt. (admn) commodities & services	684	757	970	1211
1.3. total	582	701	937	1245	5.3. total	9213	9332	10881	13357
2. Provision for depreciation					6. gross domestic capital formation				
2.1. private sector	335	392	457	583	6.1. private sector	982	1001	1013	1407
2.2. government administration*	45	56	90	98	6.2. government administration*	297	505	630	674
2.3. government companies	5	8	27	39	6.3. government companies	39	43	326	421
2.4. total	385	456	574	720	6.4. total	1318	1549	1969	2502
3. domestic product accruing to					7. net exports of commodities and services	-52	-133	-564	-475
3.1. private sector	10430	9914	11324	14064	8. subsidies	15	17	50	64
3.2. government administration	50	66	86	126	9. statistical discrepancy	953	372	575	707
3.3. total	10480	9980	11400	14190	10. Total	11447	11137	12911	16155
4. total	11447	11137	12911	16155					

Private Appropriation Account

11. consumer expenditure	8529	8575	9911	12146	16. Income from domestic product	10430	9914	11314	14064
12. direct taxes	240	255	323	391	17. national debt interest	40	46	58	124
13. private saving	472	859	641	1132	18. net earned income from abroad	—	—	-10	-50
14. statistical discrepancy	1346	435	682	706	19. transfer payments	76	126	150	209
					20. net donations from abroad	41	38	45	28
15. Total	10587	10124	11557	14375	21. Total	10587	10124	11557	14375

* including departmental undertakings.

Government Administration Appropriation Accounts

Expenditure	1953-54	1955-56	1957-58	1960-61	Revenue	1953-54	1955-56	1957-58	1960-61
22. government current expenditure on commodities & services	684	757	970	1211	27. indirect taxes				
23. subsidies	15	17	50	64	27.1. taxes	473	558	789	1044
24. transfer payments	76	126	150	209	27.2. miscellaneous fees	109	143	148	201
25. surplus on current account	57	76	118	154	27.3. total	582	701	937	1245
					28. direct taxes	240	255	323	391
26. Total	832	976	1288	1638	29. income from domestic product	50	66	86	126
					30. less national debt interest	-40	-46	-58	-124
					31. Total	832	976	1288	1638

Consolidated Resting Account

32. gross domestic capital formation.					35. provision for depreciation.				
32.1. private sector	982	1001	1013	1407	35.1. private sector	335	392	457	583
32.2. government administration	297	505	630	674	35.2. government administration	45	56	90	98
32.3. government companies	39	43	326	421	35.3. government companies	5	8	27	39
32.4. total	1318	1549	1969	2502	35.4. total	385	456	574	720

Table 4: The National Accounts for the Indian Union, 1953-54 to 1960-61 (contd.)

Expenditure					Revenue				
	1953-54	1955-56	1957-58	1960-61		1953-54	1955-56	1957-58	1960-61
33. capital inflow from abroad					36. saving				
33.1. current surplus	30	-54	-468	-441	36.1. private sector	472	859	641	1132
33.2. non-cash inflow	-15	-6	-11	-42	36.2. government administration	57	76	118	154
33.3. retained earnings of branches & subsidiaries foreign companies	-11	-3	-10	-15	36.3. government companies	17	21	42	55
33.4. total	4	-63	-489	-489	36.4. total	546	956	801	1341
					37. statistical discrepancy	391	74	105	-57
34. Total	1322	1486	1480	2004	38. Total	1322	1486	1480	2004

Rest of the World Account

38. net donation to India					41. net exports of commodities and services	8.4	82.2	504.8	417.3
38.1. households & non-profit institutions	40.2	37.1	45.7	27.6	42. net earned income from India	3.4	0.1	5.2	46.0
38.2. government administration	19.0	51.9	32.9	46.4	43. errors & omissions	-2.3	17.6	7.9	10.7
38.3. total	59.2	89.0	78.6	74.0					
39. net lending to India									
39.1. households & non-profit institutions	-11.0	10.4	3.5	15.6					
39.2. government administration	-38.7	0.5	435.8	384.4					
39.3. Total	-49.7	10.9	439.3	400.0					
40. Total	9.5	99.9	517.9	474.0	43. Total	9.5	99.9	517.9	474.0

Note:—Basic data from: (i) C.E. from NSS (ii) Domestic Product Account other than private consumer expenditure Private Appropriation Account (other than private consumer exp.) Government Administration Appropriation Account and Consolidated Resting Account (other than Domestic Savings & Net Capital inflow) are from CSO with such adjustments as already detailed above. (iii) Domestic Saving, Net Capital inflow & Rest of the World Account from Reserve Bank of India.

Table 5: Expenditure on Net National Product, 1953-54 to 1960-61.

(Rs. Crores)

	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61
1. private consumer expenditure								
1.1. rural*	6607.2	5863.5	6529.9	6955.4	7676.8	8467.8	8721.6	9399.4
1.2. urban	1922.2	2024.8	2044.8	2197.5	2234.7	2492.4	2496.6	2746.7
1.3. total	8529.4	7888.3	8574.7	9152.9	9911.5	10960.2	11218.2	12146.1
2. government current expenditure** (admn)	684.0	715.0	757.0	837.0	970.0	1051.0	1109.0	1211.0
3. net capital formation								
3.1. private	647.0	522.0	609.0	976.0	556.0	733.0	641.0	824.0
3.2. public	286.9	347.4	407.1	587.1	838.6	725.8	872.2	949.3
3.3. total	933.9	869.4	1016.1	1563.1	1394.6	1458.8	1513.2	1773.3
4. export of goods & services	540.0	596.0	640.0	635.0	669.0	576.0	633.0	631.0
5. less import of goods & services	-592.0	-690.0	-773.0	-1102.0	-1233.4	-1029.0	-932.0	-1106.0
6. net factor income from abroad	0.0	0.0	0.0	10.0	-10.0	-20.0	-30.0	-50.0
7. less indirect taxes net of subsidies	-567.0	-619.0	-684.0	-767.0	-887.0	-951.0	-1058.0	-1181.0
8. statistical discrepancy	951.7	850.3	449.2	981.0	574.9	554.0	496.6	715.6
9. net national product= national income	10480.0	9610.0	9980.0	11310.0	11390.0	12600.0	12950.0	14140.0

Note: Basic source are estimates prepared by CSO except for private consumer expenditure which are from NSS.
* NSS data adjusted to include expenditure on imputed rent by households
** includes expenditure under 'maintenance' in government administration under capital account.

ed desirable to adjust the conventional capital formation series on this account by excluding 'maintenane' on its being an item of current expenditure, and considering the estimates of 'capital outlay' (excluding net purchase of assets) as a more satisfactory measure of gross capital formation in the sector. According to the Central Public Works Department, because of heavy expenditure on current repairs and maintenance, depreciation forms a very small proportion of total gross capital expenditure of public administration. Following the CSO method¹⁰ therefore, depreciation in public administration capital formation has been taken as 2 p c of gross capital expenditure viz, capital outlay. The estimates of capital formation for departmental undertakings¹¹ and non-departmental government companies¹² have been added to obtain total public sector capital formation.

The non-comparability of the estimates of capital formation with the estimates of conventional series of national income because of revision of estimates of value of output of capital goods is likely to arise in a small way in 'Small enterprises' sector only. No adjustment has been made on this account because not only would the difference be of very small order but would not also lead to more precise estimates of capital formation as the estimates in this case are very approximate. The series of capital formation, thus adjusted, follows the trend evident in Table 2.

Having obtained the estimates of capital formation on comparable basis, the net savings series prepared by the Reserve Bank of India are also adjusted with respect to the estimates for the public sector. The analysis of budgets are undertaken in a much greater detail in the CSO than in the case of the series used for the RBI estimates. For the non-departmental undertakings the RBI series use the estimates for three years only viz, 1959-60 to 1961-62 and these also had been prepared by the CSO in connection with a study of public sector undertakings. The Reserve Bank of India estimates for the public sector are therefore revised as follows. For Government administration and departmental undertakings the estimates from the conventional series of national income¹³ have been taken while for non-departmental government companies, the figures from an earlier CSO study¹⁴ are used for the period 1950-51 to 1958-59. As regards the estimates of savings for domestic corporate and

household sector, the RBI figures remain unchanged.

Most of the other information required for construction of national accounts are available from the official sources¹⁵ only 'domestic product accruing to private sector' having been derived as a residual. The purpose of the present study is more demonstrative from the point of view of consistency of independent aggregates rather than analysis of annual structural changes. Firstly, the series is not long enough for a fruitful study of structural changes. Secondly, unless the margins of difference, particularly between capital formation and savings are either reduced or explained, analytical studies may not be very helpful. In view of this, no elaborate system of accounts have been used for the present study but only a simplified system¹⁶ which would present study but only a simplified system which would present the details for more important transactions only and for which the necessary data are readily available.

The national accounts have been presented for only four years within the period 1953-54 to 1960-61. This is only to save space particularly because no analytical study has been undertaken on the basis of the accounts. However if desired, the accounts can be prepared for all the eight years. The years picked up for the purpose are of no special significance but cover the end years of the first two five year plans and two mid points viz, 1953-54 and 1957-58. For a clearer picture of economic behaviour over the whole period, annual details of expenditure on net domestic product have also been presented for the years 1953-54 to 1960-61.

The system presented consists of only five accounts viz, domestic product account, appropriation account for private sector and government (admn), consolidated resting account and rest of the world account. Of these, domestic product account, private appropriation account and consolidated resting account have items of 'statistical discrepancy' which give a measure of the order of difference between the independent estimates of national product and capital formation, on the one hand and private consumer expenditure and savings on the other. It is true that the magnitude of the difference between the aggregates may not mean much but still it is worth mentioning that the difference either in domestic product account or private appropriation account or consolidated

resting account is not very large except for the year 1953-54. In this year gross capital formation estimates prepared by the CSO is as much as Rs 391 crores or 29.5 p c higher than the estimates of saving prepared by the Reserve Bank of India. An examination of the detail by components makes it clear that from the point of view of savings, this difference is primarily due to estimates for household and private non-corporate sector and perhaps to some extent for inventories. Such a large difference certainly demands further investigation and would not be beyond remedy particularly when they are limited to given sectors. The orders of difference between NSS estimates of household consumer expenditure and the domestic product estimates was also high in 1953-54 compared to the subsequent years but is not of such a large magnitude—the difference is of the order of 8 p c for domestic product account and 12 p c for appropriation account. The order of difference both for consumer expenditure and savings varies between 3 to 7 p c for the subsequent years. This suggests that a detailed and careful examination of the estimates might help to explain the differences and this will give one enough confidence to use these estimates for analytical studies. However, such examination is possible only when the details of the estimates are looked into carefully and can be undertaken only by one who is not only familiar with the method of estimation but has enough details for each of the independent aggregates to go ahead with the task. Such an endeavour is absolutely beyond an independent research worker who has no access to the necessary details.

The distribution of expenditure on net national product are presented next for the years 1953-54 to 1960-61, both in absolute terms and in percentages.

As already revealed by the set of national accounts, the margin of difference between national income and expenditures was of the order of 10 p c in 1953-54 and 4 p c in 1959-60. The difference in other years lies between them. If it is assumed that the level of national income in India has been measured more or less correctly in the present official series, this difference would mean under-estimation of either both or any one of the two important aggregates viz, household consumer expenditure and capital formation. A revision of the national income series¹⁸ would require a re-examination of the distribution itself. However such a re-

vision would mean simultaneous changes in the estimates of government current expenditure on commodities and services, public (admn) capital formation and the like and the overall difference as revealed in Table 5 might still be maintained.

In view of fluctuations in 'Statistical discrepancy' which introduces uncertainty, it is not possible to draw very definite conclusions regarding shifts, if any, in terms of shares in national expenditure. The broad conclusion that follows from an examination of the results is that there has been no substantial structural change over the period except that the share of investment as increased to some extent as also of government current expenditure as proportion of national income. However these shifts are of very small magnitude and occurs particularly for investment as a sudden jump at the beginning of the Second Five Year Plan with very little subsequent changes. Some changes have however, occurred in distribution between components of major aggregates. The most

significant of these is the gradual gain in position of the public sector in the country's investment. Thus against only around a third of total capital formation in 1953-54 and 40 p c at the end of the first five year plan, public sector capital formation was more than half of the total in 1960-61 and was at the level of Rs 949 crores against Rs 287 crores in 1953-54. Public current expenditure also increased substantially over the period from Rs 684 crores in 1953-54 to Rs 1211 crores at the end of the Second Five Year Plan. As a result the total share in expenditure of the public sector increased from 9.27 p c in 1953-54 to 15.27 p c in 1960-61. There has been slight increase in share of rural household expenditure also but the shift is only marginal.

Since the data are presented at current prices only, the series cannot be used for any study of changes over time except in terms of structural shifts. The presentation of the data at constant prices would require the de-

flation of a number of aggregates. The prices applicable to each of these are different depending on the items entering the aggregates. Thus, while index of cost of living or consumer price index would be the most appropriate indicator for deflation of household consumer expenditure, capital formation at constant prices requires the use of either 'capital cost index' or 'investment cost index' covering mainly prices of capital goods and machinery as well as unit cost of construction. Similarly exports and imports would require other series of prices relevant to each of these. For simplification all these related aggregates are often adjusted by the overall national income deflator to obtain the series at constant prices. Besides not being a very satisfactory method, such series would present the same trend and technical relations between aggregates as the current prices series. Such constant price series of several aggregates only have the technical refinement in the theoretical sense of being additive over time. However they might pre-

Table 6: Expenditure on Net National Product, 1953-54 to 1960-61

	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61
	(Percentage distribution)							
1. private consumer expenditure*								
1.1. rural	63.05	61.02	65.43	61.50	67.40	67.20	67.35	66.47
1.2. urban	18.34	21.07	20.49	19.43	19.62	19.78	19.28	19.42
1.3. total	81.39	82.09	85.92	80.93	87.02	86.98	86.63	85.89
2. government current expenditure** (admn)	6.53	7.44	7.58	7.40	8.52	8.34	8.56	8.56
3. net capital formation								
3.1. private	6.17	5.43	6.10	8.63	4.88	5.82	4.95	5.83
3.2. public	2.74	3.61	4.08	5.19	7.36	5.76	6.73	6.71
3.3. total	8.91	9.04	10.18	13.82	12.24	11.58	11.68	12.54
4. exports of goods & services	5.15	6.20	6.41	5.61	5.86	4.57	4.89	4.46
5. less imports of goods and services	-5.65	-7.18	-7.74	-9.84	-10.82	-8.17	-7.20	-7.82
6. net factor income from abroad	—	—	—	0.09	-0.09	-0.16	-0.23	-0.35
7. Less indirect taxes net of subsidies	-5.41	-6.44	-6.35	-6.78	-7.79	-7.55	-8.17	-8.35
8. statistical discrepancy	9.08	8.85	4.50	8.77	5.06	4.21	3.84	5.07
9. net national product = national income	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* includes expenditure on imputed rent by households.

** includes expenditure 'current repairs and maintenance' under capital account.

sent not too realistic a picture of the economy if the movement of prices relevant to individual aggregates are not similar or do not move in the same direction. No attempt has therefore been made to obtain the series at constant prices in the absence of detail price structures relevant to each of the aggregates.

In conclusion it might be stated that the primary purpose of the present analysis has been to explore the possibilities of constructing national accounts for the Indian Union with independent data on consumer expenditure, savings and investment available from three independent sources viz, National Sample Survey, Reserve Bank of India and Central Statistical Organisation respectively and to examine the extent to which they give mutually consistent results. The exercise gives sufficiently encouraging results though there is — as expected — no exact balance between revenue and expenditure in the accounts and items of 'Statistical discrepancy' measuring the overall differences have been introduced. These differences are within reasonable limits except for the first year of the study and one would be justified in assuming that these differences can be explained as also reduced to a great extent by further detailed examination of the estimates themselves. It is worth mentioning that the order of difference in the consolidated resting account i.e. between savings and investment is generally very much larger than that in household appropriation account i.e. between consumer expenditure and personal income. Since the household consumer expenditure data are based on Sample Survey results, it is but expected that a margin of difference with national income estimates would exist. This however is not true of savings and investment estimates. It is therefore reasonable to expect that these differences are not beyond remedy and in not too distant future it would be possible to present reasonably balanced accounts which can be used for study of interaction between important aggregates and also for economic policy formulation. The data at present are not available over a sufficiently long period to enable a detail study of structural changes. The only broad conclusion that follows from the limited data over eight years presented above is that public sector has a more prominent place in total national expenditure in 1960-61 than in 1953-54. Besides the usual problems of relevant price data, preparation of

national accounts at constant prices are beset with many conceptual and methodological problems and requires consideration as an independent study. No attempt has therefore been made here to derive the constant price series. However even if presented only at current prices it would not be too much to expect that the present exercises have paved the way for construction of reasonably balanced national accounts which would not only help in bringing forward the interactions between the various economic factors at any given point of time but also studying the structural changes in the long run. It can be hoped that the present study which highlights the marginal differences between related aggregates would lead to a further careful examination of the individual aggregates and preparation of balanced accounts in the near future which is the first step towards national budgeting in the perspective of plan formulation and balanced economic development.

Notes

- ¹ "Private Consumption Expenditure in India, 1949-50" by S P Dhar, M G Kanbur, K N C Pillai and V S Puri in "Papers on National Income and Allied Topics", Volume I. "Preliminary Estimates of Total Consumption Expenditure" by S M Kansal and M R Saluja, presented at the Third Indian Conference on Research in National Income, 1962.
- ² For details see "Trends in Consumer Expenditure, 1953-54 to 1959-60" by the author presented at the Fourth Indian Econometric Conference, 1964, and being published in the forthcoming number of the *Indian Economic Review*.
- ³ "Capital Structure of the Economy: Changes over the Two Plan Periods" by Uma Datta, *The Economic Weekly*, Annual Number, 1964; and "An Appraisal of Some Recent Estimates of Saving and Investment" by V V Bhatt, presented at the Fourth Indian Conference on Research in National Income, November 1963 — to mention only two of many studies.
- ⁴ "Estimates of Capital Formation in India for 1950-51 to 1961-62" by S G Tiwari, B Kumar and Jagdish Kumar, presented at the Fourth Indian Conference on Research in National Income, November 1963.

- ⁵ "Estimates of Savings and Investment in the Indian Economy, 1950-51 to 1962-63", *Reserve Bank of India Bulletin*, March 1965.
- ⁶ "National Income Statistics: Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60," Central Statistical Organisation, 1961.
- ⁷ "Estimates of Capital Income, 1948-49 to 1963-64", Central Statistical Organisation, 1965.
- ⁸ *cf, op cit.*
- ⁹ *cf, op cit.*
- ¹⁰ *cf, op cit.*
- ¹¹ "Estimates of Capital Formation in India, 1948-49 to 1960-61" by the Central Statistical Organisation (mimeographed).
- ¹² Source: "Estimates of National Income, 1948-49 to 1963-64" Central Statistical Organisation.
- ¹³ Source: "Estimates of Capital Formation in the Public and Private Corporate Sectors" by Jagdish Kumar and others, presented at the Fourth Indian Conference on Research in National Income, November 1963.
- ¹⁴ *cf, op cit.*
- ¹⁵ "National Income Statistics: Financing of Gross Capital Formation in India for 1948-49 to 1959-60", Central Statistical Organisation, 1962.
- ¹⁶ *cf, op cit.*
- ¹⁷ As suggested in "First Report of the National Income Committee", Ministry of Finance, April 1951.
- ¹⁸ Rest of the World Account includes an item of "errors and omissions" which is from the original source material of the Reserve Bank of India and has been explained therein. For example see, "India's Balance of Payments, 1948-49 to 1961-62", Reserve Bank of India, 1963.
- ¹⁹ For example, "National Income Statistics: Proposals for a Revised Series of National Income Estimates for 1955-56 to 1959-60". Central Statistical Organisation, 1961. However, these are again under revision now, in view of the subsequent release of 1961 Population Census data on number and distribution of workers, besides other material which has become available subsequently. It was, therefore, thought advisable at this stage to limit the analysis to the conventional national income series only.

AROUND BOMBAY MARKETS

Turn in Sentiment

Wednesday, Morning

AFTER striking a new low, Dalal Street staged a quick come-back and regained all the ground it had lost earlier in the week; this is the pattern the stock market has been following for quite some time. Early weakness was due mainly to anxiety over the developments in Kashmir. The crossing of the cease-fire line by the Indian security forces in search of the Pakistani armed infiltrators was welcomed in market circles but fears of a possible open conflict with Pakistan induced considerable nervous bull liquidation and bear selling which pushed the market to a new low on Thursday, August 26.

Dalal Street which was at its worst on Thursday—end-account day—presented a very different look the same evening. The turn came with the Prime Minister's statement that the Government had decided, in principle, to decontrol cement, except for the quantity required for Government purposes. The stock market did not wait for the details of the scheme of partial decontrol which have still to be worked out. It responded quickly and the very slow moving ACC shot up from Rs 144 to Rs 151 in a matter of a few hours. The spurt in Cement shares had a tonic effect on the entire market. The decision in favour of partial decontrol was interpreted to indicate a significant change in official thinking and it encouraged hopes of further decontrol of cement. The market did not have to wait for long to hear from the Union Finance Minister that the Government was considering decontrol of flat steel production.

Indications of a distinct change in the Government's policy conceding the need for a higher return to key industries like cement and steel have had a profound effect on the general market psychology. The Finance Minister's hints about simplification of corporate taxation and suitable modifications in the fiscal policy for promoting industrial growth further helped trading sentiment.

The market has staged an all-round recovery under the lead of Cement and Steel shares and it looks as though the market might take a pause to allow technical forces have their play. But since trading sentiment is still

dominated by the uncertain situation in Kashmir one cannot be sure about the market's behaviour. While technical considerations seem to favour a rally, the market will find it difficult to edge its way up in face of political uncertainties.

COTTON

New Hedge Contract

NEW season's hedge contract — Vidarbha/MP Virnar 27/32" March — made its first official appearance in the trading ring of the East India Association on August 31 at Rs 881.25 (per 3 quintals) — Rs 55 below the revised ceiling for the 1965-66 season but Rs 32 higher than the previous season's ceiling for this variety. Never has any hedge contract started a new season at such a high price. In fact, hedge trading would not have become possible but for the upward revision of ceiling prices. And that is perhaps about the only benefit the cotton trade is likely to derive from higher ceiling. For no one really believes that higher ceilings are going to stimulate cotton production if only because farmers have in any case been getting the highest possible prices for their produce, statutory control notwithstanding.

If the new hedge contract has started its career at an unusually high level it is not because something has gone wrong with the weather. Nor can it be attributed to the general inflationary psychology in commodity markets where prices only go up and rarely go down except by way of a technical correction. The current high price for the new hedge contract merely reflects the remarkable strength in the spot market where almost all varieties of cotton — be it short staple or long staple — are commanding fancy premiums over their statutory ceilings and in a number of cases current prices are higher than the enhanced ceilings for the new season.

Though by no means ideal, weather conditions so far this season have been fairly satisfactory. The crucial period is, of course, still ahead. How the weather will fare in coming weeks is anybody's guess. But there

can be little doubt that cotton production will have to show a very appreciable increase over the previous season's poor crop of about 57.5 lakh bales before one can expect any big decline in prices even from the current high levels. This is because of the growing imbalance between supply and demand resulting from a near static production and growing consumption of cotton.

As against the installed capacity of 13.73 million spindles at the beginning of 1961, spindleage had risen to 15.63 million by the end of June 1965. The increase in spindleage is far behind the Plan schedule. This is good in a way. Where is the sense in creating capacity when raw material supplies cannot be stepped up to feed this capacity. Mill consumption of cotton has increased from 53.73 lakh bales in 1960-61 to around 64.50 lakh bales during the 1964-65 season. Such a big increase in cotton consumption has been possible because of the continued large imports from abroad. Consumption of foreign cotton during the past five years has averaged around 8.89 lakh bales a year. The carry-over at the end of August which marks the close of the cotton year is estimated at 20.27 lakh bales of Indian cotton and 2.8 lakh bales of foreign cotton making a total of 23.07 lakhs. The corresponding figures a year ago were 22.62 lakh bales, 2.40 lakh bales and 25.02 lakh bales. Because of the further increase in spindleage, cotton consumption can be expected to set a new record in the new season if there is to be no decline in machine activity. Needless to add, consumption of cotton depends on its availability rather than on the mills' ability to consume the raw material or on the demand for cloth which is always there because of the growing population in the country.

OILSEEDS

Futures At New High

THE oilseeds market made big news last week. It was not because of the inspired and uninformed criticism of the Forward Markets Commission's recent decision permitting the Vanaspathi Manufacturers' Association and the Grains, Rice and Oil-

seeds Merchants' Association to conduct trading in non-transferable specific delivery contracts in groundnut oil and groundnut respectively. The market made news because linseed and castor futures were rigged up to new high levels for the season. Linseed April contract was marked up to Rs 119 and castorseed April to Rs 100 (per quintal); these rates were recorded in kerb dealings late in the evening. About a week earlier, linseed futures were quoted around Rs 108 and castor futures around Rs 86. Such a steep rise—about 10 per cent in linseed and 16 per cent in castor—in a matter of days can neither be satisfactorily explained nor easily understood except in terms of reckless speculation. The rise has occurred despite reports of fairly satisfactory weather in nearly all the oilseeds producing areas.

The market authorities seem to be virtually unconcerned about the violent movements in oilseeds futures which have become quite a normal feature of trading. There have been quite a few occasions recently when a week's range in linseed futures has been as wide as a full season's range in the not-distant past.

A possible explanation for wide fluctuations in linseed and castor futures lies in the diversion of entire speculative activity to these relatively small commodities because of the absence of any facilities to speculate in groundnut and mustardseed whose production is substantially larger than that of linseed or castor. Hedge trading in mustardseed is banned while trading in groundnut, though officially allowed, continues to remain at a standstill because of the ceiling of Rs 105 per quintal.

Will the Forward Markets Commission please explain where lies the sense in prescribing a ceiling of Rs 105 per quintal for groundnut future when linseed is allowed to be traded at a much higher price? The Commission cannot be unaware that the position is just the other way round in ready and that it is groundnut which is quoted substantially higher than linseed, the price difference being of the order of about Rs 25 per quintal. If the Commission thinks that futures trading in groundnut is not advisable and that the absence of hedge trading facilities does not in any way affect the marketing of the crop, why does it not apply the same logic in respect of linseed and castorseed. It is perhaps high time that the Government conducted a competent

inquiry into utility of futures trading in commodities in a planned economy characterised by strong inflationary pressures and physical shortages. Speculative tendencies need to be curbed in every possible way. Ban on futures trading in commodities might go a long way in reducing the speculative pressures on demand.

Groundnut oil has continued to hold firm around Rs 32.50 per 10 kgs due to scarcity of offerings. The ban on the movement of groundnut oil, including solvent oil, outside the State by the Gujarat Government is reported to have created a very difficult situation for the manufacturers of groundnut extractions. A good many plants in Gujarat are said to have been closed down because of the difficulty in disposing solvent oil within the State. Vanaspati manufacturers in Gujarat State are the main beneficiaries of the export ban on groundnut oil.

MONEY AND BANKING

Signs of Stringency

CREDIT conditions in the Bombay short term money market during the week to September 1 displayed signs of stringency despite the fact that pressure of demand, which persisted during the previous week, had more or less abated. Stringency could, however, be attributed to the heavy contraction in notes in circulation during the week. Demand for funds was good though not as good as during the preceding week. Supply was lower as well but enough to meet demand. Interest rates were maintained around the previous levels at 5 per cent.

Aggregate deposits of scheduled banks showed a substantial advance at Rs 2809.90 crores against Rs 2795.69

crores according to the latest statement of affairs of scheduled banks issued by the Reserve Bank of India. Credit contraction was also higher by Rs 17.18 crores at Rs 2,008.71 crores against Rs 6.51 crores at Rs 2025.95 during the preceding week. The contraction of credit during the current season at around Rs 110.28 crores is far below the Reserve Bank's earlier expectation of Rs 200 crores. Cash in hand at Rs 68.65 crores showed a small increase of Rs 31 lakhs. Balances with the Reserve Bank increased substantially, from 94.75 crores to Rs 106.40 crores. Scheduled bank advances declined by Rs 15.28 crores to Rs 1777.87 crores. Investments in government securities at Rs 847.29 crores showed an increase of Rs 18.25 crores. Money at call and short notice improved by Rs 2.99 crores to Rs 62.03 crores.

Notes in circulation during the week to August 27 declined sharply from Rs 2580.58 crores to Rs 2538.63 crores according to the latest Statement of Affairs of the Reserve Bank of India. Rupee coins were better by Rs 2.61 crores at Rs 103.69 crores. Deposits of the Central government advanced by Rs 5.54 crores to Rs 94.91 crores. State government deposits were better as well by Rs 1.63 crores at Rs 12.24 crores. Scheduled bank deposits, however, showed a marked decline at Rs 101.94 crores. Foreign Securities continue unchanged at Rs 68.35 crores but balances held abroad are better by Rs 47 lakhs at Rs 8.40 crores. Rupee Securities at Rs 2279.72 crores declined by Rs 15 crores. Loans and advances to governments improved by Rs 12.75 crores. Loans to scheduled banks have increased as well by Rs 7.89 crores to Rs 9.81 crores.

Kirloskar Electric

A FAST expanding concern, Kirloskar Electric Company is further widening the scope of its manufacturing activity. It has been recently given two letters of intent to undertake the manufacture of larger size alternators and an expansion capacity of two lakh HP for production of electric motors in the range of 1-10 H.P. With a view to modernising the manufacture of electric motors, it has decided to switch over to the manufacture of 1-10 H.P. motors with class 'E' insulation. The company has already been permitted to manufacture electric motors at Hubli for which a licence has been received from

the Government. The Hubli unit is to be put up shortly.

In view of the present acute foreign exchange position, the company has persuaded two foreign collaborators to invest in its share capital in order to enable it to meet the foreign exchange requirements of these projects. For the larger size alternator project, Brush Electrical Engineering of U.K. has agreed to subscribe in the company's equity shares of the nominal value of £100,000 at a premium of Rs 3.50 per share of Rs 10 each. And to enable the company to modernise and switch over to the manufacture of class 'E' motors, ASEA of Sweden

will invest Rs 27 lakhs in equity shares which too will be issued at the same rate of premium as to Brush Electrical. ASEA has agreed to give the company the technical know-how and all the information including the latest designs for the manufacture of class 'E' insulated motors on a royalty basis. It is stated that this type of motor has a large export potential. The company has appointed in South Viet Nam a sole distributor for its products to promote sales in that territory.

Shareholders' approval to these proposals is to be sought at an extraordinary general meeting called for on September 10 at which will also be considered another resolution, authorising the company to subscribe to the extent of 30 per cent of the share capital which may be issued by Kirloskar-Asea, a company in the same Group. This company manufactures motor control gear, switchgear, etc which are of vital interest to Kirloskar Electric.

Aluminium Industries

NOT only has Aluminium Industries pioneered the manufacture of covered/insulated aluminium cable, but it has been also doing its best to spread the aluminium cable cult. The company's engineers have been holding classes all over the country for the benefit of electricians and wiremen giving practical demonstration of correct methods of tapping service drops, making terminal connections, joints and tees by soldering and other methods. In its endeavour to keep abreast of the latest technological developments, the two-decade-old company has been constantly adding new equipments to its modern laboratory. To the series of testing equipment already in use at its factory in Kundara has been added recently a 20-metre, 60-tonne tension testing machine.

The company's existing schemes of expansion and development have shown satisfactory progress during the year ended March 1965. The construction of the Solidal cable factory has been completed, the aluminium rod rolling mill at Kundara is expected to start operations during the last quarter of 1965 and expansion of bare conductor manufacturing facilities at Kundara and Hirakud is well in progress. The management is considering further diversification of the company's manufacturing activities with suitable foreign collaboration.

Better raw material availability and satisfactory market conditions during 1964-65 helped the company to scale new production peaks in every line of manufacture and achieve considerably higher sales of Rs 7.67 crores against the previous year's Rs 6.22 crores. What is more, a substantial improvement is recorded in the export performance. The new product, Solidal underground cable, has met good response in the market.

Gross earnings in 1964-65 however, could rise at a relatively slower pace, from Rs 80.10 lakhs to Rs 84.79 lakhs, due mainly to higher costs of raw materials and borrowings. After providing for depreciation Rs 21.40 lakhs (20.42 lakhs), for taxation Rs 30.30 lakhs (30 lakhs) and for development rebate reserve Rs 4.83 lakhs (4.91 lakhs), equity earnings amount to Rs 28.26 lakhs (24.95 lakhs), of which the maintained total dividend of 18 per cent, including a half by way of interim, claims Rs 24.30 lakhs (22.70 lakhs). The new equity shares issued on the basis of one-for-two rights will rank for dividend in the current year. The managing agents have been re-appointed for a period of five years from August this year.

Mysore Electrical

THE products of Mysore Electrical Industries comprise the means to control and utilise electric power. In keeping with the projected increase in the generation of power, the demand for various items of switchgear and controlgear products manufactured by the company is expected to rise further in future. In order to meet this demand, the company is expanding and modernising its plant. With a view to securing a part of the foreign exchange for the import of necessary plant, machinery and high voltage testing equipment required for the manufacture of existing items as also for other types of high tension switchgear, it is proposed to allot equity shares of the value of Rs 2.5 lakhs at par to the collaborators, SAPAG of Geneva, against the import of capital equipment.

Meanwhile, in the year to March last, the company has recorded further fair progress in the direction of modernisation and rehabilitation which cost it Rs 3.58 lakhs. Additional plant worth Rs 12 lakhs is on order, and is expected to be installed in the course of the next 12-16 months. The additional bay of factory No 2 at Yashwanthpur was completed and

occupied during the year, and further building construction work is in hand. Efforts to rationalise the diversify the range and improve the quality of products are continuing with a view to utilising the available raw materials and manufacturing facilities to a greater advantage.

The 1964-65 results show further satisfactory growth in turnover and profits despite the drastic cuts resulting in inadequate supplies coupled with shortages even in indigenously produced materials. Sales advanced to a new peak of Rs 2.39 crores against Rs 2.08 crores previously, gross profit jumped more briskly from Rs 38.84 lakhs to Rs 48.48 lakhs. Of this, depreciation has taken away Rs 3.82 lakhs (3.28 lakhs), taxation Rs 25.90 lakhs (20.65 lakhs) and development rebate reserve Rs 0.62 lakh (0.65 lakh). Adding to the residue Rs 1.03 lakhs (0.12 lakhs), being excess provisions in prior years, the disposable profit amounts to Rs 19.37 lakhs (14.30 lakhs) out of which the dividend raised by one point to 13 per cent claims only Rs 4.59 (4.20 lakhs). Obviously, the directors' decision to effect only a meagre increase in dividend has been influenced by the need for conserving resources for schemes of development and expansion.

Thana Electric

IN order to finance power development so as to meet the accelerated demand for electricity in its area of supply, Thana Electric Supply Company is raising additional capital of Rs 9 lakhs. The company's licenced area of supply comprises portions of the Greater Bombay Municipal Corporation covering Powai, Bhandup and Mulund and of the Thana District in and around the city municipal limits, an area where industries are fast springing up and population increasing. In the five-year period ended March 1964, for which statistics are available, sales of energy and meter rent expanded substantially from Rs 15.80 lakhs to Rs 30.23 lakhs. The electric energy distributed by the company to consumers is received in bulk from the Tata Hydro-Koyna interconnected system at its receiving stations which have an aggregate installed capacity of 13 M.V.A.

Incorporated in 1928 and made public only this year, the company is now managed by Killick Industries who are also managing agents of Ahmedabad Electric, Bombay Subur-

ban Electric and Surat Electric. The authorised capital is Rs 1 crore and paid-up capital Rs 11 lakhs, Rs 8 lakhs in equity and Rs 3 lakhs in 6.5 per cent tax-free cumulative preference shares, both of Rs 100 each. The additional capital is to be issued in equity shares of Rs 100 each at par. Of the total issue, Rs 7 lakhs have been underwritten, and the managing agents will apply for the balance shares worth Rs two lakhs though there is no firm reservation in their favour. The subscription list opened on August 25 and will close on September 8 or earlier, but not before August 28.

B O A C

BOAC put up its best performance in its history in 1964-65. A record operating surplus of £16.8 million was made during that year by BOAC and its subsidiary company BOAC-Cunard, an improvement of £8 million over the previous year, which was the record till then. Of this surplus £9.2 million went towards providing for interest, taxation and other matters leaving a net profit on operations of £7.6 million—an improvement of £6.6 million over the previous year.

The growth of revenue which actually started last year continued its upward trend. Passenger revenue was up by 13.7 per cent (£9.6 million) and freight revenue by 18.2 per cent (£1.8 million). Mail revenue, however, registered a marginal fall of 0.7 per cent. Revenue earned abroad increased by £8 million compared to the previous year to a total of £78 million.

Yet another noteworthy feature in the performance of BOAC during the year under review was the remarkable increase in productivity. Although there was a reduction in the strength of staff by 704 it never had an adverse effect on the standard of services to passengers and shippers. There was better utilisation of manpower and mechanical and electronic aids. Output measured in terms of ctns per employee was 58,547 ctns compared to 50,004 in the previous year. A three-year wage agreement was also aimed at in which pay increases were given in return for positive and potential measure for improved efficiency.

BOAC-Cunard also increased its operating profit from £2.95 million to £4.51 million in the year and declared a dividend of six per cent. Similarly, BOAC Associated Companies Limited

registered a profit of £167,000 inclusive of the company's investments in other companies and after paying interest of £150,000 to BOAC and BOAC-Cunard. A sum of £250,000 was set aside as a reserve with a view to meeting the possible political and economic contingencies in the territories in which some of the subsidiary and associated companies are located.

In the sphere of passenger traffic, the year witnessed further consolidation on the Western routes. Total seat

miles increased by nearly four per cent. As a result of fares reduction on the Atlantic routes and also of the favourable economic conditions in both the US and North America, the load factor considerably improved. BOAC sold 63.4 per cent of its North Atlantic seats compared to the average of 56.9 per cent achieved by all other operators. Cargo operations on Western routes accounted for nearly 56 million load ton miles, an increase of 36 per cent over the previous year. The performance on the Southern routes was also not different.



CURRENT STATISTICS

International Monetary Fund

Summary of Fund Transactions

(Million US Dollars)

Year	Total Purchases by Members	Total Stand-by Arrangements in Force at End of Fiscal Year	Total Repurchases by Members
1948	606.04	—	—
1949	119.44	—	—
1950	51.80	—	24.21
1951	28.00	—	19.09
1952	46.25	—	36.58
1953	66.12	53.00	184.96
1954	231.29	90.00	145.11
1955	48.75	90.00	276.28
1956	38.75	97.50	271.66
1957	1,114.05	968.90	75.04
1958	665.73	884.28	86.81
1959	263.52	1,132.84	537.32
1960	165.53	291.88	522.41
1961	577.00	338.62	658.60
1962	2,243.20	1,942.88	1,260.00
1963	579.97	1,287.25	807.25
1964	625.90	1,970.00	380.41
1965	1,897.44	516.15	516.97
Total*	9,368.78		5,802.682**

* Totals may not equal sums of items because of rounding

** Including \$ 281.6 million repurchased in excess of drawings. Of this amount, \$ 257.5 million represent repurchases that reduced the Fund's holdings of member's currencies below the amounts originally paid on subscription account, and \$24.1 million represents repurchases of member's currencies paid as charges. Repurchases do not include sales of currencies equivalent to \$1,067.2 million offset by adjustments of \$8.7 million, making a net total of \$1,058.5 million having the effect of repayment.

Fund Stand-by Arrangements with Members

Fiscal Year ended April 30, 1965

(Million US Dollars)

Members	Stand-by Arrangements in Force	Amount Available April 30 1965
Brazil	125.00	75.00
Burundi	4.00	2.00
Chile	36.00	24.00
Costa Rica	10.00	5.00
Dominican Republic	25.00	5.00
Ecuador	13.00	10.00
Haiti	4.00	1.75
Honduras	7.50	5.00
India	200.00	75.00
Korea	9.30	9.30
Liberia	4.40	1.10
Mali	9.90	—
Pakistan	37.50	37.50
Paraguay	5.00	5.00
Peru	30.00	30.00
Philippines	40.40	40.40
Somalia	10.30	3.60
Tunisia	14.25	3.00
Turkey	21.50	21.50
United Arab Republic	40.00	—
United Kingdom	1,000.00	—
United States	500.00	150.00
Total	2,159.05	516.15

Purchases and Repurchases of Currencies

Fiscal Year Ended April 30, 1965

(Million US Dollars)

Country	Purchases	Repurchases
Afghanistan	5.63	—
Argentina	—	50.00
Bolivia	—	2.75
Brazil	50.00	44.00
Burundi	2.00	—
Canada	—	107.15
Ceylon	8.00	3.75
Chile	22.00	13.00
Colombia	5.00	22.00
Costa Rica	5.00	2.07
Cyprus	1.95	—
Dominican Republic	20.00	—
Ecuador	3.00	6.58
Haiti	3.75	—
Honduras	2.50	2.50
India	125.00	100.00
Iran	17.50	—
Israel	12.50	12.49
Italy	—	65.34
Jamaica	—	0.24
Jordan	—	0.30
Liberia	3.30	—
Malaysia	—	1.14
Mali	9.90	—
Morocco	13.12	—
Nicaragua	5.65	—
Pakistan	16.00	—
Panama	2.69	—
Paraguay	—	0.50
Philippines	—	11.25
Somalia	6.70	0.02
Sudan	7.50	—
Syrian Arab Republic	6.50	2.50
Tunisia	11.25	—
Turkey	16.00	16.00
United Arab Republic	40.00	18.00
United Kingdom	1,000.00	—
United States	475.00	—
Yugoslavia	—	35.00
Total	1,897.44	516.97 ¹

1 Total does not equal sum of items because of rounding

Countries' Official Reserves

Including Reserve Position in the IMF

End of Calendar Years, 1961-64

(Billion US Dollars)

Countries	1961	1962	1963	1964
Industrial countries	49.04	48.93	50.55	52.37
United States	18.75	17.22	16.84	16.67
United Kingdom	3.32	3.31	3.15	2.32
Others	26.97	28.40	30.56	33.38
Other Developed Areas	4.67	5.35	6.18	6.72
Other countries	8.96	8.81	9.78	9.90
Total	62.67	63.09	66.51	68.99
Composition				
Gold	38.89	39.27	40.23	40.86
IMF position-gold tranche	4.16	3.80	3.94	3.75
—loans under GAB	—	—	—	0.41
Claims on United States	11.98	12.55	13.94	14.94
Claims on United King- dom	7.10	6.21	6.53	7.05
Others	0.54	1.26	1.87	1.98

Source: Annual Report, International Monetary Fund

Index of Industrial Production

(Base: 1956=100)

	May 1965	April 1965	March 1965	May 1964
Seasonally adjusted	181.5	182.6	189.9	162.3
Crude	179.5	180.2	192.0	160.5
Mining and quarrying	183.7	187.2	189.4	164.7
Coal	174.6	178.8	180.50	155.9
Manufacturing	173.6	174.1	186.9	154.6
Food mfg industries	130.2	148.1	159.0	98.9
Wheat flour	348.1	352.7	356.0	340.7
Sugar	77.6	215.7	346.7	...
Tea	119.7	76.00	23.1	107.5
Salt	353.2	273.3	159.00	363.8
Beverages and tobacco				
Cigarettes	230.8	235.3	213.0	159.3
Textile manufacture				
Spg, wvg and finishing of cotton textiles	131.7	130.9	128.9	112.3
Cotton spg	139.3	140.1	140.9	124.0
Weaving of cotton textile	120.1	118.0	112.7	107.8
Mill sector	96.5	96.6	96.1	85.2
Decentralised sector	184.2	176.3	157.6	169.1
Spg, wvg and finishing of woollen textiles	110.2	106.5	114.6	128.6
Spg, wvg and finishing of textiles from silk and synthetic fibres	217.4	217.0	213.9	206.8
Spg, wvg and finishing of jute manufactures	127.2	129.3	135.1	117.1
Footwear and other wearing apparel and made up textile goods	235.4	240.2	223.0	150.7
Wood and cork, except furniture	238.2	236.7	241.3	188.6
Paper and paper products	241.9	239.3	253.4	...
Leather and fur products	161.2	144.5	144.7	142.8
Rubber products	223.6	224.7	232.5	176.7
Chemicals and chemical products	234.7	235.3	255.9	190.0
Basic industrial chemicals	383.5	383.5	412.6	333.3
Heavy organic chemicals	405.7	415.7	456.8	294.4
Heavy inorganic chemicals	432.5	426.0	460.7	382.6
Synthetic resins and plastics	620.6	572.7	644.0	568.7
Dyestuffs	170.3	185.6	179.5	183.8
Fertilisers	268.1	237.8	293.5	124.4
Paints, varnishes and lacquers	171.9	175.1	178.1	168.9
Soap	141.1	162.8	156.9	140.2
Matches	128.1	135.2	146.9	93.6
Petroleum products	...	183.3	243.2	225.6
Non-metallic mineral products	241.9	224.7	237.2	206.6
Structural clay products	245.2	227.6	242.3	201.0
Glass and glass products	179.8	161.4	176.6	182.6
Pottery, china and earthenware	342.9	329.2	310.9	279.0
Cement	219.1	201.6	214.5	189.2
Basic metal	253.9	251.7	290.8	255.0
Iron and steel	259.4	257.8	307.9	265.2
Pig iron	323.1	309.5	357.4	332.5
Finished steel	312.8	305.6	386.4	320.5
Copper smelting and rolling mill products	148.0	137.7	142.8	143.8
Aluminium	409.9	400.2	384.2	389.6
Brass	228.7	218.2	192.3	166.6
Metal products	251.0	236.2	225.3	196.5
Bolts, nuts, screws, nails, springs, chains, etc	196.5	193.6	198.0	128.3
Hand tools and small tools	655.9	691.9	585.5	464.7
Metal products not elsewhere classified	216.3	196.3	193.5	175.0
Machinery except electrical machines	476.1	456.4	567.6	378.0

Internal combustion engines	470.6	471.1	513.0	365.7
Industrial machinery	519.0	486.9	685.1	443.0
Commercial office and household machines	369.5	354.5	404.6	255.0
Sewing machines	314.3	311.9	309.9	67.8
Electrical machinery, apparatus, appliances and supplies	301.1	289.3	332.2	244.1
Power transformers	425.6	383.3	491.3	317.2
Electric motors	490.6	455.9	506.4	303.0
Electric cables and wires	280.2	259.2	345.7	291.8
Batteries	176.9	165.9	191.6	177.2
Electric lamps	293.0	224.7	233.7	259.6
Electric fans	457.8	454.3	468.4	202.1
Radio receivers	299.7	375.8	379.6	271.2
Transport equipment	208.4	190.7	245.7	178.5
Railway wagons	165.7	157.0	171.2	145.4
Motor vehicles	221.1	185.4	284.1	184.2
Motor-cycles and scooters	971.6	930.2	909.5	629.1
Bicycles	237.6	233.1	260.3	205.1
Electricity, gas and steam electricity	...	313.6	320.6	295.6

*Production statistics relate to six 'A-class' units only. The index based on their production has been inflated by the ratio of production of all units in 1961 to production of the six 'A-class' units in that year.

Source: Department of Statistics, Central Statistical Organisation, Calcutta.

BANKING RETURNS

Reserve Bank	Aug 27	Aug 20	July 30	Aug 28, '64
1 Note Circulation	2538.63	2580.58	2573.43	2390.12
2 Rupee Coins	103.69	101.08	100.84	108.70
3 Deposits				
(a) Central Govt	94.91	89.37	119.45	96.21
(b) Other Govts	12.24	10.61	17.05	19.44
(c) Banks	106.60	101.66	102.33	94.93
(d) Others	229.48	234.46	237.89	160.66
4 Foreign securities	68.35	68.35	68.35	85.46
5 Balance abroad	8.40	7.93	7.43	10.15
6 Rupee securities	2279.72	2294.72	2314.72	2115.88
7 Investments	228.79	314.55	326.23	191.67
8 Loans and advances to Govts	70.12	57.37	56.01	21.93
9 Other Loans and advances	168.10	156.43	161.10	146.31
Scheduled Banks	Aug 20	Aug 13	July 23	Aug 21, '64
1 Aggregate Deposits (net)	2809.95	2795.69	2777.85	2472.30
Demand (net)	1381.39	1369.63	1385.03	1191.46
Time (net)	1571.25	1564.09	1536.82	1387.21
2 Cash in hand	68.65	68.34	69.65	63.61
3 Balances with the Reserve Bank	106.40	94.75	112.14	111.77
4 (2) + (3) as % of (1)	6.23	5.83	6.54	7.09
5 Borrowing from Reserve Bank	2.18	3.00	15.65	1.78
(a) Against usance bills and/or promissory notes	—	—	—	0.05
(b) Others	2.18	3.00	15.65	1.73
6 Advances	1777.87	1793.15	1792.34	1486.54
(a) State Bank	428.27	432.53	439.85	319.05
(b) Others	1349.60	1360.62	1352.49	1167.49
7 Bills discounted				
(a) Inland	150.69	152.50	162.04	165.99
(b) Foreign	80.20	80.29	80.23	67.35
(c) Total	230.89	232.79	242.27	233.34
(i) State Bank	21.79	23.33	24.27	20.45
(ii) Others	209.10	209.46	218.00	212.89
8 (6) + (7) as % of (1)	71.49	72.47	73.24	69.57
9 Investment in Govt Securities	847.29	829.04	811.95	775.11
10 (9) as % of (1)	30.15	29.65	29.23	31.35

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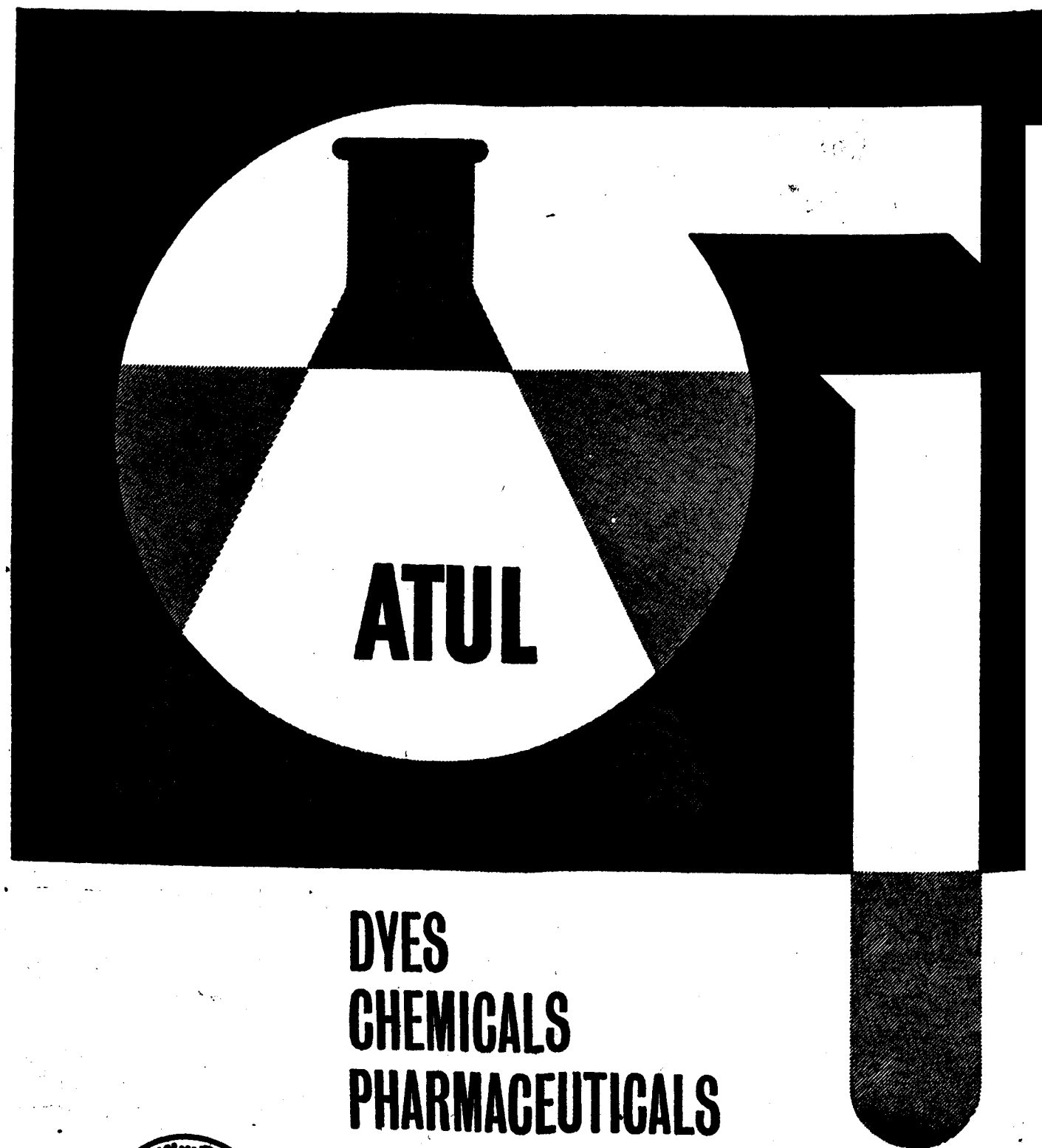
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THE ECONOMIC WEEKLY

A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

**INDIA WRESTS THE INITIATIVE
WOMEN WORKERS
AYUB'S MISCALCULATIONS
REFORMING THE IMF**

VOLUME XVII NO 37

SEPTEMBER 11, 1965

SEVENTY-FIVE PAISI

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THE ECONOMIC WEEKLY

Vol XVII No 37 Sept 11, 1965

EDITORIAL

Initiative with India 1395

WEEKLY NOTES

A New Fourth Plan?—Cleaning Up Business Practices—Albert Schweitzer—Cement: Profits for Expansion—Fertilisers: From Distribution to Marketing—Honesty through Accreditation 1397

LETTER TO EDITOR

The Need To Be Moral 1400

CAPITAL VIEW

Ayub's Costly Miscalculations—Romesh Thapar 1396

FROM THE LONDON END

Labour with the Shine Off 1401

LETTER FROM AMERICA

Vietnam War Helps the Economy 1402

A CALCUTTA DIARY

Atulva Ghosh Rides Again 1403

SPECIAL ARTICLES

Input-Output Analysis: Report on a Seminar 1404

Urban Women Workers : A Preliminary Study—Kamla Nath 1405

Measurement of Aggregate Productivity of Factors: Some Recent French Contributors—Paresh Chattopadhyay 1413

Policies for Drawings from the IMF—S L N Simha 1417

AROUND BOMBAY MARKETS LIC Comes to the Rescue 1422

BUSINESS NOTES Greaves Cotton—CIMMCO—Jaipur Metals—International Tractors—Laxmi Starch—Imperial Tobacco—Air India 1423

FROM THE CHAIR New Standard Engineering 1425

Kirloskar Oil Engines 1427

CURRENT STATISTICS 1429

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Initiative with India

THE war with Pakistan passed out of its tit-for-tat phase with the three-pronged attack on West Pakistan launched on Sunday. The international frontier between the two countries had been breached earlier by Pakistan in its thrust into Chamb in Kashmir, but in other respects the Indian offensive was distinctive. First, it carried the war beyond Kashmir. Second, the forces thrown into the attack, judging from available reports, were more formidable by far than anything used till then by either side. To what extent these developments upset President Ayub Khan's calculations it is difficult to say. Of course, a really serious threat to Indian forces in Kashmir, such as posed by the Pakistani advance towards Akhnoor after capturing Jaurian, was bound to be answered sooner than later by a direct attack on Pakistan herself. And in such an attack India would naturally exploit to the maximum the almost three-to-one numerical superiority of her forces on the wide plains of Punjab. The advantage has been pressed home with the two subsequent offensives launched on Wednesday, from Jammu towards Sialkot and from the Barmer region in Rajasthan towards Hyderabad (Sind). Upset calculations have not been all on one side, however. Even official accounts of the course of the war indicate that the drive on Lahore has not proceeded with the expected despatch, though the immediate objective of arresting Pakistan's advance towards Akhnoor has been achieved and the threat to Kashmir's life-lines lifted.

More important, by the series of offensives launched since Sunday, India has definitely wrested the initiative in the war. Much will now depend on how this advantage is exploited. The Defence Minister has told Parliament more than once that the aim is not to occupy Pakistani territory but to cripple her military capability. The reasoning, it seems, is that since short of total defeat Pakistan is not likely to formally undertake to leave Kashmir alone and since, in any case, no one, not the UN certainly, can ensure that such a commitment will be honoured, the best guarantee for India is to emasculate Pakistan militarily. The sustained attacks on Pakistan's air bases like the one at Sargodha and the emphasis on destruction of armour and equipment in the official reports on the war suggest that this objective is being pursued above all, though with what success and at what cost it is not clear. But assuming that the objective can be achieved given enough time—a not entirely unrealistic assumption considering Pakistan's many strategic disadvantages and smaller military and industrial base and, of course, the difference in sheer size—the question is can we settle down to a long war, and should we?

A remarkable circumstance attending the war so far has been the virtual unanimity abroad that it should be ended as soon as possible. Few countries, if any, have shown an interest in involving themselves in the conflict, even to fish in troubled waters. The exceptions are perhaps China, Indonesia, Turkey and Iran. The latter two, Pakistan's partners in the Cento, are at the moment considering her appeal for assistance. Indonesia has rallied to Pakistan's support in her customary manner, by providing demonstrators to ransack the Indian embassy in Jakarta. As for China, her aim, immediately at any rate, seems to be to prevent India from moving troops from the India-China border to the Punjab region; the threat of opening a second front, she hopes, will also keep India from striking at East Pakistan which is so poorly defended by Pakistan herself. None of this really amounts to active intervention in the war in such a manner as to take away the initiative from our hands.

It is really the moves for peace which will test the skill with which we exploit the military advantage we seem to have gained. At the moment of writing U Thant has just completed his first round of talks with Pakistani leaders in Rawalpindi; by the week-end he will be in New Delhi. The Security Council resolution calling for a ceasefire has been, not unexpectedly, disregarded by both countries. Pakistan insists on a UN commitment to a plebiscite in Kashmir. India has specified her own pre-conditions—the branding of Pakistan as the aggressor, removal of all Pakistani infiltrators from Kashmir and an assurance that a similar attempt will not be made again by Pakistan to upset the status quo in Kashmir. Given these respective positions, obviously, neither country can agree to any conceivable peace formula, whether produced by U Thant or by the Commonwealth peace mission which may follow him, without loss of face. In fact, both appear inevitably headed for some (or

considerable) loss of face. For, the alternative to a voluntarily accepted peace seems to be one imposed by countries which are in a position to do so. Both India and Pakistan it need hardly be said, are uniquely ill placed to withstand such pressure. Significantly, the US, the Soviet Union and the UK have all urged immediate end to the fighting. The US and the UK have suspended arms supplies to India and Pakistan and the latter's

CAPITAL VIEW

Ayub's Costly Miscalculations

Romesh Thapar

THE cease-fire line in Jammu and Kashmir belongs to the dead past. Our armed forces have before them a single objective—the decimation of the Pakistani forces which attempted to seize the territory of Jammu and Kashmir. The battle will continue until the Government of India is convinced that the threat to our security has been smashed and adequate guarantees are given that there will be no repetition of the events we have been witness to during these recent weeks. These few sentences summarise the prevalent mood in the leadership of the ruling party. And, judging from the quiet decisiveness with which the Emergency Committee of the Cabinet has acted, there is little likelihood of any backsliding. Too much is at stake.

All the bluster of Ayub and Bhutto, now supplemented by the cynically opportunist agit-props in Peking and Jakarta, cannot hide the fact that Pakistan was attempting a major military take-over in Jammu and Kashmir. The attack in the Chamb sector, massively supported by armour and mechanised units, was a closely co-ordinated follow-up to the activity of the infiltrators. True, the refusal of the valley to respond complicated the stratagem. But Rawalpindi believed that its thrust through the Chamb sector would exploit the advantages of terrain and soon cut the vital strategic roads to Poonch and to Srinagar.

Apparently, the military junta which rules Pakistan, basing itself on the Kutch experience, assumed that India's leaders would hesitate to order the crossing of the Punjab frontier, would not remember the old declaration by Jawaharlal Nehru that an attack on Jammu and Kashmir would be considered an attack on India. This probably explains why Pakistani armour had been heavily concentrated for the assault on Jammu and Kashmir, even at the risk of denuding the defences of Lahore which is crucial in Pakistan's

appeals to the Seato and the Cento have been turned down, apparently on technical grounds, but really out of a genuine conviction that induction of fresh arms on either side can only aggravate the conflict whereas a denial of them may hasten its end. Extension of the same logic may ultimately pave the way to peace. So far only Jo Grimmond, the British Liberal Party leader has openly advocated an embargo on economic aid, but there are

THE ECONOMIC WEEKLY

straws in the wind which cannot be ignored.

For India wisdom seems to lie in a ceasefire voluntarily accepted while the initiative in the war is with her. This may involve the minimum loss of face and may, it is just likely, enable us to avoid, albeit temporarily, being confronted with the substantive political question of Kashmir immediately in the wake of ceasefire.

ramified business of the inevitable cease-fire. The escalation is dictated largely by the strategic objective of destroying the aggressive potential of the Pakistan army. The destruction so planned must take place in the shortest possible time because there is no advantage to be gained in a prolonged operation. And, within the next few days, the pressure from international opinion will mount rapidly to compel a cease-fire. These are related issues and will have to be resolved — possibly by a single decision.

If the Pakistan army, and particularly the armour it has received from the USA, is dealt a grievous blow within the next few days, there is no reason why our military formations should not withdraw over the international frontier while at the same holding the recently captured Pakistan positions along the cease-fire line which will ensure the insulation of the Kashmir Valley from infiltrator invasions. A grave problem will arise, however, if we are unable to deliver the punishing blows within the limited time available to us. Such a situation could escalate the war to the point of no return. The next few days could decide the future of Indo-Pak relations.

The GOI has yet to realise fully that the confrontation with Pakistan is a confrontation with the West. The manipulations at the UN, despite the reports submitted by General Nimmo and U Thant, the attempt by the USA to imply that both India and Pakistan are misusing (*sic!*) the equipment supplied to them under various agreements and treaties, and the farce sought to be enacted by the British who demand that we return the hardware 'leased' to us after the NEFA clear the muddled thinking of two collisions in 1962, have done much to years. However, we have still to comprehend the implications and our response to them.

The Soviet position on the war that has developed between India and Pak-

THE ECONOMIC WEEKLY

istan continues to baffle those who expected a Khrushchovian gesture. Clearly, Soviet policy in this part of the world has yet to evolve. The bureaucratic approach in Moscow, which in a mechanical sort of way sees the USSR replacing the US militarist presence by an economic presence, apparently continues to dominate thinking. India is seen as the friend who has to be given all aid, economic and military, but it is considered politically puerile to make a public demonstration of this commitment. There must be many in Moscow who are perturbed by this ambivalence. Hence the Soviet Union's offer of its 'good offices' to India and Pakistan — the beginning of what might become a major involvement.

Far-reaching and deep changes are bound to take place in the power balance in South Asia whatever the ultimate outcome of the present Indo-Pak war. They will affect foreign relations, the direction of economic policy and the political organisation of the people.

One of the most significant side-results of the destruction of the Pakistani militarist posture will be a radical alteration in the balance of Indian and Chinese military strength along the Himalayan border. Peking must be taking note of these developments.

Although the Chinese leaders have offered full verbal support to Pakistan's aggressive tactics in Jammu and Kashmir and have denounced Indian 'imperialism and colonialism', the fact remains that no suspicious military movements have occurred in Ladakh or NEFA. There has been some diplomatic needling about patrolling and the like in the Chumbi Valley which just southward between Sikkim and Bhutan. Probably, the Chinese are quiet for the moment because they believe that whatever the result of the Indo-Pak conflict they can make propagandist capital out of it. But it would be a gross error to ignore the impact on the Chinese of the events now taking place. It may help matters. It may not.

Of course, there is still a great deal of talk in the Capital about the shattering silence of what are called our friends, particularly some of the Arab States and certain non-aligned nations. Apart from Marshal Tito, no one has stirred. But, fortunately, we seem to have at last pulled ourselves out of the sterile obsession which demands public declarations of support. We are wiser now — and fast recognising that only policies based upon self-reliance can give us the strength we need to cope with the related challenges of defence and development. This new spirit has to be nurtured and helped to grow through more purposeful commitments by the ruling party.

Meanwhile, the Capital seems ready to take everything in its stride — and is convinced that the rest of the country is as confident. All the more reason that our leadership be mature, far sighted, able to distinguish between jingoism and national interest. To this end, we must work in the weeks ahead.

Weekly Notes

A New Fourth Plan?

DELIBERATIONS on the Fourth Plan have always had an air of unreality about them, as we have had occasion to observe more than once before. The unreality reached its height at the last meeting of the National Development Council which authorised the Prime Minister to "re-orient, alter and amend" the Fourth Plan to give it a defence bias. The Council was supposed to give a final shape to the proposals for the Fourth Plan and the Draft Plan was supposed to be prepared on the basis of its recommendations.

The Fourth Plan was obviously conceived under an evil star. Ever since work was begun on it, conditions in the country have been increasingly turning unfavourable to its acceptance and implementation. From the highest and most responsible quarters came hints about the Plan being given up altogether or postponed; we interpreted this in some of our editorials as signs of important changes to come. The final blow has now been dealt by the hot war that has suddenly flared up in the sub-continent. Such a development was, of course, not even remotely taken into account as a possibility in for-

mulating the Plan proposals. It can therefore be taken for granted that the Fourth Plan will be very different indeed from what has been proposed till now.

The National Development Council, understandably, did not do any business at all; the entire matter of changing the Plan has been left to the Prime Minister, which is just another way of saying that the Plan would have to be formulated *de novo* after the smoke of the war clears up a bit. One thing is certain: the difficulties that were being anticipated in the matter of foreign aid would be now accentuated manifold. There is no doubt at all that the role foreign aid was playing in our development effort would be henceforward entirely different, both quantitatively and qualitatively. In an earlier editorial we had urged that we should go ahead with planning "without aid if necessary". This is not to be treated as an exhortation but as a serious programme and thinking must be done as to how exactly one can go ahead with planning for the double purpose of defence and development — with much greater emphasis on defence than hitherto — and yet depend substantially less on foreign aid.

Cleaning Up Business Practices

A RELATIVELY small price has been paid for the smooth passage of the Companies Amendment Bill through the Lok Sabha. The age limit for retirement of directors in public companies which was sought to be fixed at 75 has been removed, and so also the mockery of special resolutions to re-elect retiring directors who pass the age of 65. The time limit for the validity of blank transfers of shares has been liberalised. These two concessions are in addition to those made in the Select Committee which, among other things, deleted the provisions relating to declaration of the beneficial ownership of large holdings registered in the names of nominees, and released existing companies from the obligation to distinguish their main and subsidiary objects of business.

The main proposals for strengthening the regulation of corporate finance and management and for removing the procedural hardships caused by some petty irritants in the law have remained intact. These concern the powers of Government to inspect company documents and order cost audit of industrial companies, to regulate inter-corporate loans on the same basis as inter-corporate investments,

and to make itself a party to court sanction of amalgamations. Take-over bids and liquidation proceedings would be more closely supervised and the Company Law Advisory Commission abolished. All powers to grant approvals for appointment and remuneration of managerial personnel, etc., would now vest exclusively in the Company Law Board, which will be advised by an advisory committee "on such matters as may be referred to it".

The Finance Minister has also informed the informal consultative committee of MPs attached to his Ministry that the Company Law Administration's 'policing' activities would be confined in general to investigation and special and cost audits. It is proposed to make major offences against Company Law cognisable under the Penal Code and to hand over further proceedings against offenders to the Fraud Branch of the Home Ministry. This move is welcome in so far as it places company frauds — which are of much larger magnitude than the petty ones dealt with in the normal course of law — on par with other frauds. If Parliament accepts this amendment of criminal law, a major step would have been taken towards the cleaning up of business practices. The anti-fraud activities of the Home Ministry's special police establishment would have to be considerably strengthened if this move is to be successful. There is no doubt that the Company Law Administration is not equipped to handle criminal and semi-criminal prosecutions; at the same time there is a possibility that the Home and Finance Ministries might work at cross-purposes and the preliminary investigations undertaken by CLA might be frustrated by a fragmentation of investigation and prosecution authorities.

Albert Schweitzer

IF there ever was a man who lived out fully the philosophy he advocated that was Albert Schweitzer. We in this country take it almost for granted that one advocates a set of ideas and practises an entirely different one. But even among the greatest leaders of thought of any age and any country, there are very few who know quite clearly the best way they could spend their lives. In most cases it is a search for the truth, never quite attained, never quite lived out. But Schweitzer, relatively early in his life, strictly as a result of his philosophical explorations came to the conviction that the best way he

could spend his days was to help as many of his kindred beings as possible to suffer less from physical ailments. A rising star of a philosopher, who had before him a comfortable and satisfying academic career, with the promise of great eminence, joined a medical college, took a degree in medicine, started a hospital in the heart of Dark Africa and spent a continuous stretch of half a century diligently and painstakingly taking care of the ill and diseased. Until his very last day he never turned back. The philosopher who rejected Indian philosophy for its emphasis on world denial denied himself the worldly success that would have been his for the asking.

Born in 1875 into a family of priests, Schweitzer himself took orders in 1900. At the same time, he continued his studies in theology and music. In 1906 Schweitzer published "The Quest of the Historical Jesus"; this book aroused great controversy and also put him in the forefront of academic theologians. Widely known as a theologian and philosopher, Schweitzer was also becoming famous both for his organ-playing and for his analytical writings about music.

In 1905 when Schweitzer abandoned his brilliant academic career in order to study medicine, his family and friends were astounded. Little did they know that the decision had been taken years before, in 1896. "There came to me, as I awoke, the thought that I must not accept this happiness as a matter of course, but must give something in return for it". Schweitzer decided then to devote himself from the age of thirty "to the direct service of humanity". In 1904 he read a monthly report of the Paris Missionary Society concerning the needs of the Congo Mission; he decided at that moment that he would become a Jungle Doctor. In 1913 he completed his medical studies, and set sail with his wife for Africa to begin, what he considered, his life's mission.

The work at Lambarene did not prevent Schweitzer from continuing his musical and literary career. Among his well known books are the autobiographical "My Life and Thought" (1931) and "On the Edge of the Primeval Forest" (1921). He maintained an interest in philosophy and theology and extended his enquiries on these subjects to Indian philosophies. It was during his first trip to Africa that Schweitzer found his answers to the problem of the "elementary and universal conception of

the ethical". The phrase "Reverence for Life" became the cornerstone of Schweitzer's philosophy of life. All creatures have a will-to-live; only Man, through his process of thought, can recognise this. Unfortunately, in the world today men think only of their own will-to-live and fail to respect others' will-to-live. Not until men, through thought, practise "Reverence for Life" (which means recognising the will-to-live of all other creatures) will they become truly civilised.

Cement: Profits for Expansion

CEMENT has been in short supply in India since 1939, a short period in 1958-1959 excluded. The response to this situation so far has been typically short-sighted. The Government clamped down price control and administratively allocated available supplies among users. However justified this arrangement was during the war—a temporary emergency situation when there were no immediate possibilities of expanding supplies—it had little meaning in the post-war period. The system gave an unjustified subsidy to the user of cement, encouraged waste and exaggerated demand, and prevented adequate returns to the manufacturer. The bureaucratic solution of price control and physical allocation tended to perpetuate, rather than eliminate, the shortage.

Production expanded at a compound rate of 9.2 per cent per year. However, as mentioned above, given the initial starting position of shortage and the rate of growth of demand, it has throughout the period been less than requirements—a situation which has been used to justify the continuation of controls.

The first dent in the system came in the form of the excise duty rebate on increased production of cement, allowed only about a month back; it implied a recognition that supplies could be responsive to higher profits. Soon after the Prime Minister announced in the Parliament that the Government would remove the controls on the price and distribution of cement after taking about half the output at the existing fixed price. This is a fair solution in that a monopolist buyer of 50 per cent of the output (equivalent to the production of 25 200,000 tons/year factories) should be able to dictate the price at which he would buy. At the same time, the industry would be free to dispose of the remaining output

The implications of the move are interesting. Following the caustic soda decontrol precedent (and perhaps because industry is too attuned to cartel arrangements for distribution—so far, of course, under the aegis of the Government), representatives of the cement industry have chalked out a price-holding arrangement, under which the industry would seek to limit the price rise to Rs 20 to 25 per ton. On a free sale of 4 million tons a year, this would provide the industry immediately Rs 8 to 10 crores extra profits. Even after allowing for cost increases and the Finance Minister's cut, this is a substantial windfall to the producers.

The immediate effect has been not only to raise the prices of cement shares, but to interest the industry in expansion plans and to encourage new parties to enter the industry. Cases of cement companies are not unknown where they have not commenced paying dividend seven years after starting. Why cement shareholders were required to do this public service one fails to understand. But it may be expected now that such examples, together with the cement shortage, will be matters of the past.

Fertilisers: From Distribution to Marketing

THE Sivaraman Committee on fertiliser distribution appears to have done a thorough job, though its estimates of the foreign exchange required to make up the supply deficit bears little relationship with realities. The Committee has blessed the demand for entry of private trade into the distribution system, which has so far been the monopoly of co-operative agencies, who have not come up to expectations—owing to several reasons. These are listed as lack of marketing experience, inadequate distribution margin, low volume of credit facilities and small turnover. Since turnover would remain small in the absence of adequate supplies and the private agencies entering the trade would not be flustered with credit either, the indictment of co-operative agencies is obviously based on their high overheads, organisational incompetence and inability to build up marketing as distinct from mere distribution.

The entry of private trade would come about in any event since private producers as they go into large scale

production are not likely to be satisfied with entrusting sales to co-operatives. Fertilisers and Chemicals Travancore showed the way a long time back by opening its own demonstration centres and soil analysis and marketing organisation. It is a pity that other public sector plants have not (and could not by policy fiat) take up the same promotional role. The Committee has suggested that when production reaches 1.2 million tonnes the need for the Central Fertiliser Pool will disappear. Two years before this achievement, factories covered by the Pool arrangements should make their own arrangements to market one-third of their production in the first year and two-thirds in the second year. Thereafter, they will be responsible for the entire distribution.

The Committee has pointed out that the Central Fertiliser Pool which was intended to serve as an equalisation fund for balancing high domestic prices against low imported prices has been made to earn a profit of Rs 43 crores. This profit, it suggests, should be utilised for an active promotion programme. It is against giving a subsidy to the users of fertilisers, except in hilly and inaccessible areas so long as minimum prices are assured for agricultural products. For larger and more effective use of fertilisers, it prefers to rely upon better marketing, freight and tax concessions for raw materials and larger credit facilities. Retention prices to producers should be determined on the basis of Tariff Commission inquiries and the Pool arrangement should continue so long as there are wide disparities between domestic and imported prices and between various ex-factory prices. The Committee has also recommended continuation of the competitive market in phosphatic fertilisers, but at uniform prices, broadening of the retail network and building of buffer stock godowns.

Honesty through Accreditation

ONE further step has been taken by the Union Home Ministry in the campaign against corruption in administration. Acting on one of the recommendations of the Santhanam Committee, it has asked the various Central Ministries and Departments to deal only with "accredited" representatives of business houses.

Government regulation of industry

and commerce has inevitably led to the private industry having to approach government officials for permits and licenses. Even in the best administered countries a sudden increase in such regulation puts a great burden on the administration's integrity as well as efficiency. Only the high sense of purpose and responsibility generated by a serious war (as in Britain during 1939-45) is something like a guarantee that the controls would be worked to serve their social purposes faithfully. We have had a war with China and now have one with Pakistan. Any beneficial effects on the efficiency and integrity of the administration of the first did not prove durable; durability of the results in this respect of the current war remains to be seen. In the meantime, any steps to prevent corruption are naturally welcome.

It seems that under the present system, no matter how unsavoury the past record of somebody he could go on approaching government officials on behalf of a firm or even a number of firms. Since corruption is to some extent contagious, it is necessary that once somebody has been known to offer temptations to public officials, he should be barred from further personal contact with the administration. This is the main purpose behind the rule which has been introduced now. Business firms will now have to apply for accreditation to the Ministry or Department with which their business is mainly concerned.

Applications will contain some details about the person who is to be the accredited representative. It is to be hoped that the government will look into the past record and reputation of the would-be representative. Once a person has become the accredited representative of a firm for some Ministry, he will be allowed access to other Ministries also without having to apply afresh. If a firm desires to have more than one representative, it will have to obtain special permission. The proprietor-manager or the resident director will continue to be allowed to see the officials without accreditation. This is a possible loophole. What if some of these proprietors and resident directors have "unsavoury reputations"? This loophole cannot perhaps be plugged without the government undertaking to decide which firms are to be allowed to do business with it and which are not. Yet the government does have the

power to blacklist contractors, etc, and it is to be hoped that the kind of screening which will be used for representatives will also be applied to proprietor-managers and resident directors, etc.

If controls are not working well, they breed further controls—which may or may not work well. Perhaps the most effective method of making controls work well is to have a system of especially severe penalties for their misuse. It is to be regretted then that no new measures have been taken to multiply the fear of punishment for corruption. The Home Minister has recently said in the Lok Sabha that there is absolutely no change in his resolve to give up

LETTER TO EDITOR

The Need To Be Moral

THIS may not be the ideal moment to comment on our foreign policy, but the interchange between one of your readers and the Editor (*The Economic Weekly*, September 4, 1965) certainly provokes argument. You have objected to our "unseemly haste to embrace Malaysia" on the grounds that it has annoyed Indonesia. You have blamed India's foreign policy makers for negligence because she has alienated the three most populous nations of Asia — China, Pakistan and Indonesia.

It may not have occurred to you but it should have that one reason for our present alienation from these three nations is that they are dictatorships; and proletarian, military or nationalist, a dictatorship calls for its own brand of diplomacy which no democratic nation can easily supply. One reason why it is difficult to appease dictatorships is their irrational ways. President Sukarno, for instance, is supposed to have been annoyed with India because our Government did not provide him with the entertainment that he considers essential. In public speeches in Jakarta he is reported to have commented on the "inhospitable" ways of Indian women. What brand of diplomacy would you advocate in these circumstances?

Of China and Pakistan, the less said the better. No country had tried harder to appease China, no country had wanted as keenly an understanding with China as India under Nehru; yet when the time came it was as easy for China to rebuff India, as it was difficult for India to accept a rebuff. As for Pakistan, it would be naive to sup-

pose that the alienation could be cured by a better foreign policy. The popular response to the current military confrontation shows the depth of bitterness on both sides, built up not in a day, but over years of constant bickering; nothing that we could have done would have prevented the alienation, and particularly after a military dictatorship had taken over in Pakistan. Dictators understand dictators; they can be fickle alike, forming new alliances as their moods change. Democracies do not depend on the wishes of one man, or even a group of men, however influential. No Indian leader could tomorrow decide on friendship with China or Pakistan, and get away unscathed. Democracies are slow to move at any stage. Therefore, one reason for our friendship with Malaysia is that she is a democracy and there are not very many of them left in Asia. It is surely a sign of the greatest weakness not to support those ideals abroad that we consider paramount at home.

Whenever we have fallen short of our ideals we have failed in our foreign policy. We have denied plebiscite in Kashmir, and we have a situation on our hands which has done more harm to us than any other single issue in the last 18 years. The voice of reason does not call for a political settlement with Pakistan—with unreasonable military dictators, like Ayub Khan, and fanatic Muslim landowners, like Bhutto, there can be no settlement—but the voice of reason does call for a settlement with the Kashmiris, and that is not possible so long as Sheikh Abdullah is not released. Kashmir does

have a right to decide and determine its own affairs, the right to do what its people consider best in their own interests. Democracy has a logic of its own (unfortunate though it may seem to us); a nation cannot be democratic in certain matters and not in others.

We are also supposed to be anti-colonial, but in Africa we advocate restraint (Nehru at Belgrade) to the thousands who look forward to freedom. What is "restraint" but a colonial expression for "delay"? Have we not seen in India that greater the delay the worse a situation becomes? Would Pakistan have come into existence if India had been given independence 15 years earlier?

It is because we have fallen so far below our own ideals that when we had a genuine conflict of ideals we were let down by the world. We believe in non-violence; but we could acquire Goa only by violence. To throw off colonial rule should be a positive mission, and certainly Portuguese rule in Goa had to be removed; yet would we have earned the criticism of so many countries had we not the history of Kashmir behind us? Would we have been accused of hypocrisy had we stood four-square on the ground that we will not tolerate a colonial rule on this sub-continent?

The remarks of your reader "In politics only power counts. Politics is strictly amoral", is to say the least trite. If one knows the history of 19th century Europe one is terribly impressed by clever expressions of power politics; today there is no such game to be played; there is no "balance of power" whereby we can throw our weight decisively in one camp or another. Nothing could be further from Palmerston's England than modern day India. Today there are only two groups, those who are militarily strong and those who are militarily weak. The strong, apart from China, have not been very successful in power politics; even America has dithered along.

If we believe that our independent military strength is limited (and defeating Pakistan will not alter this belief) then we must look to other weapons to protect ourselves and our image. The only other weapon could be our moral authority and that can only be built up by following the principles of civilised behaviour. We do not have to be moral to show we are good; our self-interest lies in being moral.

SUDHIR MULJI

Bombay,
September 8.

FROM THE LONDON END

Labour with the Shine Off

THE unexpected death of the Speaker has now faced Harold Wilson with the possibility that the Government's majority in October may well be reduced to only one. Despite this really precarious position, the Prime Minister has made it perfectly clear that he is not going to call a General Election. "The Government are determined to carry on with the job".

While many believed that the Labour Government would find it hard to carry on with its slender majority of three, Wilson himself has never been in any doubt that a majority, however small, is sufficient for a determined Government. It is known that he sees little basic difference between a majority of three and that of one to which it may possibly drop. In some ways, indeed, there are certain advantages which the Government derives from this knife-edge majority because it acts as a restraining influence on restive back-benchers who, terrified by the thought of bringing down the Labour Government, can go no further than signing motions opposing Government action over Vietnam, immigration and other policy issues. So the slender majority helps to muzzle the discontented elements in the Party.

While this dauntless policy has, it is true, kept the Labour Party in office, it cannot be said that there is now any great passionate enthusiasm for the Government. What, for example, has become of the "national crusade" to raise productivity and get rid of restrictive practices and so raise production, so inspiringly initiated in the Prime Minister's speech during the censure debate in July? Where is the new and efficient Britain that was promised? So much of the idealism which was associated with the Labour Party has been destroyed by Government policy over the war in Vietnam, the White Paper on Immigration, the Tory "stop-go" measures adopted to deal with the economic situation, and now the threat of a Selwyn Lloyd-type wage freeze.

The goodwill which brought in the Labour Government seems in large measure to have been dissipated, and the general picture of Wilson's Government is that of one which has continually to keep a weather eye on foreign bankers and adjust domestic policies to suit their needs; a Gov-

ernment which seems to shy away from socialist solutions to Britain's problems, which is not prepared to tackle the balance of payments problems by drastic cuts in overseas military expenditure.

Obviously, against this background it would be foolish for the Labour Party to go to the electorate now. On the other hand, Wilson believes that there is a real chance that the country may well turn the corner soon and that the long sterling crisis, which has so far hampered Labour's programme, may also be overcome. In these circumstances, if the Party can hold on a little longer, there will be solid results to show to the country which will restore faith in the Labour Party. In a long speech to a large audience in Bristol last week-end, Wilson stressed that the year ahead would be the year of the great break-through to a just and powerful socialist Britain. He also drew attention to the large number of bills that the present Labour Government had carried through, despite their slender majority and "next summer or autumn we shall virtually have completed the whole of the programme we submitted to the British electorate a year ago".

Although a distinct note of optimism about the economy has crept into official statements in the past few days, it is unlikely that there will be any early relaxation of the restraints introduced by the Government which are now beginning to take effect. The Prime Minister himself does not believe that the restrictions will have any very dire consequences and sees no reason to fear any widespread growth of unemployment. The aim, as he has pointed out, is redeployment not unemployment. The Government also likes to point out that although the deflationary measures taken by it are very similar to those adopted by the Conservatives, they are not as crude.

Wilson's determination to carry on must be read as a challenge to the Liberals and the Conservatives to accept the responsibility for defeating the Government on a major item of policy. While there has been much talk of an alliance with the Liberal Party in order to tide over the difficulties of a minute majority, no feelers have so far been put out by Wilson. He does not expect the Liberals to defeat him on any major

issue, and it is perhaps for this reason that there was no mention of the steel nationalisation bill when he outlined the measures to be introduced in the next session of Parliament.

In the present situation, therefore, the line taken at the Trade Union Congress which is meeting this week could well be crucial. The Government's attempt to put teeth into its incomes policy and get the Trade Union Congress to accept the latest proposals on wage restraint made by the General Council, which would involve an "early warning" system on wage increases and give the General Council the right to sit in judgment on wage claims before they are submitted, could well lead to fierce opposition. The implied threat that the Government intends to resort to legislation to compel Trade Unions to act in certain ways, if they will not agree voluntarily to do so, can hardly be popular. The way the voting goes at the T U C Congress will have a very sharp impact on the Government's standing.

The Transport and General Workers' Union declared quite categorically in the Spring, that although a majority of Unions had voted in favour of the Government's Incomes Policy, this was a symptom of intellectual dishonesty. The subsequent batch of wage claims has proved this to be true. The Trade Unions must be aware that the Government's right to interfere, with the force of law behind it, in the process of wage negotiation, could well be the thin end of the wedge; even more dangerous, there is the distinct possibility that the machinery set up by a Labour Government would be inherited in the not too distant future by a Conservative Government.

The Department of Economic Affairs, and certainly George Brown, seem to pin all their hopes for Britain's economic revival on the success of their Prices and Incomes Policy. But if there is to be an incomes policy with teeth in it, it would have to be accompanied by detailed and specific powers to fix prices and control profits, and so far there is no indication that measures of this type are contemplated. Surely it would be wiser for the Department to concern itself with efficiency and raising productivity and thus deal with the causes, and not the symptoms, of the economic malaise facing Britain.

Vietnam War Helps the Economy

PRESIDENT Johnson continues to perform domestic miracles while the situation in Vietnam worsens. The most recent of the miracles is the postponement of the imminent steel strike. While the prospects for a steel strike continue, tremendous pressure is being put on both sides by the government, and if Lyndon Johnson's past techniques of arm-twisting are any indication, he may succeed in preventing a costly strike with implications for the entire American economy. The strike was called off only hours before the deadline, when the blast furnaces were already in the process of closing down, showing the importance of government involvement in the negotiations.

The Administration's role in the steel dispute indicates the trend in government economic thinking. The concept of guiding the economy in its important aspects is not a new one in America. In recent years, particularly during the Kennedy and Johnson administrations, it has become accepted that the federal government has a responsibility for the health of the national economy. While words like "planned economy" and "socialism" are strictly taboo in the United States, there are definite planned sectors of the economy which though still in the hands of the private sector are subject to strong and increasing government guidance. The Council of Economic Advisors has taken an increasingly important role in stimulating economic growth, through manipulation of credit rates and, most important, by the recent series of tax cuts. These economic strategies have succeeded admirably in recent months, and the economy is now operating at its highest level in history.

The threat of a steel strike is an important economic factor in the United States, although the influential *Wall Street Journal* has stated that a strike at the present time would not be as disastrous as the long strike of years ago. Steel producers have been stock piling material for several months and a direct threat to steel using industries would not be serious for several months at least. Yet, a strike by one of the nation's major industries is always a serious matter. Not only are 400,000 workers immediately out of work, but allied industries such as mining, railroads, and chemicals are also affected. Moreover, the psychological effect of a steel strike on the stock market and the economy

as a whole is grave, even if the actual facts of the situation do not warrant such strong reaction.

Modern labour negotiations in the United States have little resemblance to traditional struggles between labour and management. In the larger industries negotiating practices have been reduced to a science, and well trained lawyers participate on both sides in addition to the union and management spokesmen. The unions, which have grown to be large scale organizations, have strike "war funds" which run into millions of dollars for emergencies. Both sides often take their cases to the public, and place statements in newspapers and on television. Government also has an automatic role in major labour negotiations through the provisions of the Taft-Hartley Act. Under this law, the President can, if he sees a threat to the national economy, delay a strike for 80 days and call for negotiations during this period. The invocation of this law severely hampers the bargaining position of the unions, and is therefore rather unpopular and is used with discretion. In the present steel crisis, it is still possible for President Johnson to invoke this "cooling off period" as it is called, if the present negotiations fail.

As a counterbalance against the effects of a steel strike is the stimulus which the Vietnam crisis has given to the economy. Some analysts have claimed that America's economic prosperity, which has been virtually uninterrupted for the past two decades, is a result of a war economy. While this is probably something of an oversimplification, there is a good deal of evidence to support this contention. The present Vietnam situation has provided important stimulation to the economy. President Johnson has already asked for and received from Congress an extra one billion dollars for the war, and reliable Congressional sources have stated that the cost will probably reach seven billion dollars annually. This is a massive figure, and it has already spurred the aircraft industry, which was in something of a slump, and has provided an impetus to electronics, steel, autos, and allied industries.

Representatives of the aircraft and electronics industries, which spend large sums of money on applying pressure to the government each year, are always among the most vociferous supporters of an increased arms programme, and of an aggressive American foreign policy. At the present

time, they are reaping the rewards of the Vietnam war. These groups, and other "patriotic" elements, always make it difficult for government officials to take a "soft" line in foreign affairs.

Despite the impressive gains in the economy, however, there are a number of danger signs which are becoming clear to the Administration. In spite of a decline in unemployment generally and a rise in average wages for factory workers, the Negro unemployment rate has actually risen in recent months to an alarming level. The causes for this paradoxical situation come not so much from discrimination, which is being slowly eliminated in employment, but from lack of skills. Negroes, due to educational disadvantages and social dislocation, do not usually possess the skills needed for an increasingly complex industrial system. Negro educational opportunities are not increasing as fast as the demands of the job situation.

The maritime strike, which tied up American shipping in most U S ports for a record three months, has finally been ended, but with a realization that the American merchant marine is both inadequate and in a serious financial mess. The seamen's unions have demanded, and now receive, fairly high wages, and as a result U S flag ships have been priced out of world shipping. Only with subsidies from the government is American shipping able to survive. The recent costly strike may move the government to take further action in this area.

A little publicized yet important incident, also refers to American shipping. A number of foreign flag vessels, including ships from Mexico and Greece, have refused to carry U S war material to Vietnam, indicating international disapproval of American policies in Southeast Asia. The U S government has been embarrassed by these incidents, and has moved to substitute American ships whenever possible.

Thus, the American economy, according to most observers, remains in a very healthy state, spurred on by the Vietnam war. The American dilemma of imaginative and progressive domestic policies combined with foreign mistakes and declining prestige continues. President Lyndon Johnson, an enigma at home and abroad, remains firmly in the saddle, with many Americans unsure of the direction of national policy.

—Philip G Altbach

A CALCUTTA DIARY

Atulya Ghosh Rides Again

ON Saturday last Atulya Ghosh, M P and a many-splendoured man in West Bengal today, completed his sixty-first year and stepped into his sixty-second. There is some special meaning attaching to "stepped into", for he recently had a fall and was rendered immobile for quite a while. He could not, for instance, attend the Bangalore session of the All-India Congress Committee, although this did not prevent his men from going to Midnapore for activities which Ajoy Mukherjee, President of the West Bengal Pradesh Congress Committee, considered rather unfriendly; in fact he privately said that he had barely escaped grievous assault. Atulya Ghosh's relatively minor fall has been interpreted variously, some going to the extent of saying that Humpty-Dumpty has had a big fall and may never be put together again. This probably is a wildly exaggerated and optimistic view.

There are, however, reasons to think that, politically, Atulya Ghosh may have suffered a setback or two. The State Congress, for instance, may not be the "pocket borough" it used to be; it seems certain that Prafulla Sen can now look after himself and take care of his chief ministership, without Atulya Ghosh's support if necessary. It is no doubt true that leaders at the all-India level are the stronger for their strong local bases; it seems equally true that a known lack of all-India influence impairs the local "image" more than somewhat. Atulya Ghosh's deficiencies at either level are not easy to identify and measure with precision.

Twice Non-President

Atulya Babu will not admit it; but there may be considerable truth in the widely held view that he would not have minded being President of the Congress next year. Some say that the Bangalore resolution, making Kamaraj's re-election a virtual certainty, broke Atulya Babu's heart as surely as the earlier fall had injured his ankle. That soon after Bangalore S K Patil came all the way to Calcutta to hold Ghosh's hand is on record. It may also be significant that Congress President Kamaraj himself flew to Calcutta on Saturday, only for a few hours, to offer Ghosh his birthday felicitations. They embraced each other; the photographs say so.

There is little doubt that Atulya Babu has in recent years developed all-India ambitions. Until someone said that there was no such thing as a "Syndicate", he was believed to be among its top three members. Many called him a "king-maker", not always as a joke. While President of the Congress, Indira Gandhi once met the "ginger group" of the West Bengal Congress; and many thought she was not particularly fond of Atulya Babu which attitude seemed to reflect her father's. This year birthday greetings came from Indira Gandhi too. But something may have happened.

The Deluge Now

On Sunday Atulya Babu addressed the Congress Municipal Association, of which he is Chairman. This was his first semi-public appearance since his illness. On the same day it rained in Calcutta intermittently but very heavily for more than three hours. Atulya Babu spoke of the need for discipline among Congress councillors. Totally undisciplined was the water on the streets, which were waterlogged in almost every part of the city. In some places the water was four or five feet deep; and adamantly it stood on the streets for hours, bringing even a Sunday's life to a standstill. That standing water was the measure of the uselessness of the Congress Municipal Association, of which Atulya Ghosh is not ashamed and Prafulla Sen is not tired. Everyone else is, both.

Atulya Babu retains his association with and control of all the cells of power he ever laid his hands on. Yet the top positions, either in the party or in the Government, appear to have eluded him so far. He has never been a Minister; and he will not be anything but a Chief Minister, if even that. He has not been Congress President to date. He is, indeed, at last a member of the Congress Working Committee; but the "High Command" of yore is not very high today and its command is frequently ignored. And Atulya Babu is 61 and more, with his health far from robust. When, then, is Atulya Babu going to "arrive"?

Waiting Gadi

Some never do. (Rab Butler in Britain, for instance, never made it—in spite of his undoubted qualities and high intelligence.) It is too early to

write Atulya Babu off; but his present limp is definitely as political as it is physical. He probably curses his luck; and luck is important in a political career. It may also be that Atulya Babu is not the chief, nor was meant to be. Old men sometimes accept jobs they had earlier spurned. A Cabinet Ministership at the Centre, with a powerful or profitable portfolio, is not something to scoff at; and there is no reason to think that Atulya Babu will make a poor Minister. Or will Atulya Babu wait for a top job—until it is too late? He may have to decide soon, for like all of us he is getting on.

For the limited character of Atulya Ghosh's achievement to date, he will be unwise to blame only extraneous factors. For a soberer assessment of his prospects, he must look within and also at the State and the people he represents. His personal inadequacies are apparent from any comparison between him and almost any of Bengal's past leaders—right down to Sarat Bose and Bidhan Roy. Then there is the stature of Bengal; it has diminished in every relevant respect. With all his organising and other abilities, therefore, there may be definite, built-in, insurmountable limits beyond which Atulya Babu's ambitions may never reach. These are not agreeable birthday thoughts; but these are the only ones that occurred to this writer over the week-end; and he was perhaps thinking more of Bengal and the Bengalis than of just Atulya Ghosh.

—Flibbertigibbet

Request to Readers

As there is demand from new subscribers for the following back issues of *The Economic Weekly*, it will be much appreciated if readers kindly mail back these copies to the Business Manager, The Economic Weekly, Co-operative Insurance Building, Sir P M Road, Bombay-1.

Volume XVII: Nos 1 to 3, 5 to 7, 8, 14 and 15 dated January 2, 9 and 16, Annual Number, February 20, April 3 and May 15, 1965 respectively.

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Input-Output Analysis

Report on a Seminar

By a Correspondent

At least since the days of the formulation of the Second Five Year Plan the need to collect detailed statistical information relating to the various aspects of the Indian economy is being keenly felt so that we might formulate our developmental programmes on a sturdier statistical scaffolding. In spite of this long realised necessity one gets somewhat disappointed to find the inadequate and shaky nature of the statistical information we have. Such was the feeling of several participants gathered in Poona during the week beginning August 24 for a Seminar on Input-Output and related techniques. During the week-long discussions this aspect of inadequate information relating to the structure of the Indian economy came up a number of times. In view of this it was appropriate that the gathering decided to organise a small body of professional people engaged in input-output work to help judicious use of available information as also to provide a direction for the collection of data.

In a sense, the tone of the Seminar was set by D R Gadgil in the course of his inaugural observations wherein he outlined the tradition of empirical research in Poona. He briefly traced the history of empirical studies conducted there from the days of the Sarvajanik Sabha. The accent of the deliberations of the Seminar was also mainly on the empirical aspects. Even when capital matrices and models dealing with technological transformation came up, there was no intensive discussion on theoretical issues. Thus out of the twentyseven papers, eleven dealt with statistical information relating to the flow and capital coefficients structure of the individual industries and the economy as a whole; eight papers were devoted to the application of the input-output method to problems of regional and industrial studies. The remaining papers discussed theoretical models of varying degrees of generality.

W W Leontief who was invited to preside over the Seminar began the technical session by presenting a paper on "Open dynamic system for the long range projection of economic growth". The chief purpose of his paper was to present a model which would enable the planner not only to determine but also to display the limitations imposed by the particular (changing) structural relations on the possible growth path

over the envisaged horizon. His model, which rests on the knowledge regarding the changing structural relationships in terms of the input-output and capital matrices relevant to each time-period for the entire horizon, seems to be more useful to analyse the historical growth paths of the economies rather than to project the future. For, the planners should know not only the technologies of the future but also their sequence as the growth path would be sensitive to the particular choice of the sequence of technologies. Hence some optimising principle needs to be explicitly introduced if the question regarding the appropriate sequence is to be settled. And, this raises all the problems relating to the type of optimising considerations in a dynamic context. Another paper on an allied topic, dealing with the application of the dynamic input-output model for planning was presented in the later part of the Seminar by P N Mathur. In this he considered, beginning with the specified rates of growth for the different elements in the final demand and initial availabilities, the problem of reinvestment of the residual outputs in such a way as to maximise the rate of growth.

Among the papers dealing with the construction of input-output tables, both regional and national, the computation of capital and flow co-efficients for individual industries, the inter-industry transactions table prepared by the Economic Division of the Planning Commission came up for detailed discussion. Presenting the Table, Bawa gave an account of the economic classifications adopted in the Table indicating how the original 106 sectors square matrix was condensed into a 29 x 29 Table. For want of information they had to aggregate the small scale and the large scale sectors. With regard to the sources of information, while the position respecting the manufacturing sectors was considered not so unsatisfactory, our knowledge about the cost structure of agriculture and trade and transport sectors was clearly inadequate. They had to rely in the case of agriculture mostly on the Farm Management Studies and some IARS studies on jute, cotton, etc. As the period of coverage of the various sources of information are different (ranging from 1954 to 1961) it was difficult to obtain information relating to any one

particular year and, as such, price variations have got compounded. The situation regarding mining was even more difficult. For want of up to date and detailed information the coefficients of the ISI 1953-54 table had to be used. These and similar issues, such as the treatment of trade and transport margins, of public and private consumption and of competitive and non-competitive imports came up for detailed scrutiny.

In the field of international trade, Wiesskopf's painstaking attempt to analyse the structure of imports implied by alternative patterns of growth within a multi-sectoral framework and Panchmukhi's efforts at evolving a model with a view of planning import substitution in the various sectors of the economy were found to be interesting and stimulated discussion. Both the papers were in the nature of progress reports as empirical work is yet to be completed. A theoretical exercise on "Trade and Excess Capacity in the Indian Economy" was prescribed by Krishnan, Sengupta and Travis. Even though the theoretical formulation did elicit lively discussion, the participants were somewhat sceptical about the possibilities of using the model to derive meaningful empirical results.

Two of the papers were devoted to surveying the literature. While A Ghosh reviewed some of the papers dealing with multisectoral models of planning constructed in India, M Mukherji traced in a brief but compact way the history of inter-industry research in this country.

On the conceptual and methodological side, the issues that recurred rather frequently during the Seminar were: (a) the question of using natural versus money units for measuring various magnitudes; (b) the advisability of borrowing coefficients from other countries; (c) the use of coefficients computed on the basis of model projects (which are more in the nature of marginal coefficients), rather than taken from the published information pertaining to the industries in operation (which are aggregative and average in character) and (d) the general problem about the merits of the stochastic versus deterministic approach to quantitative economics. Of course, no definitive conclusions on these ticklish issues could be arrived at.

Urban Women Workers

A Preliminary Study

Kamla Nath

Women constitute nearly a third of the working force in India. In 1961, out of a total working force of 188.4 million, 59.4 million or 31 per cent were women.

The great majority of women workers (55.4 million) live in rural areas and work in agriculture and allied occupations. But in the urban areas, the occupational structure is more diversified and we see the slow emergence of the new class of educated working women whose numbers should progressively increase with economic development.

This preliminary study of urban women workers is based primarily on analysis of Census data*. It describes the variations in work participation rate (proportion of workers to total) of urban women by States and by level of education, and the distribution of workers among the principal occupational categories. The secular trend in work participation rate of women has been analysed for the period, 1901 to 1961, for 13 major cities of India which had a population of 500,000 or more in 1961.

In the urban population of 78.8 million in 1961, there were 26.4 million workers — 22.4 million males and 4.0 million females. The male workers formed more than half (32.4 per cent) of all urban males, but the corresponding proportion among the females was only 11.1 per cent. In other words only one out of nine urban women works. The proportion of workers is much higher (31.2 per cent) among the rural women.

Age Specific Work Participation Rate

Of the 44.4 million urban persons in the age group 15 to 59, which may be called the working age group 24.9 million were males and 19.1 million were females. But whereas 83.0 per cent of the males of this group were classified as workers, the corresponding proportion for females was only 18.2 per cent. However, the 3.5 million female workers of this age group constituted nearly 90 per cent of all urban female workers. This shows that only a small number of female children (below 15) or old women (above 60) work in the urban areas. The work participation rate of female children shows a variation from 0.2 per cent to 3.5 per cent in different States with an average of 1.6 per cent for the country (Table 1). The age specific work participation rate is a better indicator of work participation

- *Sources: (1) Census of India, 1961. Paper No 1 of 1962. Final Population Totals. (2) Census of India, 1911. Vol I Part IIA. Primary Census Abstracts. (3) Census of India 1961. Subsidiary Tables BIII 3 (4) Census of India 1961 Subsidiary Tables BIII Part A.

than the crude work participation rate. But the latter has been used in this paper because data on the age specific rates are not available by States, cities or by level of education of the workers.

Inter-State Variations

As will be seen from data of Table 2, there are large inter-State variations in the work participation rate of urban women. The maximum rate for any State, 18.7 per cent, is in Andhra and the minimum, 4.3 per cent, is in Delhi. The States fall into the following four groups on basis of variation in this rate:

Work Participation Rate	States
Below 6%	Delhi, Punjab, UP, West Bengal, Jammu and Kashmir
6-11%	Gujarat, Rajasthan, Bihar, Assam
11-16%	Maharashtra, Madhya Pradesh, Mysore, Madras, Kerala Orissa.
16% and above	Andhra Pradesh.

In order to see whether the work participation rate has any correlation with the level of economic development, the States were ranked according to the following three indicators of development:

- (i) literacy, (ii) proportion of urban population to total population, and (iii) proportion of workers in manufacturing industries to total workers.

Each State was given a score derived from simple averages of the figures of the three indicators. The results given in Table 3 do not however reveal any correlation between the

work participation rate of urban women and the development score, or any of the individual indicators. In

Table 1: Age Specific Work Participation Rate of Urban Women Age groups 0-14 and 15-59.

State	Age Group	
	0-14	15-59
Delhi	0.3	8.0
Punjab	0.5	8.1
Uttar Pradesh	0.6	8.9
W Bengal	0.2	8.9
Jammu and Kashmir	1.0	9.8
Gujarat	0.9	12.9
Rajasthan	1.7	16.9
Bihar	1.2	17.0
Assam	1.3	18.1
Orissa	2.0	20.9
Kerala	1.8	21.6
Maharashtra	1.5	22.1
Madras	2.2	23.5
M P	1.6	24.2
Mysore	2.8	24.6
A Pradesh	3.5	29.9
India	1.6	18.0

Table 2: States Grouped According to the Work Participation Rate of Urban Women

State	Percentage of Women Working
Group I: Below 6 per cent	
Delhi	4.3
Punjab	4.7
West Bengal	5.1
Uttar Pradesh	5.3
Jammu and Kashmir	5.8
Group II: 6-11 per cent	
Gujarat	9.2
Assam	9.9
Rajasthan	10.1
Bihar	10.4
Group III: 11-16 per cent	
Kerala	13.0
Orissa	13.1
Maharashtra	13.4
Madhya Pradesh	14.5
Mysore	14.9
Madras	14.9
Group IV: 16 per cent and above	
Andhra Pradesh	18.7

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West Bengal, which has the highest score (29.0), the work participation rate is among the lowest (5.1 per cent) in the country. In Gujarat and Maharashtra, the two other States with similar scores (27.9 and 28.6 respectively), the work participation rates are much higher—9.2 per cent and 13.4 per cent respectively. More detailed work on this subject is obviously needed in order to determine the relation between the level of economic development and work participation rate of urban women.

Inter-State variations in the work participation rate do however show a geographic pattern. All the States with every low rates (below 6 per cent) are in the north; the southern States have considerably higher rates, 13 per cent and above. It is interesting to note that 60 per cent of the urban women workers are in the five States of Maharashtra, Mysore, Madras, Kerala and Andhra Pradesh, which have only 44 per cent of the urban women. The reasons for these striking regional differences need to be investigated.

Distribution by Industrial Categories

One-fourth (25.5 per cent) of the urban women workers are engaged in agriculture and other primary industries (industrial categories I, II and III of the 1961 Census); 30 per cent work in industries and 34.3 per cent work in 'Other Services' (Table 4). These three groups of occupations provide employment to nearly 90 per cent of all women workers. The popular association of urban women workers with construction labourers on the one hand and educated girls working in offices, stores or telephone exchanges on the other, is not supported by the Census data: the numbers of workers in both these categories of occupations are rather small.

The proportions of urban women engaged in agriculture and other primary occupations, household industries and other services (industrial categories I, II, III, IV and IX) are larger than the corresponding proportions of urban male workers in these occupations. But their proportions in manufacturing industries, trade and commerce and transport and communications (industrial categories V, VI, VII and VIII) are considerably smaller than the corresponding proportions of male workers.

Level of Education

Nearly two-third (65.5 per cent) of all urban women are illiterate; 19.2 per cent are barely literate, 12.4 per cent

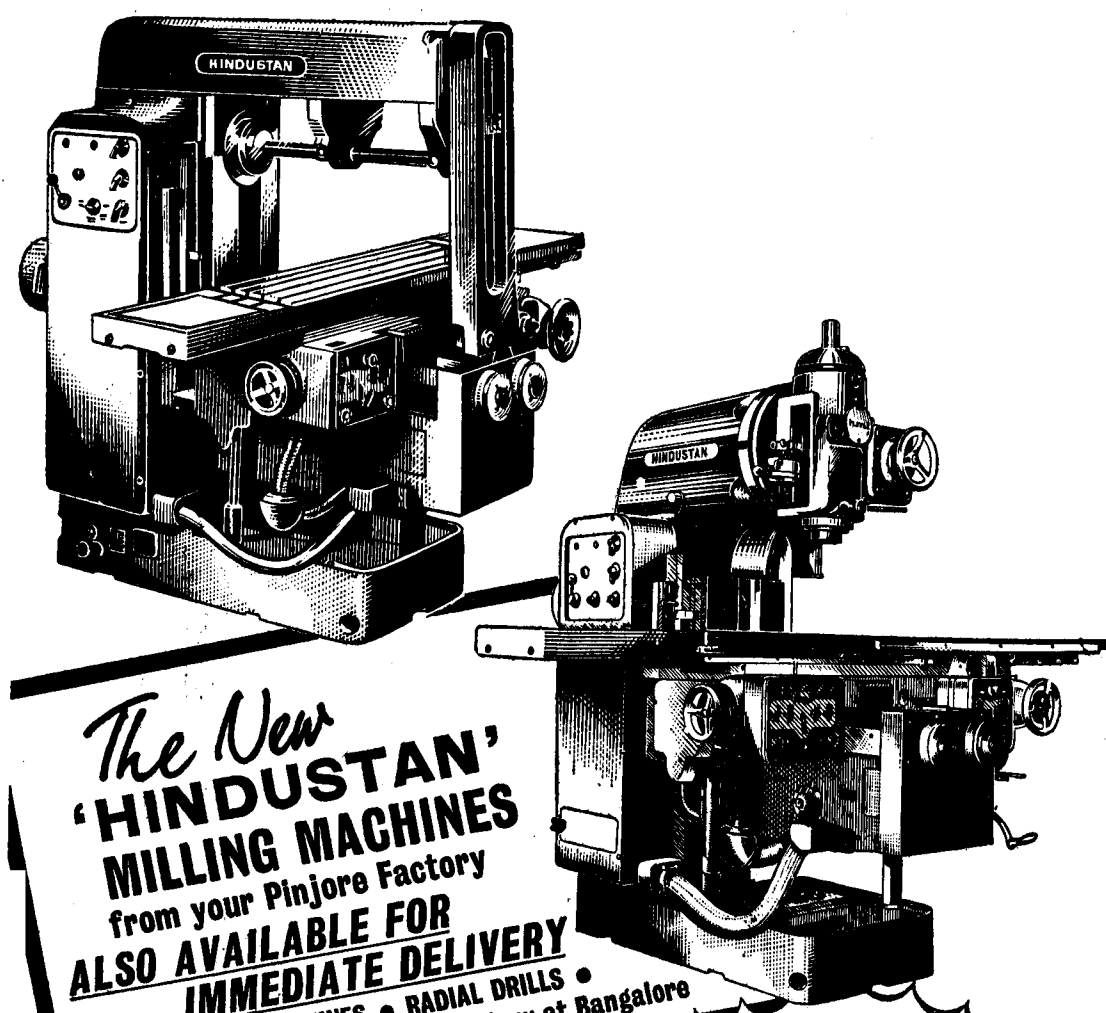
are educated to primary or junior basic level, and only 2.9 per cent are matriculate and above. In the last category, which totals 1.02 million, there are 49,000 women with technical and non-technical diplomas, 128,000 with University degrees, 39,000 with teaching degrees and 7352 with medi-

Table 3: Modernisation and Work Participation Rate of Urban Women

States	Literacy	Percentage of Urban Population to Total Population	Percentage of Workers in Manufacturing to Total Workers	Index of modernisation 1+u+m	Work Participation Rate of Urban Women
	1	u	m	3	
1	2	3	4	5	6
West Bengal	29.3	24.5	33.2	29.0	5.1
Maharashtra	29.8	28.2	27.8	28.6	13.4
Gujarat	30.5	25.8	27.5	27.9	9.2
Kerala	47.02	15.1	17.9	26.6	13.0
Madras	31.4	26.7	18.6	25.6	14.9
Mysore	25.4	22.3	17.4	21.7	14.9
Punjab	24.2	20.1	18.7	21.0	4.7
Andhra Pradesh	21.2	17.4	12.4	17.0	18.7
Madhya Pradesh	17.1	14.0	17.7	16.3	14.5
Assam	27.4	7.7	14.0	16.4	9.9
Uttar Pradesh	17.6	12.9	17.7	16.1	5.3
Rajasthan	15.2	16.3	12.5	14.7	10.1
Orissa	21.7	6.3	14.0	14.0	13.1
Jammu and Kashmir	11.0	16.7	14.0	13.9	5.8

Table 4: Per cent Distribution of Urban Workers by Sex in Nine Industrial Categories, 1961

	T	M	F
I Cultivation	6.6	5.6	12.1
II Agricultural Labour	3.5	2.2	10.6
III Mining, Quarrying, Livestock, Forestry, etc	2.5	2.5	2.8
IV Household Industry	7.9	5.8	19.2
V Manufacturing other than Household Industry	21.0	22.0	9.9
VI Construction	3.6	3.8	2.5
VII Trade and Commerce	16.3	18.0	6.8
VIII Transport, Storage and Communications	8.0	9.3	1.2
IX Other Services	30.6	29.9	34.3
Total	100.00	100.00	100.00
Total workers	26,429,934	22,419,892	4,010,042

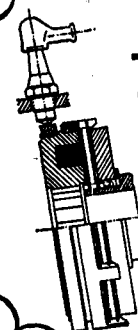


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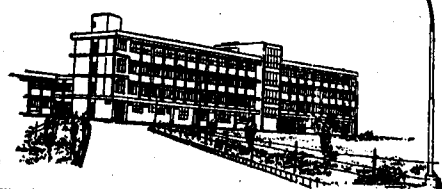
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cal degrees. There is one trained woman doctor for every 8,000 urban women.

Table 5: Percentages of Literates and Matriculates and above, among Urban Women—India and States, 1961

State	Literates	Matriculates and Above
India	34.5	2.9
Delhi	47.0	8.1
Punjab	36.4	7.7
Kerala	47.0	4.7
Assam	47.3	3.8
Maharashtra	37.9	3.7
W. Bengal	43.3	3.2
Uttar Pradesh	27.8	2.9
Mysore	12.2	2.7
Madras	36.7	2.5
Jammu and Kashmir	8.1	2.5
M. Pradesh	28.3	1.8
Andhra Pradesh	29.3	1.8
Bihar	28.0	1.7
Gujarat	36.6	1.6
Rajasthan	22.5	1.4
Orissa	27.6	1.2

The highest proportion of women, matriculate and above, is in Delhi (8.1 per cent). Other States with comparatively high proportions are Punjab (7.7 per cent) and Kerala (4.7 per cent). The figures are between 3 and 5 per cent in West Bengal, Maharashtra and Assam; but are much lower in the other States (Table 5).

These figures point to the concentration of women educated up to matriculation or higher level, in cities or in areas with comparatively high female literacy.

Nearly 1/7th (13.7 per cent) of the illiterate urban women are workers (Table 6). But the work participation rate is much lower among women

Table 6: Work Participation Rate of Urban Women by Level of Education

Level of Education	Work Participation Rate
Illiterate	13.7
Literate	4.6
Educated upto Primary and Junior Basic	4.7
Matriculate	17.3
Holders of:	
(i) Technical Diploma	62.5
(ii) Non-technical Diploma	24.4
(iii) University Degree	28.4
(iv) Technical Degree	71.3

Table 7: Work-Participation Rate of Urban Women, By Level of Education—India and States, 1961.

	Total	Illiterate	Literate	Primary and J Basic	Matriculates	Non-Technical Diploma	University Degree	Holders of Tech Diploma	Tech Degree	Matriculates and above
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(5 to 9)
India	11.1	13.7	4.6	4.7	17.3	24.4	28.4	62.5	17.3	21.5
Andhra Pradesh	18.7	23.4	6.3	5.9	20.2	37.0	30.1	50.8	76.9	26.0
Assam	9.9	9.5	8.7	9.7	19.8	71.1	40.2	86.9	88.8	23.4
Bihar	10.4	20.1	2.7	4.1	11.7	70.0	24.3	68.1	80.0	15.6
Gujarat	9.2	11.6	4.5	4.4	16.0	81.9	30.6	87.4	68.2	20.1
Jammu and Kashmir	5.8	6.0	2.4	4.8	13.0	100.0	20.0	100.0	96.9	17.0
Kerala	13.0	14.5	10.7	6.8	23.6	70.0	23.4	58.3	63.0	28.3
Madhya Pradesh	14.5	18.0	3.7	6.0	20.2	51.0	32.0	72.8	81.2	23.7
Madras	14.9	18.9	7.1	6.25	23.1	50.0	28.9	55.5	79.7	25.4
Maharashtra	13.4	17.1	4.9	5.6	22.1	79.9	35.1	74.3	67.1	28.0
Mysore	14.9	18.4	6.3	5.6	17.9	83.9	28.7	76.5	79.2	20.4
Orissa	13.1	16.4	3.4	5.3	14.6	39.2	22.0	46.9	82.3	19.0
Punjab	4.7	5.2	1.6	2.1	9.1	13.0	17.5	73.1	61.6	15.4
Rajasthan	10.1	11.7	3.0	3.7	18.4	19.2	30.5	52.0	79.7	21.4
Uttar Pradesh	5.3	6.0	2.5	2.5	9.0	23.0	17.3	72.3	73.0	12.5
West Bengal	5.1	6.2	2.4	2.2	15.3	16.5	33.5	14.9	79.5	20.0
Delhi	4.5	4.7	1.3	1.7	12.6	72.8	23.7	33.0	73.4	17.4

Table 8: Distribution of Urban Women Workers in Nine Industrial Categories—India, 1961.

	Illiterate	Literate	Primary and Junior Basic	Matriculate Above
I Cultivation	13.47	9.43	7.34	0.43
II Agricultural labour	12.51	3.87	2.16	0.01
III Mining, etc.	3.19	1.46	0.76	0.18
IV Household industry	20.00	31.55	19.09	0.89
V Manufacturing industry	9.86	13.00	11.50	4.61
VI Construction	2.96	0.67	0.38	0.43
VII Trade and Commerce	7.29	6.31	1.13	3.26
VIII Transport and Communications	1.02	0.92	0.91	4.75
IX Other Services	29.73	32.61	53.73	85.44
Total	100.00	100.00	100.00	100.00

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who are barely literate (4.6 per cent) or are educated up to the primary level (4.7 per cent). The rate rises steeply with level of education, being 17.3 per cent among matriculates and as much as 71.3 per cent among holders of technical degrees.

The State-wise data given in Table 7 show a similar trend—sharp decline in work participation rate on the transition from illiteracy to literacy and progressive rise with rise in the levels of education of urban women.

The illiterate urban women workers are distributed almost equally among the three occupational groups—agriculture and other primary occupations, household and manufacturing industries, and 'other services'—mentioned above. Among those who are literate or are educated upto the primary level, the proportions working in agriculture are smaller, and those working in industries or 'other services', are larger. But the great majority of the educated women (those educated upto matriculation and higher) work in 'Other Services'. (Table 8)

Secular Trend

Comparison of work participation rates over time is rendered difficult by changes in definition of 'worker' in the different Censuses. However, data for the 13 large cities of India for the period 1901 to 1961 presented in Table 9 show a downward trend in work participation rate of women which is too marked and too consistent to be affected significantly by definitional changes. The downward trend is observed in all cities and consistently from decade to decade in most. The average participation rate for all cities shows a decline from 17.6 per cent in 1901 to 6.9 per cent in 1961. In case of several cities, Delhi, Kanpur, Lucknow, Ahmedabad, the decline is even greater. The rate for Kanpur declines from 20 per cent in 1901 to 4.5 per cent in 1961, and that for Ahmedabad from 25.0 in 1901 to 5.1 per cent in 1961. The southern cities, Madras, Bangalore and Hyderabad show less steep declines. As the southern States have generally higher work participation rates of urban women it would be interesting to study the relation between work participation rates and the secular trends in participation rate in the cities.

As the data of Table 10 show, this period has also seen a decline in the work participation rate of the men in the cities and of the population as a

Table 9 : Work-Participation Rates for Males and Females in Cities with Population of 500,000 and Above (1901-61)

Year		1901	1911	1921	1931	1951	1961
Delhi	M	63.2	65.8	65.7	63.1	58.8	52.8
	F	16.9	10.4	10.3	7.0	5.5	4.5
Agra	M	54.3	59.2	60.5	55.2	47.8	47.7
	F	6.4	16.2	9.2	5.6	1.8	2.4
Lucknow	M	63.1	66.3	65.7	58.3	55.0	52.2
	F	22.7	20.9	21.5	7.0	4.6	4.5
Kanpur	M	65.7	68.8	68.9	62.7	59.6	54.3
	F	20.4	13.3	14.0	9.2	3.5	3.9
Calcutta	M	75.5	76.7	74.1	66.6	63.3	61.4
	F	15.5	14.7	12.4	8.6	7.6	6.1
Howrah	M	N A	N A	74.0	48.5	64.2	58.4
	F	N A	N A	14.9	9.7	6.7	2.6
Poona	M	54.3	N A	59.1	42.4	52.7	47.1
	F	22.5	N A	17.8	10.1	12.3	10.4
Bombay	M	75.9	78.7	78.2	67.0	66.7	61.7
	F	21.2	22.3	24.8	12.4	10.6	8.8
Ahmedabad	M	59.3	63.8	64.9	N A	57.0	51.7
	F	25.0	19.0	16.3	NA	7.1	5.1
Nagpur	M	61.5	64.1	61.0	54.8	N A	50.8
	F	29.9	30.3	24.7	18.1	NA	18.8
Hyderabad	M	N A	61.8	60.4	76.5	49.5	47.1
	F	N A	18.9	22.1	32.4	10.9	11.3
Bangalore	M	59.1	54.5	54.8	51.2	51.1	51.0
	F	12.4	13.2	12.7	14.4	7.4	8.0
Madras	M	54.3	58.5	60.4	55.1	53.1	52.2
	F	11.6	12.3	10.2	8.9	6.6	6.3
All cities	M	67.5	70.0	69.3	62.3	59.5	55.7
	F	17.6	17.1	16.8	10.0	7.6	6.9

Table 10 : Secular Trend in Work-Participation Rates

Year	Total Population	Total Cities	13 Selected Cities Pop 5 Lakhs and Above in 1961	
			Male	Female
(1)	(2)	(3)	(4)	(5)
1901	46.6	40.9	67.5	—
1911	48.1	46.9	70.0	17.1
1921	46.9	47.0	69.3	16.8
1931	43.3	42.6	62.3	10.0
1951	39.1	35.0	59.5	7.6
1961	43.0	33.1	55.7	6.9

Data of Columns 2 and 3 are from Kalra, B R : "Occupational Structure of Cities, 1901-61," *The Economic Weekly* Vol XVII, No 29 p 1143.

Table 11 : Women's Mean Work-Participation Rates of Metropolitan Populations by Type of Work and (National) Economic Development Class

Development Class	26 Countries*			38 Countries		
	No of Countries	All Industries	Private Domestic Service	Excluding Private Domestic Service	No of Countries	All Industries
Class I	(7)	39	3	36	(10)	39
Class II	(10)	34	9	25	(14)	33
Class III	(8)	28	11	17	(14)	31
India	(1)	14	2	12	—	14
Total	(26)	33	8	25	(38)	33

* The 26 countries are those for which separate work-participation rates for private domestic service could be obtained; the means for these 26 countries plus the other 12 countries in our study are shown under 38 countries.

Source : Collver, A, Langlois, E, Ibid. p. 373.

whole. But the decline is most marked in case of the women.

Conclusion

Very few urban women work in India. In an international comparison of work participation rate of urban women in 38 countries made by Collier and Langlois, India was fourth from the bottom: the rates were much higher in U S A, countries of Western Europe, Japan and other developed countries.* Summary data, in which the countries have been classified by level of development, are given in Table 11. Higher work participation by urban women will undoubtedly make a contribution towards India's economic development and social advance. It is probable that after some time economic development will lead to progressive increase in work participation by urban women. But from the facts brought out by this preliminary study—much lower work participation among the urban women than among the rural women and among the literate urban women than among the illiterate urban women and secular decline in work participation rate of women in the cities—one would expect a further sharp decline in work participation rate of urban women and of all women in the coming decades, which will see a marked increase in both literacy and urbanisation.

An adequate understanding of these facts, which are probably inter-related, will require much detailed work—more detailed analysis of Census data, examination of data of the various city surveys and other socio-economic studies, specially designed field investigations—which was not possible in this preliminary study. Such work should be undertaken for obtaining more adequate understanding of the implications of the transformation of Indian society from a predominantly rural-agricultural tradition-oriented society to a significantly urban non-agricultural modern society. As the findings of this study show, some of the effects of this transformation may, in the initial stages at any rate, be very different from what one would be led to expect from experience of the developed countries or from comparisons of the developed and the developing countries.

* Collier, A. and Langlois, E: The Female Labour Force in Metropolitan Areas: an International comparison. *Economic Development and Cultural Change*, Volume X, No 4, July 1962, p 367-85.



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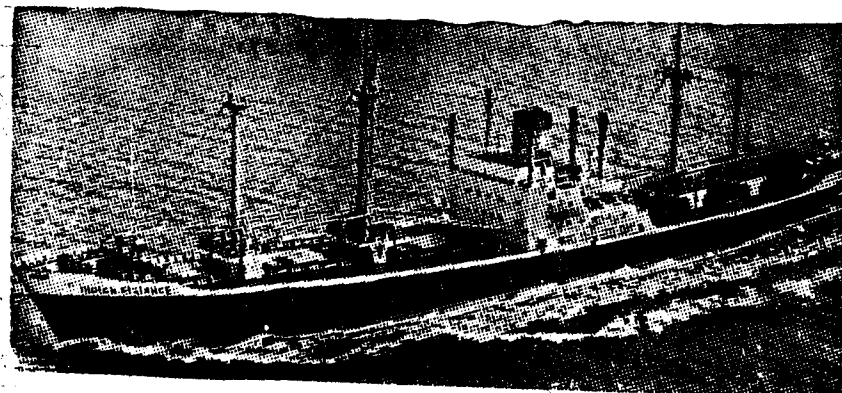
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Measurement of Aggregate Productivity of Factors

Some Recent French Contributors

Paresh Chattopadhyay

THE discussion on the notion of productivity in France is at least as old as Quesnay. In the twentieth century the first serious attempt at a precise statement of the notion was made by Aftalion. But it is only after the Second World War that some French economists and statisticians have tried to make it rigorous and statistically measurable. The most important contributions in this respect have been those of L A Vincent,¹ Inspector-General of the National Institute of Statistics and Economic Studies (INSEE) who, in collaboration with Mrs Cahen, has published a series of papers on the different notions of productivity and their intertemporal and interspatial comparison. Quite recently the service of Economic Studies of the Electricity of France (EDF)² has published a study on productivity measurement which is not basically different from the ideas of Vincent and Cahen.

At least four different notions of productivity appear in these writings—aggregate productivity of factors, net productivity of labour, gross productivity of labour, physical productivity per hour or per head. The subject being vast, we have chosen only the notion of aggregate productivity of factors for our present paper. It applies either to the national economy as a whole or to a particular branch of activity. Moreover we shall discuss only the theoretical aspects of the question leaving aside the interesting numerical results obtained for different countries and different branches of activity. Finally, following E Malinvaud³, we shall discuss the relation between the rate of technical progress and the aggregate productivity of factors through time. The account below tries to give a rough idea of the whole thing. As such it is highly imperfect and must in no way be taken as a substitute for the original contributions which are very rich indeed. (We are grateful to Professor Malinvaud for his help.)

Productivity is defined as the ratio of the quantity produced to the quantity of factors giving rise to this production. Productivity is generally considered in physical terms. Indeed,

if one considers it strictly in terms of value, no measure of productivity is possible. The reason is very simple. The total value of production is equal to the total cost of production, at least if one includes entrepreneurial profits in the last category. It follows that productivity in such a case is always equal to unity. At the same time the production and the factors being heterogeneous one cannot have a simple physical notion of productivity. Through various devices one has to introduce prices to get out of the difficulty. These devices are broadly called "Conventions". These conventions will be described successively as we discuss productivity through time and space.

Intertemporal Comparison of Productivity

Comparison of productivity through time is generally made by the method of "constant prices" which enables us to measure the production and the factors by their "volumes". These volumes are nothing but a kind of "shadow values" obtained by multiplying the current quantities by the uniform prices, the prices prevailing in the "base" year. This suggests the following definition:

The productivity index is the ratio of two ratios: the first is the ratio of the volume of production to that of factors in the final year and the second is the ratio of the value of production to that of factors in the base year.

Let q_0 and q be the quantities of products, f_0 and f the quantities of factors corresponding respectively to the initial year and the final year, and let p_0 and p , s_0 and s be respectively the product and factor prices.

Then we have the production index

$$\frac{\sum p_0 q}{\sum p_0 q_0}$$

and the factor index

$$\frac{\sum s_0 f}{\sum s_0 f_0}$$

Consequently we have the productivity index:

$$\frac{\sum p_0 q}{\sum s_0 f} : \frac{\sum p_0 q_0}{\sum s_0 f_0}$$

In this connection the following should always be kept in mind. First, a base year of weight must be selected. Changing the base year means *ipso facto* changing the definition of productivity leading to different results for the same period.

Secondly, the same base year cannot be indefinitely preserved. Base year should be changed every five or ten years so that important structural changes of the economy can be taken account of.

Thirdly, the adoption of successive bases for the purpose of long-term comparisons can be carried out only by the procedure of "Chain-indexes" in spite of some of its inconveniences.

We can now enunciate the following important rule:

The volume and the price indexes must not be established on the same system of weights.

As a matter of fact this follows immediately from the necessary equality:

$$I_{\text{volume}} \times I_{\text{price}} = I_{\text{value}}$$

where I signifies Index.

With our symbols already introduced we can write the index of the value of production as

$$\frac{\sum p q}{\sum p_0 q_0}$$

and the index of the value of factors as

$$\frac{\sum s f}{\sum s_0 f_0}$$

The index of the volume of production and that of the volume of factors in terms of the prices of the base year are respectively,

$$\frac{\sum p_0 q}{\sum p_0 q_0}$$

and

$$\frac{\sum s_0 f}{\sum s_0 f_0}$$

which are the well-known Laspeyres indexes. It follows at once that the price index necessary to pass from the value to the volume can only be the Paasche index:

$$\frac{\sum p_1 q}{\sum p_0 q} \text{ for production, and}$$

$$\frac{\sum s_1 f}{\sum s_0 f} \text{ for factors.}$$

The following proposition can now be laid down:

All the products and all the factors of an economic unit (nation or branch) being taken into consideration, the index of productivity of the unit can be measured equivalently either by the volume index or by the price index.

By hypothesis,

$$\sum p_0 q_0 = \sum s_0 f_0$$

$$\sum p_1 q = \sum s_1 f$$

We already know that the index of productivity can be written in terms of the ratio of indexes of volumes, the prices being those of the base year:

$$\frac{\sum p_1 q}{\sum p_0 q_0} = \frac{\sum s_1 f}{\sum s_0 f_0}$$

It follows at once that the same result can be obtained by the ratio of indexes of prices based on a different system of weight according to the rule given above:

$$\frac{\sum p_1 q}{\sum p_0 q} : \frac{\sum s_1 f}{\sum s_0 f} \text{ or } \frac{\sum s_1 f}{\sum s_0 f} : \frac{\sum p_1 q}{\sum p_0 q}$$

The way is now clear for an account of the aggregate productivity of factors of an economic unit.

The aggregate productivity of factors is a fraction where the numerator is the final gross product of the unit and the denominator is the sum of labour, the amortisation of capital and intermediate consumption, the summation being done by the method of shadow values as indicated above. No element of the denominator is to be subtracted from the numerator. The intermediate consumption of a branch consists of its purchases from other branches, domestic or foreign. In the case of a nation it consists of imports.

It is now easy to establish the formula that can measure the progress of productivity of an economic unit through time.

The progress of productivity is equal

to the quotient of the relative increase of the quantity produced by the relative increase of the aggregate consumption of factors, both being calculated at constant prices.

$$\text{In symbols, } \pi = \frac{\sum p_1 q / \sum p_0 q_0}{\sum s_1 f / \sum s_0 f_0} - 1$$

where π is the rate of growth of productivity.

Interspatial Comparison of Productivity

We shall now try to compare the aggregate productivities of factors of different units in the same period but spatially separated. The economic units can be the different national economies or the branches of activity belonging to different nations.

First we discuss the international comparison of productivity. We already know that the value of production is always equal to the value of the factors of production, if one includes all the cost items — including the entrepreneurial profits — in the evaluation of factors. As one cannot measure productivity by excluding some factors, it follows that the measure of productivity as a simple ratio of values is meaningless.

In the case of intertemporal comparison the way out of the difficulty was found by having recourse to the method of shadow values corresponding to the quantities of one period and the prices of a different period. A similar method can be employed in international comparison.

We confine our discussion to the two-nation case. We define.

$$P_1 = \sum p_1 q_1$$

$$P_2 = \sum p_2 q_2$$

$$F_1 = \sum s_1 f_1$$

$$F_2 = \sum s_2 f_2$$

where the subscripts 1 and 2 signify respectively the first and the second nation.

We get the shadow values by multiplying the quantities of one nation (say the first) by the prices of the other (say the second). Let these shadow values be denoted by P_{12} and F_{12} . Then we get the productivity index

$$r = \frac{P_{12}}{P_2} : \frac{F_{12}}{F_2}$$

It follows that the relation $r \geq 1$ is of crucial importance in comparing the productivities of two nations.

An important qualification should be added here. The basic structure of a national economy remaining, in general, unchanged in course of a few years the method of shadow values could be employed without much difficulty to measure productivity in course of time. But the structures of two national economies may be so different as to render meaningless any comparison of productivity between them. Only in the case of analogous products within the limits of fairly similar economic structures can the method of shadow values be employed to give an approximate comparison of their productivities.

The formula of aggregate productivity of factors for the purposes of interspatial comparison is basically the same as that considered above for comparison in course of time, if shadow values are interpreted appropriately.

The rule considered earlier about establishing the volume index and the price index on different systems of weight is fully applicable here. As a matter of fact the application of this rule leads to the calculation of average purchasing power of two currencies, in international comparison of productivity.

Taking into consideration only the final products of the two national economies we define

$$K = \frac{\sum p_2 q_1}{\sum p_2 q_2}$$

and

$$V = \frac{\sum p_1 q_1}{\sum p_2 q_2}$$

It is clear that K can be obtained by dividing V by

$$Z = \frac{\sum p_1 q_1}{\sum p_2 q_1}$$

Z being the ratio of product prices of the two economies. Thus K can be interpreted as giving the "rate of exchange" between the two currencies.

If we turn to the comparison of productivities between two branches of activities, each belonging to a different country, the formula for international comparison, properly interpreted, is also applicable here. Some additional qualifications should however be added. The first requirement obviously is that the two branches must produce analogous products. Even then there may be serious limitations arising from the existence of different socio-economic structures in

the two countries. This is specially so when one tries to compare the productivities of the branches belonging to countries unequally developed or when the branches even though belonging to countries with similar socio-economic structures, use different factors of production for the same products. It follows that the field of inter-branch comparison of productivity is quite limited.

The equivalence relation between the ratio of volume index and that of price index established above in connection with intertemporal comparison of productivity is equally valid in the case of interspatial comparison under the following assumptions:

- The two national economies have analogous socio-economic structures and the two branches are similar.
- The products are final.
- All cost elements — including profits — are included in the valuation of factors.
- The ratio of aggregate quantities and the ratio of average prices are established according to the method of shadow values.

Then using different systems of weight for quantities and prices we have

$$\frac{P_{12}}{P_2} : \frac{F_{12}}{F_2} = \frac{F_1}{P_1} : \frac{F_{12}}{P_{12}}$$

and

$$\frac{P_1}{P_{21}} : \frac{F_1}{F_{21}} = \frac{F_{21}}{F_2} : \frac{P_{21}}{P_2}$$

Technical Progress and Aggregate Productivity of Factors

Following Malinvaud³ we now establish the proposition given below:

Under a homothetic law of production⁴ with substitution between factors and with neutral technical progress the rate of technical progress is approximately measured by the aggregate productivity of factors.

Indeed the proposition is intuitively evident.

Let Q be the gross final product, L labour, K capital, C intermediate consumption. Then we postulate the aggregate production function in the following well-known form

$$tQ = t^q t^L \alpha t^K \beta t^C \gamma \quad (1)$$

where $0 < \alpha, \beta, \gamma < 1$ and $\alpha + \beta + \gamma = 1$

By oQ, oq, oL, oK, oC we designate the base year values of these variables.

Then the equation (1) implies

$$\frac{tQ}{oQ} = \frac{t^q}{o^q} \left(\frac{t^L}{o^L} \right)^\alpha \left(\frac{t^K}{o^K} \right)^\beta \left(\frac{t^C}{o^C} \right)^\gamma \quad (2)$$

Assuming very small values of

$$\frac{t^L - o^L}{o^L}, \frac{t^K - o^K}{o^K}, \text{ and } \frac{t^C - o^C}{o^C}$$

and neglecting the terms higher than the first degree of these expressions we have, by a limited expansion

$$\begin{aligned} & \left(\frac{t^L}{o^L} \right)^\alpha \left(\frac{t^K}{o^K} \right)^\beta \left(\frac{t^C}{o^C} \right)^\gamma \\ &= \left(1 + \frac{t^L - o^L}{o^L} \right)^\alpha \left(1 + \frac{t^K - o^K}{o^K} \right)^\beta \\ & \quad \left(1 + \frac{t^C - o^C}{o^C} \right)^\gamma \\ &\approx 1 + \alpha \frac{t^L - o^L}{o^L} + \beta \frac{t^K - o^K}{o^K} \\ & \quad + \gamma \frac{t^C - o^C}{o^C} = \alpha \frac{t^L}{o^L} + \beta \frac{t^K}{o^K} \\ & \quad + \gamma \frac{t^C}{o^C} \end{aligned}$$

Under the usual marginal productivity assumption we have

$$\frac{f_L L}{Q} = \alpha, \quad \frac{f_K K}{Q} = \beta, \quad \frac{f^C C}{Q} = \gamma$$

f^C standing for the partial derivative of the production function with respect to the particular variable.

so that for the purposes of calculation the shares of wages, of the income from capital and that of intermediate consumption can be substituted respectively for α, β and γ . We define,

$$\frac{t^A}{o^A} = \alpha \frac{t^L}{o^L} + \beta \frac{t^K}{o^K} + \gamma \frac{t^C}{o^C} \quad (3)$$

where $\frac{t^A}{o^A}$ is the index of aggregate

input of factors. It follows that

$$\frac{t^q}{o^q} \approx \frac{tQ}{oQ} / \frac{t^A}{o^A} \quad (4)$$

Thus the rate of technical progress can be approximately measured by the ratio of the index of gross final product to that of aggregate input of factors. As we already know this ratio is the aggregate productivity of factors.

Notes

¹ The principal contributions of L A Vincent in this connection are the following:

- "De la comptabilité nationale aux calculs de productivité",

Etudes et conjoncture, August, 1958.

(b) "Definition et mesure de la productivité", *Journal de la société de statistique de Paris*, Jan-March, 1959.

(c) "Evolution de la productivité globale dans l'extraction française de charbon", *Etudes et conjoncture*, November, 1960.

(d) "La mesure de la productivité à l'échelle de la nation et des branches d'activité", *Etudes et conjoncture*, August, 1961.

(e) "La productivité en France dans les industries textiles, de l'habillement et du cuir", *Etudes et conjoncture*, March, 1963.

(f) "Comparaisons internationales de productivité au niveau des branches économiques", *Etudes et conjoncture*, November, 1963.

(g) "La productivité nationale et le mouvement cyclique en France de 1949 à 1963", *Etudes et conjoncture*, September, 1964.

(h) "Population, production et productivité dans 21 branches de l'économie Française (1896-1962)", *Etudes et conjoncture*, February, 1965.

² "Les progrès de productivité et leur utilisation à l'électricité de France de 1952 à 1962", *Etudes et conjoncture*, January, 1965.

³ E Malinvaud: "Modèles d'analyse Macroéconomique", (Mimeographed lecture notes, 1964-1965), specially ch VII. Professor Malinvaud compares in a very clear way J W Kendrick's notion of "Total productivity of factors" with Vincent's "Aggregate productivity of factors."

⁴ In the terminology of R Frisch. See his book "Lois Techniques et Economiques de la Production" French translation from Norwegian (Dunod, Paris, 1963) ch VII.

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Policies for Drawings from the IMF

S L N Simha

While many solutions have been suggested to the problem of expanding international liquidity, there is general agreement that expansion of the facilities available at the IMF is an important element in the reform of the international financial system. Expansion of the IMF's resources involves:

- (i) the quantum of drawings;
- (ii) the ease of or automaticity with which drawings can be made;
- (iii) the repayment schedule; and
- (iv) the charges to be paid on drawings.

In this article it is proposed to consider the first two and, in particular, the question of automaticity — i.e. the extent to which members can have automatic access to the Fund's resources.

It is demonstrated here that while *de jure* automaticity in the use of the Fund's resources is perhaps out of the question, there has been steady progress towards *de facto* automaticity; and there is scope for further progress in this direction. The flexibility of the Fund's Articles of Agreement is a helpful factor in this context. If, however, amendments to the Fund's Constitution are necessary, there is no reason why they should not be made. In any case, whether Articles of Agreement have to be amended or not, in any scheme of reform of the international monetary system, the I M F must occupy the pivotal position.

IT looks as if there will be further active consideration of ways and means of expanding international liquidity. The current series of studies which began about two years ago have borne some fruit. There has been a further, though rather modest (25 per cent general plus selective increases in the case of 16 countries), general increase in the quotas of members of the International Monetary Fund though it is a pity that very little was done to relax the requirement of payment of gold subscription.¹ Many issues in the international liquidity debate have been clarified and areas of further work have been defined; in this connection the Ossola Committee of the Group of Ten has done very useful work. The United States Government is reported to be keen to have an international conference to discuss the subject exhaustively. While there are many solutions to the problem of expanding international liquidity, there is general agreement that improvement of the facilities available at the IMF is an important element of reform. There are four things involved in expanding the facilities available from the IMF, namely, the quantum of drawings (i.e. borrowings), the ease or automaticity with which 'his can be done, the repayment (or 'repurchase' according to the termino-

logy of the Fund) schedule and payment of charges. In this article, it is proposed to consider the first two aspects and, in particular, the matter of automaticity, that is, the extent to which members could have automatic access to the Fund's resources, so that the Fund's lending may create unconditional liquidity.

Articles Flexible

As in many other matters, the Articles of Agreement of the IMF are extremely flexible with regard to the use of the Fund's resources. Under the Articles, members have an inherent right of access to the Fund's resources; but the Fund has to ensure that the drawings (which is the term used in the Articles to denote what is in fact borrowing of other currencies) are in accordance with the basic purposes of the Articles of Agreement and that the assistance is made available 'under adequate safeguards'. There are also quantitative limitations to the use of the Fund's resources, namely, (i) drawings in any 12 month period should not be more than 25 per cent of the quota (plus such amount as represents the member's creditor position) and (ii) aggregate drawings should not be in excess of quota plus gold subscription — that is to say, such that the Fund's holding of the member's currency does not exceed 200 per cent of quota. But the Fund's Executive Board of Directors can give waivers, in respect of both the limitations, at its discre-

tion and on terms which safeguard the Fund's interests. Of course, a general limitation is set by the availability of the currencies required by members. With increase in quotas, the quantum of assistance available increases. The Fund Board has given waivers freely in respect of the 25 per cent limit on drawings in any year, but it has been chary of going beyond the 200 per cent limit for aggregate drawings except for the compensatory financing tranche (ordinarily to the extent of 25 per cent of quota) instituted in 1963. We shall now give an account of the evolution of the Fund's policies with regard to the use of its resources by member countries.

It might be useful to present at the outset the statistics of drawings. The data are set out in the table for every country during each of the 18 years of the Fund's active operations. It will be seen that since 1956-57 there has been active use of the Fund's resources. In the last fiscal year (1964-65), the largest number of countries, viz, 29, made drawings though the total amount drawn, at \$1897 million, was below the record level of 1961-62 when 22 member countries drew on the Fund's resources for a total of \$2243 million. It will also be seen that in recent years a number of countries, especially the developing ones, have made drawings practically every year.

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Afghanistan	—	—	—	—	—	—	—	—	—	75.0	—	18.5	75.0	49.0	60.0	75.0	25.0	—	11.2
Argentina	—	—	—	—	—	—	—	—	—	—	—	—	—	175.0	—	—	—	—	377.5
Australia	—	—	20.0	—	—	30.0	—	—	—	—	—	—	—	—	—	—	—	—	225.0
Belgium	33.0	—	—	—	—	—	—	—	—	50.0	—	—	—	—	—	—	—	—	83.0
Bolivia	—	—	—	—	—	—	2.5	—	—	4.0	1.0	1.0	3.4	1.0	2.0	5.0	2.5	—	22.4
Brazil	—	15.0	22.5	28.0	37.5	18.8	46.7	—	—	—	37.5	54.7	—	47.8	60.0	—	60.0	50.0	478.4
Burma	—	—	—	—	—	—	—	—	15.0	—	—	—	—	—	—	—	—	—	15.0
Burundi	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2.0	2.0
Canada	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	300.0	—	—	300.0
Ceylon	—	—	—	—	—	—	—	—	—	—	—	—	—	11.3	11.2	—	—	8.0	30.5
Chile	8.8	—	—	—	—	—	12.5	—	—	—	37.3	4.4	0.1	41.0	35.0	17.5	32.5	22.0	211.7
Colombia	—	—	—	—	—	—	—	25.0	—	—	15.0	—	—	25.0	45.0	30.0	23.5	5.0	168.5
Costa Rica	—	1.2	—	—	—	—	—	—	—	—	—	—	—	0.1	10.0	6.0	4.0	5.0	26.2
Cuba	—	—	—	—	—	—	—	—	—	22.5	25.0	25.0	—	—	—	—	—	—	72.5
Czechoslovakia	—	6.0	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.0
Cyprus	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2.0	2.0
Denmark	10.2	—	—	—	—	—	—	—	—	—	34.0	—	—	—	—	—	—	—	44.2
Dominican Rep.	—	—	—	—	—	—	—	—	—	—	—	—	7.0	2.0	—	—	—	20.0	29.0
Ecuador	—	—	—	—	—	—	—	—	—	—	5.0	—	—	5.0	10.0	3.0	—	3.0	26.0
El Salvador	—	—	—	—	—	—	—	—	—	2.5	—	—	7.5	11.3	8.0	—	—	—	29.2
Ethiopia	—	0.3	0.3	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.6
Finland	—	—	—	—	—	6.5	3.0	—	—	—	—	—	—	—	—	—	—	—	9.5
France	125.0	—	—	—	—	—	—	—	—	160.0	167.5	66.3	—	—	—	—	—	—	518.8
Ghana	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14.2	—	—	14.2
Guatemala	—	—	—	—	—	—	—	—	—	—	—	—	—	3.0	2.0	—	—	—	5.0
Haiti	—	—	—	—	—	—	—	—	—	—	1.0	2.8	1.6	—	1.5	3.8	4.5	3.8	18.9
Honduras	—	—	—	—	—	—	—	—	—	2.5	3.8	1.2	3.8	3.7	3.8	3.8	5.0	2.5	30.0
Iceland	—	—	—	—	—	—	—	—	—	—	—	—	2.8	4.0	—	—	—	—	6.8
India	28.0	72.0	—	—	—	—	—	—	—	127.5	72.5	—	—	250.0	25.0	—	125.0	700.0	—
Indonesia	—	—	—	—	—	—	—	15.0	—	55.0	—	—	—	82.5	—	—	20.0	—	172.5
Iran	—	—	—	—	8.8	—	—	8.7	8.7	19.8	—	—	5.0	45.0	7.5	—	—	17.5	121.0
Israel	—	—	—	—	—	—	—	—	—	—	3.8	—	—	—	—	—	—	12.5	16.2
Italy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	225.0	—	225.0
Japan	—	—	—	—	—	—	124.0	—	—	—	125.0	—	—	—	—	—	—	—	249.0
Liberia	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.1	3.3	7.4
Mali	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	9.9	9.9
Mexico	22.5	—	—	—	—	—	22.5	—	—	—	—	—	—	—	45.0	—	—	—	112.7
Morocco	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	13.1	13
Netherlands	68.5	6.9	—	—	—	—	—	—	—	68.7	—	—	—	—	—	—	—	—	144.1
Nicaragua	—	0.5	—	—	—	—	—	—	—	1.9	3.7	1.9	—	1.5	4.5	4.5	13.3	5.7	37.5
Norway	5.0	4.5	—	—	—	—	0.1	—	—	—	—	—	—	—	—	—	—	—	9.6
Pakistan	—	—	—	—	—	—	—	—	—	—	—	—	—	12.5	—	—	—	16.0	28.5
Panama	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2.7	2.7
Paraguay	—	—	—	—	—	—	—	—	—	2.0	3.5	0.7	—	1.0	—	—	—	—	8.1
Peru	—	—	—	—	—	0.9	—	—	—	—	14.5	—	—	—	—	—	—	—	14.5
Philippines	—	—	—	—	—	—	—	—	15.0	—	—	8.8	—	6.2	28.3	—	—	—	58.3
Somalia	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.7	6.7
South Africa	—	10.0	—	—	—	—	—	—	—	—	25.0	11.2	—	37.5	—	—	—	—	83.7
Spain	—	—	—	—	—	—	—	—	—	—	—	—	50.0	—	—	—	—	—	50.0
Sudan	—	—	—	—	—	—	—	—	—	—	—	5.0	1.3	—	—	—	—	—	19.2
Syria	—	—	—	—	—	—	—	—	—	—	—	—	—	15.0	—	5.6	12.0	6.5	39.1
Tunisia	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	11.2
Turkey	5.0	—	—	—	—	10.0	20.0	—	—	—	13.5	25.0	—	—	16.0	21.5	18.0	16.0	145.0
UAR	—	3.0	—	—	—	—	—	—	—	—	—	—	7.5	27.3	39.9	42.5	16.0	40.0	206.2
United Kingdom	300.0	—	—	—	—	—	—	—	—	30.0	—	—	—	—	1500.0	—	—	—	1000.0
United States	—	—	—	—	—	—	—	—	—	561.5	—	—	—	—	—	—	—	—	3361.5
Uruguay	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	125.0	475.0	—	600.0
Yugoslavia	—	—	9.0	—	—	—	—	—	—	—	22.9	—	—	55.0	20.0	—	30.0	—	136.9
Total	606.0	119.4	51.8	28.0	46.3	66.1	231.2	48.8	38.8	1114.0	665.7	263.5	165.5	577.0	2243.2	580.0	625.9	1897.4	9368.8
No of Countries Making Drawings	10	10	4	1	2	6	7	3	3	14	19	16	12	22	22	18	18	29	58
Total Repurchases	—	—	24.2	19.1	36.6	185.0	145.1	276.3	271.7	75.0	86.8	537.3	522.4	658.6	1260.0	807.3	380.4	517.0	5802.7*

* Includes \$ 281.6 million by way of repurchases not connected with drawings. Besides, there was an aggregate sale of currencies for \$ 1058.5 million which had the effect of repurchases. So on April 30, 1965, total purchases outstanding was \$ 2789.3 million.

use of the IMF's resources by member countries in recent years reflects partly the payments imbalances of member countries, but, to a very considerable extent, this would appear to be due to a policy shift both on the part of the IMF itself and on the part of member countries. Gradually, the Fund has been more ready to lend and members more ready to use the Fund's resources. The increasing willingness of the Fund to let its resources be used by members is not perhaps brought out strikingly in any formal policy declaration but the actual operations of the Fund reflect the steady progress in this direction. In fact, year after year, the Annual Reports of the International Monetary Fund repeat the principles governing the use of the Fund's resources, enunciated formally in February 1952. The latest recapitulation of the comprehensive statement on the use of the Fund's resources occurs in the 1963 Annual Report and it is useful to reproduce it:

"It may be useful to restate the policies which guide the Fund on the use of its resources. Members are given the overwhelming benefit of the doubt in relation to requests for transactions within the 'gold tranche', that is, for drawings which do not increase the Fund's holdings of the currency beyond an amount equal to the member's quota. The Fund's attitude to requests for transactions within the 'first credit tranche' — that is, transactions which bring the Fund's holdings of a member's currency above 100 per cent but not above 125 per cent of its quota — is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification. They are likely to be favourably received when the drawings or stand-by arrangements are intended to support a sound programme aimed at establishing or maintaining the enduring stability of the member's currency at a realistic rate of exchange.

"Any drawings or stand-by arrangement exceeding 25 per cent of a member's quota within any 12-month period (except to the extent that the Fund holds less of the member's currency than 75 per cent of its quota), and any drawing or stand-by arrangements

which would increase the Fund's holdings of that currency to more than 200 per cent of the quota, require — under Article V, Section 4, of the Articles of Agreement — the grant of a waiver in favour of the member."

Pragmatic Policies

Prior to the February 1952 decision, there does not appear to have been any clear policy decision on the part of the Fund with regard to the use of its resources by members. Apparently, the Fund had difficulty with regard to ensuring the repurchase of currencies within a reasonable period, in order to preserve the revolving character of the Fund's resources. This quotation from the 1948 Report of the Fund is significant:

	Exceeding 75 per cent but not exceeding 100 per cent	Exceeding 100 per cent but not exceeding 125 per cent	Exceeding 125 per cent but not exceeding 150 per cent	Exceeding 150 per cent but not exceeding 175 per cent	Exceeding 175 per cent but not exceeding 200 per cent	Exceeding 200 per cent
Number of members	16	7	9	7	4	43

"There is no formula which could be used to ascertain the probable duration of a disequilibrium in a member's balance of payments. Inevitably, therefore, judgment is involved in attempting to determine whether any particular drawing on the Fund will be outstanding for a relatively short or a relatively long period of time."

The February 1952 decision, however, resolved this difficult problem. It set an undertaking by member countries to complete the repurchase within a period of 3 to 5 years regardless of the provisions in the Articles of Agreement for mandatory repurchase. The charges to be paid by members on transactions with the Fund had been revised suitably earlier in November 1951 in order to provide, among other things, for consultation between the member country and the Fund at an early date to work out a schedule for repurchases. It is, however, very important to note that the Fund's February 1952 decision also contained the significant proviso that when unforeseen circumstances beyond a member's control made it unreasonable for repurchase to be completed within the periods involved in this procedure, the Fund would consider extension of time.

In actual practice, the Fund's policies have been extremely pragmatic and over the years there has been a steady liberalisation. In recent years, in the good majority of cases, drawings or stand-bys have been for amounts exceeding 25 per cent of a member's quota and the Fund has granted waivers liberally. The Fund does not appear to have given a waiver in respect of its holdings of any currency going beyond 200 per cent of the member's quota. But, latterly the percentage of the Fund's holdings of debtor members' currencies appears, on an average, to be higher than it used to be in the few years after the enunciation of the 1952 drawing policies. At the end of May 1965, for instance, the tranche-classification of members in debtor position to the Fund (i.e. Fund's holdings of the currencies being in excess of 75 per cent of quota) was as under:

	Number of members
Exceeding 75 per cent but not exceeding 100 per cent	16
Exceeding 100 per cent but not exceeding 125 per cent	7
Exceeding 125 per cent but not exceeding 150 per cent	9
Exceeding 150 per cent but not exceeding 175 per cent	7
Exceeding 175 per cent but not exceeding 200 per cent	4
Exceeding 200 per cent	43

The four members with the highest percentage debtor position as of the same date were:

Syria	179 per cent
U A R	197 " "
U K	198 " "
Chile	200 " "

Second Line of Reserves

A great deal of the credit for activating the Fund should go to the last Managing Director, the late Per Jacobsson. His dynamic policy is being pursued with intensified vigour and imagination by the present Managing Director, Schweitzer. The sympathy with which the needs of the member countries—developed as well as developing—are being considered is very heartening. Ten years ago, it would have been extremely difficult to imagine that in the course of about five months even a reserve currency country like the U K could draw from the Fund as much as \$2,400 million, or practically the whole of the normal borrowing limit of 125 per cent of the quota. A number of countries which have drawn on the Fund have had continued inflation of a serious magnitude and the Fund's attitude again has been one of understanding and hope that appropriate policies would be

implemented. The Fund is fulfilling ably the role of a second line of reserves which it was intended to be.

In 1961, the Fund, in 'clarification' of a previous decision, announced that its resources could be used for capital transfers. In 1964 the Fund took an important decision to broaden the access to its resources, by giving discretionary authority to the Executive Board to permit drawings by countries which have not yet established par values, whenever such transactions furthered the purposes of the Fund. Besides, in 1963 the Fund created a new facility to draw from the Fund to finance deficits arising from fluctuations in export receipts of primary products. The new facility will not *normally* (italics added) exceed 25 per cent of the member's quota. To the extent drawing is permitted under this scheme, the total drawing could be in excess of 125 per cent of quota.

Automaticity, How Much?

In this context of more active use of the Fund's resources, the suggestion that is often made that there should be automaticity with regard to the right of members to draw from the Fund, may now be examined. Automaticity means really that when a request for drawing is made, the Fund is ordinarily under an obligation to permit the drawing forthwith. As already mentioned, it is possible to quote from the Articles of Agreement of the Fund authority for such automaticity except insofar as any member country is declared ineligible to use the Fund's resources. However, a little reflection will make it clear that in the case of a lending institution, whether national or international, automaticity becomes difficult though there is no doubt that there must be well-established conventions with regard to grant of assistance, in the case of an international institution in particular. It would seem that the question is not so much whether there should be automaticity or not, but whether there could be *de jure* automaticity. It is extremely difficult to provide for *de jure* automaticity because there is always the question of determining whether the request for the use of the Fund's resources is consistent with the Articles of Agreement and no automatic formula has been provided for in the Articles for this purpose. Therefore, there has to be *de jure* a case by case examination, but, in practice, increasing automaticity

in the use of the Fund's resources should be provided for and in fact it appears that this is being done.

Naturally, the higher the tranche of drawing the less automaticity there will be. In fact, even in the case of what is called the 'gold tranche drawing', i.e., a drawing equivalent to quota minus the Fund's holdings of the member's currency, complete automaticity has not been possible. For a long time past, the Fund talked of 'giving the overwhelming benefit of the doubt' to the member making the request for a gold tranche drawing. It is only in August 1964 that the procedure for gold tranche drawing was formally simplified, whereby discussion by the Fund's Executive Board on requests for gold tranche drawings is eliminated except when a request for discussion is made by an Executive Director or the Managing Director himself desires a discussion. This is a welcome, procedural change. In fact, this would appear to be the first time when the concept of automaticity has been used officially; in the 1965 Annual Report, the Fund Directors have stated that the above decision was taken "in order to strengthen the confidence of members in the *de facto* automaticity of drawings in the gold tranche". If *de jure* automaticity is not yet possible for gold tranche drawings, naturally in respect of drawings in the credit tranches, there could be even less of *de jure* automaticity. Apart from the inherent difficulties in providing for such automaticity, one has also to take into account the views of creditors in the Fund. Any marked *de jure* automaticity might make it difficult for the Fund to mobilise large-scale resources for its operations.

Liberal Use of Waiver

It is, therefore, best to make further progress in the direction of *de facto* automaticity for drawings in the credit tranches too. As already mentioned, in the case of the waiver on 25 per cent limit for drawings during a year, the Fund's attitude seems to be liberal and in fact the Fund is emphasising the normal character of the grant of a waiver. As far back as 1954, in the Annual Report, the Directors said:

"The use of the waiver indicates the increased flexibility with which the Fund now feels that it can carry on its operations, and shows that the Fund is an instrument that may be used effectively for helping

its members to deal with their extraordinary problems whether individual or general."

Again, in the 1956 Report, there is a similar statement:

"The comparatively frequent use of the waiver in recent years may be taken as evidence of the Fund's readiness to consider all aspects of a member's position. It has shown that granting a waiver is not to be regarded as something so exceptional as to be of little practical importance to members."

Again, in the 1957 Report, it is said that waivers are given "sufficiently often to make it clear that this is not to be regarded as an extraordinary procedure."

So far, there does not appear to have been a waiver in respect of the other limitation on the drawings, namely, that the Fund's holdings of the member's currency should not exceed 200 per cent of the quota except in respect of the compensatory tranche drawing. But, as already mentioned, there appears to be comparatively little reluctance now in granting assistance up to the 200 per cent limit. This was not so, some years back. There is perhaps scope for procedural changes to make drawings in one or two credit tranches also automatic in practice. If quotas are adequate, drawing beyond the 200 per cent limit may not be necessary, except in very special cases and if the need arises it may be hoped that the Fund would respond to requests favourably.

Repurchases

The Fund would also appear to have been pragmatic in the matter of repurchases. Formal extensions of repurchase agreements have been granted though the extensions have not been beyond the five year limit. On the other hand, what amounts in practice to some refinancing of a repurchase obligation by a new drawing has been permitted. There is nothing wrong in this. This is analogous to the refinancing by commercial banks of a maturing short-term loan by a new short-term loan. At the time of lending, the loan is for a short-term period and the fact that it is rolled over from time to time does not render the loan a long-term one.

An area where there is scope for improvement is with regard to repurchases of drawings made under stand-by agreements. At present, the repurchase has to be made within

three years. If the system of stand-by arrangements is to be continued, then it is desirable that these drawings should be reversed within a period of five years, as in the case of ordinary drawings. Incidentally, it is this writer's view that the system of stand-by agreements is redundant in view of the trend to make the use of the Fund's resources increasingly automatic in practice.² It is beyond the scope of this article to argue the matter again, but in any review of the Fund's policies, this matter too requires to be examined.

To conclude, while *de jure* automaticity in the use of the Fund's resources is perhaps out of the question, there has been a steady progress in the direction of *de facto* automaticity and there is scope for further progress in this direction. The flexibility of the Fund's Articles of Agreement — as R A Buttler once remarked, "The Fund has the merits of the American Constitution in that it is written and the value of the British Constitution in that it is ever evolving" — is very helpful for progress in this direction and in others. If, however, amendments to the Fund's constitution are necessary, there is no reason why they should not be made, more than twenty years after the original enactment. It would take us far beyond the narrow scope of this article to go into the question of the directions in which international liquidity could be expanded through the IMF; many bold ideas are coming from the Fund management itself. But, there is no doubt that in any scheme of reform of the international monetary system, the IMF must occupy the pivotal position. Here is an international agency which has demonstrated dynamism and adaptability to the growing requirements of the world economy, of developed and less developed countries, and so priority should be given to improving the resources of and credit facilities available from this institution. This is not to say that the Fund alone should be the channel of increased liquidity. In this matter, as in many others, it is useful to have a variety of arrangements, bilateral, trilateral and multilateral. The situations are so complex and the need for quick action is such that a variety of arrangements makes for a much smoother and surer system than dependence on any single arrangement.

But, as it has been said of the position of British Prime Minister vis-a-vis the other ministers of the cabinet, the Fund will be 'the first among equals.'



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² Vide his article "IMF Stand-by Arrangements: Are They Necessary?" in *The Economic Times*, Bombay, March 24, 1965.

LIC Comes to the Rescue

POLITICAL developments dominated market thinking throughout last week. The previous week-end rally on the stock market inspired mainly by the partial decontrol of cement and a possible decontrol of flat steel production and partly by technical considerations fizzled out almost as quickly as it had come about. Because of the serious developments in the political situation, Dalal Street was unable to derive any comfort from the various assurances given by the Finance Minister Krishnamachari in regard to simplification and rationalisation of the corporate tax structure, reconsideration of the new levies imposed in the supplementary budget after studying their impact over a period of time and lightening of burdens on coastal shipping and copper based industries resulting from the higher duties on furnace oil and copper. The market was forced to retreat under pressure of nervous bull liquidation and some bear selling. On September 7, Dalal Street touched a new low level — lower than what it had seen on August 26.

With the Kashmir conflict escalating into a full-scale war between India and Pakistan, the stock market's performance could have been much worse. And the market would surely have suffered a sharp break — the low level notwithstanding — if the Life Insurance Corporation had not come to its rescue. Massive buying by the L I C — country's largest single investor — of a number of scrips which included a few of the speculators' favourites checked the rot and imparted a feeling of distinct steadiness to the market. The support has been timely and very substantial indeed. According to market men, the Corporation purchased shares worth about Rs 5 crores in a matter of few days. It appears that the L I C had been tipped by New Delhi to carry out extensive operations in order to keep up the morale of the stock market which has been in an awfully bad shape since long. How the market will behave in the immediate future will depend both on political developments and the size of L I C operations.

COTTON

Futures Recede

THE cotton market too has been affected by the serious developments in the political situation. The

hedge contract — Virnar 27/32" March — which had touched a high of Rs 882.75 on the very first day of its trading on August 31 was marked down to Rs 861.50 on September 7 but it rallied to Rs 870.75 the next day. Despite this decline caused essentially by the break-out of open war between India and Pakistan, the hedge contract is still quoted well above the ceiling price of this variety in the previous season.

The setback in futures did not have any noticeable effect on the spot market. Turnover in ready was very poor but prices did not register any noticeable decline because the available stocks are just enough to meet the bare minimum needs of spinners. With the outlook for the new crop still uncertain and mill consumption continuing to increase, stockists are not eager to part with their goods in spite of the serious threat to security because of Pakistani air attacks.

Cotton consumption by mill in the first 10 months of the 1964-65 season which ended with August is placed at 53.23 lakh bales made up of 46.84 lakh bales of indigenous cotton and 6.39 lakh bales of foreign cotton. The corresponding figures for the previous season were 50.25 lakh bales consisting of 45.20 lakh bales Indian and 5.05 lakh bales of foreign cotton. Consumption of cotton can be expected to keep rising because of the progressive expansion of spindleage.

OILSEEDS

Prices Fall

OILSEEDS prices suffered an all-round sharp decline last week. Linseed futures which had been bid up to Rs 119 in previous week's kerb dealings were sold down to Rs 106.50 (per quintal). Castor futures fell from Rs 100 to Rs 87. Short covering and modest replacement buying induced some steadiness at the week-end with linseed rallying to Rs 109 and castor to Rs 91. In ready, groundnut oil declined from Rs 33 to Rs 29.25 (per 10 kgs), linseed oil from Rs 27.50 to Rs 25.25 and castor oil Commercial from Rs 19.25 to Rs 18.

Bulls who had been dominating the market for a long time and had been rigging up prices despite fairly encouraging weather reports and a reasonably satisfactory overall supply position of vegetable oils rushed to lighten their commitments because of the

open war between India and Pakistan. Commodity prices are known to soar on war ideas, but not when war endangers the very security of the country. And the threat to security has increased with air attacks. Spot prices have declined without much business coming through. War has scared the prospective buyers. Stockists who have long been sitting tight on their goods would very much like to dispose of their goods only if they could find the buyers.

How the market will behave in the immediate future will depend entirely on developments in the political situation. Prices will decline further if the situation worsens but in the event of an early cease-fire, oilseeds prices are likely to shoot up again. Export activity has come to a virtual standstill because of the serious situation created by the open war between India and Pakistan.

MONEY AND BANKING

Rates Rise Sharply

STRINGENT conditions continued to prevail in the Bombay short-term money market during the week to September 9. Supply of funds was tight and during the initial part of the week many borrowers were denied funds. Demand was strong and caused interest rates to increase substantially. Rates spurted from 5 per cent to 9 per cent on Wednesday evening. Conditions were similar in Calcutta. The rate there was one per cent higher at 10 per cent.

During the week to August 27 scheduled by Rs 23.58 crores to Rs 2,833.54 crores, according to the weekly statement of affairs of scheduled banks. Bank credit, which during the previous week declined sharply, advanced by Rs 2.19 crores to Rs 2,010.96 crores. The expansion in credit could be attributed to the additional demand for financing subscriptions to government loans. Scheduled bank investments in government securities increased by Rs 11.29 crores to Rs 859.24 crores. Borrowings from the Reserve Bank have risen by Rs 7.15 crores from Rs 2.18 crores to Rs 9.33 crores. Balances with the Reserve Bank fell from Rs 106.40 crores to Rs 101.01 crores and cash in hand was also lower by Rs 2.27 crores at Rs 66.38 crores.

Active notes during the week to September 3 rose from Rs 2,538.62 crores to Rs 2,554.12 crores, according to the Statement of Affairs of the Reserve Bank. Rupee coins were lower by Rs 1.27 crores at Rs 102.42 crores. Rupee securities were placed at Rs 2,272.72 crores, same as in the previous week. Foreign securities at Rs 68.35 crores also remained unchanged. Balances held abroad, however, increased substantially from Rs 8.40 crores to Rs 12.86 crores. Central Government de-

posits showed a large increase from Rs 94.91 crores to Rs 158.25 crores. State Government deposits were slightly better by Rs 7 lakhs at Rs 13.31 crores. Scheduled bank deposits increased by Rs 2.28 crores to Rs 97.19 crores. Loans and advances to Government declined by Rs 18.47 crores to Rs 51.65 crores and loans to scheduled banks increased from Rs 9.81 crores to Rs 24.63 crores. Investment at Rs 228.78 crores were more or less around the previous week's level.

BUSINESS NOTES

Greaves Cotton

THE current accent on import substitution provides a stimulating challenge to Indian manufacturers to expand both the range and volume of the products. Realising that success in future depends on meeting this challenge, the directors of Greaves Cotton hope that the manufacturing units of the various associated and subsidiary companies as also the independent manufacturers, whose products are sold by the company, will fully utilise their production facilities.

Commenting on the company's prospects for the current year, L M Thapar, Chairman, is understandably hesitant in making a forecast in view of the "many very real difficulties" the company has to encounter. He, however, adds that on considerations of productive capacity established, the position of order books and indications of demand for products of associated and subsidiary manufacturing units, the year should hold out promise of "substantially increased production and profits." Thapar feels that against the uncertain background of severe shortages of raw materials and rising costs of labour and services, the company stands as good a chance as any comparable organisation of triumphing over the heavy odds.

The year to March last was an exceptionally difficult period for almost every type of trading and manufacturing business, but Greaves Cotton was able to improve its turnover and profits. This was made possible by the persistent efforts to increase the flexibility of its organisation. On the import side of its business, it had to counter shrinking imports in established lines by developing sales and service of more sophisticated equipment necessary to support the growing industrialisation of the country. On

the manufacturing side, the associated and subsidiary companies are constantly extending the range of their products in an effort to substitute equipment formerly imported from abroad. There has also been a similar improvement in the production of independent indigenous manufacturers for whom the company acts as sole distributors.

The financial results show total turnover up from Rs 10.93 crores to Rs 12.80 crores and gross earnings from Rs 63.64 lakhs to Rs 74.15 lakhs. The gap, however, is considerably narrowed on account of higher necessary provisions, and equity earnings stand at Rs 32.11 lakhs to compare with last year's Rs 29.07 lakhs. With the unchanged dividend of 12 per cent requiring as before Rs 16.20 lakhs, the cover is strengthened from around 1.8 times to nearly twice.

Both Crompton Parkinson (Works) and Greaves Cotton and Crompton Parkinson have ambitious expansion programmes. Ruston and Hornsby (India) is currently half way through its programme for doubling the output of aircooled vertical engines. Another range of engines is contemplated to be introduced. The company expects to earn substantial foreign exchange through the growing exports of its manufacturing units.

CIMMCO

THE demand for indigenous automatic looms and high speed winding and warping machines has slumped due partly to the persistent financial stringency experienced by the textile industry and partly to the continued import of foreign looms. The demand for plain looms has also been low because of the restrictions on new installations. These factors forced Central India Machinery Manufacturing Company to utilise only 40

per cent of its Gwalior factory's capacity. In such difficult conditions, manufacturing activity in other fields has stood the company in good stead. More attention is, therefore, being paid to the wagon and structural divisions in order to maintain the momentum of expansion.

The wagons division has stepped up its production. By introducing some changes in the manufacture of bogie bolsters and side frames, the company has helped the railways to effect economy in the price of wagons. New lines of manufacture are being added to the structural division established at Bharatpur, primarily for production of all types of bridges, sand wagons and mine-cars. Both the steel foundry and its machine shop have gone into production. With a view to securing additional finance for expansion and for redeeming the existing debentures of the face value of Rs 30 lakhs by the end of 1965, the company proposes to issue new debentures worth Rs 1.25 crores.

During the year to March last, sales turnover rose from Rs 4.94 crores to Rs 7.95 crores. This spectacular jump, however, was due in part to a turnover of about Rs 2 crores on account of Hind Cycles which the company took on lease from October last. The cycle business has yet not proved profitable; rather there has been a slight loss on this account. The gross earnings, therefore, have improved only modestly from Rs 63.64 lakhs to Rs 66.27 lakhs. With all the necessary provisions taking away bigger slices, equity earnings have slumped to Rs 6.75 lakhs from the previous level of Rs 29.03 lakhs. The unchanged dividend of 10 per cent is short earned, and a part of it is to be paid out of past reserves. Over the year, gross block has increased from Rs 2.60 crores to Rs 3.48 crores and net block from Rs 1.79 crores to Rs 2.44 crores.

Jaipur Metals

FAIRLY good results have been produced by Jaipur Metals and Electricals despite a "cut-throat competition" in the house service electricity meter due to over-production in the country. What has helped the company is the continued good demand for A C S R. Besides, all the components required in the manufacture of cyclometer and magnet are being produced in the company's factory, thereby bringing down overall costs. The new line of production

viz cadmium copper catenary wire added a few months ago holds promise of good prospects in view of the Railway Board's big electrification programme. The company has already on hand orders for about 350 tonnes.

The latest report from the company covers a period of 15 months ended March last because of the change in the accounting period; the previous one covered 12 months ended December 1964. The financial results are, therefore, not strictly comparable. But worked out on a proportionate basis, these show that even though sales turnover has been relatively lower than in the preceding period, earnings have shown a welcome, though modest improvement. The turnover for 15 months to March last of Rs 3.06 crores compares with Rs 2.56 crores in the preceding 12-month period. Gross profit of Rs 38.28 lakhs stands against Rs 28.52 lakhs and equity earnings of Rs 7.88 lakhs against Rs 6.58 lakhs. The dividend rate is maintained at Rs 6 a share and absorbs, as before, Rs 3 lakhs, reflecting ample earnings cover.

International Tractors

At the instance of the Government, International Tractor has proposed a programme to increase production to 10,000 tractors per annum in two stages. But Keshub Mahindra, Chairman, is understandably pessimistic about the company's ability to implement this expansion in view of the critical position of foreign exchange. Commenting on the prospects for the proposed expansion, Mahindra says in his annual review circulated to shareholders with the company's second annual report that it is "inconceivable" to add additional equipment to the existing plant in the absence of any knowledge as to whether necessary exchange will be made available even to utilise fully the present installed capacity. International Tractor is licenced to produce 3,500 tractors per year of the 25-35 H P range and, with a small allocation of foreign exchange to import raw materials and components, it was able to make only 225 tractors during the year ended March last. The company has in hand import licences materials which would enable it to produce 400 tractors in the current year. The ability to produce additional tractors is completely dependent on the foreign exchange that is made available for raw materials and components.

Mahindra has urged that, with

the accent on agricultural based industries in the Fourth Plan, priorities need to be reshaped and wherewithal made available to tractor manufacturers to proceed with local production. The demand for agricultural tractors by the year 1970-71 is expected to go up to 40,000 tractors per annum, according to official circles. As against this, production in the past year was a little over 3,000 tractors. Besides, about 2,300 tractors were imported.

Laxmi Starch

THE starch industry passed through a period of acute crisis during 1964-65 when, due to delay in issuance of authorisation for imports of PL 480 maize, all maize starch factories in India had to close down for nearly four months. Prices of tapioca ruled at all-time high levels raising production costs. Being the only important manufacturer of starch in operation then, Laxmi Starch Factory, Kundara, voluntarily requested the government to examine its cost structure and to certify the price charged by it. The company allocated starch to consumers at substantially lower rates when it was being sold at much higher prices in the market.

The company is engaged in implementing a project to manufacture maize starch involving heavy capital outlay. This expansion would ultimately firmly consolidate the company's position and further push up its earning capacity. Meanwhile in order to conserve funds, the directors have skipped dividend for the year to March last despite higher earnings. With the demand for products continuing at a high level, sales rose from Rs 86.85 lakhs to Rs 112.17 lakhs and even after making higher necessary provisions, net profit amounted to Rs 3.80 lakhs to compare with the previous year's Rs 3.05 lakhs. This represents an earning of 21 per cent on the paid-up capital of Rs 18.75 lakhs which should be considered fairly satisfactory. These results look more impressive when viewed against the background of the power cuts enforced by the Kerala State Electricity Board resulting in suspension of all manufacturing activities for about 58 days in the year.

Imperial Tobacco

GOOD results have been produced by Imperial Tobacco, manufacturers of cigarettes and smoking tobaccos, in the year to March last with sales up

from Rs 55.43 crores to Rs 59.36 crores and net profit, after deducting all charges and expenses, providing for taxation, and transferring Rs 4.47 lakhs to development rebate reserve, considerably higher at Rs 1.58 crores against Rs 94.92 lakhs in the preceding year. These improved results have prompted a two-and-a-half points increase in the total dividend to nine per cent requiring disbursement of Rs 1.36 crores compared to Rs 98.54 lakhs paid a year ago. Besides, Rs 21.42 lakhs, against only Rs 1.38 lakhs, have been allocated to fixed assets and stock replacement reserve for the purpose of financing the increased cost of replacing fixed assets and stocks. As at year-end, reserves and surplus amounted to Rs 11.52 crores (11.35 crores) against the subscribed capital of Rs 15.16 crores.

Air India to Overhaul I A C Caravelle Engines

EARLY this month the first Rolls-Royce Avon engine from an IAC Caravelle jetliner is scheduled for overhaul in Air-India's Engine Overhaul Plant. About Rs 10 lakhs have been spent on additional equipment and tooling including modifications to the Engine Test House. Several Air-India engineers and technicians were sent to the Rolls-Royce factory in Glasgow for training.

IAC at present sends its Caravelle engines by air freight to Glasgow for overhaul. By having this work done in India, IAC will save considerable foreign exchange. Under the agreement, signed earlier this year, Air-India will overhaul the engines for a period of three years. The spares for the engines will be supplied by IAC.

IAC Caravelles are powered by two Rolls-Royce Avon Mk 531/21 jet engines each developing 12,200 lbs minimum thrust. Their present time between Overhauls is 2,800 hours.

War Risk Insurance

The War risk rating committee of the Institute of London Underwriters have raised the war risk insurance rate for cargoes to and from India and Pakistan. The revised rates stand at 7s 6d per £100 against the previous rate of 9d per £100. Rates for coastal voyages are left to the discretion of individual underwriters until a standard rate is fixed.

FROM THE CHAIR

New Standard Engineering Co Ltd

Speech of the Chairman, Shri R G Saraiya

THE following is the speech of the Chairman, Shri R G Saraiya at the Annual General Meeting of New Standard Engineering Co Ltd held in Bombay on Monday, September 6, 1965:

Gentlemen,

It gives me great pleasure to welcome you to the Seventh Annual General Meeting of our Company. The Audited Statement of Accounts for the year 1964-65, together with the Directors Report, have been circulated to you, and, with your permission, I shall take them as read.

Rise in Sales

I am sure you are all glad to note from the Accounts that our Company has continued to maintain the steadily rising trend of sales, witnessed over the last five years. Sales touched the record level of Rs 3.07 crores as against Rs 2.40 crores in the previous year. Against the increase of Rs 0.57 lakhs during the past year, there has been a slightly higher increase in sales of Rs 0.67 lakhs during the year under review. Part of this increase is accounted for by rise in prices, which is the result of an upward spiral of costs. The maintenance of a steady pace of progress, even at increasingly higher levels of operations, is a matter of some satisfaction, especially considering the recurrent raw material shortages and other difficulties, which had to be faced by the Company throughout the year.

Profits and Dividend

Apart from the satisfactory development on the sales front, your Company's profit performance during the year can also be considered as gratifying. As against gross profit of Rs 26.87 lakhs in the previous year, there has been a marked increase in the year under report, taking the gross profits to the record level of Rs 42.70 lakhs. While this increase reflects returns on investments made in previous years as well as better utilisation of manufacturing facilities, it is also due to vigorous efforts of management to control costs and to improve operational efficiency. The ratio of the manufacturing expenses to production costs shows a welcome reduction of 2% during the year under report, as compared to the previous year. Establishment expenses have also been held at the same level, viz 13% of total production value. However, this marked increase in gross profits is not reflected in the corresponding figures for net profits, as the prior

charges on account of depreciation, development rebate and provision for Taxation have increased from Rs 16.81 lakhs in the previous year to Rs 28.58 lakhs in the year under review, leaving, disposable profits of Rs 14.12 lakhs as against Rs 10.05 lakhs in the last year. With this increase in profits, your Directors have thought it fit, after careful consideration, to absorb the Silver Jubilee Bonus Dividend @ 1% on Equity Shares paid last year, and to recommend payment of dividend at the rate of 10% on Equity Shares. The dividend on Preference Shares is being maintained at 9%. With the increase in total dividend distribution of Rs 83,203, it has also been possible to transfer Rs 5.50 lakhs to general reserve, as against Rs 2.75 lakhs only in the previous year. It is necessary to build up our resources and reserves in the context of present conditions of tight money, high interest rates on borrowings, higher import and excise duties imposed in the supplementary Budget and the possibility of a setback in factors beyond our control.

Capital Expenditure

The fixed assets of the Company increased during the year by Rs 59.75 lakhs as against the previous year's increase of only Rs 15.88 lakhs. This has been the highest amount spent for the acquisition of fixed assets during the last five years, during which we have spent in all over Rs 1.75 crores on this account. As stated in your Directors' Report, the current year's capital expenditure has largely gone towards the completion of the foundry project at Goregaon. There is now only a small marginal amount of about Rs 10 lakhs, which remains to be spent in the current year before the foundry project is completed.

While on this subject of capital expenditure, I must make here a reference to the deliberate slowing down of the tempo of further investment to build the Goregaon project, as visualized earlier, which has been forced upon the management in view of extremely tight money market conditions, stagnation in the investment market and high cost of raising funds. As you will observe from the Directors' Report, we have sold our assets at Poona and Santacruz in order to realise cash resources to complete the expansion programme already under way. We may resort to this source of funds in the current year by disposal of other properties, keeping in view various relevant considerations. One of the important factors discouraging resort to this

source, is the heavy tax on capital gains arising out of such disposal of assets. Government have recently revised their general policy in this regard and now exempt certain transactions from the levy of this tax. This exemption is sought to be given to encourage the economic and social objective of industrial decongestion in large cities and to promote dispersal of industry in rural centres. It is desirable that this policy is extended to cover other genuine cases of disposal of assets, which are meant to finance acquisition of new assets, even in the same urban centres. The choice of location in such special cases is dictated by overriding considerations of economy and efficiency, especially for units which have already established some new facilities on a different site in the same urban centre. It is true that companies do realise what appear to be windfall profits on such sales. However, it should be recognised that the acquisition of new assets has to take place at the present inflationary level of costs. The actual profits therefrom are not real but only apparent. In view of this, one fails to understand why industry should be penalised by capital gains tax on such transactions, thereby discouraging what may be called rationalisation of location.

The next major phase of our expansion relates to the establishment of a new large Machine Shop at Goregaon, to house the various machine tools at present installed in different locations. We have a detailed Project Report for this purpose, but the funds required for putting up these new modern buildings are not available at present. The project will therefore have to wait and we will have to do with make-shift arrangements.

Problems Facing the Industry

Analysing the increase in our sales, it is observed that while there has been considerable rise in the sale of textile machinery, the increase in the structural and foundry units has not been so very marked. While the foundry situation is partly explained by the fact that the Goregaon foundry, though commissioned, is still under construction, the performance of the structural unit is largely explained by problems of steel shortage. The partial decontrol of steel, following the recommendations of the Raj Committee, was designed to ease this particular problem of the Engineering Industry, who are the major users of steel in the country. Unfortunately, experience belies this expectation. I do not wish here to go into an analysis of this problem,

which has many complicated and controversial facets such as steel production planning, administration of control, permitting import of urgently required matching steel sections, etc. Government, I am sure, will take suitable remedial measures to solve this problem in the interest of full utilisation of steel structural capacity, established in the country at considerable cost in capital investment. In this connection, it is difficult to understand the reason for proposals to establish new structural units, as part of the Bokaro Project and otherwise, in the Public Sector, supposedly to meet the urgent requirements of steel structurals for new construction of public undertakings. If Government were to assist established units in the structural industry by meeting their requirements of steel sections and, in some cases balancing equipment, they would be able to serve this objective more effectively and quickly. I know there have been complaints about delayed deliveries of steel structurals for Bhilai and other State-sponsored steel projects. These delays have been due to shortage of steel sections, lack of effective and timely liaison between the customers and the suppliers, etc. The structural industry in the country would be able to meet in large measure, and also in good time, the real requirements of Public Sector units, if serious efforts are made to overcome these difficulties.

The Company as Pioneers

In the national drive to build the country by building machines, you will be glad to note the pioneering efforts and significant successes achieved by your Company. We are the first and so far the only manufacturer of blowroom lines for the textile industry in the country. The 29th of July 1965 witnessed an important land-mark in this field of endeavour. On that day, Shri G K Devarajulu, President, Indian Cotton Mills Federation, commissioned the 51st Truetzschler-NSE Blowroom line, manufactured by us. We have now been licensed to expand our manufacturing capacity from 24 to 36 Blowroom lines per year. We are also the first and so far the only manufacturers of Pneumatic Power Hammers and Drop Forges in the country. As you will see from the Annual Report, the 101st Massey-NSE Forging Hammer was released for despatch at an informal function at our Goregaon Works on 25th March 1965 at the hands of Mrs Phyllis Massey, during her first visit to India accompanied by her husband, Mr Keppel F Massey, Managing Director of our collaborators in the machine tool line, M/s B & S Massey Ltd, England. We are also the first manufacturers in India to take up the production of Disc Filters for Coal Washeries. In this impressive array

of "firsts", I should add Threading and Screwing Machines, Trimming Presses and most upto date models of Shot Blasting Equipment. The last item is being manufactured in our associate company, Indabrador Limited, which has been promoted by your Company.

Collaboration with Truetzschler

As you will see from the Directors' Report, there is at present under consideration of Government our new proposal for technical licence agreements with M/s Truetzschler & Company, West Germany, for the manufacture of Blowroom Machinery. This proposal visualizes enlargement of scope of manufacture to cover production of most upto date and modern machines for processing man-made fibres as well as blended/mixed fibres, combining cottons and synthetics. We are convinced that our proposal is in the best interest of the country. An economic weekly recently stated that the patience of mills is exhausted because the machinery manufacturers are tied down to obsolete models under the collaboration agreements and have enjoyed their monopolistic position too long but not improved their quality and selling policies to suit mills' requirements. The manufacturers, however, now feel that import entitlements and Japanese credits have eroded their protected shelter. It is provided that Truetzschler & Co. will share with us the up-to-date know-how and technological developments in the field of manufacture of blowroom machinery both for cotton and man-made fibres.

Depressed Economic Climate—the Way Out

We in this country are passing through very difficult and trying times. When I say this, I do not refer only to the problems of industry, which have recently multiplied on account of foreign exchange crisis, credit squeeze, stagnancy in capital market, general decline in the rate of economic growth etc. I have more in mind the serious problems of rising prices, food shortage, language controversy, increasing indiscipline in political parties, and, above all the external threat to our frontiers and our security. It is a matter of great tragedy that there is growing divergence between Government and industry at this critical juncture. It is a pity that Government has imposed a steadily mounting burden of regulations and levies on industry, forgetting the essentially dynamic, and at the same time stabilising role of industry. In this context, it must be recognised that science and technology belong to the world today. This necessitates continued co-operation with collaborators, so as to ensure adoption in India of techniques advanced abroad. We cannot pursue and welcome pri-

vate foreign investments and at the same time try to discard foreign technology. On the other hand, we should be able to develop our own processes, discoveries and inventions to suit Indian conditions and even carry forward in some cases the work done abroad, so that we can play our full part in the development of technology. With a little more ability to pool our own resources, a little more confidence in the Indian industry on the part of Government, it would not be long before the depressed climate is improved. At the same time, I would like to appeal to my colleagues in industry to have larger awareness of their social responsibility. We should also assist the Herculean efforts of the Government to control the price line by submitting to monetary discipline and consolidation before further expansion on borrowed resources.

Management and its Continuity

Before closing, I should like to draw your attention to the reference made in the Directors' Report concerning Government's approval of the Company's proposal for payment of pension to its Managing Director, Shri J V Patel. This is a welcome, although somewhat rare, instance of Government's view on the matter of managerial remuneration. It is, of course, a fitting recognition of Shri J V Patel's pioneering role and devoted efforts to build up this Company, so to say, from scratch to its present stature. Shri J V Patel has ahead of him many more years of active stewardship at the helm of affairs. I have to say this particularly in order to remove any misgivings which may be caused by this reference in the Directors' Report. At the same time, may I add here that we on the Board are well aware of the basic need of management continuity and stability as reflected in the programme of management development. It has been aptly stated that "in the beginning a company is as good as its Managing Director, later it is as good as its professional Managers. The building of these professional Managers becomes the prime responsibility of the Managing Director". In this important task, your Managing Director carries the full support and help of his colleagues on the Board.

In conclusion, I should like to record here our grateful appreciation of the good work of our officers, staff members and workers, under the able leadership of Shri J V Patel, which is well reflected in the successful results of the year under review.

I have now pleasure in moving the adoption of the Audited Statement of Accounts and Directors' Report for the year ended 31st March 1965.

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

Kirloskar Oil Engines Limited

Speech of the Chairman Shri SL Kirloskar

THE following is the text of the speech delivered by Shri S L Kirloskar, Chairman, at the 19th Annual General Meeting of the Company, held in Poona, on Saturday, the 28th August, 1965.

Ladies & Gentlemen,

It is with pleasure that I welcome you to this meeting. You must have, by now, gone through the Directors' Report and the audited Accounts of the Company for the year 1964-65. With your permission I shall take them as read.

Accounts

I am once again pleased to be able to report another successful year. The working results for the year reveal a steady progress in your Company's activities. The accounts show a profit of Rs 1,02,50,576 (as against a profit of Rs 81,88,996 during the previous year) after providing for depreciation, remuneration to Managing Agents and the amount set aside for bonus to the employees. Your Directors have indicated in their Report, their recommendations for the allocation of the profit under various heads.

Production & Sales

Increased production and sales, marked the results for the year under review. The continued pace of growth has been well maintained. With the increase in production of standard engines, the development of several special versions of the same, suitable for special applications by original equipment manufacturers, has been an additional feature during the year. I wish to make special mention here, of the marine version of our engines, which is becoming more and more popular.

The production in our Bearing Division too has increased appreciably. The development of bearings for more and more types of automotive and industrial stationary type of engines, has considerably widened our market and accounts for the increase in sales. One serious bottleneck in increasing our production of bearings has been, short supply of bi-metal strips, on account of import restrictions. So, as I had reported before, we planned to put up a bi-metal strip plant, in our factory.

It gives me pleasure to report to you, that this strip plant will be put in operation, within a few weeks. This will not only facilitate increase in production, but will also save considerable foreign exchange.

Export

You would, indeed, be pleased to know that your Company has earned for itself the distinction of being the largest exporter of engineering goods from India. Our exports rose from Rs 54 lacs during 1963-64 to Rs 98 lacs during 1964-65. This represents about 15% by value and 30% by numbers, of our total production during the year. So our export has virtually doubled itself, during the year under review. In addition to consolidating our position, in markets where we have established ourselves, we are continuously exploring new foreign markets. This year marks the introduction of our engines into Central and Latin American countries. We have been able to establish distribution links in distant parts of the world, like Jamaica, Panama, Costa Rica, El Salvador, Ecuador.

Export has not been a profitable proposition to engineering industry all along. Then the question that immediately comes up in our mind is, if that be the case, why export at all? Are we not increase jeopardising the interest of the shareholders by exporting, if export does not bring any profit? Can we not increase our profit by selling in the inland market, the engines we now export? At first blush, these questions do look quite pertinent and logical. But the situation is not so simple. Our country is not as yet self-sufficient in the requirements of the engineering industry. We need machinery and many critical items, which are not available in the country, without which we can neither maintain our present production nor undertake any expansion. So, these have to be imported if the industry is to keep going or if it wants to undertake expansion. Import needs foreign exchange and the Government is not in a position to give us any foreign exchange unless we earn foreign exchange by exports. So, the importance of export, even at a loss, comes in here. Even the production we made during the year, would

not have been possible, if we had not exported. So, whether there is profit or not, under the existing conditions, we have to export a portion of our products, if we have to keep our factories working.

However, no engineering industry in India under today's conditions can afford to export more than 30% of its total production, without seriously endangering its finances. From this it is obvious, if we have to increase our present export, we have to increase our total production commensurately, on this basis. At no time in the history of Independent India, was the necessity for export more keenly felt. To increase exports, the increase of overall production is essential. Is the time propitious for any industry, to increase its production on a large scale, is the question. The cost of production is increasing by leaps and bounds. On account of severe restriction on imports, availability of machinery and critical raw material is becoming difficult. Due to the new policy adopted by the Government, finance for industries is also becoming a serious problem. In the face of these strong odds, how to increase production with a view to increase exports is the problem facing all industries. A suitable solution has to be found out to tide over this difficult situation. It should be recognised that it is the private enterprise that has to shoulder most of the responsibility of developing foreign trade. In the ultimate analysis, it is the effort of the private agency, that will determine the success or failure of the ambitious export programme, now undertaken by the Government. Government has done much to stimulate export trade; but more remains to be done. A pragmatic appraisal of the problems confronting export alone can help us out of the present difficult situation.

Credit Squeeze

I would like to refer in the passing, to the recent Reserve Bank of India policy, to restrict credit to trade and industry. The duration of this scarce money policy was not clearly indicated, when the policy was conveyed to the executives of the Commercial Banks on 4-5-1965, by the Governor of the Reserve Bank of India. However, officials have been hinting since,

that this policy will continue, for quite some time.

This policy applies ostensibly only to trade and distribution. At first blush private industry seems exempt from it. But this is at best a delusion; for, when the credit squeeze operates against suppliers and distributors, the repercussions of that would obviously be felt by manufacturers. When the bank credit to distributors shrinks, their offtake of our products for distribution also will fall. Their capacity to make prompt payment for what they may buy also suffers. Similar would be the case with suppliers. Their capacity to keep stocks of goods and raw material, for being supplied to industries, also would be affected; consequently supplies to industries would suffer. Thus, as a result of this credit-squeeze, pressures on manufacturers are bound to emanate from supply and distribution. Further, it is indicated, that hereafter, bank credit would cover raw materials and indirect stores and may not extend to finished products. Since no credit may be granted against finished products, manufacturers have to see that their products move faster, out of the factory. Some concerns may well find themselves having to unload their products on the market at a price sacrifice.

A possible effect of this policy would, therefore, be a cutback in the existing scale of turnover, not to speak of the slow down in expansion. This would mean rising overheads, resulting in a rise of unit cost of production. This is not a desirable position.

Issue of Capital

The allround expansion programmes, the Company has taken in hand, need progressively more and more finance. The Industries Finance Corporation of India has granted to the Company a loan of Rs 99 lacs, partly in Deutch Marks, partly in U S Dollars and partly in Rupees. In addition, the Company will be issuing immediately 2,50,000 equity shares of Rs 10 each, at par, to the present equity shareholders of the Company. The shares are issued at par, even though they can be sold in the market at a sizeable premium, so that the shareholders may have the full benefit of the prevailing market value of the shares. I would request you to extend to us your helpful co-operation, in subscribing to the shares now being offered to you.

Subsidiary

The working results of Shivaji Works Ltd a subsidiary of the Company too has been satisfactory. It has been able to declare dividend of 9.3% on its preference shares and 9% on equity shares, for the year ended 31-12-1964.

Prospects

You would be interested to know, what are the prospects for the current year. As for the Company, its activities in stepping up its production, and its expansion and development programmes are proceeding as per schedule. But, as a result of the credit squeeze, increase in bank rate, import curtailment, and the impact of

the Fourth Five Year Plan, it would be difficult to predict what turn the events will take. We cannot say, when we may have to trim our production to suit the conditions. We are proceeding rather cautiously in this matter.

Before I close, I wish to convey to the staff and workers our sincere thanks for their excellent team work, and the management for steering the affairs of the Company, with skill and efficiency, to which we owe the excellent results, the Company could produce during the year.

Note: This does not purport to be the proceedings of the Annual General Meeting.

THE JAIPUR UDYOG LIMITED

Regd. Office : SAWAI MADHOPUR (W. Rly)

NOTICE

THE Annual General Meeting of the shareholders of The Jaipur Udyog Limited will be held at the Registered Office of the Company at Sawai Madhopur on Thursday, the 30th September, 1965 at 12 Noon to transact the following business :

1. To receive and adopt the Directors' Report and the Audited Statement of Accounts for the financial year ended 31st March, 1965,
2. To declare dividends.
3. To elect a Director in place of Shri Ramnath A. Podar who retires by rotation and is eligible for re-appoint.
4. To appoint Auditors for the current year and to fix their remuneration. The retiring Auditors, Messrs. R. D. Joshi & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

Register of Members of the Company will remain closed from Saturday, the 25th September, 1965 to Thursday, the 30th September, 1965, both days inclusive.

By Order of the Board,
For THE JAIPUR UDYOG LIMITED,
For SAHU JAIN LIMITED,

A. K. Jain

Director,
Managing Agents

Calcutta

5th September, 1965.

N.B. 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.

CURRENT STATISTICS

RAILWAY WAGONS LOADED ON BROAD AND METRE GAUGES

(In terms of 4 Wheelers)

	Broad Gauge			Metre Gauge		
	1964-65 Apr-June	1965-66 Apr-June	Increase (+) or Decrease (-) in 1965-66 over 1964-65	1964-65 Apr-June	1965-66 Apr-June	Increase (+) or Decrease (-) in 1965-66 over 1964-65
A—Revenue Earning Traffic—						
1 Coal and Coke for public (including Non-Government Railways)	419,100	480,691	+ 14.7	70,402	73,957	+ 5.05
2 Grains and Pulses	122,624	129,428	+ 5.55	114,132	114,478	+ 0.20
3 Oilseeds	15,736	15,886	+ 0.95	17,498	16,673	- 4.71
4 (a) Cotton Raw	5,974	7,361	+ 23.2	5,360	7,332	+ 26.7
(b) Cotton Manufactured	2,450	1,253	- 48.9	425	364	- 14.4
5 (a) Jute Raw	9,900	13,604	+ 37.4	8,750	10,217	+ 16.8
(b) Jute Manufactured	1,637	1,720	+ 5.07	1,306	1,377	+ 5.44
6 (a) Sugar	15,793	16,623	+ 5.26	16,027	17,184	+ 7.22
(b) Sugarcane	240	2,354	+ 880.8	13,491	47,053	+ 248.8
7 Cement	55,210	64,848	+ 17.5	45,846	53,812	+ 17.4
8 Iron and Steel—						
(a) Pig Iron	11,872	11,576	- 2.49	1,802	2,660	+ 47.6
(b) Others	100,399	95,665	- 4.72	17,197	16,471	- 4.22
9 Tea	1,381	1,455	+ 5.36	1,811	1,348	- 25.6
10 Metallic Ores—						
(a) Manganese Ore	14,252	15,140	+ 6.23	4,587	4,035	- 12.0
(b) Iron Ore	157,561	155,408	- 1.37	23,146	26,810	+ 15.8
(c) Others	8,092	7,963	- 1.59	2,691	3,102	+ 15.3
11 Lime Stone and Dolomite	61,467	71,868	+ 16.9	20,598	21,938	+ 6.51
12 Miscellaneous Full Wagons	503,236	502,605	- 0.13	380,813	351,836	- 7.61
13 Miscellaneous Smalls	86,700	98,761	+ 13.9	69,251	76,364	+ 10.2
B—Non-Revenue Traffic—						
14 Railway Coal and Materials—						
(a) Coal for home line	67,666	68,341	+ 1.00	62,659	66,428	+ 6.02
(b) Coal for other Government Railways and Manufacturing Units	124,101	130,809	+ 5.41	11,745	2,227	+ 4.10
(c) Other stores	65,568	64,419	- 1.75	53,091	59,389	+ 11.9
Total	1,850,959	1,957,778	+ 5.77	942,628	985,055	+ 4.50

Source : Department of Commercial Intelligence, Government of India

EXTERNAL PUBLIC DEBT AND ANNUAL SERVICE CHARGES (Thirty-seven countries)

(Million US Dollars)

Countries	1956	1957	1958	1959	1960	1961	1962	1963	1964
Latin America									
Debt	4,277	4,921	5,711	5,816	6,573	7,615	8,913	9,531	10,594
Service Charges	455	575	779	848	1,049	1,084	1,280	1,271	1,442
Service Charges as % of Debt	10.64	11.68	13.64	14.58	15.96	14.24	14.36	13.33	13.61
South Asia and Middle East									
Debt	1,398	1,756	2,527	2,811	3,322	3,914	5,073	6,549	8,575
Service Charges	95	162	186	217	284	298	378	445	485
Service charges as % of Debt	6.79	9.22	7.36	7.72	8.55	7.61	7.45	6.79	5.66
East Asia									
Debt	350	440	572	643	655	729	850	1,097	1,125
Service charges	22	27	26	46	56	89	62	110	99
Service charges as % of Debt	6.28	6.13	4.55	7.15	8.55	12.21	7.29	10.03	8.80
Africa									
Debt	875	926	997	1,079	1,225	1,347	1,437	1,598	1,873
Service charges	37	44	49	55	63	78	104	127	131
Service charges as % of Debt	4.23	4.75	4.92	5.10	5.14	5.79	7.24	7.95	6.99
Southern Europe									
Debt	1,079	1,082	1,304	1,517	1,482	1,695	1,958	2,416	2,637
Service charges	71	50	60	127	253	202	174	307	341
Service charges as % of Debt	6.58	4.62	4.60	8.37	17.07	11.91	8.89	12.71	12.93
Total									
Debt	7,981	9,126	11,111	11,866	13,258	15,301	18,231	21,191	24,804
Service charges	680	858	1,100	1,293	1,706	1,751	1,998	2,260	2,497
Service charges as % of Debt	8.52	9.40	9.90	10.90	12.87	11.44	10.96	10.66	10.07

Source : IMF Annual Report

STOCKS OF RAW MATERIALS AND
MANUFACTURED GOODS

	Unit	March 65	March 64	March 63	March 62
Raw materials					
Cotton					
Indian	000 bales	—	1823	1460	1196
Foreign	000 bales	—	263	192	288
Jute	000 bales	1693	2363	2528	1969
Rubber	000 mn Tons	14.09	16.09	13.48	11.44
Coal					
Pithead	000 mn Tons	5260	5189	4086	3767
With industries	000 mn Tons	2936	3981	3611	2219
Iron ore	000 mn Tons	1485	1125	2124	4331
Manufactured goods					
Sugar	000 mn Tons	1698	1402	1658	2305
Salt	000 mn Tons	2108.0	1693.4	1236.7	1105.2
Vegetable oil products (vanaspati)	000 mn Tons	13.5	15.9	9.6	13.1
Cotton yarn	000 mn kg	17.7	11.8	8.7	7.8
Cotton piece goods	mn metres	267	146	290	262
Jutehessian cloth	mn metres	155	139	98	54
Jute hessian bags	000 mn Tons	42	43	30	16
Jutesacking cloth	mn metres	106	109	99	63
Jute sacking bags	000 mn Tons	47	47	45	29
Paper and paper boards	000 mn Tons	24.3	21.6	25.4	18.1
Sulphuric acid	000 mn Tons	26.9	22.5	29.0	16.9
Caustic soda	000 mn Tons	3.4	3.3	2.8	4.1
Super-phosphates	000 mn Tons	10.7	14.5	99.6	78.9
Paints and varnishes	000 mn Tons	6.2	5.8	4.2	5.5
Matches	000 Cases	48.3	33.3	2.0	2.5
Soaps	000 mn Tons	3.9	4.8	4.8	4.7
Sheet glass	000 mn Metres	1369	1318	717	297
Cement	000 mn Tons	143	120	166	167
Refractorise	000 mn Tons	143	144	60	94
Pig iron	000 mn Tons	50	83	46	29
Finished steel	000 mn Tons	141	150	205	183
Diesel engines	Nos	2282	3072	2763	3517
Sewing machines	000 Nos	—	6.2	4.0	—
Machine tools	000 mn Lakhs	22.2	15.1	10.6	9.1
Dry cells	Nos	76.6	28.8	57.8	41.5

	Units	March 65	March 64	March 63	March 62
Storage batteries	000 Nos	32.0	32.3	23.0	28.4
Electric lamps	000 Nos	2344	2699	1655	1448
Electric fans	000 Nos	192.0	270.0	62.7	55.8
Automobiles	Nos	2008	2997	2202	1690
Bicycles	000 Nos	59.5	90.9	68.6	277.9

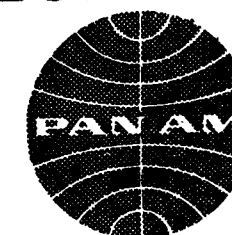
Source : Central Statistical Organisation, Government of India,
New Delhi

BANKING RETURNS

	Reserve Bank	Sept 3 '64	Aug 27 '64	Aug 6 '64	Sept 4 '64
1	Note Circulation	2554.12	2538.63	2617.38	2407.49
2	Rupee Coins	102.42	103.69	98.58	106.34
3	Deposits				
(a)	Central Govt	158.25	94.91	92.74	134.65
(b)	Other Govts	13.31	13.24	13.69	15.61
(c)	Banks	99.86	106.60	94.27	97.82
(d)	Others	190.21	229.48	236.89	143.87
4	Foreign securities	68.35	68.35	68.35	85.46
5	Balance abroad	12.86	8.40	7.72	12.34
6	Rupee securities	2279.72	2279.72	2339.72	2115.93
7	Investments	228.78	228.79	298.31	177.34
8	Loans and advances to Govts	51.65	70.12	65.75	18.24
9	Other Loans and ad- vances	185.15	168.10	158.76	161.20
	Scheduled Banks	Aug 27 '64	Aug 20 '64	July 30 '64	Aug 28 '64
1	Aggregate Deposits (net)	2833.54	2809.95	2788.96	2487.77
	Demand (net)	1403.36	1381.39	1381.70	1194.48
	Time (net)	1567.41	1571.25	1548.96	1393.89
2	Cash in hand	66.38	68.65	67.73	64.25
3	Balances with the Reserve Bank	101.01	106.40	98.45	95.79
4	(2)+(3) as % of (1)	5.91	6.23	5.96	6.35
5	Borrowing from Reserve Bank	9.33	2.18	9.62	1.91
(a)	Against usance bills and/or promissory notes	—	—	—	0.20
(b)	Others	9.33	2.18	9.62	1.71
6	Advances	1780.03	1777.87	1790.83	1490.17
(a)	State Bank	—	428.27	438.51	323.67
(b)	Others	—	1349.60	1352.32	1166.57
7	Bills discounted				
(a)	Inland	149.83	150.69	155.50	162.35
(b)	Foreign	81.11	80.20	79.61	69.78
(c)	Total	230.94	230.89	235.11	232.13
(i)	State Bank	—	21.79	24.03	19.67
(ii)	Others	—	209.10	211.08	212.36
8	(6)+(7) as % of (1)	70.97	71.49	72.64	69.23
9	Investment in Govt Securities	859.24	847.29	829.32	803.68
10	(9) as % of (1)	30.25	30.15	29.74	32.31

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Buenos Aires	Hong Kong	Montevideo	Saigon	Washington
Calcutta				
Caracas				

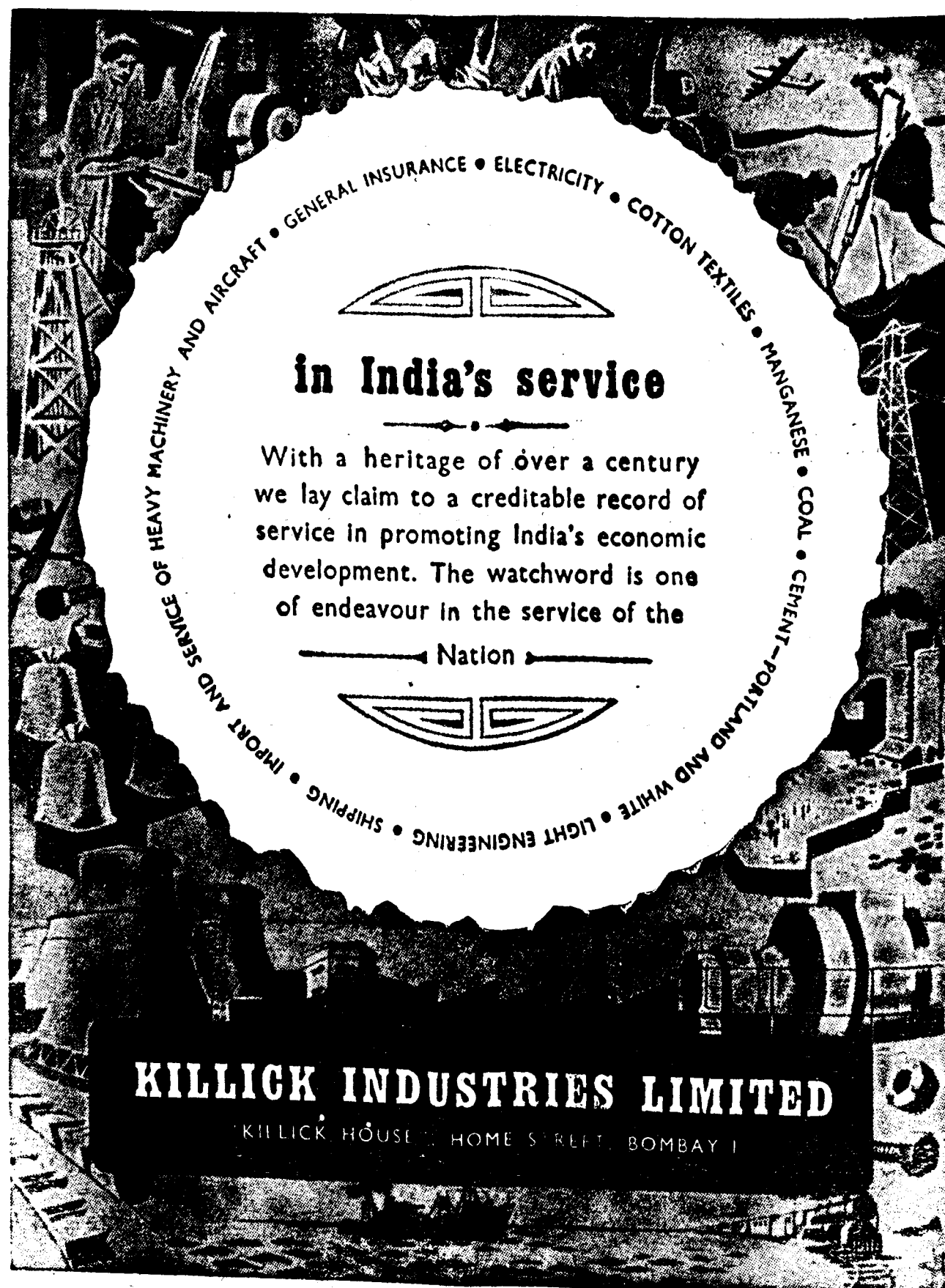
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THE ECONOMIC WEEKLY

Vol XVII No 38 Sept 18, 1965

EDITORIALS

- Peace-Makers Must Act Now 1431
Bounty for the States 1432

WEEKLY NOTES

- The New Hoarder — IDB's
First Year — Slack Demand
for Assistance — Watered
Down Gold Control — Curb
on Advertising, Why? 1433

LETTER TO EDITOR

- Aligarh University 1438

CAPITAL VIEW

- A Fight to the Finish?
— Romesh Thapar 1461

FROM THE LONDON END

- Pyrrhic Victory on Incomes
Policy?

BOOK REVIEW

- Nationalism and Social Reform
in India 1441
— Vijay Nambiar

SPECIAL ARTICLES

- An Experiment in Voluntary
Repatriation of High-Level
Technical Manpower: The
Scientists' Pool 1447
— S P Awasthi
Reliance on Rich Farmers for
Development: Its Implications
— A R Desai 1453

AROUND BOMBAY MARKETS

- Rally Peters Out 1459

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Peace-Makers Must Act Now

THE still screaming headlines notwithstanding, there is evidence of a lull in the war. This may indicate nothing more than that the fierce battles of last week-end and earlier have left both sides in need of a breather to recoup before pitching in again. Or, more hopefully, the two Governments may have decided to recognise the dangers of getting into the next stage of escalation and may have deliberately chosen to give a chance to those who are trying to save them from further disaster. Whatever the explanation, the lull cannot last for ever, or even for long. Unless a ceasefire is achieved and the two armies withdrawn from positions of active contact with each other, with the best of intentions on both sides the next round of battles will not be long in breaking out. Peace-makers, all of them and not the U N Secretary-General alone, must act now using all the influence they wield on the two countries to prevent this.

Chances of a ceasefire just now are by no means hopeless. Neither side has any overwhelming reason for carrying on the war. India has done enough to impress on Pakistan that neither by infiltration and subversion nor by open military attack can she force a settlement of the Kashmir question. At the same time, it does not appear that last week's battles were so decisive in any of the sectors as to make it imperative for Pakistan to strike back desperately to retrieve lost prestige. It is not surprising, therefore, to read in U Thant's letters to Shastri that he found that "both sides have in common a genuine desire for peace" and that the replies he had received to his appeal to the two Governments "have shown clearly the desire of both for a ceasefire". As for India we know from Shastri's letters to U Thant that he was prepared to order a ceasefire effective from the evening of Thursday. It is not known what Ayub Khan's response was but there is evidence in the U Thant-Shastri correspondence that it was not wholly negative.

Given this basic acceptance of the futility of further warfare on both sides, it is necessary to identify the obstacles to a ceasefire. Pakistan insists that a ceasefire must be accompanied by a commitment to a plebiscite or "the substance of a plebiscite" in Kashmir. India cannot obviously accept a ceasefire with this condition attached since that would amount to conceding to Pakistan her very objective in starting the war by sending infiltrators into Kashmir. The only condition that India seems to have set for a ceasefire is that she should be allowed to keep the posts she has occupied across the ceasefire line in Kashmir, particularly in the Uri-Poonch sector. At his press conference in New Delhi on Wednesday Sardar Swaran Singh somewhat overstated our requirements when he said that a ceasefire meant troops of both countries holding on to the actual line of control, other things to be left to be settled later. Surely, we can have no interest in maintaining our present positions in the Lahore-Sialkot area and elsewhere in West Pakistan provided the threat to our lines of communication in Kashmir posed by the continued presence of Pakistani forces in Chhamb is removed. A more precise expression of our needs is to be found in Shastri's letter of September 14 to U Thant: "when consequent upon ceasefire becoming effective, further details are considered, we shall not agree to any disposition which will leave the door open for further infiltrations or prevent us from dealing with the infiltrations that have already taken place".

In other words, India is asking for safeguards to prevent Pakistan from attempting again to subvert Kashmir. This is not too much to ask for. If the safeguards are provided to our satisfaction the need to occupy a couple of hundred miles or so across the present ceasefire line in Kashmir will not exist. A guarantee to India to this effect by those who can give it will be, therefore, a vital step towards a ceasefire. Of course, in the long run the only guarantee that India and Pakistan will not have to go to war over Kashmir a third time is a solution acceptable to both countries. U Thant and those who have lent him their support in his peace-making efforts will stand a much better chance of success if they could convince India and Pakistan of their resolve to work for such a solution even as they strive for an immediate end to the war.

Bounty for the States

FEDERAL finances in India have been marked from the outset by a growing gap between the requirements of the States and what they are able to raise on their own. The Fourth Finance Commission, whose report was presented to Parliament last week, has made its modest contribution to narrowing this gap. The recommendations of the Commission, which have been mostly accepted, will, according to present indications and on the basis of the 1965-66 level of taxation, involve an additional transfer of resources to the States of the order of Rs 780 crores over the five years of the Fourth Plan compared to what the States would have got under the Third Finance Commission's award. The Commission has assessed the revenue receipts and non-Plan revenue expenditure of the States during the period 1966-67 to 1970-71 and has estimated the total non-Plan revenue gap at Rs 2,427 crores. This would be covered to the extent of Rs 2,191 crores by the States' share of Union taxes and duties and of Rs 609 crores by grants-in-aid of revenue to ten States. This would leave a surplus of Rs 374 crores in six States, namely Bihar, Gujarat, Maharashtra, Punjab and West Bengal.

Two recommendations of the Commission have the effect of raising the proportion of Union taxes and duties going to the States. First, the States' share of income tax has been raised from 66.75 per cent as at present to 75 per cent. The last Commission, it will be recalled, had raised the proportion from 60 to 66.75 per cent. No change is, however, recommended in the manner of distribution of the States' share of income tax among the different States. The share of each State will continue to be determined on the basis of 80 per cent on population and 20 per cent on collection. Second, the Commission has decided to give the States a share in the proceeds of Union excise duties on all commodities instead of only 35 commodities as at present. (The Third Finance Commission had expanded the list from 8 to 35 commodities.) Though the States' share has been maintained at 20 per cent, the effect of the increase in coverage is, according to the Commission's estimate, equivalent to an increase in the States' share on 35 commodities to 30 per cent. For distribution of the States' share of excise duties among the different States, the Commission has de-

cided to increase the weightage given to population. The distribution will be made on the basis of 80 per cent on population and 20 per cent on "relative economic backwardness". The last Commission had not specified the exact weights attached to population and relative economic backwardness in its dispensation but the effect of the change made by the present Commission is evident from the changes in the percentage shares of different States. The shares of Jammu and Kashmir, Madras, Maharashtra, U P and West Bengal have gone up—those of the last three quite sharply—while those of Andhra, Assam, Bihar, Gujarat, Kerala, Madhya Pradesh, Mysore, Orissa, Punjab and Rajasthan have gone down. This change follows the general principle adopted by the Commission that "if any State is in need of specific financial assistance because of large deficits that cannot be covered by uniformly applied principles of tax-sharing, such assistance should appear explicitly as grant, rather than being disguised as shares of taxes." This approach has had the effect of raising the total amount of grants-in-aid from Rs 64 crores annually under the Third Finance Commission's award to Rs 122 crores even though the number of States qualifying for such grants by virtue of having non-Plan revenue deficits has been reduced from 12 to 10. The change in procedure does not, of course, alter the amount of resources transferred from the Centre to the deficit States but it does increase the total transfer of resources from the Centre to all States.

Two of the tasks entrusted to the Commission have been left undone, and for no fault of its. First, the Commission had been asked to consider the creation of a fund out of the excess (over a limit to be specified by the Commission) of the net proceeds of estate duty on property other than agricultural land accruing to a State for the repayment of the State's debt to the Central Government. Whoever thought of such the extent of the States' indebtedness to the Centre. Even the total proceeds of estate duty on property other than agricultural land would be too little in relation to the existing and prospective debt of the States. The Finance Commission points this out and, instead of recommending the creation of a fund of the sort suggested under its terms of reference, it has suggested an exa-

mination of the soundness of the present system of inter-Government borrowing in the light of the fact that "most of the objects of expenditure and investment by State Governments are determined by joint consultation either directly or through the Planning Commission" and that "at least in some cases the Centre is keen on offering an inducement to a State Government to undertake a fresh responsibility".

The other task which the Commission has been unable to perform is that of assessing the effect of the combined incidence of State sales tax and Union excise duties on the production, consumption and export of commodities and to recommend adjustments in the States' share of excise duties if there is an increase in State sales tax on such commodities over a limit to be specified by the Commission. In the first place, the Commission was unable even to determine the proportion that the money burden of the two taxes bears to the total price of a commodity. And even if this had been done, it would not have taken the Commission far in its main task. For, "unless we are in a position to undertake for each excisable item detailed cost-analysis studies of the type that are usually undertaken by the Tariff Commission, we would not be able to determine whether its production, consumption or export is being hampered because of the excessive burden of some other factors. In order to recommend any ceilings on sales taxes we have not only to determine the combined incidence of the two taxes, but also the separate incidence of each" (italics in original). The Committee naturally did not attempt these detailed studies.

Interest in the Finance Commission's report centres as much on what it has recommended and hasn't as on the views, expressed mostly in the minute appended to the report by the Chairman, on the scope and functions of the Commission. Ever since the inception of planning the functions intended to be performed by the Finance Commission have been duplicated by the Planning Commission; in practice, the overlapping of functions has been avoided by clipping the wings of the Finance Commission. By far the larger part of federal financial relations, those connected with the State Governments' expenditures under the Plans and the grants from the Centre to meet these expenditures, have passed out of its sphere. The Third Finance Commission was form-

ally asked to make recommendations on grants to States keeping in view the requirements of the Third Plan, but its suggestions in this respect were rejected by the Government. The Fourth Commission was kept severely off the sphere of Plan finances and was restricted to the non-Plan revenue budgets of the States. How small a part of federal finances the Finance Commission now affects can be seen from the fact that in 1965-66 whereas statutory grants by the Centre to the States are estimated at Rs 77 crores, other grants, the size and distribution of which are determined by the Central Government and the Planning Commission with the State Governments, are put at nearly three times that amount, at Rs 211 crores.

The Fourth Finance Commission, like its predecessor, is acutely aware of this loss of importance. But unlike the latter which had suggested that either the Finance Commission's functions should be enlarged to cover all financial assistance from the Centre

to the States or the Planning Commission should altogether take them over, the chairman of the present Commission has merely called for a formalisation of relations between the two Commissions involving clear definition of the scope and functions of the two "by amending the Constitution" and by making the Planning Commission also a "statutory body independent of the Government". There is no doubt much to be said for and against giving the Planning Commission a formal status and making it "independent" of the Government, but those are larger issues which have to be considered against the totality of the Commission's functions. The question to be asked in the present context is whether it would be advisable to assign larger revenues to the States on a statutory basis. This problem has to be examined in the light of the States' known unwillingness to exert themselves to raise resources while simultaneously wanting to spend as much as possible and lobbying for as large State Plans

as they can get. Any statutory allocation becomes binding on the Centre while in the case of non-statutory allocations, the Centre can, if it likes, relate their magnitude to both the developmental needs as well as the revenue efforts of the respective States. The Centre cannot enforce any standards once the allocation becomes statutorily binding. There is also the danger that such larger allocations may be spent away by some States on non-Plan schemes, because it is not always that the priorities laid down for the Plan as a whole are in accord with the priorities of the State Governments.

These were among the reasons which led the Government to reject the Third Finance Commission's recommendations regarding statutory grants to meet a part of the States' Plan expenditure. There is considerable practical wisdom in leaving the size of Central assistance to the States under the Plans to be decided by bargaining from year to year.

Weekly Notes

The New Hoarder

AMONG all the damages the war is likely to cause to the economy by draining away scarce resources, there may be one or two resultant developments of a welcome nature. The decision to impose with almost immediate effect rationing in all urban areas with a population of one lakh and above is one of them. Earlier, the decision was to implement a phased programme, starting with cities with a population of a million and above, then turning to towns with a population of 3 lakhs and above, and only finally to towns with a lakh and above. Food Minister Subramaniam has now announced in Parliament that in anticipation of possible holdups of imported wheat, the programme is to be immediately implemented without any phasing. There is every opportunity now of introducing an effective and workable system, for the public mind could never be more prepared to accept draconic measures causing general inconvenience and involving harsh punishment of anti-social elements.

While welcoming the measures announced, we cannot but note the grim warnings contained in the Minister's speech about still further difficulties on the production front. The official view has always been optimistic

about solving the production problem once for all so as to end the precarious dependence on foreign assistance. That increased production is the long-run answer to the problem is accepted by all, but nobody seems to stop to analyse the reasons for our sad performance on the production front. The target of self-sufficiency which was set for the Third Plan has now been pushed to the final year of the Fourth Plan. Foodgrains production did not increase at all during the first three years of the Third Plan. In the fourth year there was, according to official figures, a rise by 10 per cent in a single jump. It has been argued till now that undue importance should not be attached to the stagnation of the first three years; the last two years would largely compensate for the shortfall. Now the prospects for the last year's harvest are also not all that bright and there seems to be doubt whether even the figure of 92 million tons will be achieved.

Another curious phenomenon on the food front is that market arrivals and market prices do not seem to have been affected in any significant way by the sharp rise in production of 8 million tons in a single year. Market arrivals of grains have been, it is reported — and this has been now

confirmed by the Minister — steadily going down. This was understandable during the first three years of the Plan, when production did not rise. Increased prices could have prompted farmers to sell less to make the same amount of money income. But it is paradoxical that the trend of rising prices and dwindling market arrivals should continue even after the record harvest of 87 million tons. If such an increase in production in one spurt does not lower prices or at least arrest the rise in them and result in the increased market supply of grains, then among the possible explanations one cannot leave out the one that the production figures themselves may be seriously in error. It is now being said even officially that the role of trade in withholding stocks is not so important. The real culprits are the producers themselves. Subramaniam has announced that his new procurement drive will be directed at the producers rather than the traders. However, this is not the first time that there is talk of doing something to release supplies withheld by producers. But at no time has any concrete scheme been outlined. What precisely will be the weapons the procurement agents will be given to compel the hoarder-producer to disgorge his suppressed stocks? Of crucial significance in this matter seems to

be the fact, not often mentioned, that the class of producers who are supposed to be withholding supplies constitutes the greater part of the new class of owner-cultivators that has been created by the land reforms. They represent the greatest electoral support of the ruling party. Not only the party in power, but no other party that aspires for any electoral support in the countryside would dare to do anything that would alienate the support of this electorally preponderant class.

IDB's First Year

IN its first year of operations the Industrial Development Bank has sanctioned assistance of Rs 63 crores and disbursed Rs 24 crores. About two-fifths of the sanctions and most of the disbursement were on account of refinancing of banks and State Financial Corporations, which represents the continuance of the business of the Refinance Corporation for Industry which was merged with IDB in September last. The assistance of Rs 63 crores was distributed as follows:

	(Rs crores)
Refinance	25
Direct loans	16
Underwriting	7
Subscription to issue of SFC's	2
Rediscounting of bills	8
Guarantees of loans and deferred payments	4
Total:	63

One single enterprise, Gujarat State Fertilisers, has been given Rs 14 crores of loans and Rs 2.75 crores of underwriting, all out of the Development Assistance Fund, in addition to a loan guarantee of Rs 1.57 crores. Other loans varied in amount from Rs 5 lakhs in two cases to Rs 133 lakhs in one, and underwriting from Rs 4 or 5 lakhs in several cases to Rs 76 lakhs. Guarantees, one of Rs 163 lakhs and another of Rs 126 lakhs, were extended on behalf of concerns assisted by other means. Most of the loans and underwriting operations were, thus, in small amounts and were meant to assist projects which had already received assistance from other financial institutions but were left with a small gap. Of the 27 issues underwritten by IDB, 11 had participation from ICICI, 18 from IFC, and 16 from LIC. A change of policy concerning the size of assistance is expected shortly and assistance to relatively small projects in traditional industries would be handled exclusively by other institutions. IDB will, however, continue to render necessary

assistance to small units in specially deserving cases, particularly to units promoted by technician entrepreneurs. Share brokers are being associated more closely with underwriting operations by giving them a share in the commission and liberal terms for sub-underwriting.

The Development Assistance Fund (the operations and accounts of which have to be statutorily kept apart from those of IDB itself) was set up towards the end of March this year with a token loan of Rs 1 lakh from the Centre. This Fund will act as a special government agency to assist high priority industrial concerns which due to their size of investment or low return on capital or long gestation period are unable to raise adequate funds from banks and other financial institutions. Since IDB itself carries out more or less similar functions, the dividing line between the two sets of operations cannot be sharp. It has, therefore, been decided that projects which receive assistance in the normal course, including from IDB, would not be debarred from recourse to DAF. The annual report of IDB makes it clear that, in the initial stages, decisions to utilise DAF resources would have to be *ad hoc*, but they would broadly cover:

- projects in the private or public sectors (though the latter is practically left out for the time being) which are potentially risky or low profit yielding or which have a long gestation period but which are of strategic importance; IDB would take care of their expert scrutiny and follow up; and/or
- projects covering the IDB's statutory functions in relation to planning, promoting, and developing industries to fill up gaps in the industrial structure where this involves enterprises which are unlikely to receive any or all assistance from other institutions in the normal course.

The schemes for deferred payment assistance for sales of domestic machinery and for refinancing of medium term export credits have made little or no progress so far. Limits in respect of the first aggregating Rs 8 crores to 7 banks were sanctioned but actual re-discounting was Rs 9 lakhs only, and was confined to cotton textile and silk machinery. As for the second, the effective sanction through June was Rs 29 lakhs to two applicants and the amount outstanding then



**"Uneasy lies
the head
that wears
a crown"**

No wonder! A crown is the symbol of responsibility. But as an exporter of engineering goods your responsibilities are no less than the wearer of the crown. You are competing with industrially advanced countries in a field where precision and quality are in the greatest demand. The nation is anxious to see that the reputation earned by her products abroad is maintained, if not improved upon, and the flow of foreign exchange to the country is consistently increased.

The nation's anxiety and uneasiness on this score can be overcome only if every manufacturer endeavours to introduce quality control in production and raw material selection, conforms to high standards and specifications, employs modern techniques of manufacture, adheres to promised schedules of delivery and offers after-sales service.

This Council is equipped to render engineering goods manufacturers every help and assistance in promoting their export.



**ENGINEERING
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was *nil*, in spite of the concessional rates of interest offered.

Slack Demand for Assistance

AGGREGATE data on the performance of all term financing institutions (IDB, IFC, ICICI and SFCs) during fiscal years 1963-64 and 1964-65 indicate that total assistance sanctioned declined from Rs 96 crores to Rs 94 crores (foreign currency loans from Rs 21 crores to Rs 18 crores) but disbursements rose from Rs 58 crores to Rs 70 crores (foreign currency loans from Rs 8 to 10 crores). The decline in sanctions has taken place mainly under loans, both rupee and foreign currency, from Rs 85 to 78 crores, while underwriting and direct subscription have risen from Rs 11 to 16 crores, though IFC has curtailed its activities in this field. According to reports from reliable sources, the pace of inquiries and applications at IFC and ICICI has definitely slackened further this year and the volume of business put through is expected to be even smaller. This is in striking contrast to the situation in 1960 on the eve of the Third Plan. How has this slack come about?

The capital market is, of course, sluggish, though the increase in the number and size of fresh capital issues

give a contrary impression. Financial institutions are carrying the load in the absence of public support, but they cannot do so indefinitely. The burden of taxation is not the principal factor responsible since it has been amply demonstrated that fast growing companies have a much lower tax liability due to various concessions and rebates. The fact appears to be that the investing public has been hit by rising prices and both investors and promoters have been rendered illiquid by slower turn-round of investment than anticipated, caused by delays in completion of projects and, when completed, by delays in achieving production targets due to shortages of materials and power breakdowns in some areas. Promoters' equity is acutely strained owing to these delays and their over-extension into several lines of activity simultaneously. Most of the new entrepreneurs are in trouble due to cost overruns and shortage of own funds. The big houses, too, are stretched to the maximum with the numerous projects they have undertaken, rise in costs and tight bank credit.

We have to live with these problems for some time to come because the shortage of materials will remain in the near future. All that can be done is

to expedite the solution of problems by more selective allocation of materials and where gluts have appeared by improved marketing. Mere relaxation of credit curbs will not help — if it is intended mainly to enable certain influential industries to keep their inventories of finished goods at high levels or to help them build up large inventories of raw materials at the expense of other sectors of the economy.

Watered Down Gold Control

THE revised income-tax rules relating to expenditure on advertising have been published for eliciting public opinion at about the time that the trailing end of the gold control order was passing on from the shelter of Defence of India Rules to its final resting place in the Statute Book through a bill in the Rajya Sabha. Meanwhile, the belated measures for rehabilitating goldsmiths and finding alternative employment for them having served their purpose, were being wound up. True, demonstrations for cancelling the order and the demand of the goldsmiths to be licensed as small scale industry still go on, but gold control no longer excites much interest. It never

Financial Assistance to Industrial Concerns by Major Term-Financing Institutions during 1963-64 and 1964-65
(Rupees crores)

Name of the Institution	Loans				Underwriting and Direct Subscriptions				Loans, Underwriting and Direct Subscriptions			
	Sanctions	Disbursement	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
	1963-64	1964-65	1963-64	1964-65	1963-64	1964-65	1963-64	1964-65	1963-64	1964-65	1963-64	1964-65
Industrial Development Bank (IDBI)*	19.25	20.44 (39.45)	12.04	18.57 (18.73)	3.10 (6.85)	0.17 (0.44)	19.25	23.54 (46.30)	12.04	18.74 (19.17)		
Industrial Finance Corporation (IFC)**	30.51	20.78	17.08	17.60	4.58	3.77	3.45	2.47	35.09	24.55	20.53	20.07
(Of which foreign currency loans)	8.26	7.04	2.08	2.47					8.26	7.04	2.08	2.47
Industrial Credit and Investment Corporation (ICICI)	18.61	16.80	9.23	13.99	4.64	6.33	2.19	2.96	23.25	23.13	11.42	16.95
(Of which foreign currency loans)	12.86	10.90	6.33	8.03					12.86	10.90	6.33	8.03
State Financial Corporations (SFCs)	16.56	19.95	11.71	12.98	1.55	2.76	2.07	1.17	18.11	22.71	13.78	14.15
Total	84.93	77.97	50.06	63.14	10.77	15.96	7.71	6.77	95.70	93.93	57.77	69.91
(Of which foreign currency loans)	21.12	17.94	8.41	10.50					21.12	17.94	8.41	10.50

* Data for 1963-64 relate to the operations of R C I. The figures for 1964-65 cover the operations of RCI for 5 months (prior to its merger with IDBI on September 1, 1964), the refinance operations of IDBI for the subsequent 7 months as well as the direct financial assistance of IDBI during the first 9 months since its inception on July 1, 1964. Figures in brackets relate to the operations of IDBI for a full year period (July-June), which include the refinance operations of RCI for 2 months (July-August 1964). To avoid double counting, refinance extended to SFCs has been excluded throughout as this is already covered under their loans. No refinance was availed of by IFC and ICICI during the period.

** Disbursements on account of guarantees are included under loans.

did from the moment the sting was taken out of it by allowing re-making of old gold ornament of any fineness. The order will get into the Statute Book all right, but thereby will hang a tale, a sad tale of the abandonment of the first attempt to turn gold into base metals.

Nothing can be had just for the asking. Social change can never be painless for those who benefit from or are sustained by the existing order, however miserable it may be. In retrospect one can be wise and lay down the correct manner in which gold control should be put into operation and the proper sequence. Ornaments made from 14 carat gold could have been popularised to start with, with the latest aids of popularising a new product and creating a new fashion for them, and with high level sponsorship and all that. One could even suggest at what stage programmes could be set in motion for finding alternative occupations or those among the goldsmiths who were young enough to be retrained, use could be found for the skill and craftsmanship of the others who were too old to learn an entirely new trade, and in between at some point when rehabilitation had made some headway and ornaments of a lower carat begun to catch on, legal restraints could be brought in to under-pin, stabilise and put on a firm footing the changes that had already been initiated. But that is not how things are done or can be done in the sort of administrative and political set up that we have.

Those who genuinely believed in the desirability of weaning away the Indian people from their traditional attachment to gold ornaments of the highest purity can therefore legitimately complain that though things were not done in the most desirable manner to soften the blow and make the change less harsh, the basic idea of it was unexceptionable and that even enlightened public opinion in the country failed to give the gold control order the unreserved support that it deserved, and that it is lack of such support which enabled the politicians to do what they did in the end, succumbing to the pressure of the hide-bound who would not see how costly their indulgence in traditional age-old ways was in terms of the country's economic development.

Curb on Advertising, Why?

THE function of advertising in an economy of shortage may be questioned on sound social grounds, particularly where socialism is accepted

as the goal, however distant that goal may be, and however perfunctory the attempts to achieve it. The Finance Ministry rules for governing the expenditure on advertising are for calculating the assessable income for taxation, and the ostensible purpose is to raise the yield of such taxation by disallowing excessive or unjustified expenditure under this head. No wider social purposes are claimed for this measure. In fact under the powers which the Government had taken under the Income Tax Act to issue rules restricting expenditures, restraints are to be imposed not only on expenditure on advertising but also on travelling allowances, maintenance of guest houses, plane bookings, etc, in order to check what the Finance Minister termed "the abuse by companies of certain types of deductible expenditure affecting the computation of their taxable income". To repeat, no wider social objectives are claimed for this measure.

The first set of income-tax rules on advertisement expenditure published in March raised such a howl of protest from the companies affected, from advertising agencies and from the newspapers *en bloc* that the rules were hastily withdrawn without much ceremony and after months of cogitation, a new set of rules have now been issued. This paper, among a host of others, may justly be castigated for taking a very narrow view of the matter and confining itself only to the impact which the restriction on advertising would have on the economics of newspapers in general and of small periodicals in particular. In fact, the first set of rules published showed such crass ignorance of the economics of advertising which has been studied in great depth in other countries and of the relation between advertising and the economics of the newspaper business that it was difficult to believe that the Central Board of Revenue really had any research department, cell or unit, which studied seriously any tax proposal before it was sought to be put on the Statute Book. One does not know how reliable press reports on this subject were, but if they were to be credited, the Finance Minister was willing enough to bow down to the power of the press and was in favour of an immediate suspension of the rules. But at a conference of officials involved in the matter, it was decided not to make any change in the rules or in their implementation. At the conference, the press report goes on to say, the offi-

cials tried to dismiss the criticism and the analysis of the rules as sheer propaganda and the Finance Minister is believed to have replied that if what appeared in the press was propaganda, there should be convincing rebuttal of it by the officials concerned.

That was in March. No such rebuttal has come and a cursory examination of the new set of rules published this week will show why. If there is a research unit in the C B R, it does not function. The main point about these rules is that they have no other objective than to improve revenue collection, which is fair enough, so long as nothing more is claimed for them. It is right and proper that tax avoidance should be checked when it takes the form of deliberately swelling up expenditures under any head. But those who are not specialists in the job will wonder if the income-tax authorities really need any fresh powers for the purpose, considering the sort of questions they ask even ordinary people of very modest means, when they submit their returns and the gumption with which the ITO discharges his duty by making token but quite arbitrary cuts under whichever head happens to catch his fancy, just to leave some evidence that he has performed his duties with due diligence and probity.

A layman's reading of the draft rules relating to advertising causes considerable puzzlement. Take for example the following sentence which appears under the sub-head 'Exemptions':

"No limits will be applied to expenditure on advertisement for promotion of sales or services or fostering the goodwill of the business or profession".

Now, advertisements are either for selling goods or they are institutional, for fostering goodwill of the business. Which advertisements then come under the ceiling of allowable expenditure of 4 per cent of turnover? The sentence quoted may be just legal jargon. There are many others, however, equally puzzling, such as that "the assessee may have paid Rs 1,000 for an advertisement in a newspaper ordinary charge is only Rs 500, but the excess amount will be disallowed". Is it because the genuineness of the payment is doubted? But if the advertiser wants a special position for which the charge is Rs 1,000, what happens? In some of the other limits proposed also, such as Rs 2,000 in respect of a single advertisement in a

souvenir, or that a payment exceeding Rs 2,500 shall not be allowed as a deduction unless it is made by crossed cheque, the intention obviously is to disallow payments about the genuineness of which there is reasonable suspicion. Is it such cases that call for special powers? When because of the high tax rates or inflationary pressures there is a general tendency of business to be less watchful about costs and there is high level pressure for advertising — accompanied by offer of large discounts under the counter at times — situations are conceivable where the expenditure should not be allowed as a valid one. Is that the sort of thing that the rules have primarily in mind?

This suspicion is further strengthened when the ITO is empowered to disallow expenditure on advertising in the following circumstances:

"(i) where the payment is made to a person who has a substantial interest in the business of the assessee or it is made to a relative of such person;

"(ii) Where the payment is made to a person who carries on business or profession as a publicity or advertising agent and the assessee or a relative of the assessee has a substantial interest in that business or profession." In either of these cases "substantial interest" will cover a director of a company or partner of a firm and a person will be deemed to have a substantial interest in a business if he owns not less than 20 per cent of the capital employed or the same percentage of equity capital of the company which owns the business.

If the Finance Ministry is really serious in pursuing this line, it has to attack not only the common or garden variety of tax evasion of passing on advertising to parties who pay back in some way but also look closely into advertising agencies in which the advertising firms may have proprietary or other interest. This sort of thing had hitherto been regarded as unethical practice in the advertising world, unethical but not illegal. But is the Finance Ministry really willing or able to pursue this to the bitter end?

The main operative part of the rules is the limit of 4 per cent of turnover, with generous exceptions for new products or new companies. (If the same ad is both for new and old products, how much exemption?) This will not affect the large body of advertisers at all, not even the very big ones. It will only affect the trades

in which the percentage of advertising is much higher. The relevant data for this country are not available at the moment, but British experience shows that advertising in particular items of processed foods go upto as much as 14 to 41 per cent as against an average of 2.9 per cent for the food industries as a whole. For tobacco the percentage of advertising was 8.8 of the total turnover; for household stores it was even higher, 9.1 per cent; and some particular items of household equipment also had a very high rate ranging from 9 to 22 per cent though the average was only 2.9 per cent. The highest average rate of advertising as a percentage of the total turnover was, as could be expected, in the toilet goods viz 25 per cent, while for some items under this head e.g. shampoos it was as high as 51 per cent. [The figures are rather old, being taken from "A Statistical Analysis of Advertising Expenditure and of the Revenue of the Press" by Nicholas Kaldor and Rodney Silverman, published by the Cambridge University Press in 1948. But the picture of the relative importance of advertising in different industries they present should be still substantially true.] So as a broad general principle, if it is intended to tax toilet and luxury products, the 4 per cent limit may have a social pur-

pose, assuming that the limit has been set with due consideration and not just arbitrarily so as not to touch those who can make noise. Films and entertainment have been given a much higher limit, viz 25 per cent.

The crux of the matter is that excessive advertising of fancy consumer goods is socially undesirable, specially in an economy of shortage and some restraint on it is, therefore, to be welcomed. But the 4 per cent formula, if it achieves that purpose will do so only by accident. From the wider standpoint, far more objectionable is the wastage of newsprint which results from the lack of any convention observed by the newspapers in regard to distribution of space between advertisement and reading matter. Just putting a limit to half page for any single advertisement does not serve any purpose. What does is restricting advertising space to 40 per cent of the total space which is a fair compromise. This used to be the convention at one time but it has been dropped by the biggest of newspapers. Will the Finance Ministry be imprudent enough to touch them? It will not achieve anything significant by way of raising income tax collections. But such a rule will achieve something far more desirable—conserve scarce foreign exchange by economising the use of imported newsprint.

LETTER TO EDITOR

Aligarh University

YOUR note on the Aligarh Muslim University (August 21) misses the point that Article 30 of the Constitution of India guarantees to all minorities, whether based on religion or language, "the right to establish and administer educational institutions of their choice". Article 30 further provides that the State shall not, in granting aid to educational institutions, discriminate against any such institution on the ground that it is under the management of such minority.

Recognising that minority cultures richly contribute to the growth of the entire nation (as Indian history amply demonstrates) enlightened democracy rules gently over the minorities in matters of religion, education and culture. This conduces to tranquility because it allays feelings of insecurity that are ever the most potent cause of unrest.

Indian Muslims are a minority based on religion entitled to protection solemnly pledged to them.

When the University was incorporated by the Aligarh Muslim University Act 40 of 1920 its first possessions became "all the property, moveable and immoveable" of the Muslim charities known as the Muhammedan Anglo-Oriental College, Aligarh (the nucleus), the Muslim University Association and the Muslim University Foundation Committee. The Government of India had stipulated for an endowment fund of Rupees 30 lakhs, as guarantee of stability, before it would agree to the establishment of a Muslim University. This fund was voluntarily contributed by 'the Muslim community throughout India'. (See Gazette of India, Part VI, September 11, 1920). The University, incorporated by statute was the successor to all the properties and assets of the Muslim charities and funds that it replaced and was by the terms of the same statute charged with fulfilment of all obligations, legal and equitable, of those charities and funds.

The foundation Act constituted the University Court, elected from donors, alumni and Muslim institutions throughout India, as the "Supreme governing body" of the University. The Chancellor, Vice-Chancellor, Pro-Chancellor and all other Officers of the University were elected by the Court. Every member of the Court had to be a Muslim. Only a minimum power of inspection and superintendence to prevent maladministration was retained by the Lord Rector who was the Governor General (later the President).

Special features of the University were the imparting of Muslim religious instruction to Muslims and the inclusion of departments of Islamic studies. The general terms of the Bill and the original Statutes of the University (declared fundamental to the scheme) had been settled by the Government of India in discussions with representatives of the Muslim University Association. (Gazette of India, 1920, Pt V, P 147.)

All in all, it is difficult to escape the position that this was an educational institution established by the Muslim minority, and administered by them. Aligarh cannot be compared

with the Banaras Hindu University established by the majority community, whose rights of administration, under democratic Government, require no special protection.

Deplorable as were the disturbances at Aligarh, the violent language used by some of those attacking the University foundation is just as obstructive of an understanding of the truth as the physical violence of misguided students.

There is nothing unpatriotic, unsecular, undemocratic, reactionary or fascistic in a minority, whether based on religion or language, demanding its just rights in a democratic society. Fascism was not the creed of a religious minority in the State.

It should give food for thought that even veterans like Dr Syed Mahmood have joined the almost unanimous protest of the Muslim minority against the expropriation of their right to administer the educational institution established by them. Some of the new 'nationalists' who would impugn the standing of such veterans may congratulate themselves that the public have had time to forget their respective contributions in the national freedom struggle.

Those who are inclined to discount the role that Muslim culture has played and may yet play in national reconstruction may profitably ponder on the wise words of a bygone revolutionary, M N Roy, who wrote:

"Unfortunately, India could not be fully benefited by the heritage of Islami culture... Now in the throes of a belated Renaissance, Indians, both Hindus and Muslims, could profitably draw inspiration from that memorable chapter of human history. Knowledge of Islam's contribution to human culture and a proper appreciation of the historical value of that contribution would shock the Hindus out of their self-satisfaction, and cure the narrow-mindedness of the Muslims of our day by bringing them face to face with the true spirit of the faith they inherit."

Many streams must merge in the India of tomorrow. Though grievously disrupted the Muslim stream has yet to make its richest contribution. Its authentic identity should not be obliterated.

New Delhi,
September 3.

DANIAL LATIFI

FROM THE LONDON END

Pyrrhic Victory on Incomes Policy?

THE outcome of the voting at the Brighton Trade Union Congress on the attempt to make an incomes policy bite on a voluntary basis can hardly be described as a resounding vote of confidence. In the event, after a bitter debate the delegates finally passed the General Council's resolution by only 5,251,000 votes to 3,312,000 — a majority of 1,939,000 votes. The voting shows quite clearly the strong feeling that still prevails against wage restraint and interference with Trade Union independence. At best, the approval was a very grudging one, and was brought about by the sense of loyalty that the Trade Union Congress has to the Labour Government combined with a dislike of legislation to control wages. The irony of the situation is that despite the acceptance of an "early warning system" on wage increases and the possibility of voluntary restraint from the side of the Trade Unions themselves, there is no guarantee that the Government will not finally introduce the legislation to prevent which the motion was carried.

It was only loyalty and the appeal of George Woodcock to give practical support to help the Government win the breathing space over sterling and so make its survival feasible, that prompted the delegates to support this measure.

There was little doubt in the minds of the delegates that this action had to be taken so that the Labour Government could win the support of outside powers, and thus guarantee the stability of the pound. Woodcock himself said that the Government's incomes policy needed teeth in order "to get support from people who do not belong to this country and who have no loyalties to it". Most of the delegates in Brighton felt that by demonstrating that the Trade Unions were prepared to sacrifice their historic rights, bankers and Governments abroad would be given solid evidence that Britain was in a position to provide an incomes policy that worked, and a demonstration of this type would give support to a new international loan to defend the pound and thus help to restore Britain's economy.

get, not even in war-time.

Hoodcock's own position on this issue is perfectly clear. He is firmly opposed to any legislative control of wages, and is positively enthusiastic about a strong centralised TUC modelled on the Swedish pattern.

How Will It Work?

Will this paper victory on an incomes policy really be effective? There is only a vague idea of how the process will actually work, and discussions at the Congress revealed only too clearly the diverse divisions of interests and experiences that stand in the way of success. Other points that remain unclear are the relationships that will be worked out between the TUC, the Department of Economic Affairs and the National Board for Prices and Incomes. All that can be said for certain is that one inevitable result will be to cause longer delays in settling claims, and it is the existence of these delays that have been at the back of many of the recent strikes. Does it then mean that this new voluntary control system will only lead to more frequent industrial disputes and unofficial strikes?

The application of any incomes policy will create difficulties among Trade Union members because it will inevitably discriminate between different categories of workers. For example, those who are paid by piece-rate will not be greatly affected by the policy, nor will those Unions operating on a sliding scale agreement. The opposition to the incomes policy which came chiefly from the Transport and General Workers' Union, the Electrical Trades Union, the Boiler Makers Union, the National and Local Government Officers' Association, had a much clearer case. They simply rejected the idea of both centralized Trade Union control over wage demands and legislative control.

The incomes policy, as it stands, suffers from a number of defects. To begin with, it does nothing about the whole problem of Union structure which is one of the most important fields which require reform, nor does it attempt to tackle the question of the wage drift. Even more serious is the fact that the basic problem of

Legislation Not Ruled Out

After hearing the result of the resolution George Brown said: "The Government must accept its responsibilities and, if the circumstances require it, legislation will be brought into force. But I repeat that this step would be taken only in the light of the experience we gain from here on of the working of the strengthened voluntary system and after further consultation with Unions and management".

It is interesting to note that the opposition to this incomes policy at Brighton was nearly double the opposition to the original incomes policy at the Conference of Union Executives in April of this year. Since then, many Unions have had cause to regret their support of an incomes policy which seems, in many ways, a veiled form of Selwyn Lloyd's old wage freeze.

There is no doubt at all that there was much disillusionment among the delegates who attended the Conference. The threat of legislation to put teeth into an incomes policy was hardly the sort of action that Trade Unions had expected from a Labour Government for which they have been working loyally for the last thirteen years. Indeed,

U S "Impressed"

It is not without interest that Henry Fowler, the U S Secretary of the Treasury, who is busy sounding opinion to negotiate a new loan to support the pound should it be necessary, described Britain's new wages and prices policy as "promising". While he was not familiar with it in detail "it is clear in our experience, and in the experience of others, that an effective wage-price stabilisation policy is always helpful and desirable in giving a competitive thrust to the economy".

In the final analysis, there is no doubt that it was only the generations old political loyalties which lie at a very deep level which finally tipped the balance to give support to the wage restraint. Only a Labour Government could have succeeded in persuading the Trade Unions to act in this way, but the general uneasiness of the movement was evident by the loud cheers which greeted the warnings from Harry Nicholas of the Transport and General Workers' Union, that Congress was being asked to hand over a future Selwyn Lloyd powers that the Tories could never



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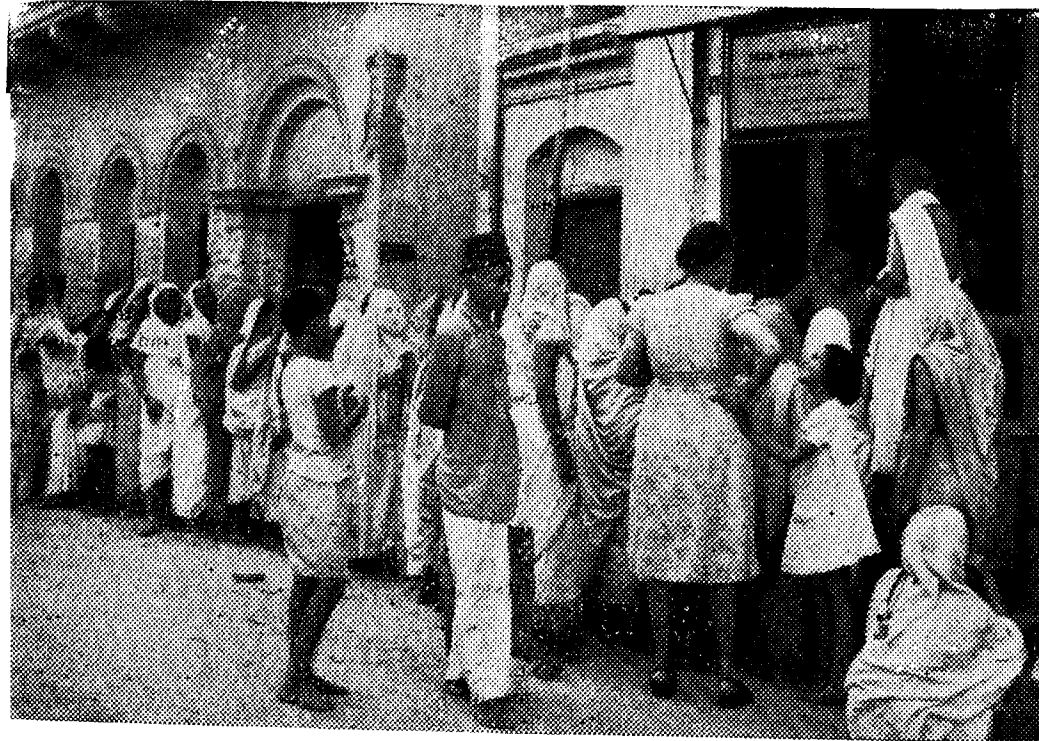
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productivity has not been tackled. The only real support for increasing economic prosperity and rising wages is through increased productivity. Holding down wages can, at best, be a short-term policy which will bring no long-term benefits to the country. For the moment, the Government has won some breathing space but only time can show how effective the half-hearted backing for a voluntary system of wage control will be.



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BOOK REVIEW

Nationalism and Social Reform in India

Vijay Nambiar

Indian Nationalism and Hindu Social Reform by Charles H Heimsath; Oxford University Press, 1964; pp xiii + 379, Rs 27.50.

TO the student of Indian social history, the intellectual movements of the nineteenth century present a fascinating subject for study. Never before in India's chequered past had there occurred a social and political transformation of the magnitude such as was initiated as a result of the impact of Western ideas. Uptil now, Hinduism had responded to efforts at cultural penetration by wrapping itself more closely in its own Ivory Tower. Muslim domination, like earlier influences, left the general basis of Hindu beliefs undisturbed. The presence of the British in India, however, brought about a radical change in the entire social perspective. Apart from the introduction of the idea of equality based on a conception of the individual as a repository of values and rights, this contact with the West gave to India, for the first time, a doctrine of social progress — the belief that man can himself, through collective action, change the structure of society.

Professor Heimsath's purpose in this book is to attempt a historical analysis of this intellectual movement, more particularly as it related to organised efforts at social reform. Not content with providing a purely chronological account, he tries to see the social reform movement in the broad perspective of Hindu India's intellectual response to the West. The interaction of social, religious and political forces and the gradual weaving of the complex motif of Indian nationalism are studied with an insight as sharply penetrating as it is coldly impartial.

Social Reform in India did not ordinarily mean, as it did in the West, a reorganisation of the entire structure of society with a view to the alleviation of the conditions of the underprivileged; rather, it meant the infusion into the existing social structure of newer ways of life and modes of behaviour. Generally such change was gradual and was initiated only by the upper classes. Social change in India was, for a very long time, based on the 'filtration theory' — the filtration of attitudes and modes of behaviour from the upper layers of society to the lower ones. It was only at the beginning of this century with the growth of organised reform groups

that the social basis of Hinduism, the caste system, came to be questioned. Various social service institutions took up the cause of the less fortunate groups in society and sought to lift India from the morass of caste tyranny.

What was unique about the social reform movement initiated in the nineteenth century? Heimsath notes that even prior to the nineteenth century, there were movements aimed at reform especially in the field of religion. The entire Bhakti cult was in a way a revolt against orthodox Hinduism. However, this was more a negative or *sannyasin*-renunciative type of movement than one of positive social action. For all its spiritual egalitarianism, the Bhakti movement failed to cure the 'diseased condition' of the Indian social system. Its appeal was more emotional than rational and individual salvation rather than social salvation was stressed. Even in the nineteenth century, one finds Bhakti-type movements, as in the Swami Narayana Sect and the Sanmargha Sangha of Mahatma Ramalingam and, Heimsath maintains, in the immediate effects of Shri Ramakrishna's mystical preachings.

The Motivating Force

The approach of the modern social reform movement was not one exclusively of religious dedication. Conceived under the influence of Western methods of organisation, propagating and recruiting support mainly from the English educated, and maintaining as its basic premises western concepts of individualism, natural rights and social efficiency, the principal motivating force was sober rationalism and positive social ethics. Heimsath traces the stimulation of modern social reform to two main sources: the introduction of English education and with it the transmission of Western knowledge and experiences and secondly the activities of the Christian missionaries.

Broadly considered, the uniqueness of the Social Reform Movement in India lay in the inspiration, the ideas and the motivations of the reformers themselves. While earlier reformers were prompted by a love for the underdog, these modern reformers

saw the incompatibility of particular practices with the total progress of society. Furthermore, in their attempt to 'rationalise' the Hindu religion, these reformers sought to distinguish the essential aspects of Hinduism from the nonessential ones, to separate the pristine religion from the subsequent accretions.

Throughout the period surveyed, one notices that the movement for social and religious reform and the political movement, though interacting, constituted separate and clearly distinguishable traditions and were together to lay the intellectual foundations for the emergence of nationalism. Heimsath, discussing the course of the Social Reform Movement till the First World War, sees it as a three stage development. The first stage was marked by efforts on the part of individuals to order their personal lives in accordance with standards adopted from the West. The archetype of such individual revolt and reform was Raja Rammohan Roy. The onset of the second stage was marked by the formation of subnational groups and the growth of a new desire for unity between the scattered and culturally diverse social groups. Politically this was the period when the first glimmer of nationalism appeared on the subcontinent. With the turn of the century, social reform came to mean a regeneration of the traditional spirit of the nation — a regeneration founded on religious revival and cultural xenophobia.

This review will concentrate not so much with the actual reforms effected as on the close interaction of practical and social movements over the last century and a half.

The modern social reform movement properly begins with Raja Rammohan Roy. More than any other Indian of his generation, Roy saw the need for a rational social basis for Hinduism. Combining deep erudition with uncommon wisdom, Roy tried to synthesise the age old Hindu values with the rational elements of the Christian and Islamic traditions.

In his effort to attract the educated Bengalis of his time, Roy founded the Brahmo Samaj — a monotheistic religious body that drew much from

the Christian doctrines but which had as its avowed purpose the restoration of the Hindu faith to its pristine purity. Even before the establishment of the Brahmo Samaj, however, Roy had initiated a social reform movement of the first order. Through a succession of polemical battles waged both during discussion in the Atmiya Sabha (later the Brahmo Samaj) and in the pages of the *Samvad Kaumudi*, Roy was able to enlist support for such reform measures as the abolition of 'sati' and 'kulinism' and the introduction of widow remarriage.

With Roy began the rationalising of the Hindu tradition and the clearing of the underbrush of social evils. The thread was taken up by other enlightened individuals in Bengal, Bombay and Madras. In Bengal, Ishwarchandra Vidyasagar shattered the very core of orthodoxy by his monumental crusade for widow remarriage. In Bombay Vishnu Shastri Pandit sought governmental sanction for the same, while in Madras the cause was taken up by Viresa Lingam Pantulu with the formation of the Rajamundhry Social Reform Association. To mention some of the leading lights of the social reform movement in Western India, there was Balgangadhar Shastri Jambhekar, the founder of the Bombay Darpan and a prominent champion of social reform, the Gujaratis Mehtaji Mancharam and Narmada Shankar and that ebullient literary social critic Gopal Hari Deshmukh 'Lokahitwadi'. On the practical level, there was Jyotiba Phule, an ardent reformer and social worker, and Karsondas Mulji of the Maharaja Libel case fame. Even the Prarthana Samaj, formed in 1867, devoted itself to the reconstruction of Hinduism along more rational lines.

Different Patterns

An important characteristic of the activities of the reformers of Western India was their conscious effort to imbue public opinion with their rationalism. As against the dramatic unconventionality of the Bengali Reformers, in Bombay there was no complete break with traditional society; rather what was sought was a practical adjustment of religious convictions and social behaviour toward a more open and egalitarian basis.

Totally different was the impact of Swami Dayanand and the early Arya Samaj on Northern India. Dayanand combined in himself several paradoxical elements. Extremely conservative in his thought and beliefs, sometimes to the point of obscurantism, yet

astonishingly revolutionary in his attitudes and actions, Dayanand typifies a complex reaction to Western influence. Rejecting the existing caste basis of society, the interior status of women and the system of child marriages, he called for a vigorous programme of social reform aimed not so much at westernising the Hindu religion as in reviving the glory of the Vedic religion. What Dayanand sought was not to help individuals attain personal salvation by isolating themselves from society; he was interested in the salvation of society by means of individual self-assertion and the amelioration of social evils.

Of considerable relevance was the effect of Dayanand's militant spiritualism upon the emergence and development of extremist nationalism in India. By bringing the dynamism of the past to vivify the modern mould, Dayanand blazed the trail for the extremists in two significant respects: (1) His own deep-rooted xenophobia was carried on to the subsequent generations and served to inspire the militant anti-British temper of extremist politics at the turn of the century. (2) Connected to this was Dayanand's idea that history could be interpreted in order to justify social action. This attitude was closely followed by Tilak in his interpretation of the Geeta and Savarkar in his interpretation of the 'Indian War of Independence'.

Genesis of Nationalism

By the 1870's already there had emerged a new stage in the modern development of Indian intellectual life. No longer was social protest confined to individual revolts against established patterns of conduct. With the building up of the infra-structure of social mobility — a rapidly growing system of communication, the expansion of educational facilities and the increase in the number and circulation of newspapers — a new set of group loyalties began to sweep over the various sections of the educated populace. Thus it was that the first glimmer of national consciousness began to appear on the Indian intellectual horizon.

Discussing the emergence of nationalism in India, Heimsath refuses to give credence to the assumption that it was a logical-historical outgrowth of 19th century political reform activities. Nor is it accurate, he believes, to suggest that Indian rationalism was a single and unified movement. In fact, the author maintains that what we term Indian nationalism consists

actually of a congeries of several separate nationalisms. The reason for this, Heimsath says, was that the sub-continent had few if any of the pre-conditions which bring a single nation into being.

What developed as Indian nationalism, Heimsath says was actually a myth based on consciously propagated ideas and one which was more a product of the personal preferences of the so-called nationalists than an enunciation of social realities. He believes that once this was done, through a process of rationalisation, an attempt was made to relate this myth to shared religious, linguistic and geographic identifications. In short, the author suggests that there was nothing spontaneous about the appearance of nationalism in India; it was consciously and carefully contrived by an "eminent company of intellectuals" (p 135).

New Set of Group Loyalties

Such a conception of nationalism is undoubtedly stimulating. However, one should not be led by this interpretation to believe that the genesis of nationalism in India was uniquely different from that in other countries. In essence, nationalism results from the confrontation and interaction of two distinct levels of group solidarities. There is, on the one hand, the solidarity that covers a whole continent, civilisation or culture. This we shall term Culturalism. On the other hand, there is a smaller, more chauvinistic kind of solidarity based on the identification of local customs, habits of living and social attitudes. This we may term Localism or Parochialism.

Now, if nationalism is an artificially inducible stimulation resulting from consciously propagated ideas, this requires the manipulation of certain deep-rooted social symbols. Nationalism thus becomes a matter primarily of social communication. According as these symbols are derived from the wider or the narrower of the above-discussed solidarities, the ambit of nationalism extends toward culturalism or toward localism. This interpretation applies to the development of nationalism as much in the West as in the newer nations.

In a consideration of the emergence of India nationalism, therefore three important factors have to be analysed: who were the agents for such stimulation? what is the character or type of the solidarity desired? and what are the types of symbols manipulated?

Answers to these questions ultimately would provide the clue as to the actual nature of the nationalism that would evolve.

Several scholars date the emergence of nationalism with the founding of the Indian National Congress. The early Congress idea of nationalism was elitist and gradualist in conception. Broadly it was based on the theory of filtration of ideas from the top to lower layers of society. "The dominant nationalist group, which was responsible for the founding of the Indian National Congress, supported the creation of conditions that they felt, from their knowledge of the West, should exist before a nation embodying all of India's people could make its identity felt. Those were mass education, economic advancement, social reform, and a unity of a kind that Western nations enjoyed. Having at its base an anti-traditional, liberal-democratic, secular and politically oriented concept of the nation, the nationalism of the early Congress could properly encompass all Indian cultures and religions". Though, conceptually the Congress had a clear notion of nationalism, the precise strategy for the mobilisation of popular support was not carefully worked out by the early Congress nationalists.

Parochial Nationalism

However, almost alongside this there had emerged another distinct effort at stimulating "national feeling." First initiated by Rajnarain Bose in the 1860's, later taken up by Nabagopal Mitra, that zealous organiser of the Hindu Mela, this movement sought to develop ties on the basis of religion. "The Hindus are destined to become a religious nation" (p 137). The most brilliant advocate of this type of nationalist-parochial sentiment was Bankim Chandra Chatterji. Though Bankim thought in terms of a parochial nationalism — his evocation in 'Bande Mataram' was to Bengal not to India — no one realised more clearly than him how this solidarity was to be evoked. To Bankim, social solidarity could be achieved primarily by stirring religious and cultural loyalties and by working out a close identification of the individual with a particular community. What this ultimately amounted to was that the basis of nationalism was to be religious revivalism. No longer was nationalism viewed as a theoretical concept; it became a vibrant collective consciousness. Another important noticeable feature was the stress on the vernacular as the vehicle of this nationalism.

The relevance of this extremist — moderate conflation for the development of the social reform movement was nowhere more dramatically evident than in the debate over the Age of Consent Bill. The background of the Age of Consent controversy is common knowledge. Consciously advocated by moderate reformers like Malabari and Gidumal the movement against Infant Marriage grew in vigour and evoked the active response of the reformers of the Social Conference. However, when Gidumal suggested a legal remedy in the amendment of the Age of Consent Act, opposition grew extraordinarily fierce. In Bengal, the controversy centred on the religious question of the 'garbhadhana', while in Madras both reformers and anti-reformers were equally active. The vernacular press viewed this unwarranted interference in religious affairs with suspicion and mistrust.

Tilak and Ranade

It was in Bombay, however, that the debate took on the magnitude of a national issue. This was largely due to the publicity given to it by Tilak. Though Tilak recognised that this was primarily a religious issue, he was concerned rather with strengthening the political forces at that time moving in the direction of extremist opposition to British rule. What was most important for him was not any particular programme of social or political reform, but the awakening within the masses of a political and social consciousness. Accepting Bankim's idea that nationalism could only be based on a solidarity that was deep-rooted in the consciousness of the masses, Tilak saw that such consciousness could only be developed through the evocation of religious and cultural loyalties. Only in this way could India be liberated from the yoke of foreign tyranny. Admittedly, these social evils to be curbed; but to argue in favour of legislation of social reform seemed to imply acknowledgement that India's advancement was dependent upon the British (p 165).

Few reformers could counter this argument advanced by Tilak. Even Ranade, who formulated the classic moderate argument for social reform had to seek conciliation with Tilak at the Fourth Social Conference in 1890. The ultimate passage of the Bill was, however, interpreted as a victory for the Sudharakas. The Social Reform movement itself gained, for the first time, a national recognition. Yet, it was no more than a phyrrie victory.

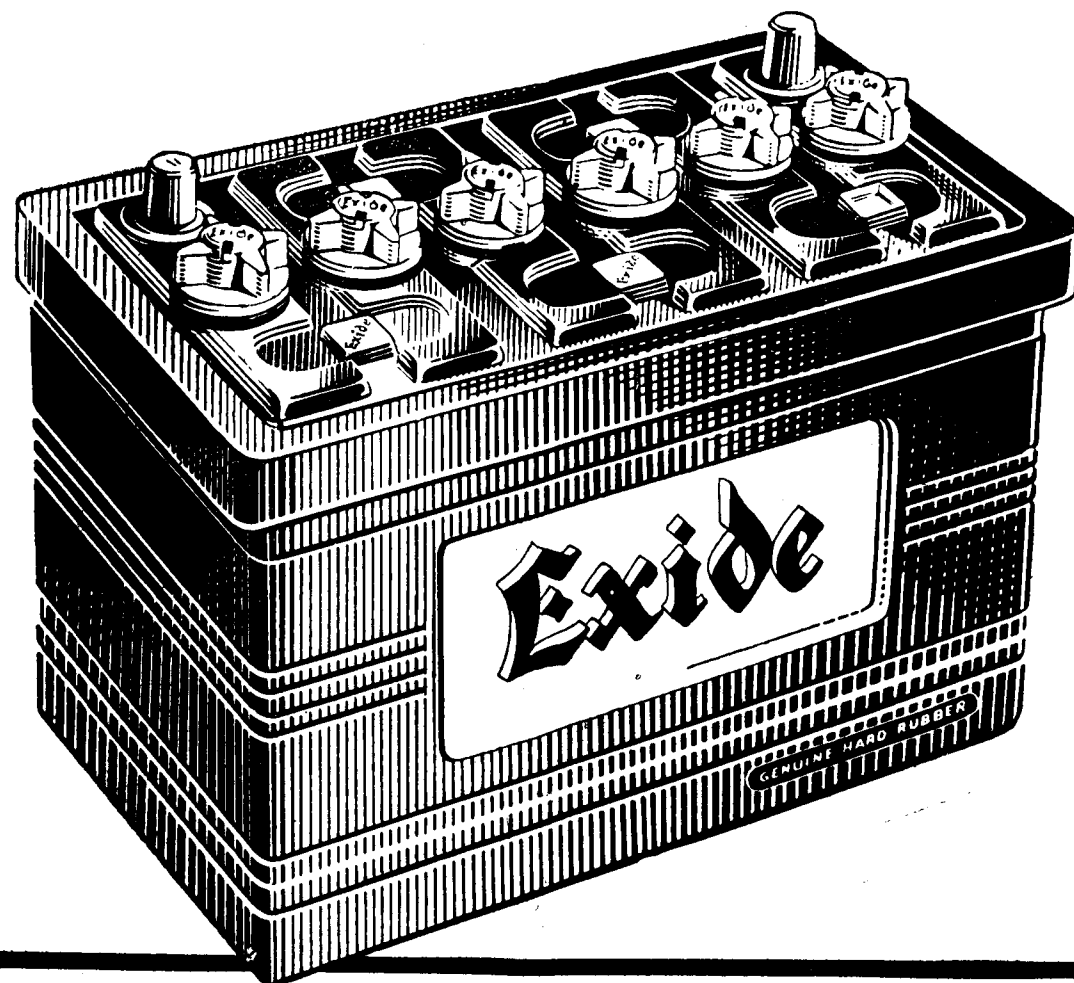
The growing xenophobic reaction to Governmental interference in social and religious affairs came to be steadily harnessed by the extremist political leaders and, by the first decade of this century, extremism had reached its peak.

In his assessment of the Age of Consent controversy, Heimsath maintains that the real issue was the confidence of Indians in Western inspired political and social change, and to a lesser extent, their faith in the British Government. In 1891, he says this confidence and faith outweighed the desire to define and manage India's advance along traditional lines. One is curious to know what the term "Western inspired political and social change" exactly means in this context. If it means Government initiated social reform, this is patently incorrect: as Heimsath himself admits (P 174), no major social reform legislation was passed between 1891 and 1929. As for political change, this controversy marks the beginning of the transition of nationalism from an elitist movement to a popular mass movement; relying not so much on Western liberal ideas as on the manipulation of indigenous cultural symbols. As for restoring faith in the British Government, it was with Tilak that the idea of 'Purna swaraj' crystallised and found popular acceptance.

Emphasis on Social Reform

One of the most urgent questions the nationalist movement faced in its very early stages, was whether social reform should precede political reform or vice versa. The earlier moderates tried to bypass this problem by assigning social reform to private action on the local level, while political reform was considered on the national level and through public discussion. The Indian National Congress deliberately kept aloof from social questions. However it was Ranade who sought to give national recognition to the social reform movement, by attaching the National Social Conference to the Indian National Congress as its counterpart.

The National Social Conference itself was soon to split into two distinct schools. On the one side, there was the Ranade-Telang school which adhered to the doctrine of "progress along the line of least resistance". According to them, reformers must "flow with the tide of social change". For Telang, this meant a greater emphasis upon political reform, which he felt



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was easier to achieve in his day. This approach sought to effect change only in "constructive channels" and rarely sought to undermine the foundations of Hindu society. The opposite school of reform, led by Chandavarkar and the Madras reformers (particularly the *Hindu* and the *Social Reformer*) called for a vigorous campaign of social reform, Chandavarkar appealed to men and women to act from a free conscience and stand up against social evils.

Such divergences naturally affected the overall efficacy of the movement for social reform. This was further vitiated by the fact that the social reformers themselves failed to live up to their high precepts. They yielded in the face of precisely those elements against which they should have stood up (e.g. Ranade's 'praya-schita', his second marriage to a child of eleven; Raghunatha Rao's reluctance to attend the marriage of a widow, etc). It is against this background that one sees the strength of Tilak's insistence that social reform should be completely set aside and that the all important task was that of invigorating the political movement. (p 210).

The early moderate nationalists tried to define a new India in terms of categories derived from European political and social experiences. These efforts failed inasmuch as the general mass of people were unaffected. What was needed was a completely new alignment of political and social forces.

The formation of the Muslim League and the theory of two separate streams of cultural consciousness cut at the roots of the earlier Congress stand on nationalism. Slowly, nationalism in the early years of this century became Hindu and adopted Hindu symbols and traditions on a mass scale. The pathfinders of this new religio-political movement were the practitioners of political extremism like B C Pal, Tilak and Aurobindo. The basic requisites for the reconstruction of nationalism, the extremists believed, were: (a) the incorporation of the masses into the political movement and (b) the identification of the nation with religious ideas. These were linked together and gave to the movement a strong militant and revivalist character. As Aurobindo said (p 313) Swaraj was "the fulfilment of the ancient life of India under modern conditions, the return of the 'Satyayuga' of national greatness...". If the national spirit was to penetrate beneath the English-educated intellectual groups, and be truly Indian, only

a cultural and religious awakening could effect this.

In the field of social reform, Annie Besant, after an initial attempt to bolster the orthodox position, came out in her book "Wake Up India: A Plea for Social Reform" with a vigorous plea for all the major planks of the social reformer's programme including remarriage of virgin widows and the emancipation of the depressed classes. Further, the Theosophical Society carried her concern into endeavours of a social service or educational nature. Another figure on the intellectual horizon was Swami Vivekananda. Vivekananda was profoundly struck by the malaise of his own society. Much of the country's tragedy, he felt, could be ascribed to the hopeless quest for mukti. Vivekananda wanted to go to the very root of this malaise and effect a radical reformation. This he felt was possible only by means of a spiritual rejuvenation. "Put the fire there (at the level of the masses) and let it burn upwards and make the Indian nation." "Vivekananda condemned the so-called reformers as having done no good "excepting the creation of a most vituperative, and most condemnatory literature." Rather than endorse the ornamental reforms advocated by the Social Conference, he sought to bring a new life for 'all' of India's women and for the lower classes. Vivekananda's thought marked the culmination of the 19th century social revolt. As Heimsath says:

"The challenge Vivekananda presented to Indians to reform totally their religious and social life was not accepted, because on the one hand it called for too great a sacrifice from the still complacent educated and privileged groups and on the other hand, demanded an uprooting of traditions, customs and beliefs unacceptable to the general populace"

Revivalist Nationalism

The impact of this new revivalist nationalism upon the social reform movement is of much significance in that the new nationalists stimulated the reformers belief that all groups in society must benefit from the advances modern India was making. Even the National Social Conference responded by enlarging the scope of social reform by expanding it to cover housing, education of the masses and other welfare activities and objectives.

In a very important sense, Mahatma Gandhi synthesised the two approaches

(the moderate and the extremist) and evolved an altogether new response to the British influence. Like the social reformers, sometimes even more vehemently, Gandhi insisted that social progress, especially for the untouchables, was a condition for political progress. However, Gandhi's method of evoking popular response and of social communication differed radically from the traditional methods of the social reformers. His emphasis was not always on reason and empirical evidence but rather on an ethical imperative. Further and most effectively, he impressed by the strength of personal example. Yet, again, he refused to accept the moderates' stand that true national unity could only be achieved by the complete removal of caste barriers.

Even in the political field, Gandhi emerged as the most successful synthesiser. While he wielded the xenophobic spirit that had been roused by the earlier extremist, his rejection of violence in politics changed the very strategy of the national movement. Gandhi thus was able to rouse the masses but he taught them to wield a different weapon. Again, though he appealed to the masses through the conscious use of symbols borrowed from Hinduism, he was prompt to stress his universalism and prevent the national movement from becoming a mere communal congregation. Gandhi's success in the mobilisation of the nation was very evident so long as the predominant aims of the movement were negative. The precise utility of these very same weapons and symbols for the purpose of positive action and reconstruction of the nation is, however, being questioned today.

Heimsath concludes his study with the assertion that Social Reform and nationalism are irrevocably linked as living processes and as organised movements in India as well as elsewhere. Following Lerner, he believes that nationalism and social reform emerge as a result of transformation of traditional societies and the transfer of individual loyalties from the family and caste groups to larger societies of the city, region and nation. It is basically from this social perspective that Heimsath views change and reform in India.

Written with extraordinary breadth of vision and sensitivity, Heimsath's analysis is as refreshing in style as it is original in interpretation. The author combines painstaking research with the intellectual simplicity that goes with true scholarship to provide us with a definitive work on the subject.

An Experiment in Voluntary Repatriation of High-Level Technical Manpower

The Scientists' Pool

S P Awasthi

A debit item on the manpower balance-sheet of India during the last decade has been the non-return of a considerable proportion of students going abroad for higher studies in science and technology.

To deal with the problem of a two-pronged policy has been evolved. Large-scale development of facilities for education and training in science and technology has been undertaken in the country itself and, secondly, measures have been taken to promote repatriation of Indian scientists in foreign countries.

The present article attempts to study and evaluate the efforts made so far for encouraging the return of Indian scientists abroad with special reference to the Scientists' Pool Scheme.

AT the end of the First Plan period it was found that while the shortage of high-level scientific and technical manpower constituted one of the major obstacles in the successful execution of the development programmes, an appreciable number of our scientists¹ was being absorbed in the economies of the countries where they had gone for higher studies. According to one estimate, there were over 5,000 Indians holding scientific and technical qualifications in foreign countries.² More than half of them were engaged in "paid service". They constituted a valuable reservoir of high-level skills with varied experience precious to a developing country like India. It was necessary to pool and classify the academic qualifications and experience of these scientists before formulating incentives for their return. For this purpose, it was decided to add a special section to the National Register.³ Known as the "Indians Abroad" Section, it started functioning soon after the Second Plan was launched.

Registration in the "Indians Abroad" Section, harmonising with the pattern of the main register, is voluntary, which is only proper considering the futility of pressing those not interested in returning in the foreseeable future to get themselves registered. However, mere registration would be of little value even to those interested in returning or planning to return unless it improved their prospects of obtaining employment. Arrangements were, therefore, made for the circulation of the relevant particulars of the registrants to various prospective employers in the public as well as in the private sector. They were also requested by the administrative authority of the National Register, viz, the CSIR, to contact directly registrants whom they might wish to employ. It was decided, in addition, to treat all registrants as "personal contact candi-

dates" for purpose of employment for posts under the Government of India. Most of the State Governments also took similar steps in regard to posts under their jurisdiction.

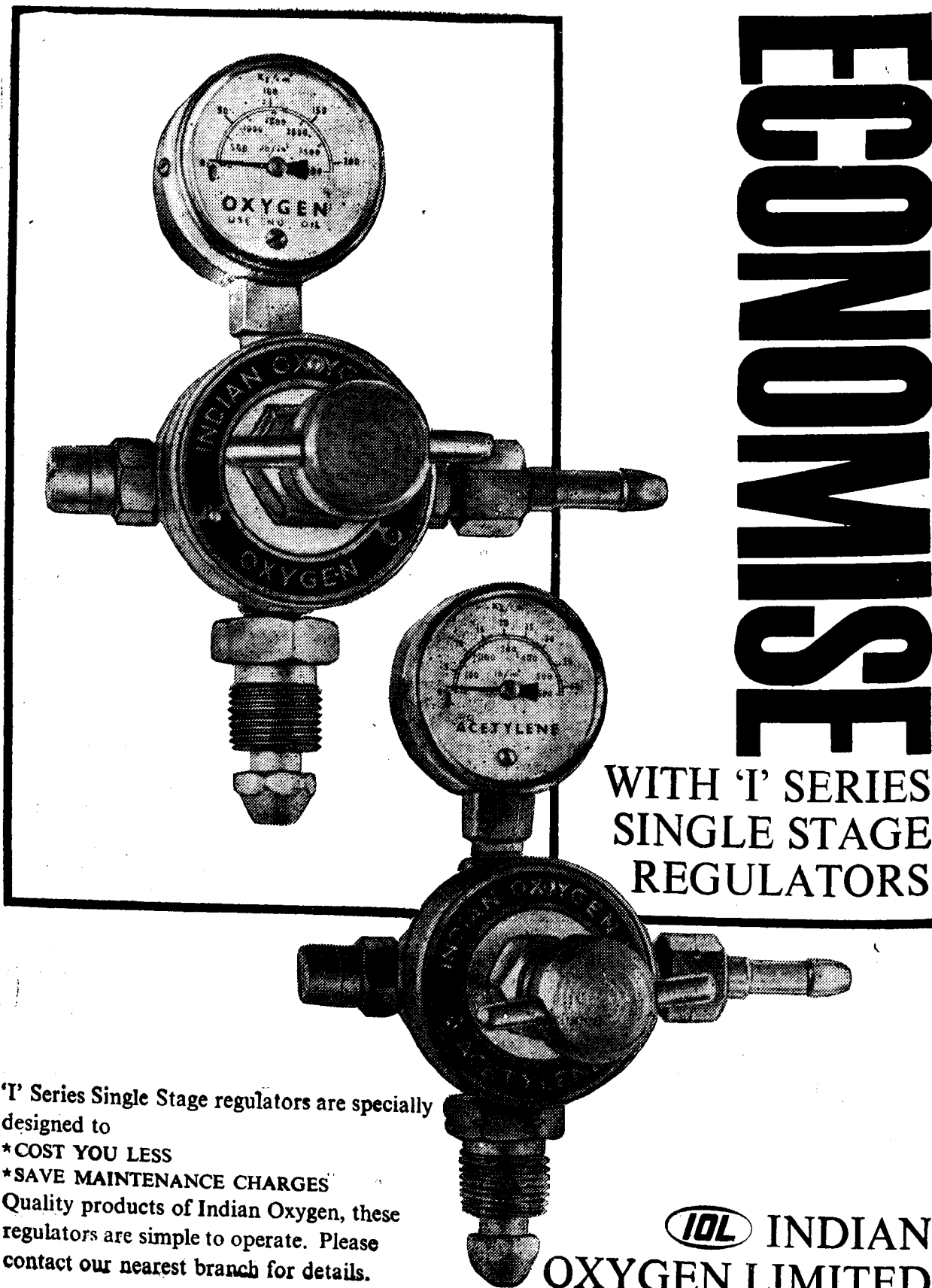
These measures, however, were found inadequate. An analysis of the response to the registration drive has indicated that duly completed registration forms were received from barely 18 per cent of the Indian scientists abroad.⁴ The lukewarm response to the scheme was not surprising. Entry into a large chunk of employment avenues existing in universities and research institutions, private industry, state undertakings and other quasi-government organisations was possible only after interviews, and registration in "Indians Abroad" Section was of little avail in such cases. Even those who returned to India for improving their chances of quickly finding some suitable posts faced uncertain prospects. The inelasticity of the recruitment procedures strained the patience of some of them far too much. They left India to seek employment in other countries.⁵

Such a situation was far from satisfactory especially when a considerable number of posts in India were lying vacant for want of suitably qualified candidates. Evidently, there were gaps in the policy for registration of high-level man-power abroad. Was it easier to negotiate a suitable post from abroad after registration? Did registration guarantee a permanent job immediately on return? A host of such questions were bound to be asked by well-qualified scientists abroad before formulating plans to return. To allay their apprehensions it became necessary to offer a more positive inducement. Earmarking suitable jobs for them either well in advance or immediately on their return would have involved a good deal of advance mapping of fields where foreign-trained

manpower was required. The situation could hardly await such a time-consuming solution. The next best alternative was to evolve a scheme which would guarantee temporary placement to the high-level talents abroad on their return as a *pied-a-terre* so that they might get some breathing time to explore various avenues of employment in the country.⁶ Concerned with the mounting loss of precious high-level manpower, the Manpower Committee of the Cabinet, in late 1958, decided to constitute a pool for temporary placement of well-qualified scientific and technical personnel returning from abroad. The relevant resolution read:

"The Government of India have had under consideration the question of establishing a pool for temporary placement of well-qualified Indian scientists and technologists returning from abroad until they are absorbed in suitable posts on a more or less permanent basis. In consultation with the Council of Scientific and Industrial Research and other authorities concerned, they have now sanctioned, the constitution of the Pool..."⁷

The introduction of the scheme for constitution of the Scientists' Pool had the desired effect on the volume of response to the "Indians Abroad" Section. The scheme envisaged that all registrants returning to India in the immediate future would be automatically considered for selection as Pool Officers. This inducement was surely an attractive one. In addition, a berth in the Pool ensured a relatively easy access to all possible avenues of employment, whether in public sector or in private industry. Not unexpectedly, therefore, the coverage indicated improvement.⁸ In order to ensure efficient coordination between registration in the "Indians Abroad" Section and the process of selection to the Pool, the



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administrative responsibility for the working of the Pool was also entrusted to the CSIR.

Selection Requirements

However, registration in the special section of the National Register is not a necessary pre-requisite for selection to the Pool. Non-registrants are also entitled for consideration if they furnished their full particulars in the form prescribed for registration in the "Indians Abroad" Section. Besides, eminent scientists holding important positions abroad are considered for selection on recommendations of Indian Embassies, Departments of the Government of India, etc. Experience of the working of the Pool, however, indicates that cases of selection of non-registrants are few. Facilities extended to non-registrants, nevertheless, reflect the keenness of the Indian Government to facilitate the return of well-qualified Indian scientists abroad; registrants as well as non-registrants.

The scheme is primarily intended to offer temporary placement to well qualified scientists returning from abroad. It cannot, however, be denied that the inelasticity of the recruitment procedure may create difficulties even for those with high Indian qualifications. Provision was, accordingly, made to provide shelter to scientists with outstanding Indian qualifications to the extent of 25 per cent of the Pool's authorised strength. Consideration for the Indian qualified personnel was guided, perhaps, by the desire to apportion the benefits accruing from the scheme in as equitable a manner as possible. Their intake in the Pool has, however, been much below the stipulated limit. The experience during 1964 may be cited as a typical illustration. Just over 25 per cent of the candidates forwarded for selection to the Pool during the year possessed Indian qualifications. But their share among those actually selected was barely 2 per cent. This trend, has, in fact, persisted all these years. Evidently, the best among them did not require the Pool's assistance. This may be partly attributed to the universities and other centres of education and research absorbing talented students in some research or teaching capacity as soon as they complete their studies. To some extent, the low intake may also be considered to provide a reliable yardstick to measure the success of the various research scholarship/fellowship schemes instituted by the University Grants Commission, CSIR and other Government

and professional agencies to the more promising students.

The scope of the Scientists' Pool has been recently enlarged to include persons with high qualifications in humanities and social sciences as well. The total number of berths available in the Pool for persons with foreign or Indian qualifications in these fields has been fixed at forty.

The practice of earmarking a definite number of posts to others may appear to look restrictive to the foreign-trained scientists desirous of returning. The constraint, however, is more apparent than real. The authorised strength of the Pool has never remained static. On the contrary, it has been steadily increasing with the growing utility of the Pool. At the time of its inception, provision was made for review of the initial capacity of 100 as often as necessary. It was raised to 500 by stages. Even this was found to be inadequate. It was consequently decided that even this limit could be exceeded if at any time competent persons were available for appointment to the Pool. The working strength of the Pool crossed the limit of 500 soon after this decision was taken and touched an all-time high on January 1, 1965. The total number of persons working in the Pool on that date was 562.

Recruitment Procedure

The pragmatic approach of the framers of this scheme is equally discernible in the procedure for selection. It is specially designed to avoid delays. To this end, the Union Public Service Commission has delegated its authority to a specially constituted body called the Special Recruitment Board. In order to ensure selections strictly on the basis of merit, experts in different subjects of specialisation are associated with the Board when necessary.

Any attempt to assess merit will be of doubtful validity if there is an exaggerated emphasis on educational attainments. This is particularly true of developing countries like India where broad-based technical education is of comparatively recent origin. By insisting on outstanding academic record a number of persons in India are disqualified from selection to the Pool although they may have, what J B S Haldane called, "the makings of a first rate scientist". Haldane was of the view that the Pool should provide a kind of backdoor for entry of such persons who may not possess a high degree but have a couple of scientific papers of real merit to their

credit. This suggestion for improvement is worth consideration provided a fairly accurate measure of the quality of such talents could be evolved.

The suggestion, however, does not vitiate the basis for assessing merit in case of foreign-qualified scientists, who constitute the bulk of those selected so far. Selections are made, as far as possible, on the basis of academic record conjugated with research experience and output. The elaborate formality of interviews is avoided to the extent possible. Only those candidates are called for interview about whom particulars available are insufficient. During the period from 1961 to 1964, for example, only about 18 per cent of the persons considered for selection were called for interview.

Until 1960, selections to the Pool were made once a year. The practice of bulk-selections, however, exposed well-qualified scientists returning from abroad to unnecessary hardship during the intervening period. To ensure that deserving scientists do not have to wait for any length of time after their return, arrangements have been made to select them on an almost continuous basis. On an average deliberations for selection are being conducted every third day. Interviews are also arranged frequently, more or less every month.

Fixation of Emoluments

The minimum salary payable to Pool Officers is equivalent to the initial salary of Junior Class I Officers of the CSIR who start on a salary of Rs 400 per month. The Special Recruitment Board is authorised to fix the salary of the candidates selected between the range of Rs 400 and Rs 700 per month on the basis of individual merit. In exceptional cases,

Table 1: Foreign Qualified Candidates Selected to the Pool
(As on January 1, 1965)

Category	Number	Percentage
With Foreign Qualifications		
(a) Repatriated	2,016	61.9
(b) Abroad	1,166*	35.8
Sub-Total	3,182	97.7
With Indian Qualifications	76	2.3
Total Selected	3,258	100.0

* Includes 52 persons who left India after joining the Pool. It is assumed that these 'expatriates' had earlier returned from abroad on selection.

salary in excess of Rs 700 may also be paid. During the period of their stay the officers are paid other allowances admissible to their counterparts in CSIR.

The salary fixed by the Special Recruitment Board is not intended to be the market-value of the scientists concerned. Its fixation is unrelated to the job assigned while working in the Pool. In fact, the salary paid to the Pool Officers resembles somewhat a "return-scholarship".⁹

Every effort is made to accommodate the preferences of the candidates selected in regard to their temporary placement. Particulars of the selected candidates are forwarded to suitable organisations in the light of candidates' preferences and a formal appointment order is issued after the consent of any one of the concerned organisations is received. Efforts are made to arrange the placement as expeditiously as possible and in many cases it is finalised even before the arrival of the selected candidates in India.

Placement on temporary basis, as the scheme stipulates, is arranged in two ways, viz, by attachment or secondment. When a Pool Officer is attached to some organisations, his pay and allowances are paid out of the budget of the CSIR. On the other hand, when he is seconded to an organisation, his salary, etc, are paid by the organisation, concerned. The secondment-method has failed to gain the support of employing organisations. This may be mainly due to its financial implications. But, no difficulty of this nature arises when a Pool Officer is attached to some organisation. Over 200 organisations in the country including national laboratories, universities and scientific institutions, Government departments and State and Central enterprises have Pool Officers attached to them.

Although they are considered to be officers of the CSIR, the Pool Officers work under the administrative control of the organisation to which they are attached. There is also a practice that the organisations keep the CSIR informed about the performance of the Pool Officers through half-yearly assessment reports.

Duration of Stay

There is no limit to the duration of stay in the Pool. However, the Pool Officers are expected to make efforts on their own and secure regular em-

ployment without much delay. For this purpose, the scheme provides for unrestricted freedom to Pool Officers to apply for any post in India. Besides, there is a built-in disincentive for an indefinite stay in the Pool in the decision not to give annual increments in salary to Pool Officers. Their efforts to secure regular employment are kept under close scrutiny. In addition to the efforts made by Pool Officers for finding suitable employment, their names are referred against suitable vacancies and their qualifications, experience and employment preferences are circulated widely among employing agencies in the public and private sectors by the CSIR.

The purpose of formulating these measures was to ensure quick and continuous turnover of the membership of the Pool with older entrants making room for newer ones. This, however, is not happening. The stagnation-ratio is showing a rising trend. During the beginning of 1964 the proportion of those who continued working in the Pool for a period beyond twelve months was nearly 30 per cent; it rose to nearly 40 per cent during the year.

The growing concern about the dormant constituents of the Pool is well reflected in the decision of the CSIR to consider the Pool Officers who have stayed in the Pool for over a year for appointment in supernumerary posts.¹⁰ While the full impact of supernumerary appointments on the rate of offtake from the Pool is yet to be felt it may be observed that the attempt to provide a monetary solution to make good the lack of suitable openings may not succeed fully unless there is work besides pay in these appointments.

Indian scientific and technical personnel abroad may be divided into two groups; those who have registered themselves in the "Indians Abroad" Section and those who have not. The size of those not registered is not precisely known though, as indicated earlier, their proportion in relation to those registered is falling. The non-registrants are mainly those who are assured of employment on return of those who do not propose to return immediately. It is probably for these reasons that the response from non-registrants has been negligible.

The selection to the Pool has been mainly from registrants. It is estimated that about 10,000 persons were enrolled in the "Indians Abroad"

Section at the beginning of the current year.¹¹ Almost one-third of them were selected as Pool Officers. Actually, the ratio is much higher because all registrants do not fall within the consideration-zone of the Pool Scheme. It is meant to attract only that segment which is (a) highly qualified and (b) planning to return or already in India.¹² The percentage of selection to the Pool from this category of registrants has been significantly high. During the two-year period from 1963 to 1964, for which relevant data are available, between 80 per cent to 85 per cent of those considered for selection as Pool Officers were offered appointments.

But how many of them have returned? How many have not? Is a further break-up of these numbers possible? How many of those returning joined the Pool? What is the direction of off-take from the Pool? An attempt is made in the following paragraphs to answer these questions.

Out of 3,258 persons selected to the Pool upto the beginning of 1965, as many as 3,182 were from abroad. The remaining candidates were selected against the quota earmarked for Indian qualified scientists. As indicated in Table 1, more than 60 per cent of the candidates with foreign qualifications have returned.

Table 2 indicates the position of candidates selected in relation to their entry to the Pool. For this purpose, they have been classified in three categories. The first category includes those scientists who have indicated their non-acceptance of the Pool offer. The second category includes scientists who are in various stages of joining. These stages are (i) offers to be made, (ii) acceptance awaited, (iii) placement to be finalised, and (iv) joining reports

Table 2: Position of Candidates Selected to the Pool
(As on January 1, 1965)

Category	Number		
	In India	Abroad	Total
Did not join	494 (23.6)	199 (17.1)	693 (21.3)
Yet to join	362 (17.3)	915 (78.5)	1277 (39.2)
Joined	1236 (59.1)	52 (4.4)	1288 (39.5)
Total selected	2092 (100.0)	1166 (100.0)	3258 (100.0)

Note: Figures in parenthesis are percentages.

awaited. The third category consists of Pool Officers.

The following observations may now be made :

- (1) Less than one-third of the candidates who did not join found the inducement to return inadequate. These persons did not return to India. The rest did not join the Pool because they obtained regular employment on return. In this respect, the Pool offer served as an insurance against hardships of unemployment.
- (2) The significant size of "Yet to join" category appears to be the direct result of the practice of selection on an almost continuous basis. Almost 79 per cent of the selected candidates abroad are in various stages of joining. A considerable proportion of this number is likely to return on completion of procedural formalities for entry to the Pool.
- (3) More than half of the candidates who returned have joined the Pool. The number of those who left the Pool for abroad is, by no means, alarming although the trend calls for close scrutiny.

An analysis of the direction of off-take from the Pool (Table 3) indicates that over half of the Pool Officers have left the Pool on obtaining employment in the country. The majority of the remaining were working as Pool Officers.

It will be seen from the foregoing that, within the ambit of its operation, the Indian experiment in voluntary repatriation of its high-level manpower has achieved significant success. At least three out of every five scientists

Table 3: Direction of Offtake from the Pool.
(As on January 1, 1965)

Category	Number	Percentage
Left on obtaining employment in the country	659	51.3
Left on obtaining supernumerary appointments	10	0.8
Left for abroad	52	4.1
Working in the Pool	562	43.8
Total Joined	1283*	100.0

* Excludes 5 Pool Officers who died.

selected to the Pool have returned. (Even if 50 per cent of those constituting the "Yet to join" category returned from abroad, the ratio will improve to 3:4). An equal measure of success has, however, not been attained in respect of their absorption in regular employment. Broadly speaking, a little over 50 per cent of the repatriated scientists have obtained regular employment in India. Most of the remaining scientists are still in the Pool looking for suitable openings. The situation calls for a closer integration of the policy of voluntary repatriation of scientists abroad with the national manpower policy relating to optimum utilisation of scientific talents in the country.

Shortcomings notwithstanding; the Scientists' Pool Scheme has made considerable impact on the repatriation policy of some of the developing countries. It may be relevant, in this context, to refer to the Greek policy of restricted repatriation of its competent scientists abroad which has been influenced, in no small measure, by the Scientists' Pool Scheme. The Consultative Committee of Colombo Plan countries on Co-operative Economic Development in South and South-East Asia at its 15th meeting held at Bangkok in 1963 has commended the Scheme to other countries of the region for retaining "highly-trained personnel within the country pending the availability of suitable job opportunities for them."

Notes

- ¹ The term "Scientists" is also intended to include doctors, engineers and technologists.
- ² Council of Scientific and Industrial Research (hereafter referred to as CSIR), "Indian Scientific and Technical Personnel in Foreign Countries", New Delhi, August 1958, p 3.
- ³ The National Register was started by the CSIR in 1948 for registration of academic qualifications and related particulars of high-level scientific and technical manpower in India. For a detailed description of the National Register, see *Technical Manpower*, monthly bulletin of the CSIR, Vol V, No 1, Jan 1963, New Delhi, pp 1-3.
- ⁴ CSIR, "Indian Scientific and Technical Personnel in Foreign Countries", *op cit*.
- ⁵ Many Indian students from abroad waited an average of a year before securing a permanent job,

Less than 10 per cent could find employment appropriate to their qualifications and training. About 25 per cent of the foreign-returned, young Indians interviewed considered leaving India for employment in foreign countries. In this connection, see John and Ruth Hill Useem, "The Western Educated Man in India," Dryden Press, 1955, especially pp 81-83 and 123.

⁶ The idea gained popular currency when the First Conference of Scientists and Educationists meeting in New Delhi on July 18 and 19, 1958 to consider the implementation of the Scientific Policy Resolution of the Government of India recommended that "a pool of scientists and technologists should be created by recalling young Indian scientists and technologists working abroad. Until such time as they found suitable employment, they should be given fellowships and employed on research in universities, national laboratories and institutions of higher learning and industry". In this connection, see *Minerva*, Vol II, No 2, Winter 1964, p 246.

⁷ Ministry of Home Affairs (Directorate of Manpower), Government of India, Resolution No 8/4/57-MP dated October 14, 1958.

⁸ For instance, a comparison of data published by the Institute of International Education, New York and the CSIR regarding Indian students and scholars, etc, in U S A in fields of science and technology indicates that over 45 per cent of them have been registered in the "Indians Abroad" Register upto early 1965.

⁹ A comparison of the senior and junior fellowships awarded by the CSIR with the number of offers made to Indian scientists abroad since the inception of the Scientists Pool may be revealing. A total number of 4,546 fellowships were offered to scholars in India as against 3,182 offers of appointment to the Pool to Indian scholars abroad.

¹⁰ Under this scheme introduced in late 1963 the Indian Government has authorised all approved scientific institutions and state undertakings to create a certain number of supernumerary posts to which temporary appointments can be made quickly from scientists working, or studying abroad as also

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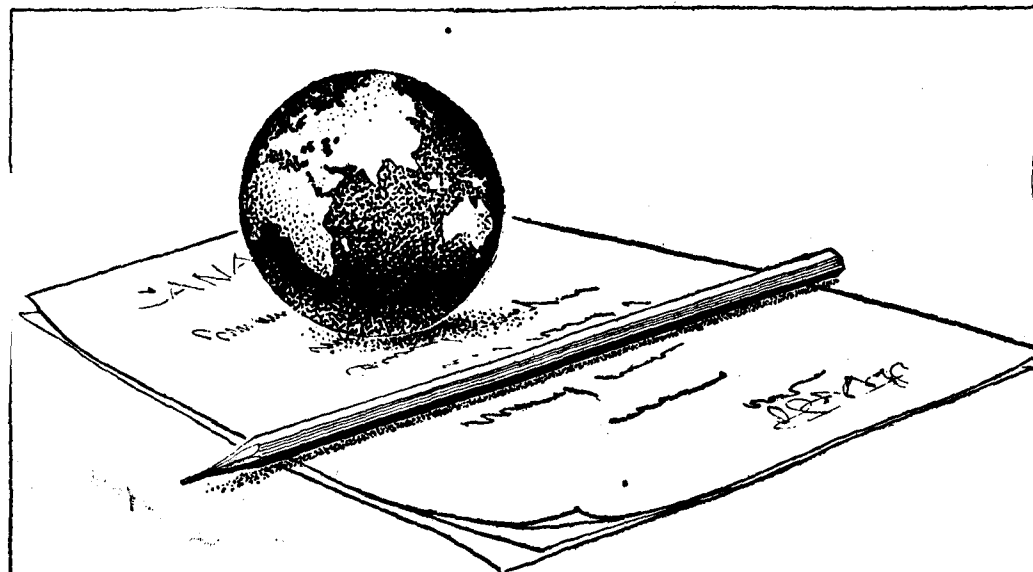
those in the Pool, wherever suitable candidates are available. For details, see *Technical Manpower*, Vol VII, No 2; 1965, p 4.

¹¹ See *Technical Manpower*, Vol VII.

No 4-5, April-May, 1965, pp 1-3, for the latest available position in the "Indians Abroad" Section.

¹² Those excluded from consideration are not left entirely to their own

devices. The "Indians Abroad" Section helps them in several ways. This aspect of the "Indians Abroad" Section also distinguishes it from the Scientists' Pool Scheme.



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Reliance on Rich Farmers for Development Its Implications

A R Desai

A proper study of the impact of change in agriculture in the non-socialist developing countries of Asia should begin with an examination of the implications of the policy of relying on the rich farmer which is the starting point of all government attempts to develop agriculture in these countries.

By making the rich farmer the lynch-pin of agricultural development, the leaderships in these countries have set in motion "involutionary trends" which will lead in course of time to tension and explosions.

Proper understanding of the implications of the policy of relying on the rich farmer is also important because the richer landowning groups in many Asian countries come from certain castes or regional, racial or religious groups. The efforts to underpin the richer landowning classes may, therefore, have far-reaching consequences in terms of strengthening certain castes or religious, regional or racial groups in these countries. Economic tension may as a consequence be heightened by social, regional or religious tension.

THE present paper attempts, in a very broad manner, to analyse the character of changes that have been taking place in under-developed developing countries of Asia after the end of the World War II. It attempts to locate the trends of changes revealed in those countries which have liberated themselves from European colonial rule and have been trying to refashion their economies and their social structures with a view to accelerating their overall development. The analysis is restricted to those countries which after liberation have chosen to develop broadly on capitalist lines through the operation of national plans and not on the basis of centralised structural plans and on socialist lines. Thus the paper excludes the analysis of changes that have been taking place in countries like China, North Korea, North Viet Nam and others.

With a view to appreciating the nature of changes that are taking place in the countries of Asia it is necessary to have, as a starting point, some preliminary background of these countries to locate and assess the changes.

II

Basic Features

The countries of Asia, barring Japan, at the end of the Second World War exhibited following characteristics:

(A) All these countries were either directly ruled by European Imperialist countries like Britain, France, Holland, Belgium, Spain, Portugal and others or were indirectly regulated by these European powers. These countries were kept predominantly as appendages of the western powers, operating as agrarian, raw material producing areas subserving the interests of the colonial masters. Some of the countries were turned into colonies round some important commodity like oil. The extraction, refinement and final

processing of this commodity were largely the preserve of foreign oil monopolies. Some of the smaller countries produced certain commercial products like tea, coffee, jute, sugar, rubber or some mineral products. These products were grown mostly through large European estates organised in plantations. Barring a few plantations, which introduced improved, modern techniques of production, most of the estates carried on operations through small cultivators who were expected to grow the products and supply them to the plantation owners. The third group of Asiatic countries like India, Pakistan, Burma, Indonesia and others produced a wide variety of crops, basically food crops, and operated on the basis of non-mechanised, primitive, inefficient family-farm methods. These countries also included a small but growing sector of agrarian production concentrating on non-food commercial crops like cotton, jute, tea, coffee, oilseeds and a few others.

(B) The second feature of the colonial and semi-colonial Asiatic countries lay in the fact that they were deliberately kept agrarian and underdeveloped by the European rulers. Industrial development was not merely not permitted in these countries but was deliberately hampered by the foreign rulers. Development was permitted only in those sectors which either supplied the requirements of the foreign rulers or did not fundamentally challenge their commercial, industrial or financial empires. The limited commercial, financial and industrial development that was permitted was basically owned and manned by the branches of some of the important corporations of the European countries. Indigenous companies had a very subordinate position in the commercial, industrial and financial set-up of these countries. They were more in the nature of feeder groups attached to the giant European companies, or com-

peted very unfavourably with them. The distorted and lopsided development of these countries, under the direct and indirect impact of foreign rulers, created a unique pattern of social development, exposed these countries to the influences of the western capitalist mode of social relationships, destroyed the peculiar type of equilibrium which existed, introduced capitalist economic relationships but only to a limited extent, created an indent on the agrarian social structure which disfigured it and made these countries a wild agrarian hinterland of foreign industry and foreign capitalist organisations and thus brought them into the vortex of modern economic relations without allowing the consequences of these trends to mature in the form of a fully industrialized society, with the agrarian sector as a healthy but subordinate part.

This feature has to be noted by scholars for two reasons. (1) The underdeveloped countries on the eve of their independence were not backward in the sense that they exhibited characteristics of old feudal traditional society. These countries were a part of the world capitalist colonial system and hence they had acquired distinctly new features. Their development now depended on different approaches and forces than the ones which operated to transform feudal Europe into capitalist industrial Europe. Unfortunately this distinction is ignored by a large number of scholars under the influence of the Rostow model of development. (2) This feature has to be noted for another reason: Many scholars try to discuss the problems of development of these underdeveloped countries on the assumption that forces like private incentive for profit, "betting on the richer sections" to take initiative and then spreading the improvement like an 'oil stain' are the only way to lift them to a developed stage. Their basic analysis operates within the framework of a concept of

unilinear-evolutionary development. They presume that these countries are only lagging behind the developed countries in terms of time. They will pass through the same stages of development which Europe did during the last three hundred years.

These two major assumptions have coloured the approach of a large number of scholars and have made them oblivious to the fact that the underdeveloped countries are not the same as pre-capitalist underdeveloped feudal countries, but are the distorted, agrarian counterpart of the world capitalist system. They forget that these colonial and semi-colonial underdeveloped countries have been and are in a qualitatively different phase where the normal path of industrial development, as was pursued in West European countries, cannot be adopted as a means to bring them to a developed stage.

(C) The third feature of the underdeveloped colonial and semi-colonial countries is summed up in the observation that "in many non-western countries, the protracted colonial or semi-colonial expansion has not furthered, but retarded economic development". As Prof Wertheim has indicated in his work "East-West Parallels", "for many of those countries, the traits mentioned by Sauvy still apply: one-sided economic structure, high percentage of agriculturists, low standard of living and nutrition, low degree of mechanisation". Further this colonial and semi-colonial expansion has generated numerous currents which have upset the old pre-industrial sets of interactions. By not permitting industrial growth in those countries, it has "petrified" many social institutions. However, by introducing money economy and exchange it has also disrupted many traditional bonds and values. It has transformed land into a commodity and thereby initiated a new stratification system by "mobilising landed property", thus destroying the traditional protection and security surrounding the individual. It has further led to the process of atomising and proletarianizing peasant population, with the consequent ferment among them in the competitive-capitalist matrix unparalleled even in their past histories. The colonial and semi-colonial expansion by the European capitalist powers also led to the ruination of handicrafts and artisan industries. It has brought the agrarian economy and society, though lop-sidedly, into the vortex of the world market.

By preventing the growth of alternate occupations it has brought about excessive pressure on agriculture, leading to subdivision and fragmentation of land, transforming cultivable lands into tinier and tinier plots. It has forced agriculture to remain technically inefficient, incapable of utilising technological and scientific improvements, and operated predominantly by small peasants, tenants or landless labourers on uneconomic units of operational holdings. These processes, in the context of land becoming a commodity and the agrarian population being brought in the network of monetary transactions both for payment of revenue in cash and for other purposes, created a peculiar type of stratification, which was new to these countries and which had a tremendous impact on the trend of development in the agrarian sectors. Colonial and semi-colonial expansion had thus created problems of technical and institutional improvements in agriculture and also of removing the increasing pressure on agriculture. It also made rapid industrialisation of the countries imperative as a basic pre-requisite for absorbing a big proportion of rural population into secondary and tertiary occupations.

The above characteristics of the underdeveloped countries are the result of colonial and semi-colonial expansion of the western capitalist countries and therefore have to be viewed as peculiar to modern underdeveloped countries.

(D) The emergence of a new pattern of stratification in the agrarian area was another feature which developed in these countries as a result of these countries being shaped as colonial or semi-colonial territories. The colonial and semi-colonial policies created a peculiar class configuration in agrarian areas, composed of the following:

(1) A class of proprietors of land (landlords) composed of the following categories: (i) old feudal tribute gatherers transformed into absentee landlords; (ii) a new group of moneylenders and traders, who extended their grip over the crops, land and even persons of the agrarian population by providing loans and credit so necessary for farmers in the new setting. (iii) a small group of companies, or persons operating as plantation or mine owners, mostly composed of Europeans; (iv) a small group of rich farmers, which emerged in the context of growing market economy. However, it should be noted that the

majority of even rich farmers, operated on small farms on the basis of family labour or by utilizing the cheap abundant labour of tenants or the agricultural proletariat.

(2) A class of small peasants, the majority of whom hold tiny, uneconomic holdings. The members of this class have been in the process of becoming poorer and poorer and of being transformed into tenants or landless labourers. They have been perpetually in debt. Having hardly any resources, or sufficient land, they could not undertake improvements in agriculture. This class of petty-peasants operating on small-uneconomic farms slowly grew into nearly eighty per cent of the total proprietary class in agrarian areas of Asia.

(3) A class of tenant farmers, operating as tenants on the land of proprietors. The majority of this class was composed of small, inefficient cultivators working on uneconomic holdings.

(4) A growing class of agricultural labourers, composed of those whose sources of livelihood was predominantly selling their labour, a class which has been growing during this period.

(5) A fifth category of agrarian population was composed of ruined artisans and others who eked out their livelihood in agrarian areas by methods which defy imagination. This category also contained a large section of unemployed in the agrarian areas, who finding employment neither in rural areas nor in urban areas constituted a floating vegetating population.

This stratification developed as another peculiar feature in all colonial and semi-colonial countries of Asia on the eve of their independence from European powers. The proportion of small farmers, tenants, agricultural labourers and ruined artisans may vary from country to country, but they constitute the majority of the rural population in all the colonial and the semi-colonial countries. The group of big landlords or rich farmers constitute a very small minority in Asiatic countries. Within this group, the proportion of big absentee landlords, composed of feudal tribute gatherers, moneylenders or traders, has always been larger than that of rich farmers who cultivate or supervise cultivation and who in some cases make use of modern technical and scientific inputs.

All the Asiatic countries exhibit the above mentioned features in various degrees. These features have to be borne in mind if the changes in the

character of agriculture after the Second World War, particularly after these countries secured independence from foreign rule are to be understood. We will now observe the changes in the character of agriculture taking place in the underdeveloped but developing countries of Asia. As pointed out earlier, we will restrict our observation to countries which have not taken the socialist path of developing their economy.

III

Major Approaches to Change

The leaderships of these underdeveloped countries have been trying to adopt various measures to bring about changes in their economic and social set-up. They are trying hard to elevate the state of their economy and social structure from one of underdevelopment to one of development. With a view to achieving this they have started various measures to bring about transformation in agriculture.

We will briefly indicate the types of changes that are being introduced. We will then take India as an illustration for pointing out how far these changes are being effected and with what consequences to the social structure.

The changes that are being brought about can be listed as follows:

(1) Changes brought about by making the technical basis of agriculture scientific and efficient. For instance, improved seeds, fertilizers, irrigation facilities through various major hydro-electrical projects and minor irrigation projects, supply of electricity, improved ploughs and other implements including even use of tractors where possible and other measures are being adopted in these countries, to raise the productivity of land and increase the quantity and improve the quality of agricultural production.

(2) Efforts to eliminate the subsistence orientation of production and to bring agricultural goods to wider and wider markets, by building roads, marketing facilities, standardizing weights and measures and creating facilities for marketing. Efforts are also being made to protect the agriculturists by price regulation.

(3) Efforts to change the class-relationships in the agrarian area, by land reforms and other institutional means. Measures to remove absentee feudal landlords, eliminate tenancy and curb the moneylenders are being adopted.

(4) Efforts to provide various agencies like co-operative societies, land mortgage banks and other institutions to enable peasants to combine, and to provide them with the necessary credit and marketing prerequisites for making their agriculture efficient.

(5) Efforts to introduce educational facilities as well as public health measures to improve the skills and general health of the population, in agrarian areas. Efforts to regulate the birth-rate by spreading ideas of family-planning and birth control techniques.

(6) Efforts to evolve new voluntary institutions and associations to generate a new approach and atmosphere in the traditional rural setting and to counteract the effects of petrified old social institutions and values.

(7) Efforts to industrialize the countries to supply alternative employment to the already surplus population as well as to the population that will be rendered superfluous as a result of improving technical efficiency of agriculture. In order to transform the agrarian colonial and semi-colonial underdeveloped countries into a developed one, it is necessary that the percentage of population dependent on agriculture be drastically reduced. At least fifty per cent of the population of the country must depend upon non-agricultural vocations. It means relieving agriculture of nearly 20 to 30 per cent of its operators and provision of alternative employment for them. Industrialisation, demanding heavy machinery and other capital goods, is dependent for such capital goods on more advanced countries. This implies creating a surplus of agricultural production for export to discharge the interest and capital liabilities upon these countries as a result of importing these capital goods.

The leaderships of the countries we are concerned with here are trying to reconstruct the economies and societies of these countries on the basis of private enterprise, operating with the profit incentive as the motive of production. State intervention and participation in the economy and social life is more to create adequate facilities or generate a regulative mechanism which would soften the ravages of unrestricted operation of the market mechanism in the context of imperfect and unequal competition. The object of the state intervention is not to supplant the competitive system.

The rich farmer is conceived as the lynch-pin of agrarian development by the leaders of these countries. According to these leaderships the progressive

rich farmer would initiate the great transformation in agricultural production. The fundamental strategy in all the underdeveloped countries, is to create conditions for helping rich farmers as the key figures of agrarian transformation. The rich farmer is the pivot round which the entire strategy of agrarian reforms has been developing. Even in the context of the total developmental schemes, the rich farmer is depended on to usher in new technical scientific agriculture as well as generate capital formation in the countryside. The leaderships of these countries, who are worried about the take-off problem, tend to look upon rich farmers as specific agents for introducing the innovations wanted. As Professor Wertheim has pointed out. "It is the advanced farmers who are almost automatically being selected as such. It is they who show a greater responsiveness to all kinds of innovations and technical improvements, and who are much easier to approach for governmental agencies and special services. Such an approach starts implicitly from the assumption that advanced farmers will set an example to the poorer sections, who are expected to follow the model which they are able to observe from close by. The innovation is intended to spread like an oil-stain, to other layers of rural society. It is this approach which could be called 'betting on the strong'."

"The 'progressive rich farmers' is the agent through whom agrarian innovations have to be launched. This is the fundamental strategy in all underdeveloped countries like India, Indonesia and others under the leaderships of non-communist governments. We will observe the changes in the character of agriculture in Asia that have been taking place during the last fifteen years by taking India as the example. India is among the most densely populated of these countries. She contains nearly half the population of this part of Asia. She is conducting experiments to change the rural areas on the basis of an organized conscious effort reflected through its plans. We will observe the changes that have taken place in India after independence and draw a few conclusions of a sociological nature for further discussion.

IV

India is second most populous country of the world. According to the 1961 census the country's population is 43,90,72,893. The average density of population was 312 per

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square mile in 1951 while it has become 370 per square mile in 1961. "The births have occurred at an average rate of 40 per thousand per annum, deaths at an average rate of 27 per thousand per annum and the natural increase of population at an average rate of 13 per thousand per annum." Out of the total population of India in 1951, 82.7 per cent lived in rural areas and 17.3 per cent in urban areas. In 1961, after 10 years of planning, 82 per cent lived in villages and 18 per cent in urban areas. It can be easily seen that a decade of planning has not made a major indent on the percentage of population living in rural areas. About 70 per cent of the people depend for their livelihood on land and agriculture and ancillary activities account for half the country's national income.

India ranks first in the world in the production of groundnuts and tea and enjoys a virtual monopoly in the production of lac. It is the second largest producer of rice, jute, raw sugar, rapeseed, sesamum and castor seed. Out of the total geographical area of the country of 80.63 crore acres the net area sown in 1950-51 was 29.34 crore acres and in 1958-59 it was 32 crore acres. Out of this area 3.25 crore acres were sown more than once in 1950-51; this proportion rose to 4.87 crore acres in 1958-59. The area irrigated is 16.1 of the total area in cultivation. Between the period 1951 to 1959 there was an increase of 68 lakhs acres in net irrigated area. That nearly 84 per cent of the area sown was unirrigated and dependent mainly on rains deserves to be noted. The decade of planning has increased the proportion of irrigated area to a very small extent. This is another feature worth noting. About 75 per cent of the total sown area is under food crops. It is also interesting to observe that the area growing non-food crops generally enjoys greater irrigation facilities. This point needs to be stressed because even after a decade of planning cultivation of crops remains largely on the same inefficient level. To meet the increased demand for food India has to import food from other countries. This is a peculiar situation. India, and probably most of the Asiatic countries, are increasingly becoming more and more dependent both for industrial goods and food supply on the industrialized countries.

That an agrarian country is unable to produce enough cereals for the population is itself indicative of the inefficient and backward modes of

production in agriculture. The growing dependence for even cereals on foreign countries reveals that agriculture is not becoming efficient. Efforts to improve agricultural production by introducing improved implements, fertilizers, better seeds, irrigation facilities, insecticides and other methods have been to some extent extended. But the increase is comparatively negligible and affects only a very small area of cultivated land and the facilities are used by a small sector of rich farmers. We have observed how limited has been the spread of irrigation during the last fifteen years. Similarly the other modern inputs in agriculture are also applied on a very small scale. Further they are utilized more in the growth of commercial crops and by richer farmers who can afford to purchase them.

These observations are borne out by the following data gathered by the tenth and twelfth rounds of the National Sample Survey conducted during 1955 and 1957.

"In about 97 per cent of the villages tilling was done with the help of animals. Only 0.4 to 0.9 per cent of the villages had the power-driven system, whereas in 1.3 to 2.3 per cent of the villages the mixed system prevailed. Non-chemical manures (cow dung, green manures, composts, etc) were used in 64 per cent and 75 per cent respectively of the villages in the twelfth and eleventh rounds whereas chemical manures were used in only 0.1 per cent villages for each round.

"Chemical as well as non-chemical manures were used in 29 and 21 per cent, respectively, of the villages of these two rounds. As regards irrigation about 22 per cent of the villages received water from wells, about 10 to 12 per cent of the villages received canal and river water, about 6 to 8 per cent from tanks and a few others from tube wells and anicuts. In about 21 per cent of the villages, the mixed system of irrigation was in vogue. Thirty-four to 36 per cent of the villages had none of these systems of irrigation and probably had to depend on rains for watering the fields."

The above figures indicate that, technical improvement of agriculture is proceeding at a very slow rate. A decade of planning has not made a very appreciable indent on the technical efficiency of agricultural production. With a view to understanding the character of changes in agriculture we should also take note of the peculiar type of stratification which has been growing under the Plans.

According to the eighth round of the National Sample Survey "over one-fifth (23 per cent), that is about one and a half crores of households, did not own any land. About a quarter of all rural households (24 per cent) had land less than one acre. A little less than half of the rural households had thus either no land or owned less than one acre, their share being only a little more than one per cent of the land owned by all rural households. About three-fourths of all households had either no land or less than 5 acres and their share was about one-sixth of the area. At the other end, about one-eighth of the households had more than 10 acres each, with a total share of about two-thirds of the whole area, and about one per cent of the households owned more than 50 acres each and together accounted for nearly one-fifth of the area."

That nearly half the cultivators of India have become almost landless destroys the image created of India as a land of peasant proprietors. Nearly 75 per cent of the cultivators own less than 5 acres of land and the fact that a large proportion of the cultivated lands are dry lands having single crop and limited irrigational facilities means that even the 25 per cent of cultivators who own between one and five acres are uneconomic peasants. Even among the 25 per cent of the cultivators who own more than 5 acres of land, hardly 10 per cent could come within the category of groups having sufficient land to produce profitably.

V

Implications of Relying on the Rich Farmer

The leaderships in the underdeveloped countries of Asia are adopting various measures to improve agriculture. But these measures have benefited and strengthened only a small rich section of the agrarian population. This class has been thriving (in the context of the competitive, profit-oriented, market-based framework) at the cost of the uneconomic farmers. This class has been benefiting by ousting the rest of the poor peasants. This class is pushing out a large section of poor peasants and even landless labourers from the ambit of profitable economic relationships. The Plans, by strengthening the rich farmers, by relying upon these farmers to improve agriculture, are actually generating a process of disintegration, ruin, and

pauperization and proletarianization of the vast majority of agriculturists. The presence of the large numbers of unemployed makes labour abundantly cheap, and in the context of the family farm as the unit of agriculture leaves little incentive even to the rich landlords to introduce technical improvements in production. Thus the plans by helping the rich farmers have been indirectly creating the very condition for preventing the use of technical innovations. During a decade and a half of planning on the basis of making rich farmers the lynch-pin of agrarian development, the leaderships in these underdeveloped areas have started not developmental currents in their economic and social systems but what Prof Wertheim calls "involutionary trends" which are likely to inaugurate a new epoch of tensions and explosions. A developmental pattern based

on "betting on the poor" is essential if this involutionary trends are to be halted.

A proper sociological understanding of the various aspects of change in the character of agriculture in Asiatic countries is possible only if the implications of reliance upon richer farmers are appreciated. In the context of an ocean of poor peasants operating on miserably uneconomic holdings an ever growing number of landless labourers and ruined artisans and a vast backlog of unemployed and underemployed, the significance of strengthening the rich require more careful scrutiny. This is the crucial sociological inquiry that is needed.

Proper understanding of the implications of relying on rich farmers is necessary for another reason. The richer landowning groups in various

Asiatic countries come from certain upper castes or certain regional, racial or religious groups, while landless labourers, small farmers and ruined artisans belong to lower castes or specific regional or religious or racial groups. The efforts to boost the richer landowning groups may have far-reaching consequences in terms of strengthening certain castes or religious, regional or racial groups. The economic tensions may as a consequence lead to social, religious, regional and racial tensions.

A proper study of the social impact of the change in character of agriculture should begin with examination of the implications of the major assumption of "relying on rich farmer" which is at the centre of all efforts to develop agriculture in the developing countries of Asia.

Rally. Peters Out

MASSIVE buying by the Life Insurance Corporation near the previous week-end of leading speculative counters like Century, Indian Iron, Tata Steel, Tata Locomotive, Voltas and Gwalior Rayon, helped the market to stage a fairly impressive recovery from the lowest level reached on September 7. Within just three days Century moved up from Rs 496 to Rs 522, Kohinoor from Rs 260 to Rs 274, Standard from Rs 349 to Rs 368, Indian Iron from Rs 24 to Rs 25.85, Tata Steel from Rs 146.50 to Rs 150.75, National Rayon from Rs 363 to Rs 393, Tata Locomotive from Rs 209 to Rs 218, Hindustan Motor from Rs 15.80 to Rs 16.52 and Scindia from Rs 12.88 to Rs 13.44. Never perhaps had the LIC made such heavy purchases — certainly not of speculators' favourites in a matter of days as it did near the previous week-end. Finding themselves no match for the country's largest investor bears rushed for a cover despite the intensification of war between India and Pakistan and the extension of the area of hostilities.

It was frantic bear covering and scarcity of fresh offerings which led to the brisk rally earlier in the week. The market was at its best on September 10—the end-account day. The 'budla' charges at the turn of the settlement indicated a clear shortage of floating stocks. Carry-forward charges in Century, Steel, Tata Locomotive and ACC were about the lowest for a very long time and the 'budla' charges turned against sellers in Indian Iron, Kohinoor and National Rayon — a very rare phenomenon so far as Indian Iron is concerned.

With anxious short covering over and LIC keeping aloof for the time being, Dalal Street turned cautious again because of the deteriorating political situation. Equities gradually drifted lower due more to lack of support than to any important selling. Apart from the extension of hostilities and frequent air raids by Pakistan, market sentiment during the latter part of the week was affected by the rise in the inter-bank call money rate to 9 per cent, uncertain outlook for US economic aid and the Government's decision to put off decontrol of cement for the time being.

By the week-end, most of the shares had shed quite a significant portion of

their earlier gains and ACC were back again to the level prevailing before the announcement of partial decontrol. Activity on the stock market continues to be entirely professional and is of a purely speculative type. The immediate outlook for equities depends on developments in the political situation and the extent of LIC support to the market.

COTTON

Futures at New High

COTTON futures last week not merely recovered the ground lost in the preceding week's panicky sell-off induced by war news but scaled an altogether new peak. The March contract which had been marked down to Rs 861.50 on September 7 and had rallied to Rs 870.75 by the close of the previous week was bid up to Rs 885.50 on September 14—well beyond its previous high of Rs 882.75 recorded on August 31. Last week's spurt was due both to renewed bull support and short covering. Apart from the strong fundamental position of cotton resulting from the chronic imbalance between supply and demand, firmer sentiment last week was to some extent attributable to fears of damage to the standing crop of cotton both in Punjab and Rajasthan on account of persistent Pakistani air raids at various places.

While futures shot up to a new high, the spot market held steady around the previous levels without much activity. The turnover in the spot market which is always restricted at this time of the season has shrunk further due to serious developments in the political situation. Fresh purchases are restricted to the irreducible minimum. Nobody wishes to take the risk of buying for stock-building. Financial stringency and continued slack off-take of cloth are the other restraining factors. Even so, cotton prices are only a little below the highest levels ever recorded.

With a few more crucial weeks still to go, it is rather premature to express an opinion on the new crop. Informed sources, however, are of the view that if the weather continues to be reasonably satisfactory the new cotton crop would turn out to be around 61 lakh bales. It might well be one or two lakh bales more if the

weather is very obliging. This means that even at best production of cotton in the last year of the Third Plan is not likely to exceed 63/64 lakh bales which is far short of the target of 70 lakh bales. It is, therefore, obvious that with spindlage on the increase, pressure on cotton is likely to increase further. The shortfall will have to be made good through imports if cloth production is not to be allowed to suffer. Year after year it is the same story, production lagging far behind the Plan targets even when the weather is reasonably satisfactory. And the target can by no means be said to have been fixed on the higher side. The plain truth is that the average yield of cotton in India is miserably low around 120 lbs an acre which is less than even half the world average, let alone the leading countries like the USA, USSR, Egypt and the Sudan where yields ranging up to 586 lbs an acre.

OILSEEDS

Futures Rally

DESPITE the intensification of the war between India and Pakistan, oilseeds futures recorded an impressive recovery last week. Castor April and linseed April which had been marked down to Rs 87 and Rs 106.50 (per quintal) at the previous week-end were up again at Rs 96.75 and Rs 113.50 respectively and the week-end quotations were only a little lower around Rs 94.87 and Rs 111.25. Apparently, bulls who had been dominating the market for a long time were in no mood to give up their control without a fight. To some extent, perhaps, bulls were emboldened by the prospect of an early cease-fire following the UN Secretary-General's peace mission. The recovery might not have been so very quick and sharp if the market were not thin; manipulation becomes easier when the public participation in the market is relatively small.

While futures did stage an impressive recovery, the spot market continued to display a subdued tendency. Spot prices hardened a little in sympathy with futures but later they again drifted lower and moved below the previous week's lowest levels. After rallying to around Rs 30.75, groundnut oil is again quoted around Rs 29.25 (per 10 kgs). Linseed oil and

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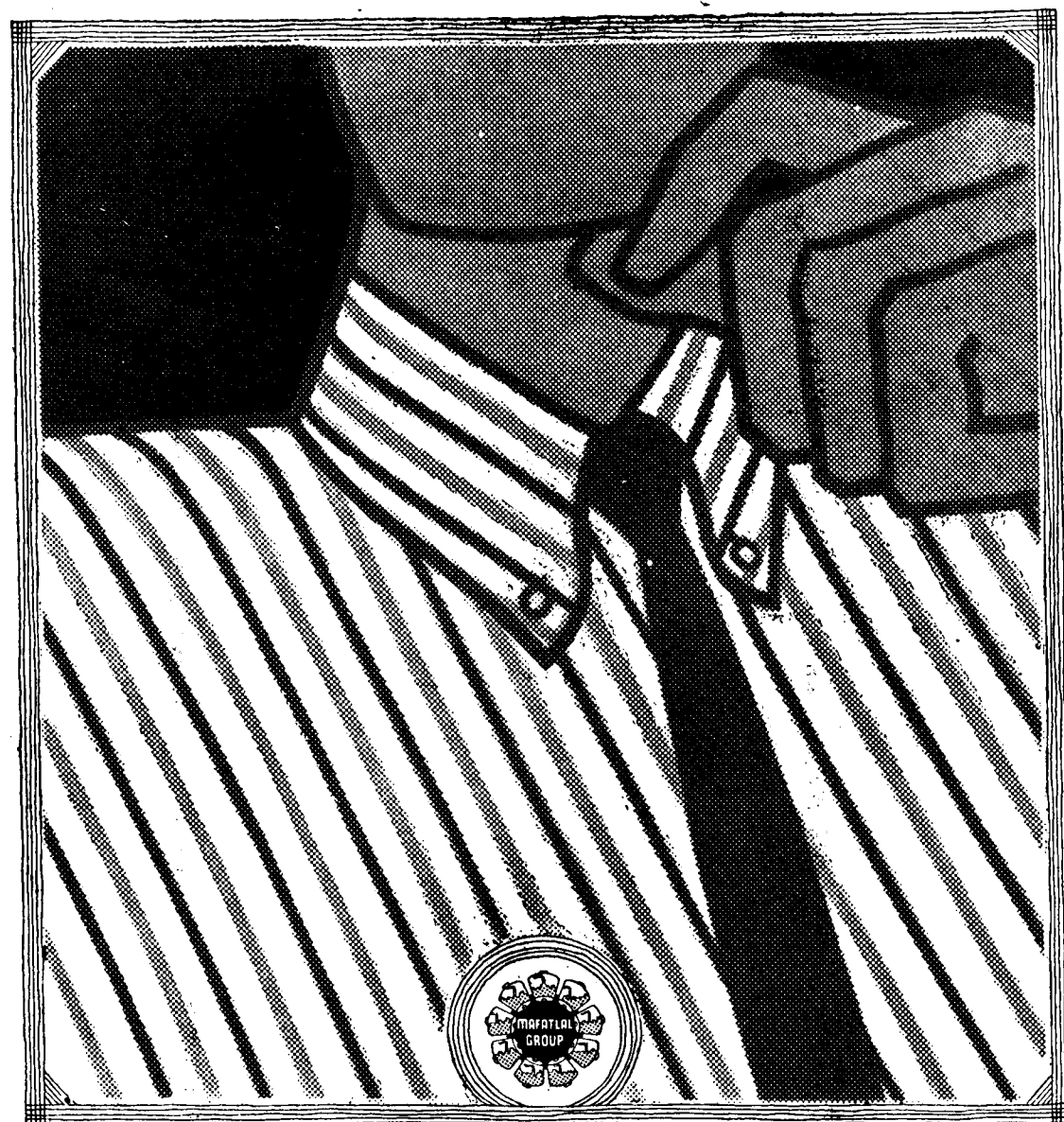
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castor oil are quoted around the previous week's lows of Rs 25.25 and Rs 18 respectively. Spot groundnut and linseed have been distinctly subdued. The easier tendency in the spot section is due both to reduced off-take and anxiety to reduce stocks because of the increasing political uncertainty following the extension of the area of conflict between India and Pakistan. There is now a greater disposition to convert stocks into cash.

Though the trading sentiment recently has been guided mainly by political developments, reports about the progress of the groundnut crop have also been fairly satisfactory and these could have induced caution among bulls and stockholders, especially when conditions in the money market continue to remain very tight. While the armed conflict between India and Pakistan has still to produce a strong impact on prices, export activity has come to a standstill.

CAPITAL VIEW

DESPITE the fact that the wise reticence of the Defence Ministry over the journalistic trumpeting of victories and advances has now degenerated into a wooden refusal to intelligently explain what is happening on the western front, it is clear to observers in the Capital that our enveloping, destructive thrust into the plains of West Punjab to smash the Pakistani armour and fire power was held. We now appear to be facing a war of attrition with all its consequences. We may still break through to free the pincer movement, but the war with Pakistan looks very much as if it is going to be a fight to the finish.

Politically, too, U Thant, the UN Secretary-General, must have come to very much the same conclusion following his discussions in Rawalpindi and Delhi. The essence is that Pakistan makes the cessation of hostilities dependent on the opening of the Kashmir question while India refuses to accept that any such question exists. In both countries, the realisation is general that the rapid escalation of the conflict — now threatening the eastern frontiers, too — makes the future dependent entirely and irrevocably on a decisive military result.

In the absence of proper briefings, and in the gloomy atmosphere of a

MONEY AND BANKING

Stringency Continues

SUPPLY of funds in the Bombay short term money market during the week to September 15 was stringent even though demand was not substantially larger. The trend could be attributed to the decline in the volume of floating funds. The rate of interest continued at 9 per cent though some transaction were reported at slightly higher rates.

Deposits of scheduled banks during the week to September 3 declined by Rs 40.69 crores to Rs 2792.85 crores according to the latest statement of affairs of scheduled banks issued by the Reserve Bank. This decline follows an increase of Rs 23.58 crores during the preceding week. Bank credit on the other hand advanced by Rs 11.55 crores to Rs 2022.51 crores. Borrowings from the Reserve bank were

higher by Rs 12 crores at Rs 21.33 crores and investments fell by Rs 75 crores. Investments in government securities fell by Rs 3.84 crores to Rs 855.40 crores.

Active notes expanded substantially during the week to September 10 from Rs 2554.12 during the previous week to Rs 2591.95 crores, according to the latest statement of affairs of the Reserve Bank. Rupee coins declined by Rs 1.31 crores to Rs 101.43 crores. Deposits of the Central Government were down by Rs 48.70 crores to Rs 109.55 crores. State Government deposits were lower as well at Rs 11.16 crores against Rs 13.31 crores during the preceding week. Scheduled bank deposits, however, advanced from Rs 97.19 crores to Rs 97.72 crores. Foreign securities remained unchanged at Rs 68.35 crores but balances held abroad were better by Rs 3.28 crores at Rs 16.14 crores.

A Fight to the Finish?

Romesh Thapar

rather over-organised black-out (in certain areas it has turned into an unofficial dusk-to-dawn curfew imposed by self-appointed, lathi-carrying, civil defence guardians!) the war has its own imaginary ups and downs. The more serious, and perhaps better informed, have been watching the development of the second 'right-hook' in the Sialkot sector; the first apparently was to have been delivered via the Dera Baba Nanak bridge in the Gurdaspur sector which the Pakistanis re-captured and destroyed before our armour was ordered across.

Bitter battles are being fought right down to the Ferozepur sector. We are told that we are progressing. No details are offered or known. Suffice it to say that until the capture of vital communication junctions is announced, it is impossible to assess the plight or the fighting potential of the Pakistan army.

Foreign missions in the Capital, startled by the suddenness of the developments, continue to stress the limited 'staying power' of the two armies. It is argued that if the intensity of the battle is what it is made out to be crucial shortages will begin to influence the result. Meanwhile the literal massacre of the much-vaunted

Patton tanks is the talk of NATO and SEATO circles.

The experts claim that the Pakistan army is either over-mechanised (muscle-bound!) or it doesn't know how best to exploit its undoubted advantage in armour and the fire-power superiority provided by its self-propelled guns. Much the same kind of theorising can be done about the failure of the Sabre jets — even in combat with the Bangalore manufactured Gnats. While the progress of the battles has pushed much of this discussion into the realm of history, the question of the 'staying power' of the two armies remains very relevant.

On this matter, there is very little expertise available outside informed Defence Ministry circles. It is, however, a matter of some satisfaction that the plans for indigenous defence production and a much enlarged oil refining capacity were well laid. We know today the meaning of that effort. But we have yet to rouse ourselves to ask why the undoubted talents of the two men who made this possible — V K Krishna Menon and K D Malaviya — are allowed to be wasted by a political party urgently in need of competence. Make no mistake about it, when this painful and costly business of war is over, the country will

demand leadership from men who make self-reliance their political compass.

Meanwhile, what worries is the lack of diplomatic initiative in a situation in which we do not seem to be able to convince international opinion that Pakistan's well prepared thrust into the Chhamb area was aimed at seizing Kashmir in the belief that India's armed forces were inferior and incapable of delivering a counter-blow. Apart from the two major nuclear powers, the USA and the USSR, who know the facts and cannot minimise the dangers of an international conflict within the sub-continent, the rest continue to close their eyes to reality deliberately or for the sake of convenience. India has to find some way of energising the diplomatic front following U Thant's return to New York — if only to compel the leading members of the Security Council to recognise that Pakistan has by its own acts forfeited the right to be heard on Kashmir.

This process cannot be confined to the talks U Thant has had in Delhi or the argumentation of Union Minister Chagla at the United Nations. There must be a parallel effort to reach out to the people of Pakistan and the more enlightened of her leaders to explain the origins of India's crossing into the plains of West Punjab and our intention as to the future. No one doubts the final result of the battles now going on, but clearly we have to tackle the inevitable political task more imaginatively. By radio, by leaflet-dropping, and by any other means available to us, we have to convince the people of Pakistan that we are a secular, democratic State, that we intend to remain so, that Kashmir is a crucial part of that secular democracy, and that this is the only way to lasting peace in the sub-continent.

There can be various stages in a fight to the finish — stages which are dictated by a careful balance of military, economic and political considerations. The Emergency Committee of the Cabinet must weigh the issues and lead thinking on this matter if it wishes to control and discipline the pressures of lobbyists and the like. The Prime Minister cannot allow these issues to be settled in *ad hoc* fashion. We must be coherent about our aims and must begin to project them, internally and externally. In this respect, time is not on our side. But statesmanship can isolate our adversaries of whom there are not a few.

The Soviet warning, obviously to China, that "those whose inciting statements, whose policy help fan up the conflict must be warned by the entire world, by all States, that they assume a heavy responsibility for such actions", and the efforts of some influential circles in the USA to disentangle themselves from political and military commitments to Pakistan, are significant and positive factors in the present situation. If we are able to sharpen these expressions, there is every likelihood that the damaging paralysis of our Afro-Asian friends would be ended. Non-alignment as such has not weakened us diplomatically. The attempt to rob it of a meaningful assertion of national interests has.

Internally, too, we need to begin planning for a long period of austerity. The cost of the war has still to be calculated, but we can reduce

it by immediate steps to assess the needs of the future and how they are to be met by a co-ordinated internal mobilisation. Institutional supports will be required to achieve this. In the Capital, the feeling is that we have little to lose in a general toughening up. The only question mark is the state of the political front.

The Prime Minister has done well to maintain consultations with parliamentary leaders. Soon Parliament will adjourn. Perhaps, it is advisable to establish a permanent committee of Parliament to be in continuous session for the duration of the war. Such a body could usefully apply itself to neglected political tasks, particularly if it includes men who should be making their impact on the formulation of policies. A prolonged war, a war of attrition, a fight to the finish — call it what you will — demands this.

ROHTAS INDUSTRIES LIMITED

Registered Office: Dalmianagar (Bihar)

NOTICE

THE Thirty second Annual General Meeting of the Share-holders of Rohtas Industries Ltd. will be held at the Registered Office of the Company at Dalmianagar on Thursday, the 7th October, 1965 at 11 A.M. to transact the following business:

1. To receive, consider and adopt the Directors' Report and the Audited Accounts for the financial year ended 31st March, 1965.
2. To declare dividends.
3. To elect a Director in place of Shri E. R. Meyer, who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors and fix their remuneration. The retiring Auditors, Messrs K N Gutgutia & Co, Chartered Accountants, are eligible for reappointment.

SPECIAL BUSINESS:

5. To consider and, if thought fit, to pass with or without modification, the following resolution which will be proposed as a Special Resolution: "Resolved that the words 'Rs 32' occurring in between the words 'the sum of' and 'per meeting attending by him' be substituted by 'Rs 100 in Article 103 of Articles of Association of the Company.'"

Register of Members of the Company will remain closed from 25th September, 1965 to 30th September, 1965, both days inclusive.

By Order of the Board
For Sahu Jain Ltd.,
A. K. Jain

Director.
Managing Agents.

Calcutta,
2nd September, 1965.

- N.B. 1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself. Such proxy need not be a member. Proxies in order to be effective must be received by the Company at its Registered Office not less than 48 hours before the meeting.
2. The dividends, if declared, will be payable to the Share-holders registered in the Books of the Company on 30th September, 1965.

Note: Explanatory Statement in respect of the above item of Special Business is being forwarded to the members of the Company along with the notice convening the meeting.

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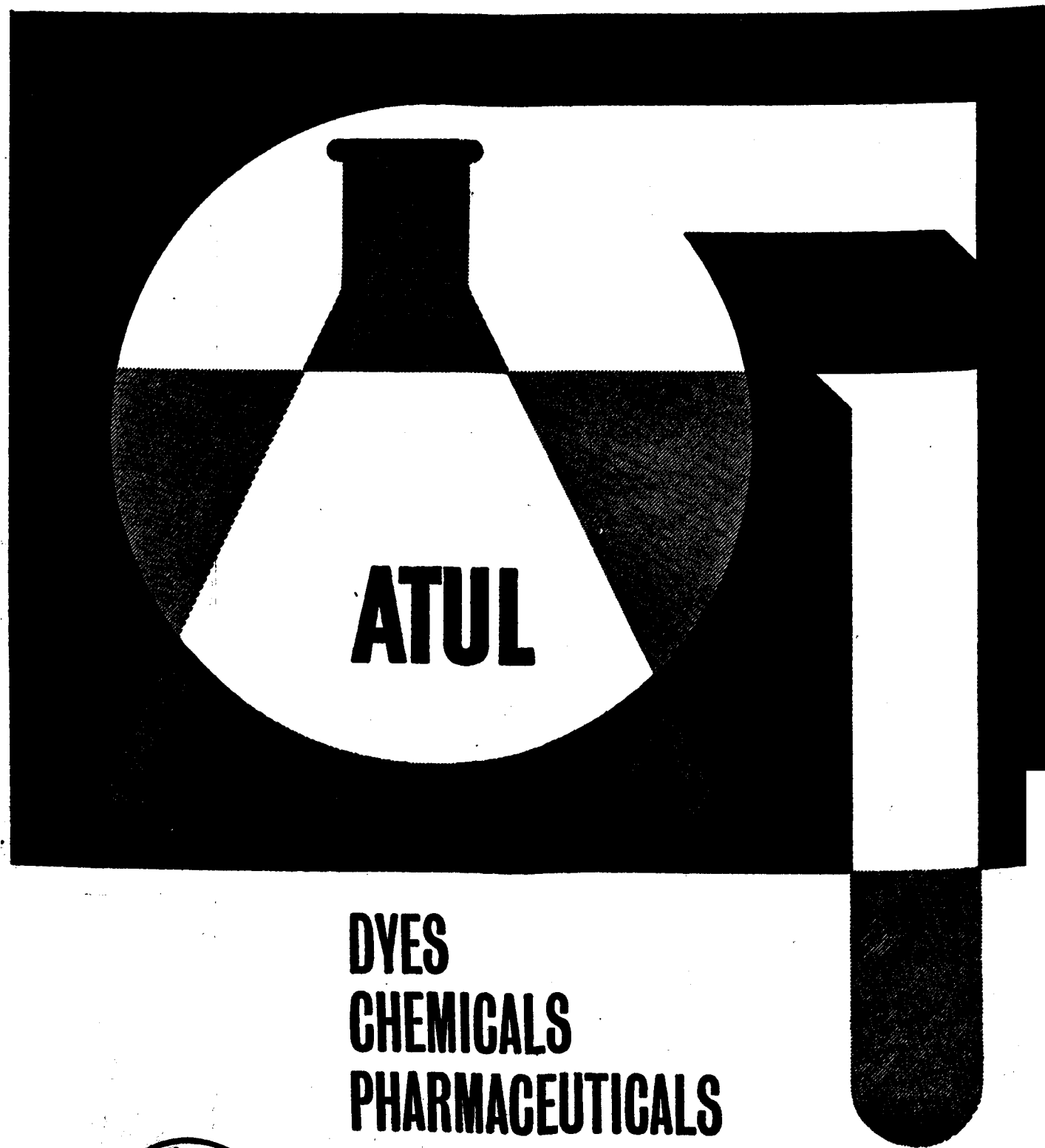
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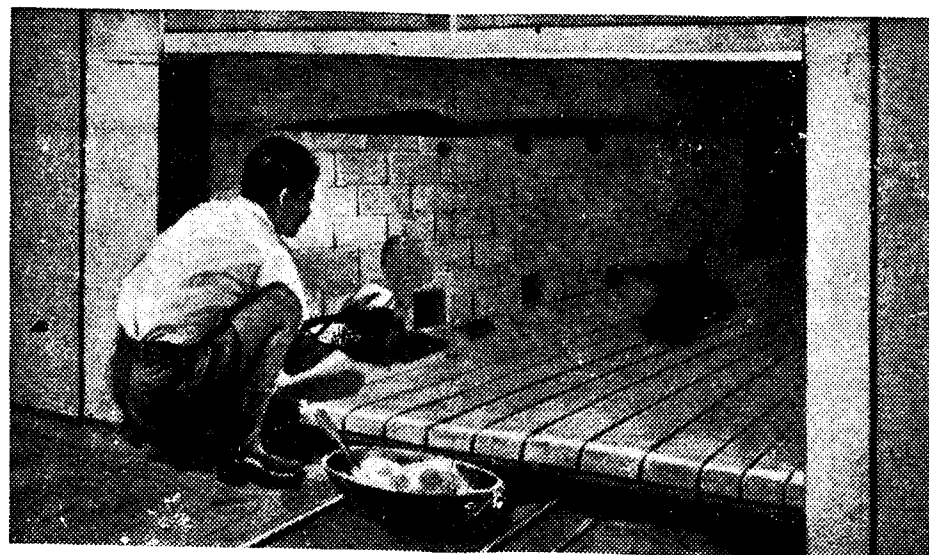


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THE ECONOMIC WEEKLY

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EDITORIALS

Winning the Peace 1463

What Does Defence Orientation Mean? 1464

Balance of Payments Ambiguities 1464

WEEKLY NOTES

West German Elections —

Aden: Speeding U K's Exit

— What Happens to Newspaper Profits? — The Unhappy UNCTAD — Cotton

Textile Exports — IMF and Developing Countries —

Backsliding on Decontrol? 1465

1468

1470

1471

1472

1473

1474

1475

1481

1491

1493

1494

1497

1499

1500

1501

1502

1503

1504

1505

1506

1507

1508

1509

1510

1511

1512

1513

1514

1515

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Winning the Peace

THE war is over. Through the claims and counter-claims of tanks and planes destroyed and casualties inflicted the somber fact stares the two countries in the face that at considerable cost in human and material terms they have achieved nothing. This had begun to be plain well before the cease-fire on early Thursday morning. A cease-fire looked inevitable even a week ago and Pakistan's seeming last-minute hesitations could not possibly last; and they didn't. Bhutto called the emergency session of the Security Council only to rub in Pakistan's demand that cease-fire and withdrawal of forces must be followed by action on the Kashmir issue, adding this time the threat that Pakistan would quit the UN if such action was not forthcoming.

While the war has benefited neither country, it has had two general consequences: on the negative side, it has embittered feelings and hardened attitudes on both sides; on the positive side, it has forcibly drawn the attention of the world to the fragile quality of peace on the Indian sub-continent and to the fact that the basic causes of this cannot be left to be taken care of by passage of time. In the Security Council's resolution the major powers have as good a basis as they can hope for to follow up this awareness with action.

India's own response to the Security Council resolution has to be measured but positive at every stage. The withdrawal of forces to the positions of August 5 will be no easy matter. There is the question of the Pakistani infiltrators who are already in Kashmir. The resolution which calls for withdrawal of "all armed personnel" could be taken to cover them. However, how is their withdrawal to be secured? The abandonment of the strategic passes captured by the army across the cease-fire line in Kashmir will present another difficult decision. In his speech in Parliament on Wednesday announcing the cease-fire Prime Minister Shastri clearly stated that India will not agree to an automatic withdrawal by both sides to the positions of August 5 without adequate safeguards against recurrence of armed infiltration into Kashmir. What safeguards will the U N give?

It is, however, the part of the resolution which refers to steps to be taken to settle "the political problem underlying the present conflict" which will present us with the hardest decisions. It is no use pretending that the sense and purpose of this reference do not conflict with our position on Kashmir. The possibility of a negative response to this part of the resolution is, therefore, very great. It is particularly likely that a miscalculation of the extent of international support for our position may lead to false steps. It will not do to formulate our response to the U N resolution on the assumption that the West has written off Pakistan. It is a sobering thought in this context that this is the first time in years that a Security Council resolution has made a reference to the Kashmir question, which we have always tried to prevent and in the past succeeded in preventing with the help of the Soviet veto. That the present resolution had the support of the Soviet Union would seem to indicate that the big power agreement over ending the war is likely to extend to finding a solution to the Kashmir problem.

There is no need, however, to view this as a development unfavourable to our interests. What is necessary is to subject to rigorous scrutiny—reappraisal, if necessary—what our interests really are. The need to bend all energies and resources to the tasks of development and to maintain and strengthen the secular character of the nation as also the emerging pattern of power relations in Asia dictate that friendly relations with Pakistan are important to our interests. This is certainly not to say that we ought to accept Pakistan's demands on Kashmir or on any other matter. To be convinced that there is no alternative to sticking fast to our positions short of giving in altogether is to betray a sad want of faith in the possibilities of diplomacy.

As Prime Minister Shastri said in his broadcast on Thursday night, let us not mistake the cease-fire for the dawn of peace. At the same time, let us not hamstring our efforts to win a peace with inflexible attitudes and rigid postures.

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What Does Defence Orientation Mean?

IT is too early yet to know what the amended and altered Fourth Plan is going to look like, but there is reason to be alarmed at many of the measures reported to be under consideration by the Government because of the woolly thinking that they reflect under the surface enthusiasm. Thus a three-point plan to give a boost to defence production is, according to press reports, being considered by the Ministry of Industry and Supply. Two important aspects of this plan are a marked increase in agricultural production through rapid mechanisation and achievement of self-sufficiency through import substitution. That mechanisation is the means of rapidly and markedly increasing production in agriculture is startling news: have we at last found the clue as to what has been causing the failures on the agricultural front? Again, while it is obvious enough that import substitution is the process by which one achieves self-sufficiency, can the process be speeded up at will? In either case, one feels tempted to ask: if these possibilities were there, why did one have to wait for a war with Pakistan to realise them? Had not the country been subjected to the greatest difficulties by the shortfalls in agriculture and by the ever-recurring foreign exchange crises?

Another major decision that is said to have been taken is to withhold maintenance imports from all industries that are not defence-oriented. Free foreign exchange allocations to non-defence-oriented industries has been frozen. What industries qualify as being defence-oriented has not been announced. As the Vice-Chairman of the IDBI said, almost every industry has been claiming to be defence-oriented and, indeed, it is not easy to think of many industries other than those producing luxury consumer goods which could not directly or indirectly meet one or other of the needs of war. (Even luxury goods are not easy to define. Lipsticks for army wives, are they luxury goods or do they serve war needs, like cigarettes for the Jawans?) In any case, it is clear that some of the industries are going to suffer from the stoppage of maintenance imports and it is difficult to share the complacent view of the Industries Ministry that this should not lead to any fall in production in any part of the economy since there would be "import substitution". This is almost school-boy economics, all the more frivolous

in the context of the deceleration of industrial growth last year for which the annual report of the Central Board of Directors of the Reserve Bank puts the prime responsibility on foreign exchange shortage.

The IDBI has announced that priority would be given to defence-oriented industries which indicates that the differential treatment is to be a part not merely of import policy but of industrial policy as well. The extent to which the Government is prepared to go to throw overboard the investment allocations made during the last two years of deliberation on the Fourth Plan is seen from the reported decision of the Planning Commission to give full freedom to the States to divert resources from one sector to another. It is difficult to appreciate the wisdom of these hasty and sweeping moves which make nonsense of all calculations of balance that have been made. Whatever might be claimed now by official spokesmen in support of them, there is no doubt that these measures would, by lowering production in certain sectors and scaling down exports and further aggravating the foreign exchange crisis, ultimately slow down the rate of growth of industries in general and even of the so-called defence-oriented industries.

Similar hasty thinking marks the Government's actions on the distribution front as well. While proposed de-control measures have been postponed and rationing of foodgrains announced on a large scale, the Government has

gone out of the way to assure the business community that controls or compulsive measures are not contemplated in a general way. Appeals have been made to the business community to ensure price stability and prevent artificial shortages. The Home Minister has been meeting representatives of the private sector and the latter, duly infected with the spirit of the times, have made warm declarations of total loyalty to the Government. However, the record of the business community in preventing artificial scarcity and price rise in this country is not an encouraging one: one might have thought that they had not a little direct responsibility in bringing them about and the fact that the war has resulted in a slight fall in the prices of foodgrains as well as in the general wholesale price index is certainly no proof of the co-operative and self-sacrificing spirit of the trading community. It only points to panicky de-hoarding.

One need not doubt the sincerity of the offers of co-operation made when the actual shooting war was on: but to judge by past experience, such expressions of public spirit do not outlast the very short periods of actual crisis. To build upon voluntary control of prices by the business community to bring about market stabilisation might lead to chaotic conditions in the market once the war enthusiasm starts to wane and the more serious economic difficulties resulting from diversion of resources to defence starts to make their appearance.

Balance of Payments Ambiguities

IT remains to be seen whether like the Cheshire cat the figure of our exports last year will disappear altogether. In the March 1965 volume of the "Monthly Statistics of the Foreign Trade of India" the Director General of Commercial Intelligence and Statistics gave it at Rs 838 crores. Then it was discovered that goods worth Rs 23 crores had been short shipped or shut out. This reduced the figure to Rs 815 crores which was accepted as the "final revised total". But not for long. The compilation of India's balance of payments in 1964-65 in the August issue of the Reserve Bank of India Bulletin now takes exports at Rs 803 crores. Of course, we have been told that there are differences between the recording pro-

cedure of the DGCI & S and those of the RBI; exactly what they are and what difference they make to the figures have never been clearly explained. The RBI study of balance of payments at any rate does not consider the attempt necessary. It uses the figure of Rs 803 crores as if it were the only one in existence. Nor is even this total above suspicion. For, dominating the balance of payments table is the huge figure of minus Rs 71 crores standing against the item "errors and omissions". In 1963-64 "errors and omissions" were Rs 47 crores and in the previous year only Rs 4 crores. What has been happening to balance of payments statistics, really?

Such as they are, the statistics

show that in 1964-65 external reserves were subjected to the heaviest draft since 1960-61—Rs 56 crores against an accretion of Rs 11 crores in 1963-64 and an outflow of Rs 2 crores in the year before. "The large adverse swing in payments position as between the two years", according to the RBI study, "is traceable to a rapid increase in the import bill accompanied by growing service payments on the one hand and the absence of any growth in exports on the other". Exports at Rs 803 crores were just a crore over last year's figure. Imports, on the other hand, went up by as much as 13 per cent, for the second year in succession. And, as in the preceding year, the entire increase was on Government account; private imports, in fact, declined slightly. Of the rise of Rs 173 crores in Government imports, food accounted for three-fifths (Rs 102 crores) and capital equipment for over one-third (Rs 58 crores). This leaves one guessing about defence imports; without doubt, a part of the increase in non-food imports must be really imports of defence equipment and materials.

The net surplus on invisibles account rose impressively by Rs 47 crores, but mostly on account of higher rupee grants from the US under Title I of PL-480. The growing burden of debt servicing is reflected in the increase of Rs 21 crores in outflow under the head "investment income" repres-

enting mainly interest charges on foreign loans.

Net capital inflow in 1964-65 increased by Rs 59 crores to Rs 452 crores. On the face of it, there was a striking improvement on private capital account—a net inflow of Rs 12 crores as against an outflow of the same order in the previous year. The achievement, it turns out however, is only statistical: from April 1964 drawings and repayments on account of World Bank and foreign official loans to the private sector are shown under the head 'private' instead of 'official' as earlier. Since the source of these funds is official, even though the funds flow to the private sector, the rationale of the change is not quite clear.

One important development during the year which stands out in the capital account is the large net outflow of banking capital of over Rs 10 crores against only Rs 3 crores in the previous year. In fact, the outflow in the first two quarters of the year amounted to Rs 16 crores before the Reserve Bank imposed from December 1964 a ceiling on short-term borrowings or lendings by authorised dealers from or to their branches and correspondents abroad.

Net receipts of official capital (meaning, under the new definition, receipts of the official sector) were Rs 450 crores, Rs 43 crores more

than in the previous year. Official loans showed a rise of Rs 146 crores though two-thirds of this increase represented rupee loans from the US out of PL-480 counterpart funds. Drawings on loans from West Germany, the IDA and the Soviet Union were higher by about Rs 20 crores each and on those from Japan, UK and Canada by about Rs 6 crores each. Loans from the World Bank as well as dollar loans from the US were, however, lower. Net amortisation payments, as in the previous year, increased by an identical sum, Rs 5 crores, to Rs 62 crores.

At first sight, a striking change in the capital account is the net outflow of Rs 77 crores under the head 'miscellaneous' as compared to an inflow of Rs 45 crores in the previous year. This large swing was, however, just the result of the liquidation of short-term liabilities arising out of PL-480 transactions. This raises the question whether it would not be useful to indicate separately in the balance of payments statement transactions arising out of US assistance under PL-480. Similarly, transactions with the rupee payment countries which have no effect on the exchange reserves could be shown separately. Sticklers for form will no doubt resist any change in the time-honoured pattern of presenting the balance of payments, but there can be no doubt that the statistics will become more meaningful with a few changes.

Weekly Notes

West German Elections

THE results of the general elections in W Germany show a shift to the Social Democrats: while the Free Democrats' representation has gone down from 67 to 49, the Social Democrats' has risen from 190 to 202 and Christian Democrats' from 242 to 245. If one considers the fact that electoral positions change only slowly as young people enter the electorate and old ones leave it, the results are not at all discouraging for the Social Democrats. In particular, there is no justification for reports which talk of a "landslide" victory for Erhard, who will again have to form a ministry in coalition with the Free Democrats.

Nevertheless, there are reasons why the Social Democrats are downcast. The chief one is that they have for many years been thinking of and pre-

senting themselves as the alternative government. In 1959 they radically changed their policies, dropped nationalisation from the party programmes and from opponents turned supporters of the NATO. After the 1961 elections they could console themselves that the change was not of long enough standing to carry conviction with the electorate. But this time they stood or fell by the new programme — and by the new leader, Brandt—and they failed to win. Further, their share of the vote has remained about the same. They are not attracting a larger proportion of the electorate.

The election will cause much concern to the Free Democrats. In a democracy a large party can succeed only by combining a wide spectrum of views, while a small party can succeed by reflecting and giving force to the feelings

of a minority. The Free Democrats have made themselves popular by opposing the dictatorial tendencies of Strauss, the former Defence Minister, and by taking a less blinkered attitude on the East-West question. In this election Strauss has been leaning over backwards to present himself as a sweet and reasonable man; and the position of German politicians on the East-West question has become less hidebound. So the Free Democrats have lost their mission. They might well find another, but they will have to look for it, being a junior partner of the Christian Democrats in the government is not a good enough qualification.

The election will prove even more momentous for the Social Democrats. Quite a few socialist parties in Western Europe — among them, those of Bri-

tain, Germany and Italy — have adopted a pragmatic approach recently, and everywhere the new look has failed to have a significant electoral effect. This must evoke either rethinking or a relapse: pragmatism by itself is not enough. And the new look of the Social Democrats is so closely linked with the look of the new leader, Brandt, that their rethinking might extend to him also. His career hitherto has been remarkably similar to that of Adlai Stevenson, and one wonders if the similarity will not last. It might not, perhaps, because no leader with more youth and fight in him is available to replace him. In fact, the lack of younger talent should be the most serious concern of the Social Democrats.

Aden: Speeding UK's Exit

BRITAIN is passing through difficult times in her self-appointed task of ensuring the 'containment of China' East of Suez. She has had to watch in embarrassment while her anti-communist bulwark Pakistan openly turned to China for support against India; she has seen the Malaysian Federation begin to break up overnight with the secession of Singapore; and even in the Middle East the Adenis don't seem interested in her benevolent presence in their country.

The trouble in Aden has been going on for some years; the political scene is similar to most in the Middle East, with the additional complication of the presence of the British. The struggle between a feudal (usually royalist) dominant minority and some kind of revolutionary group is the pattern; at present however Aden itself is wedded to a motley collection of 16 sheikhdoms each ruled by a reactionary tribal leader and forming the South Arabia Federation. The revolutionary element is provided by the proscribed National Liberation Front, a terrorist organisation backed by Egypt, which 9 battalions of British and local troops are unable to suppress. The Chief Minister of Aden, Abdul Mackawee, hasn't much truck with his tribal co-leaders; however all are combined for the moment in demanding early independence (promised by the British by 1968). Meanwhile the Opposition parties are quite prepared to use NLF terrorism as a stick to beat the British within their demand for early independence.

Britain has always based her strategy East of Suez on the need for a line of

military bases spaced across the Middle East, which can be used as staging posts to the Far East. However, Aden is one of the few remaining ones, and sees no reason why it should continue to be so. Even when independence is granted, the forging of reactionary sheikhs and more liberal Adenis into some kind of federation is bound to have dire consequences. Britain, having lived by the principle of 'divide and rule' now believes in keeping the federation 'united at all costs to protect British interests'. Britain's interest in the Middle East is in her oil supplies, as the Adenis know; to this end she has a base in Bahrain for the ridiculous rental of £ 250 per annum. Bahrain is already beginning to replace Aden as a staging post; moreover there has been talk of setting up a base somewhere in the Indian ocean. After 6 carefully planned murders in the last few months, culminating in the assassination of the Speaker of the Legislature, none of them solved by the administration, it is clear that Britain must leave Aden quickly and with a good grace.

What Happens to Newspaper Profits?

THE trend and pattern of growth of the press in 1964, as outlined in the annual report of the Registrar of Newspapers, do not provide ground for enthusiasm. The circulation of dailies and periodicals rose by 6.2 per cent (dailies 5.9 per cent) over the year, which was slightly higher than in 1963. Newsprint, which continues to be extremely scarce, remains a severe bottleneck, largely because the targets of domestic production have not been fulfilled, in both quantity and quality. Nine principal dailies owned by large chains or groups increased slightly their share of total circulation from 42 per cent in 1963 to 43 per cent in 1964. The two top groups, *Express* (Goenka) and *Times of India* (Sahu Jain), accounted for 11.6 and 7.2 per cent of total national circulation of dailies — 19.9 and 15.2 per cent, respectively, if only metropolitan circulation is considered.

Ten of the well known dailies allot fifty per cent or more space to advertisements. These include six belonging to large units: *Times of India*, Bombay, (60-40), *Statesman*, Calcutta, (56-44), *Hindu* (55-45), *Statesman*, Delhi, (53-47), and *Evening News*, Bombay, (51-49). These high ratios for advertisements are attributed to the curbs on newsprint supply to the larger units and the pressure of advertisers on them

resulting from their relatively lower rates per thousand copies sold. The resulting prosperity has not, however, been put to the same use. The *Times* has, over the years, utilised its booming profits to start new dailies and a large number of periodicals and to remunerate its shareholders and staff generously. It is difficult to make out from publicly available information the response of other winners of the advertisement sweepstakes. The *Statesman* has not brought out a single new publication, the *Hindu* added a sports weekly many years back; neither pays its staff as well as the *Times* does. That advertisement revenue is not the only, or even the main, stimulant to growth and diversification is apparent from the fact that the *Express* Group with a total circulation of 11 lakh copies in 1964 (of which English editions account for a little more than 3 lakhs) has a much lower proportion of advertisements — and also a lower price per copy — and its growth over the last ten years has been quite impressive, in spite of comparatively low scales of remuneration to staff. The growth of oligopolist giants or the 'jute press' cannot be attributed solely to their disproportionate share in advertising outlay. The root causes lie elsewhere.

Newspaper circulation is almost wholly confined to the principal urban areas. The metropolitan cities account for one-half of total circulation and most of the remainder is in State capitals and cities with a population of more than one lakh each. Moreover, about three-fifths of the circulation of dailies published from Bombay, Calcutta, Delhi and Madras, is outside the respective metropolitan cities; the small decline in this ratio over the last three years is due to ceilings on newsprint quotas and growth of population and incomes in metropolitan cities. Most mofussil towns have no local newspapers and those which have them often tend to value outside news more than local news and are then understandably outbid by metropolitan papers. Local newspapers have limited sources of advertisement revenue and find it difficult to secure printing machinery on easy terms; at the same time, they have not been particularly distinguished in tapping local advertisement sources, such as courts, shops, cinemas and tender invitations or, for that matter, in training reporters to handle local news. The cry of small newspapers for protective safeguards has still to be re-

THE ECONOMIC WEEKLY

inforced with adequate enterprise in different aspects of the business.

Pattern of Newspaper Circulation 1964 (percentage of total circulation)

	Dailies	All
(1) Metropolitan areas	48	51
(2) State capitals excluding (1)	13	12
(3) Other cities above 1 lakh population	32	26
(4) Places with population less than 1 lakh	7	12

Area-wise Circulation of Metropolitan Dailies

Year	Metropolitan Areas	Within State of Publication	Outside State of Publication
1962	40.0	22.5	37.5
1963	41.8	21.6	36.6
1964	43.4	23.0	33.6

The Unhappy UNCTAD

THE United Nations Trade and Development Board has been in session in Geneva. The 30 members of the Board have been displaying a lack of imagination and united purpose both as regards the big issues and the minor details. The central purpose of the UNCTAD Board, of course, is to start a steady process of implementation of the principles regarding trade between rich and poor countries which were accepted after much debating at last year's 77-nation United Nations Conference on Trade and Development in Geneva. Broadly speaking, these principles were that trade is at least as important as aid; that the developed countries should increasingly relax restrictions against imports—particularly of new manufactures—from the developing countries; and that in their liberalisation of imports from the developing countries, the developed countries should no longer insist on the principle of reciprocity.

Some months ago even the GATT was modified to take account of what had happened at the Geneva conference: an additional chapter was written to incorporate the new principles. It was indeed an important revolution in GATT. The paper preliminaries are over now, and the time has come for some actual generous changes by the developed countries. Instead, at the just concluded meeting of the UNCTAD Board the developed countries have been trying to go back on the accepted principles. It has been clear from the wranglings of the Kennedy Round of Tariff talks that

the process of getting any actual trade concessions from the developed countries is going to be painfully slow; but the reported *volte-face* of the delegates of the rich countries has come as a real surprise. Western developed countries would, of course, indignantly deny any allegations of economic neo-colonialism, but their conduct on this matter is in sharp contrast to the reported behaviour of the delegates of the six communist countries on the Board; they have shown continued enthusiasm for liberalising trade with the developing countries.

The only progress at the recent session was to pass a resolution which authorised the Secretary-General, Raul Prebisch, to start a post office which would review and collect data to be gathered from the various member countries and organisations on the action being taken by them in implementing the principles adopted at last year's Geneva conference and now included in the GATT. Even regarding this, the Western countries refused to accept any obligation to report regularly on how well they were implementing those principles. Their stultification of the earlier imaginative response could not have been more complete.

It seems that at this session the developing countries, for their part, displayed in ample measure the usual lack of a united approach. There seems to have been heated controversy among them where the UNCTAD Secretariat should make a home. Earlier, Geneva had been selected; but now Geneva does not seem too keen to have another international secretariat. Now at least Rome, Lagos and Addis Ababa are contending for the position. Along with the postponement of all the important issues regarding trade to the next session, the choice of a site for the headquarters has also been shelved for the moment. Indeed this time the Board was unable to agree even on a general report to be sent to the U N General Assembly. The developing countries need to learn from this session and unite in their efforts to put the maximum pressure on the ex-colonial powers to yield trade concessions which are a necessary compensation for the mistakes of omission and commission on their part in the past.

Cotton Textile Exports

IN the first eight months of this year exports by the cotton textile industry were worth only Rs 55.5 crores as against Rs 63.35 crores

in the first eight months of 1964. The fall was mainly in cotton piece-goods which declined from Rs 34.5 crores to Rs 29.4 crores. This was, apparently, partly because of the very heavy shipments to the UK in April-May last year which meant borrowings from our quota for 1965, and partly because of the very poor season this year for cotton textiles throughout the world. Exports of yarn too fell from 8.6 million kg to 5.3 million kg. And though exports of apparel and hosiery have been cheering, in that apparel exports brought in Rs one crore more and hosiery exports were three times better than in the corresponding period of 1964, exports of other manufactures have declined. Though our shipments to various regions of the world have fluctuated, we seem to have gained firmer ground in the East European countries, thanks to bilateral arrangements. Our pattern of textile trade has meanwhile undergone some change. From only 41.4 per cent of textile exports in 1962, finished goods now account for 50 per cent of such export. The total impression created is not of a particularly happy record.

But Neville Wadia, Chairman of the Cotton Textiles Export Promotion Council, in his speech at the eleventh annual general meeting of the Council, was nevertheless hopeful. The final result for piece-goods might be little different from that of last year; we are also negotiating a new agreement for trade with the UK for 1966 on, and with our long association with Lancashire and Her Majesty's Government, the results should prove favourable. This is limited ambition with a rather tenuous basis. The hope and the need for action must surely lie elsewhere.

Above all, the equipment of the industry badly needs modernising. Out of 287 composite mills some 48 alone are capable of producing export quality textiles in increasing quantities, but even so, some of these do not export even 10 per cent of their production. Indian cotton is of poor quality, and to save on costs—since cotton accounts for 50 per cent of total production costs—mills very often resort to over-spinning. Weaving faults are for this reason more frequent. Industrial technology has made spectacular advances in textiles over the past 15 years. By contrast, our blow room machinery, our carding and combing methods, our drawing and ring frames are outdated, and we use little automation or continuous high-

speed processes or shortening processes. There is a shortage of trained and disciplined workers. The net result is revealed in some studies made by the US Department of Commerce and the UK Cotton Board: the productivity of the Japanese worker is twice that of the Indian worker, while the productivity of the US worker is 4½ times better and that of the UK worker 60 per cent better than that of the Indian worker. The market the cotton textiles industry faces abroad is already highly competitive and protective, and likely to become more so. First of all, competition will increasingly be offered by Japan, Hong Kong, Pakistan, and the synthetic substitutes from industrialised countries that appear on the foreign markets. The other emergent countries are likely to protect their own industries. Commonwealth preference seems unreliable since we are just now questioning the advisability of our membership of the Commonwealth. Britain too has been thinking of a joint quota for India, Pakistan, and Hong Kong which will very likely mean greater competition for us within the quota. The Long Term Agreement under GATT has shown few signs of being capable of actually adjusting the pattern of textiles trade to the production possibilities and the needs of the developing countries and of apportioning certain kinds of textiles for export by these countries. We cannot, therefore, bank too much on the LTA meeting in November or on the agreement with Britain. Competitiveness in cost and quality is therefore the only go.

IMF and Developing Countries

THE International Monetary Fund's approach to payments problems of developing countries seems to be changing, albeit slowly, judging by the hints thrown out in the Fund's annual report for 1965. The strongest of these is the Fund's new emphasis on reducing the burden of debt-repayment on the developing countries. It has recognised the grave problem of increasing international debt. Some of the developing countries have approached the Fund to assist in an advisory capacity in their negotiations for refinancing of debt.

The Fund, of course, cannot commit its resources to refinancing of repayment liabilities by the developing countries. Yet it can take a sympathetic view of the balance of payments position of the debtor countries. In this respect the Fund is well placed to study the impact of debt-servicing

on their payments position and help them to get the necessary assistance from the aid-giving countries or the World Bank. This surely lends a new dimension to the role of the IMF, and one which shows great possibilities of fruitful exploitation in future. This together with the Fund's scheme for assistance to compensate fluctuations in export earnings from primary commodities could well mark the beginning of a move towards a solution of international liquidity problem which will take into account the needs of the developing countries. The Fund may even undertake to extend medium or long term assistance in some of the developing countries, overburdened with repayments — a line of approach with some similarities to the Stamp and Triffin proposals on international liquidity.

Backsliding on Decontrol?

A Correspondent writes:

THE sentiment in favour of selective and partial decontrol has never been very strong in official circles. The conflict with Pakistan has led to second thoughts about the advisability of partial decontrol of cement, which the Prime Minister had announced last month. It was made quite clear that Government would continue to get its requirements at controlled rates but whether these would be the same as at present or somewhat higher was not specified.

A shortfall of as much as 5 million tonnes in both capacity and output in a basic commodity is not something to be dealt with leisurely nor is it something which can be left to narrowly circumscribed bureaucratic thinking. Cement had not received till recently the priority attention it deserved in terms of prices, tax concessions, financial assistance and realistic industrial licensing. Prices were kept below adequately remunerative levels, tax concessions were no more than for other, including less essential, industries and they were often difficult to utilise owing to insufficient profits, financial assistance threatened to create problems of servicing and the units which could expand quickly were given licenses only with great reluctance. Over the last few months some relaxations have been effected: the controlled price has been raised to offset cost escalation, development rebate and excise concessions for larger output have been extended at the maximum rates, licensing has become more realistic and assurances of adequate finance have been given. All these are moves in the right direction

THE ECONOMIC WEEKLY

but, to make full use of them, the industry must have adequate owned funds and these can hardly be raised or built up without better prices and more flexible distribution arrangements.

There is no justification for denying cement the treatment which has been extended of late to pig iron and most varieties of steel with considerable success — and easing of tensions all round. The emergency has in no way taken away the basis of the argument for cement decontrol. Rather the contrary. More cement is required more urgently than ever before. It is idle to pretend that the public sector Cement Corporation will achieve the desired increased production at or around the present controlled prices. Its costs, when it goes into production, are bound to be higher than those of existing units due to higher prices of equipment and other initial expenditure. So long as all defence and other high priority requirements are met by the industry at regulated prices and as a first charge on output — and these may well come to one-half or two-thirds of total production — decontrol will not endanger price stability. *De facto* price increases and serious delays in projects caused by acute cement shortages have, on the other hand, already manifested themselves and would become more obvious if New Delhi chooses to remain hide-bound. The risk of partial decontrol is definitely worthwhile.

LETTER TO EDITOR

More on Foreign Policy

MAY I have your indulgence in replying to your editorial comment on my letter that you published on September 4?

I am *not*, repeat *not*, part of the Indian Establishment and do not feel called upon to defend what is not defensible. I could not agree with you more that our haste to embrace Malaysia was "unseemly". This is not to justify President Soekarno's reaction, but simply to state that it was not in keeping with the "wait and see" attitude that I have been championing. I am also in total agreement with you that there must have been "some contributory negligence" on India's part which could account for our "present alienation from the three most populous nations of Asia". Nowhere in my letter did I beat the jingoist drum that India is always right.

Having said that, may I point out to you that India has done more for seeking the friendship of "the three most populous nations of Asia" and

THE ECONOMIC WEEKLY

stuck her neck out countless times only to get rebuffed for her effort? Who was it that gave Indonesia aid and comfort when it was fighting for its independence? Who was it that championed Indonesia's cause year in and year out at the United Nations on the West Irian issue? And what did Indonesia give us in return? Again who was it that championed Peking at the last Bandung conference and who was it that championed Peking's claims to the Security Council seat at the United Nations year in and year out at the gravest risk of alienating the western power?

Perhaps you have guessed the answer.

As for alienating Pakistan, is it India's fault that Pakistan wishes to remain alienated? It is Pakistan's entire philosophy. You cannot be friends with some one whose basic philosophy is one of not wanting to be friends. And India has tried to be friendly.

I never said that India is "much loved and respected" in Asia and Africa. Respected yes. I do not expect everyone who respects India to agree with her on all issues. And what is wrong with President Nasser pressing us to resolve our quarrel with China? Is that inconsistent with friendship?

Your reading of the Establishment's mind may be true; I do not claim to be privy to the thinking of Indian officials, nor am I desirous of being their apologist. I am sure they are quite capable of speaking for themselves. Even if what you say about them is true, their decision is right, *despite them*. We may agree on the outcome for entirely contradictory reasons. My reasons why India should not participate in another Bandung are explicitly stated. Any Asian African Conference must be an occasion for constructive thinking and harmonious working for a better social order all around and *not* for trying to outdo each other in mudslinging. My opposition to the Algiers conference has nothing to do with the Government of India's alleged reasons.

As for your last paragraph you do me an injustice by misinterpreting my contention that there is no need for us to seek a snub from the United States. By that I meant that we have to be both independent and strong so that we can truly remain non-aligned. We do not become strong by putting up false fronts. This is a slow process and during that period it is wisdom to mind our business and don't get

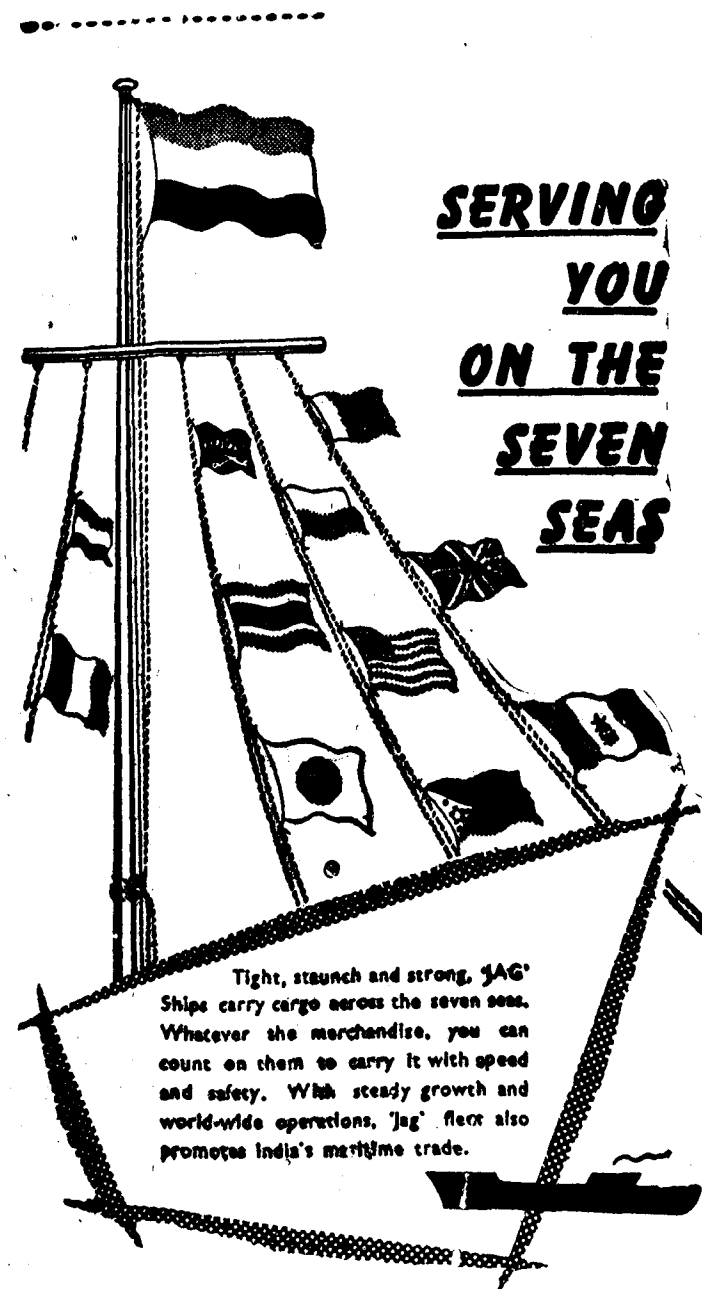
into others' hairs. No one suggests that India should give up her values or that *The Economic Weekly* should. But India does not have to shout her principles from the house tops. Sometimes, quiet whispering into the right ears may do wonders. Proclaiming our virtues and our righteousness may sound wonderful, but what is it that we should aim at: results or smug self-satisfaction?

That *The Economic Weekly* holds "other values" is known; though you

may not realise it, they agree with mine. It is precisely because you hold high values that you are read, respected and sometimes when you stray from the right path—questioned. If I have been petulant, it is the petulance of a reader who feels hurt because his favourite magazine does not sometimes give the kind of informed comment for which it has long been distinguished.

A READER

September 20.



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The Facts of Peace

Romesh Thapar

PEACE returns to the sub-continent, but a confused, uncertain peace. The facts which condition the confusion and uncertainty, and which we need to chew upon, are as follows:

(a) It is still unclear whether the military decision in the plains of the Punjab, and in the air, has been decisive. Official army circles claim that the teeth have been taken out of the Pakistan army, that it is no longer an offensive weapon. The opposite view is that Pakistan has the reserves with which to re-equip its armoured formations literally battered by our army in battles which turned into physical combats between Indian jawans and Pakistani armour; seldom has such deathless courage been witnessed. Politically, the considered opinion is that for some years at least the Pakistani army will not dare to challenge India's frontiers.

(b) Established alignments and commitments have also received a heavy battering. The United Kingdom has replaced her double-talk with a crude, cynical assertion of Pakistan's claims on India even at the risk of endangering the Commonwealth structure. The USA, conscious that its system of military pacts is in a state of disarray, knows that it will be difficult to sustain its military commitments to Pakistan but hopes to use its influence to obtain for Rawalpindi a favourable political settlement. The USSR, the only friend India can claim among the big powers on the Kashmir issue has taken the decision to intervene in the Indo-Pak problem as a mediator—a role which dictated the warning to China to face the nuclear consequences of her involvement and compelled a withdrawal of Peking's 'ultimatum'.

(c) Diplomatically, India will have to tread warily. Her non-aligned friends, who have been so ineffective during the course of the hostilities, have to be persuaded to stir, to intervene in the interests of progress and peace in South Asia. Several Arab States, and Indonesia in particular, have permitted religion to dominate their thinking about events on our sub-continent and they have to be energetically tackled. The influence of activated non-aligned nations will be needed in the coming months to discipline the opportunism of the big powers. Our neglect of the diplomatic front during the last month has been one of our most massive failings.

(d) Economically, too, all the signs point to a deliberate attempt to put the squeeze on India in order to balance the advantages she may have gained over Pakistan in the course of the last month. Apart from our heavy indebtedness, we will need friendly assistance in vital sectors if the cost of the war is to be met. This is in addition to the sacrifices which the people will have to undergo in the coming months.

All Trumps with Soviet Union

Keeping these military, diplomatic and economic facts in mind, it is clear that the Soviet Union holds nearly all the trumps. This is, in a sense, a rather startling development for the West. How London and Washington view the future is not known, but there must be a vague sort of feeling that the USSR as 'mediator' is going to burn her fingers just as they have done in the past. Peking and Jakarta are obviously pushing Rawalpindi to keep one step ahead of the mediation; the threat to withdraw from the United Nations if the follow-up action on the cease-fire is not satisfactory is indicative of the kind of tactics to expect. The Peking-Jakarta-Rawalpindi combine will undoubtedly strain every diplomatic resource to bend the Soviet Union to a compromise on Kashmir. For, they know that such a compromise can only be at the expense of India.

The Soviet desire, now expressed more openly and consistently, to expose the incendiary character of the western presence in South Asia will certainly motivate the mediation of Kosygin. The Soviet faith that all explosive international problems can be settled peacefully so long as 'imperialist' interference is removed will sustain the mediation. The Soviet conviction that China will not expose herself to nuclear attack, a conviction now shared more widely in South Asia following the withdrawal of Peking's ultimatum to Delhi, is expected to influence the attitudes of both India and Pakistan during the mediation. It is at this point that we enter the realm of uncertainty.

The collapse of CENTO, the repercussions of this collapse on SEATO and more indirectly on NATO, the possibility of a rapid change in the balance of power in South Asia, and the impact of these developments on

the political structures of India and Pakistan, will inevitably determine the treatment that is to be given diplomatically, economically and militarily to Delhi and Rawalpindi. To imagine that we can now begin from where we left off would be the height of folly.

Detailed Plan Needed

It is necessary to stress these rather obvious implications of the present situation because, despite the praise being lavished on the GOI by a conformist press, the facts tell us that the *ad hoc* approach continues to hinder our efforts to seize the diplomatic initiative. A detailed plan of action has still to be worked out to win the peace. V K Krishna Menon, at last mobilised, sets off to meet with Nasser, but there is unthinking reluctance to let him rove more widely in Africa and Asia. No one moves in the direction of Moscow, or for that matter, Washington. An MP who attempts to raise a discussion in Parliament on our continued membership of the Commonwealth—widely challenged, even within the Cabinet—is persuaded to withdraw. And when the local US Embassy worries about the display of a captured Patton tank in the Capital, this too is withdrawn! Prime Minister Lal Bahadur will have to do better than this if he wishes to preserve the new image he has been given.

The depression following the cease-fire in natural. A whole people had been led to believe that a knock-out blow was to be delivered to Pakistan's army, that there was no other way to peace. Now they ask whether it was not possible to achieve the same result without the grim business of war. It is the job of the political leadership of the country to educate and to take forward the understanding of the people who must remain as united and dedicated to the task of winning the peace as they were in meeting the challenge of the war.

The Congress Party cannot afford to leave this job in the tired hands of the incompetent, and the play-safers within the ruling party. A new and relevant national consensus must be sought—and with dynamic men. The time for a political shake-up at the top is now. And it is part of the effort to dispel confusion and uncertainty, to win the peace and to secure our frontiers.

Term of Trial

THE impact of Pakistan's aggression and of the incendiary opportunism of China on the South has been far greater than even the shocked anger which convulsed the people towards the end of October 1962. The cynics who had thought that the overplaying of the emergency theme had killed all national enthusiasm are totally non-plussed. A fresh seriousness and new intensity are abroad. The first national crisis after Nehru has found the people rallied. The foundations of national unity, indeed the beginning of India itself, have been well laid.

Before attempting to analyse some of the more important features of this rallying, one cannot resist the frustrating statement that the biggest failure of the Congress since Independence has been its inability to rouse this kind of solidarity on a mass scale around the adventure of making India, economically and politically. An external challenge, consequently, has had more of a stimulating effect than the compulsions of internal development. The people seem to have greater awareness of any threat to Indian sovereignty than of the possibility of using this sovereignty to build a radical democratic nation. This only serves to underline the truth that the movement for social change is impelled by a greater degree of internal contradictions than the sheer effort to maintain the physical aspects of Independence.

This should not lead to any underestimation of the significance and value of what has happened. The very Tamilnad youth who were ready to burn themselves and policemen to protest against what they considered to be domination by the North, have now rallied in their thousands to offer themselves for any work of defence that the Government may feel necessary to give them. The bitter and outraged Left Communists in Kerala, together with all other opposition parties, have placed themselves behind all efforts of national defence undertaken by the Government, whether it be directed against Pakistan or China or a combination of both. There is no question that China will have now to look for "true revolutionaries" outside the ranks of the Left Communists in their strongest mass base. It is tragic shortsightedness that Nanda's detention dementia still keeps so many stalwart Left Communist leaders in jail. It appears as if quite deliberately

a chance is being thrown away of manifesting a militant national consensus. In Andhra the big mass movement of the entire opposition around the food issue has overnight converted itself into a movement for solidarity in the cause of national defence.

A most encouraging aspect of this mood of mass resistance is the infusion in it of a degree of positive content. This is most clearly marked on the question of food. Top Congress leaders, including some Chief Ministers, have been openly talking of the need to avoid reliance on PL 480 to overcome our food shortage. One Chief Minister went so far as to admit to the Leader of the Opposition in his State that India had erred in relying so much on the West for food as well as for arms. Serious rethinking, he added, was not only necessary but going on at the highest levels.

An indication of this new awareness is the greater stress being placed on the problems of internal procurement. Overcoming long resistance the Andhra Government has decided to go in for procurement of foodgrain from the producer on the basis of a graded levy with necessary exemptions for those cultivating land of one acre and below. It has come to the conclusion that it would be wrong to impose a levy on the rice millers alone and that it was essential to go straight to the point of production. If properly and equitably implemented what this would amount to would be a truncated type of agricultural tax in kind and the removal of the wholesale trader from a vast market area. The Government has also decided that any purchase of grains in the State for export to other States should be done strictly on a Government-to-Government basis, with a ban on all private transactions. For obvious parochial reasons it has, however, decided to undertake all these operations on its own rather than bring the Food Corporation into the picture. An admirable opportunity now presents itself to the democratic opposition in the State to exert its utmost to see that these measures do get implemented according to official proclamations of intention.

It was equally significant that the Andhra Chief Minister has reportedly agreed to accept the resolution moved in the last session of the Legislative Assembly by the Communist MLAs recommending the nationalisation of banks. Earlier the attitude had been one of agreeing with the proposal in

principle but urging its withdrawal so as not to embarrass the ruling party. It is quite obvious that this changed attitude cannot be merely the personal quirk of a single Chief Minister. On the contrary, it testifies to the new possibilities for social advance engendered by the exigencies of the national emergency itself.

It is true that the paramount emotion and thinking of the people is concentrated today on the single issue of national defence. This is as it should be. Anybody who mistakes this mood or imagines that national dignity is a matter of upper and middle class concern would soon enough run his head against a massive wall. At the same time, it would be quite wrong to imagine that the period of acute national awareness is also the time for a social freeze, for retention of the *status quo*. The very concept of a national emergency is that it is a period of strain, of tension, of challenging moves to meet a serious menace. Nothing would be more demoralising for the national will than to carry on business as usual. Nobody who cares for India as she ought to be can overlook this point. The time is not merely to fare well but fare forward.

Another extraordinarily creditable feature of the present situation is the state of Hindu-Muslim amity. It is often forgotten that all the four Southern States not only have sizable Muslim minorities but a background of tension stretching back as far as in the North and with closely similar historical roots. But there has been no eruption whatsoever. Not that the danger has totally receded. Nor that all the underlying antagonisms have disappeared. All this is very much there and the possibility of more Poonas cannot be ruled out. But there is a tangible change. There are numerous instances not only of public statements by Muslim leaders, which are only to be expected, but of genuine pride in the success of the Indian Army. The Central Government has shown a most imaginative approach in this regard which is not only to be fully commended but relentlessly followed up at all levels. The impressive record of Kashmir, thanks to the wind of change brought about by the Sadiq leadership, has to be broadcast to every mohalla and village as should the deed of mortal valour by Abdul Hamid. Indian secularism is taking shape during this term of trial. If it congeals into a composite nationalism this will be one of our great contributions to the evolution of an universal civilisation.

U S View of Indo-Pak War

AMERICANS have been notably unaware of events on the Indian subcontinent. Yet in the past few weeks, newspapers in the United States have emphasised the conflict between India and Pakistan to the extent of relegating news from Vietnam to inside pages. Although detailed news from the battle lines has been scarce, the American people are becoming very much aware of the situation on the subcontinent, reflecting the deep concern of the Johnson Administration. The influential *New York Times* has featured the war on its front pages almost every day for weeks, and has tried to analyse the present situation from both military and diplomatic points of view.

No Pro-Pakistani Bias

The reporting in the *Times*, which usually reflects the liberal wing of the American Establishment, is indicative of the confusion which is evident in American thinking concerning the conflict. The Kashmir crisis was at first not taken seriously by the press. The outbreak of full scale hostilities seems to have caught most observers, as well as the State Department, by surprise. The *Times* has carefully avoided placing any blame for the outbreak of hostilities, and has dispassionately tried to analyse the political issues involved in the Kashmir problem. It is evident that the generally pro-Pakistan attitude of the American press, which was very much evident before Pakistan's flirtations with China, has ceased, and most commentators have bent over backward to present India's case impartially if not favourably. Hanson Baldwin, the *New York Times'* military analyst, has stated that the war could last for only a little more than a month, due to the lack of supplies on both sides.

Most commentators have hailed the U Thant mission to Karachi and New Delhi, and much hope has been placed on United Nations efforts to restore peace. Apparently, both the United States and Britain, which are capable of exercising powerful if not overwhelming pressure on both India and Pakistan, have agreed to rely on the United Nations, at least for the present. The American press has noted with some regret that both sides have responded coolly to peace overtures, and there is still general bewilderment in most circles as to why a major con-

flict is being fought over a seemingly minor issue by two nations who have much to lose by prolonged military action. There is little effort to examine the issues from the points of view of the warring nations, and one gets the general impression that the developed nations (perhaps including the Soviet Union) should simply intervene and demand that the fighting stop. There has been almost no discussion of the important communal and strategic issues which are involved in the dispute.

The provincial American press, which is read by the vast majority of the American public, has presented the conflict in highly oversimplified terms, although it has attracted sustained front page attention. Little concrete news has been available, and editorial writers, wholly ignorant of the situation on the subcontinent, have expressed their amazement at the expansion of the fighting, while at the same time not explaining the key issues involved.

Deplorable Publicity

In addition to basic ignorance about India and particularly about the Kashmir situation which is evident from the State Department on down, the paucity of information available in the United States has other causes. The attitudes of both the Indian and Pakistan governments towards dissemination of news and background material about the fighting have left much to be desired. New York Times reporters have noted that it is next to impossible to get hear front lines, and that obtaining information from government officials on both sides is a frustrating process. The fact that large doses of propaganda are added to news reports is obvious, since the official statements change from hour to hour, often contradicting each other. Indeed, it is possible to listen to American radio stations and hear a number of conflicting and clearly false reports about the fighting during the course of a given day. As a result of government bureaucratic procedures and possibly deliberate false statements by both sides, the situation is even more confused than necessary.

To date, the reports which have come from New Delhi have been more complete than those from Pakistan, perhaps due to the fact that American reporters have been stationed in India for a long period of time. In-

dian authorities also seem to be somewhat more interested in presenting a favourable image than are the Pakistanis. The Indian public is pictured as strongly supporting the government, and it has been stated that the present emergency will probably strengthen Congress control over the government. Indian government officials are pictured as confident of victory, and rather unwilling to engage in peace talks at the present time.

In the various analyses of comparative military strength which have appeared, the general impression is that while India's armed forces are superior in size and supplies to those of Pakistan, President Ayub Khan has the advantages of superior training and more modern although inadequate American arms. Much stress is laid to the suspension of military aid to both sides by Britain and the United States, which can, it is stated, play a crucial role in shortening the conflict.

U S Stakes in the War

Several key Senators have suggested that all American aid be withheld from both sides until the fighting is stopped. While this proposal is not now taken seriously by the Administration, if all else fails it remains possible that this threat will be used. Fear of China's increased influence in South Asia is an overriding element in the determination of American policy, and there is no doubt that whatever has to be done to keep China out of the area will be done by the Americans. It is unlikely that the key Western powers, as well as the Soviet Union, will let the conflict continue at its present level indefinitely. They simply have too much to lose from a prostrate India and defeated Pakistan. At present confusion seems to prevail in Washington, London and Moscow. The efforts of both India and Pakistan to gain support have been rather unsuccessful in the Western capitals, who have ceased to take official statements with much seriousness.

American reaction to the present conflict has been one of both sympathy and confusion. For perhaps the first time, the American people are keenly aware of events on the subcontinent, and the deep concern of the American government is evident in its statements.

— Philip G Altbach

BOOK REVIEWS

Indian Kinship Systems

Christoph von Furer-Haimendorf

Kinship Organisation in India by Irawati Karve, Second revised edition; Asia Publishing House, 1965; pp 389 Rs 30.

WHEN in 1953 the first edition of Irawati Karve's book on Indian kinship systems was published as a volume of the Bulletin of the Deccan College Postgraduate and Research Institute it did not arouse as much interest as it deserved. Anthropologists and sociologists certainly realized its importance as the first systematic comparative study of the numerous aspects of kinship behaviour in India, but the very fact that it appeared in a small edition as one of a series of learned monographs limited its impact on intellectual circles inside and outside India. Since then Karve has addressed herself through various channels to a growing public interested in the functioning and recent development of Indian society, and there can be no doubt that the new revised and enlarged edition will meet with a very different and far more lively response. Some parts of the book have been rewritten, many have been improved by minor corrections and an entire chapter on Ownership of Property, Succession and Inheritance has been added.

Command of Sanskrit Sources

Karve began her analysis of Indian kinship systems as early as 1938, when she investigated the kinship organization of the various castes of the Marathi-speaking culture-zone. She then discovered a discrepancy between the kinship terminology which, like that of Northern India, is of purely Sanskrit origin, and the marriage—and kinship—rules which link the people of Maharashtra with the Dravidian populations of Southern India. Over the years the author extended her study of kinship terms as well as of the conduct between kinsmen to many parts of India, travelling widely in her search for data, and while doing so comparing the usages of each area with those of many other regions. Her comparisons, however, were not limited to a synchronic plane. An excellent command of Sanskrit sources enabled her to extend her investigations diachronically to the earliest periods of recorded Indian history. In this way she demonstrated the extraordinary

continuity of Indian family organization and kinship behaviour throughout the subcontinent's long and varied history. Situations now depicted in popular literature and even the plots of cine-films have close parallels in stories and legends of the Vedic age. Attitudes then formed persist even nowadays in the villages of Northern India, and our understanding of contemporary conditions can be greatly deepened by reference to the early Sanskrit literature. Yet, Karve is not content with emphasizing the remarkable continuity of the Indian social tradition, but she traces above all the changes in kinship terms and explains how they reflect changes in practices and finally even ideals.

Similarities and Contrasts

Starting with the kinship organization of the Northern zone, which resembles closely the pattern known from the classical Sanskrit literature, the author investigates the kinship systems of all the main cultural and linguistic zones of India. Besides some similarities she finds contrasts in fundamental attitudes as well as a blending and dovetailing of the individual systems. The continuity of Indian traditions is probably unique, and there is no other part of the world where ideals and attitudes evolved as much as three millennia ago have determined social behaviour so powerfully and lastingly. On the other hand, there are greater and far more basic regional differences in kinship systems than there are in other subcontinents dominated by a single leading civilization. Whereas in European countries the family and marriage system rooted in Christian ideals evinces certainly some considerable local differences, there are within the European culture sphere no such drastic and fundamental contrasts as that between the patrilineal family of Northern India based in its structure and ramifications on strictly enforced local exogamy and, on the other hand, the matrilineal family pattern of some South Indian societies, where cross-cousin marriage favours the concentration of kinship ties in small

clusters.

The effects of the attempts of present Indian legislatures to impose from above a uniformity which conflicts with the diversity of traditional regional patterns can be judged only by those who have a full appreciation of the many-sided implications of old established local usages. A scholarly and detached book such as the work by Karve should therefore be of the greatest interest and value to all those concerned with the implementation of acts likely to revolutionize the structure of the Indian family. It should also counteract the all too common assumption that certain forms of family organization are intrinsically better and more "progressive" than others. At present patrilineal succession and inheritance are being more favoured than the matrilineal system of such regions as Kerala, but value judgements of this type are usually based on considerations other than an objective analysis of the positive and negative attributes of the two conflicting systems.

Illuminating Hypothesis

Karve's book is so rich in factual information as well as intuitive insight that a review cannot do more than outline the main trend of her arguments. Interspersed with the detailed description and interpretation of kinship usages are illuminating, even though partly rather tentative, hypotheses regarding problems of Indian prehistory. Thus Karve believes that the speakers of Munda languages represent the oldest still traceable ethnic group, and tends to support the theory of an expansion of Dravidian languages from a centre in South India discounting the hypothesis of the gradual displacement of Dravidians from Northern India and their slow retreat to the southern part of the peninsula.

The many additions to this work which has already become a classic of Indian anthropological literature show that Karve continues to be active in research. Her's is not a temperament to be easily satisfied with an

achievement, and there is little doubt that when a third edition of this book is due, she will again add some new discoveries and interpretations drawn from her comprehensive and deep knowledge of Indian social systems.

A Congress Stalwart

S Joseph

Rafi Ahmad Kidwai: A Memoir of His Life and Times by Ajit Prasad Jain; Asia Publishing House, 1965; pp X + 130, Rs 14.

THIS is a short memoir of Rafi Ahmed Kidwai written by a friend, colleague and admirer. In this book Ajit Prasad Jain has chosen the happy technique of presenting a number of anecdotes and incidents from Kidwai's life and letting the events, on the whole, speak for themselves. For instance the chapter called 'Some Rafian Episodes' consists of the juxtaposition, without much explanatory comment, of a number of terse anecdotes which show up different and sometimes startling aspects of his character. It appears from these that Kidwai had a taste for fast driving, was extremely gregarious, outspoken sometimes to the point of rudeness, open-handed in his generosity and a lover of practical jokes. In addition to that he did not hesitate to use his office to help those who appealed to him and publicly announced (as a joke) shortly before his death that he could, if necessary, successfully replace Nehru as Prime Minister. Fortunately no attempt is made to trim Kidwai down into consistency by omission or explanation.

A few important events in the history of the Congress Party and government in which Kidwai played a part are also described. They are the UP Agrarian Reform Movement, the gradual alienation of Muslims and the Muslim League from Congress, and the manouvres which took place within the Congress party after Independence and which culminated in the resignation of Kidwai from the party and eventually the replacement of Tandon by Nehru as President of the Party. The analysis of events is generally fair but one must question the statement that the Congress alliance with the Khilafat movement was "the finest hour of the nationalist struggle" because Hindus and Muslims were for once united. Gandhiji, he says, would go to any length to create confidence among minorities. But even in the Congress there were people like Motilal Nehru who were doubtful about the Congress support for such "a moribund institution even the Turks were sick of it" (Nanda). It was the

Moulvis and Ulemas who dominated the Khilafat movement, not the middle class Muslims who eventually came to power in the Muslim League. At any rate this Hindu-Muslim Unity lasted only until the Khilafat was dissolved by the new Turkish government.

In another chapter Jain defends the Congress decision to refuse to accept the Muslim League as sole representative of Indian Muslims for the purpose of division of seats in the U P cabinet of 1937. Maulana Azad has pointed to the decision as being largely responsible for the demand for a separate Muslim State. Jain says that the formation of Pakistan could only have been the result of certain deep-seated and long-term causes; it could not be due to one isolated incident. But even long-term causes can be intensified and latent fears brought to the surface by more immediate events and unfortunately the U P incident seems to have given Muslim League leaders the opportunity to demonstrate to their followers the potential dangers of Congress rule.

Another episode described in some detail is the series of events leading to the resignation of Kidwai and the author from the Congress in 1951. Kidwai had long been associated with the left of the Congress and with socialist groups outside consisting mainly of defected Congressmen. His aim we are told, was to persuade Nehru to leave Congress and become the leader of a new Socialist Party. It is fascinating to speculate what might have occurred if he had succeeded. But without Nehru, Kidwai was unwilling to leave Congress; whether this was due to his emotions which would not let him leave an old friend as Jain says, or due to his reason which must have told him that he could never succeed without Nehru is not clear.

A quaint touch is added to the book by Jain's choice of verse for his chapter headings. The split between Muslim League and Congress is headed by

"Two lovely berries moulded on one stem.

So with two serving bodies but one heart"

and the U P Agrarian Reform struggle with

"Ring in the nobler modes of life With sweeter manners, purer life".

Only the chapter entitled 'Father of Civil Aviation' is left verseless; perhaps even the Oxford Book of Quotations could not rise to the occasion.

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Foodgrains Prices and Costs of Cultivation

Some Observations

N K Thingalaya

N S Shetty

The relationship between the prices of foodgrains and their costs of production has not been adequately studied. The paucity of empirical data about costs of cultivation has been the main obstacle to any systematic study of this nature. Now, when the Government is engaged in evolving a policy of fixing prices of the important foodgrains and a few other crops on the basis of costs of cultivation, analysis of the price-cost relationship becomes even more important.

The following is a preliminary attempt in that direction using the available data, meagre as they are. The purpose is merely to indicate very roughly the relationship between the prices of a few foodgrains and their fair costs of cultivation and not to suggest any policy conclusions.

THIS study is based exclusively on the data available from the Farm Management Reports for six States for three years 1954-55, 1955-56 and 1956-57. The foodgrains studied are (1) paddy in Madras and West Bengal, (2) wheat in Punjab, Uttar Pradesh and Maharashtra, (3) jowar in Maharashtra, and (4) gram in Maharashtra and Uttar Pradesh. In using the cost of cultivation data given in the Farm Management reports, no attempt is made to readjust or re-

assess any of them even though admittedly the Farm Management reports have resolved some of the important problems involves in the allocation of costs to various items when the crops are grown together by making assumptions that are purely arbitrary at times. And of the two methods used to calculate costs, the cost accounting method and the Survey method, the first method has been relied upon primarily on the ground of its apparent superiority to the survey method.

The price data relevant for our purpose are the wholesale prices prevailing during the harvest period within the villages as they represent the actual prices received by the producer. The Farm Management reports provide the monthly average prices of different crops prevailing in the villages in which the costs of cultivation are calculated. In what follows, we have compared the cost per maund

Table 1 Paddy Harvest Prices and the Cost of Cultivation

(1) Hooghly District (West Bengal)

(Rs per Bengali Maund)

Cost/Price	1954-55		1955-56		1956-57	
	Aman	Aus	Aman	Aus	Aman	Aus
COST A1	4.45	2.78	3.86	3.50	4.20	4.98
COST A2	5.97	5.29	5.47	5.71	6.92	12.91
COST B	7.32	6.64	7.39	7.35	10.09	14.51
COST C	10.82	11.14	10.16	12.57	12.37	21.63
Harvest Period Price	9.48	10.00	9.50	10.82	11.18	12.36

(2) 24-Parganas (West Bengal)

Cost/Price	1954-55		1955-56		1956-57	
	Aman	Aus	Aman	Aus	Aman	Aus
COST A1	3.60	3.28	2.81	3.68	3.09	3.52
COST A2	4.46	3.57	3.74	4.75	4.55	3.80
COST B	5.90	4.71	5.71	6.19	7.31	5.03
COST C	9.68	10.46	8.79	9.40	9.82	9.02
Harvest Period price	9.60	9.70	9.50	10.82	11.18	12.36

(3) Salem and Coimbatore Districts (Madras)—Average

	1954-55			1955-56			1956-57		
	1st crop	2nd crop	3rd crop	1st crop	2nd crop	3rd crop	1st crop	2nd crop	3rd crop
COST A1	5.76	6.20	4.90	5.10	4.30	5.90	8.60	7.70	9.20
COST B	7.20	8.50	7.60	6.70	5.20	7.40	10.00	8.40	10.10
COST C	10.60	11.60	10.20	10.30	9.00	10.80	13.30	11.40	13.00
Harvest Period Price	12.10	10.80	10.90	11.20	11.00	12.20	14.80	13.10	13.60

Note: Cost A1=All material costs.
Cost A2=Cost A1 plus rent paid on leased land
Cost B=Cost A2 plus rental value of owned land and interest on owned capital.
Cost C=Cost B plus the value of family labour.

Table 2: Cost of Cultivation of Paddy in Different Sizes of Farms in West Bengal and Madras 1956-57.
(Rs per Maund)

Size Groups (acres)	Aman Paddy				Aus Paddy			
	Cost A1	Cost A2	Cost B	Cost C	Cost A1	Cost A2	Cost B	Cost C
0.01-1.25	3.89	5.10	9.63	13.35	1.72	1.72	3.56	9.36
1.26-2.50	3.73	5.28	8.38	11.07	2.97	2.97	4.57	9.50
2.51-3.75	3.25	5.57	7.58	10.39	3.06	3.39	4.65	12.14
3.76-5.00	3.60	5.64	8.77	12.14	4.56	5.40	6.74	9.91
5.01-7.50	3.34	6.42	9.31	11.45	4.75	11.72	12.97	17.60
7.51-10.00	2.37	5.58	8.53	10.34	2.59	3.86	4.61	10.72
10.00-15.00	5.60	6.88	9.70	10.52	4.75	4.75	7.16	12.91
15 acres and above	4.92	4.92	8.83	10.21	...	...	...	...
All size groups	3.64	5.72	8.68	11.07	4.07	7.25	8.62	13.80

Madras									
Size Group (acres)	Cost A	Cost B	Cost C	Cost A	Cost B	Cost C	Cost A	Cost B	Cost C
	1st Crop			2nd Crop			3rd Crop		
0-2.5	10.1	11.8	14.6	9.0	10.8	14.6	...	...	...
2.5-5.0	5.5	6.7	9.5	2.1	2.4	5.8	4.8	6.4	9.5
5.0-7.5	11.1	13.1	15.6	5.5	6.5	10.5	8.1	10.2	13.0
7.5-10.0	6.3	7.1	10.6	2.5	2.8	5.8	5.4	6.6	10.6
10.0-15.0	12.9	16.8	21.4	1.6	2.3	5.8	3.2	4.7	8.7
15.0-20.0	...	...	...	1.2	1.2	5.6	5.1	6.4	10.2
All size groups	7.8	9.3	12.4	3.3	3.9	7.4	5.5	7.1	10.6

Table 3: Wheat—Harvest Prices and the Cost of Cultivation
(Rs per maund)

Cost/Price	1954-55		1955-56		1956-57	
	Irrigated	Unirrigated	Irrigated	Unirrigated	Irrigated	Unirrigated

Amritsar (Punjab)						
Cost A1	...	...	6.95	7.52	9.13	11.83
Cost A2	6.80	7.10	5.58	6.28	7.50	10.01
Cost B	9.10	8.50	9.91	9.82	12.60	15.92
Cost C	10.80	9.90	12.68	13.93	16.50	20.57
Harvest period price	10.85	...	10.56	...	13.68	...

Ferozepur (Punjab)						
Cost A1	...	...	7.01	6.48	7.44	11.16
Cost A2	6.00	8.70	5.61	4.92	5.74	8.52
Cost B	8.00	12.30	9.34	7.58	10.53	13.14
Cost C	10.00	14.70	11.78	8.95	13.54	16.18
Harvest period price	11.30	...	10.67	...	13.66	...

Ahmednagar (Maharashtra)						
Cost A1	7.89	7.15	8.39	9.50	8.60	7.30
Cost A2	8.50	8.96	8.84	9.50	9.20	9.00
Cost B	10.50	10.55	11.53	11.39	12.70	10.50
Cost C	14.47	13.24	15.40	14.74	17.90	13.60
Harvest period price	14.73	...	17.21	...	19.24	...

Nasik (Maharashtra)						
Cost A1	10.14	11.72	12.89	8.04	12.10	14.80
Cost A2	10.25	12.41	13.89	10.07	12.20	15.40
Cost B	13.05	16.16	16.98	12.24	16.50	19.50
Cost C	18.38	20.15	22.56	15.06	23.00	23.90
Harvest period price	12.73	...	16.19	...	19.10	...

Meerut and Muzaffarnagar (UP)						
Cost C	9.21	12.57	11.70	20.70	12.58	14.49
Harvest period price	10.00	...	12.50	...	13.50	...

of paddy and other foodgrains with their respective harvest period prices for three years.

Paddy

The available data on the cost of cultivation of paddy reveal wide disparities in the cost structure of Aman and Aus paddy in West Bengal and of the three crops of paddy grown in Madras. Table 1 provides these data for Hooghly and 24-Parganas and the average for Salem and Coimbatore districts.

For the Bengal farmer it costs less to produce a maund of Aman paddy than Aus paddy. For the latter the labour requirements being more, the imputed value of family labour raises the total cost by as much as 25-30 per cent. Similarly the harvest prices of the paddy are invariably higher than of Aman paddy. This is due to the timing of the harvest period of Aus paddy which comes to the market when the stocks of Aman paddy are depleted and the prices rule high in the village markets. Since the quantity of Aus paddy produced is comparatively small it does not depress the price immediately after the harvest as severely as Aman paddy does. It is also interesting to note that the prices prevailing in the village markets during the sowing season of Aus paddy are higher than those for Aman.

The price that the paddy cultivator of Hooghly obtains when his produce is sold within the village, does not cover all the costs incurred by him in producing it. It covers only Cost B (all costs except family labour charges). In the neighbouring district of 24-Parganas the situation is different. The market offers to the paddy cultivator a price higher than his cost of cultivation. The year 1954-55 is the only exception. It may be noted here that this year was one of all-round price decline in the country following bumper crops. The prices of paddy during this year are, therefore, lower than those during other years. The cost of cultivation was, however, the same and hence the price of paddy in 1954-55 did not cover its cost of cultivation.

Turning to Madras, the other important paddy growing State in the country, we have the data (average) for Salem and Coimbatore districts where three crops of paddy are grown in a year. Roughly, the second

crop costs less than the other two crops and the prices prevailing in the villages immediately after the harvest of this crop are relatively higher. The share of family labour charges in the total cost of cultivation of a maund of paddy remains at Rs 3 for all the three crops. The variations in the cost of cultivation during the three years are due to rise in Cost A—the

cost incurred in cash or kind to purchase material inputs.

The harvest prices for the three crops during the three years are higher than the cost of cultivation leaving a margin of roughly Rs 2 per maund of paddy sold. Thus the Madras farmer who obtains one of the highest yield rates in the country has a net margin of Rs 2 on every maund

Table 4 Cost of Cultivation of Wheat in Different Sizes of Farms, 1956-57

(Rs per Maund)

1 Uttar Pradesh				
Size group (acres)	Irrigated		Unirrigated	
	Cost C		Cost C	
Below 2.5	20.41		16.32	
2.5 — 5.0	14.35		16.91	
5.0 — 7.5	18.59		14.66	
7.5 — 10.0	12.60		16.45	
10.0 — 15.0	11.82		14.95	
15.0 — 20.0	10.33		14.07	
20.0 — 25.0	16.38		11.30	
25 and above	10.54		13.75	
All sizes	12.58		14.49	

2 Punjab				
0 — 5	15.05			
5 — 10	17.07			
10 — 20	15.44			
20 — 50	14.18			
50 and above	9.79			
All sizes	14.42			

3 Maharashtra				
(Irrigated)				
	Cost A ₁	Cost A ₂	Cost B	Cost C
0 — 5	11.3	11.3	15.6	14.2
5 — 10	10.5	10.5	14.3	20.8
10 — 15	8.2	10.2	12.6	18.1
15 — 20	11.5	11.2	17.0	23.9
20 — 25	15.2	15.4	18.7	27.2
25 — 30	10.2	10.4	14.1	18.7
30 — 50	11.4	11.8	18.1	24.6
50 and above	19.5	19.5	25.5	37.6
All sizes	10.4	10.7	14.6	20.5

Unirrigated				
	Cost A ₁	Cost A ₂	Cost B	Cost C
0 — 5	34.1	34.1	43.6	50.5
5 — 10	10.9	10.9	14.1	18.6
10 — 15	8.9	9.9	11.8	15.6
15 — 20	9.5	9.5	15.2	20.0
20 — 25	12.0	12.7	13.9	19.3
25 — 30	16.7	16.6	19.6	25.4
30 — 50	10.4	16.4	21.2	24.3
50 and above	10.7	12.8	14.3	17.5
All sizes	11.1	12.2	15.0	18.8

of paddy disposed of in the village. This margin varies considerably when the cost structure of different farmers operating in different size groups are examined.

As given in Table 2 the cost of cultivation of paddy varies widely when the subsistence farmers', the medium farmers', and the large farmers' cost structures are compared. In the case of Aman paddy in West Bengal farmers in the smallest size groups and in the medium size group (say 3.75-7.50 acres) incur losses of about Rs 2 per maund. For Aus paddy the position is quite different. The smallest or the subsistence farmers have a margin of about Rs 3 while the farmers in the 5 to 7.50 acre-group incur a loss as high as Rs 5 per maund. In Madras on the other hand farmers in most size groups are able to earn a margin over their cost. A strange exception seems to be farmers in the 10-15 acre-group who produce the first paddy crop at a cost of Rs 21 per maund while the harvest price is hardly Rs 15.

Wheat

The cost of cultivation of wheat in irrigated and unirrigated farms in Amritsar and Ferozepur districts of Punjab, Ahmednagar and Nasik districts of Maharashtra and Meerut and Muzaffarnagar of UP are given in Table 3. A striking feature of wheat cultivation appears to be the difference in the cost of cultivation in irrigated and unirrigated farms. The cost of production per maund of wheat is

lower in the former with only few exceptions. Family labour costs form a significant item in wheat as in paddy.

The Amritsar farmer appears to operate in a situation of unduly high costs and low prices compared to his counterpart in Ferozepur. In Maharashtra though wheat is costlier to produce the price is relatively higher. The range of variation in the cost

Table 5:- Jowar Harvest Prices And The Cost Of Cultivation

Cost/Price	1954-55		1955-56		1956-57	
	Dry	Irrigated	Dry	Irrigated	Dry	Irrigated
Ahmednagar (Maharashtra)						
Cost A1	3.13	2.82	5.20	5.55	4.20	4.80
Cost A2	3.81	3.13	6.04	6.02	5.30	5.20
Cost B	5.34	4.25	8.45	8.78	6.70	7.70
Cost C	7.38	5.72	11.56	11.65	9.30	10.20
Harvest Period Price	5.58		11.69		15.67	
Akola and Amravati (Maharashtra)—Average						
COST A1	6.15					
COST A2	7.25					
COST B	11.85					
COST C	12.21					
Harvest period price	10.00					

Table 6: Cost of Cultivation of in Different Sizes of Farms 1956-57
Ahmednagar District (Maharashtra)

Size group (acres)	Irrigated				Unirrigated			
	Cost A1	Cost A2	Cost B	Cost C	Cost A1	Cost A2	Cost B	Cost C
0-5	4.7	4.7	6.3	9.4	14.8	14.8	22.1	24.7
5-10	9.4	9.4	13.0	17.8	4.9	4.9	5.9	8.9
10-15	6.0	6.2	10.2	11.6	4.2	4.4	5.9	9.5
15-20	2.5	2.5	4.4	7.8	3.5	3.5	5.3	6.8
20-25	4.5	5.7	7.7	10.2	4.0	5.5	6.6	10.0
25-30	5.0	5.2	6.9	9.1	3.7	4.5	5.7	7.3
30-50	4.7	4.7	7.0	10.1	6.1	7.2	9.0	11.4
50 acres and above	...	...	...	...	2.7	4.9	5.7	8.1
All sizes	4.8	5.2	7.7	10.2	4.2	5.3	6.7	9.3

Table 7: Gram—Harvest Price and Cost of Cultivation

Cost/price	1954-55		1955-56		1956-57	
	Irrigated	Unirrigated	Irrigated	Unirrigated	Irrigated	Unirrigated
Ahmednagar (Maharashtra)						
Cost A1	10.42	7.49	10.09	4.66	6.40	6.40
Cost A2	10.42	8.11	10.17	6.54	6.40	6.50
Cost B	15.34	10.50	13.95	7.56	9.60	8.40
Cost C	18.34	13.44	17.97	10.32	12.50	11.00
Harvest period price	(2.42)	7.59 (1.77)	(1.61)	11.17 (0.92)	(0.95)	13.19 (0.83)
Nasik (Maharashtra)						
COST A1	9.33	12.24	7.79	5.65	9.20	7.60
COST A2	9.63	12.55	7.91	6.80	9.20	8.30
COST B	13.27	17.56	12.34	8.80	13.70	10.30
COST C	18.16	22.78	17.41	12.14	17.60	14.50
Harvest period price	(2.11)	8.62 (2.64)	(1.54)	11.29 (1.08)	(1.30)	13.55 (1.07)
Meerut and Muzaffarnagar (UP)						
COST C	6.24			11.20		10.07
Harvest period prices	6.00			10.00		10.00

Note:- Figures in brackets are Cost/price ratios

of cultivation is Rs 10 to 20 in Punjab while it is Rs 13 to 23 in Maharashtra. The Nasik wheat grower with scant irrigation facilities available incurs a cost which is about Rs 5 higher than the price his produce fetches in the market. In U P where the available data relate to Cost C only, the differences in the cost of cultivation for the irrigated and unirrigated wheat crop are quite significant. The unirrigated crop appears to be unremunerative to market as the prices are considerably lower than the cost. The irrigated crop, however, leaves a small margin to the producer, hardly a rupee or so per maund.

The glaring disparities in the costs of cultivation of farmers in different size groups are shown by the data provided in Table 4. The small farmer whether in Punjab, Uttar Pradesh or Maharashtra produces at very high cost. Partly the imputed value of family labour is responsible for this and partly the lower outturn that does not permit the unit costs to be low. The small farmers are placed in a precarious position where their costs of cultivation are higher than the prevailing market prices. They incur losses if their produce is marketed.

Jowar

For Jowar the relevant data are culled for only one State, Maharashtra, where it is the important food-grain next only to superior foodgrains like rice and wheat. The data for Ahmednagar district and the averages for Akola and Amravati districts are presented in Table 5.

It is not possible to say with the data available whether the irrigated crop of Jowar is costlier than the unirrigated crop. But it is evident that the yield per acre of dry Jowar is as low as 1.69 Bengali maunds while that of irrigated crop is 11.70 Bengali maunds in Ahmednagar. The price of a maund of Jowar was higher than the cost of producing it both in irrigated and unirrigated farms, except in the year 1954-55. As already said, that year's price was exceptionally low and hence unremunerative to the Jowar cultivator. The available data for Akola and Amravati tell the same story.

Observation of the costs of cultivation of jowar in different size-groups reveals that cultivators in practically all the size-groups produce Jowar at costs lower than the market prices.

The cultivator in the smallest size groups (0.5 acres) who grows Jowar with irrigation has a margin of Rs 6 per maund over his total cultivation costs. Strikingly different is the position of the farmer growing dry Jowar. He incurs the highest cost resulting in a net loss of Rs 9 per maund.

Gram

Among the pulses only gram has been included in this study and the data pertaining to its costs of cultivation in Ahmednagar and Nasik and also in Meerut and Muzaffarnagar are given in Table 6. The cost of cultivation of gram was the highest in 1954-55 in both the districts of Maharashtra and tended to decline in the next two years. Contrary is the movement of prices which rose significantly from the low level in 1954-55 by over 60 per cent in the next two years in both the districts. The difference between the cost per maund of gram and its price were so large in 1964-55 that the prices covered lesser than 50 per cent of the total cost. Even the material cost of cultivation could not be recovered from the price. In 1956-57 the Ahmednagar farmer could obtain a margin of a rupee per maund of gram while the Nasik farmer's position remained unfavourable. The

farmer in Uttar Pradesh appears to have been growing gram at costs slightly higher than the price during all the three years.

The fragmentary data on the cost of cultivation available from the Farm Management Studies are certainly too inadequate to say something on the nature of the cost-price relationship in Indian agriculture with a reasonable amount of confidence. However some features of the cost structure in various size-groups of operational holdings which they reveal may be noticed here.

The small farmer emerges as having a high cost structure for the food grains he grows while farmers in the larger size groups, who have a surplus to sell, are placed in a favourable position as regards costs. Disparity in the cost structure varies not only among the regions for any foodcrop but also within the region, for irrigated and unirrigated crops. As a corollary of this the relative importance of the different cost components in the cost structures of different crops in different farms varies over a range which however is not very wide. The cost of family labour in the total cost of production per

Table 8 :- Cost Of Cultivation Per Maund Of Dry Grain In Maharashtra

Size groups (acres)	Cost A1	Cost A2	Cost B	Cost C
Irrigated				
0-5	31.8	31.8	37.8	49.0
5-10	11.2	11.2	13.9	16.6
10-15	7.8	7.8	13.7	19.6
15-20	7.2	7.2	10.7	15.4
20-25	12.4	12.4	16.5	21.9
25-30	6.6	6.6	9.0	11.2
30-50	9.8	9.8	15.8	21.6
50 and above	7.0	7.0	9.9	11.1
all sizes	7.8	7.8	11.7	15.1
Unirrigated				
0-5	10.4	10.4	12.6	21.3
5-10	8.0	8.4	10.4	14.3
10-15	6.1	6.4	8.5	12.4
15-20	3.5	3.7	6.4	8.6
20-25	7.4	7.7	9.4	15.0
25-30	7.8	7.8	10.5	14.1
30-50	8.3	8.4	10.4	13.2
50 and above	8.7	10.8	11.7	15.0
all sizes	7.0	7.4	9.4	12.5

maund of foodgrains appears to be interestingly uniform for all regions.

The seasonal fall in the prices of foodgrains after the harvest is a characteristic phenomenon of Indian agriculture. The producers have no influence over this fall in prices. Immediately after the harvest prices of foodgrains reach their lowest and gradually rise as the pace of market arrivals decreases. The monthly variations in wholesale prices of some of foodgrains during the year as given in the Farm Management Studies provide an interesting picture. Prices slowly rise a few months after the crops are harvested and marketed. Thus if the producer of Jowar in Maharashtra disposes of his produce immediately after the harvest (in 1955-56) he obtains a price of Rs 11.69 per maund within the village. If he can delay his sale by a month the price in the village market goes upto Rs 12.81. Similarly if he is capable of withholding his stock for a month more, the village market would offer a price of Rs 14.15. Thus farmers who have storage facilities and can get credit to enable them to adjust the timing of their sale, can earn a margin of Rs 2 or 3 per maund of Jowar. The substantial farmer who has a surplus to sell and who has the storage and other facilities can gain a margin of Rs 6 or 7 per maund by selling his produce in the lean season. The present market price mechanism thus places the small farmers, who form the bulk of the producers in the country, at a relatively disadvantageous position. For the large producers, who have the ability to hold some or all the product, the market mechanism extends the privilege of selling dear.

From the set of price data available from the Farm Management Studies the difference between the village price and market price are found to be negligible. Under these circumstances it is clear that the market price does not provide an incentive for the farmer to bring his produce to the market. Further as it involves an additional cost of transporting and marketing it does not favour the sale of his produce at village market. He therefore prefers to sell, if he has a surplus to sell, within the village after the harvest.

The cost-price relationship in Indian agriculture eludes any precise empirical quantification due to the multi-

plicity of factors—economic, geographic and climatic—that affect the production process in different size groups in different regions of the country. The differences in the crop rotation and crop combination in different parts of the country also severely limit any effort in that direction. However the observations that can be made with data available are of some practical importance. In Table 9 the cost-price ratio for four foodgrains in different size groups in the selected States are presented.

The paddy cultivator in the country appears to be working with favourable cost-price ratios as compared to the producers of other crops. Paddy cultivator in all size groups have margins over costs varying from one per cent to 18 per cent (except for Aus paddy in West Bengal). Wheat cultivators of only the larger groups have margins over their costs. The unfavourable cost-price ratio of wheat cul-

tivators is mainly due to the relatively high cost of cultivation compared to paddy, despite relative prices being favourable to the former. Like the paddy cultivator the jowar cultivators in Maharashtra on all the size groups have a favourable cost-price ratio. Their margins range from 35 to 48 per cent. Gram cultivation in Maharashtra both in the irrigated and unirrigated farms appears to be uneconomic.

With these few observations based on the limited empirical information available it is not possible to come to any concrete conclusion regarding the price-cost relation in foodgrains production in the country. This is intended to be only a preliminary peep into the intricacies of the farm price-cost structure. A more rigorous analysis based on better and more sufficient data is necessary before conclusions relevant to fixation of foodgrains prices can be drawn.

Table 9: Cost-Price Ratios in Different Sizes of Farms

	Size Groups (Acres)				
	0—5	5—10	10—20	20 and above	All Size Groups
Paddy					
West Bengal					
Aman	1.03	0.97	0.93	0.91	0.99
Aus	0.83	1.15	1.04	—	1.12
Madras					
1st Crop	0.82	0.89	1.45	—	0.84
2nd Crop	0.78	0.63	0.44	—	0.57
3rd Crop	0.70	0.87	0.70	—	0.78
Wheat					
Punjab					
Irrigated	1.10	1.25	1.13	0.88	1.05
Maharashtra					
Irrigated	0.74	1.09	1.10	1.41	1.07
Unirrigated	2.63	0.97	0.93	1.13	0.98
Uttar Pradesh					
Irrigated	1.29	1.15	0.82	0.99	0.93
Unirrigated	1.23	1.16	1.07	0.93	1.07
Jowar					
Maharashtra					
Irrigated	0.60	1.14	0.62	0.63	0.65
Unirrigated	1.58	0.57	0.52	0.59	0.59
Gram					
Maharashtra					
Irrigated	3.66	1.24	1.31	1.51	1.13
Unirrigated	1.59	1.07	0.78	1.07	0.93

The Economic Growth of Gujarat

Deceleration in the Third Plan: Some Reasons

Mahesh Bhatt
V K Chawda

In the Second Plan the rate of growth achieved by Gujarat was appreciably higher than that of the national economy. In the first three years of the Third Plan, however, there has been a marked deceleration in the pace of growth in Gujarat. The rate of growth of State income and of industrial production in the State have been lower than that of national income and industrial production in the country as a whole, modest as the latter themselves have been.

An attempt is made here to examine in some detail this tapering off of growth in Gujarat and to suggest some possible explanations for it.

THE Techno-Economic Survey of Gujarat carried out by the National Council of Applied Economic Research largely deals with the economic position of Gujarat at the time of its inception, in May 1960. Hence it would be useful to examine the performance of Gujarat's economy since then. Such examination should help the public as well as the policy makers in planning the future course of action, particularly during the Fourth Plan.

According to the NCAER Survey the net output of Gujarat increased at the annual rate of 5.3 per cent during the Second Plan period, compared to the 3.8 per cent rate achieved by the country as a whole. Thus in the Second Plan the rate of development of Gujarat's economy was higher than that of the country as a whole. However, in the first three years of the Third Plan (1960-61 to 1962-63) the average rate of growth in the state income was 2.61 per cent compared to the rate of 2.94 per cent achieved by the country as a whole. Similarly average rate of growth in per capita income of Gujarat was 1.28 per cent compared to 1.33 per cent for the country as a whole (see Table 1).

Thus the rate of development of Gujarat's economy during 1960-61 to 1962-63 has been slower than that during the Second Plan period and also slower than the rate of development of the country as a whole during 1960-61 to 1962-63. State income which was Rs 765 crores in 1961-62 declined to Rs 749 crores in 1962-63, i.e. a net decline of Rs 16 crores. Agriculture accounted for 50 per cent of this decline (see Table 2).

It is true that the decline in the contribution of agriculture to State income may have been due to seasonal factors. However the decline in the contribution of the other sectors cannot be ascribed to the seasonal factor. What is noteworthy is that the

major decline was in the industrial sector (Mining, Manufacturing, and Small-enterprises). Its contribution to State income declined by Rs 18 crores and this is only partly compensated by an increase of Rs 5 crores in Commerce, Transport and Communication and of another Rs 5 crores in other services. In the country as a whole the industrial sector has progressively expanded year after year. For example the contribution of this sector which was Rs 21.1 abja in 1960-61 increased to Rs 23.0 abja in 1962-63 and Rs 24.4 abja in 1963-64.

It would be interesting to study the performance of the industrial sector in Gujarat in a little detail. The contribution to the State income of manufacturing activities alone is 15 per cent. Table 3 gives the performance of this sector over the period of 1959 to 1962. Total number of factories increased from 734 to 987 or by 34.47 per cent. What is more important is the number of reporting factories. These increased from 724 to 960, i.e. by 32.5 per cent. As far as the number of factories is concerned the performance of Gujarat as compared with the all-India record is undoubtedly encouraging. In the case of the country as a whole number of factories and the number of reporting factories increased only by 13 per cent over the same period. The contribution of this sector to State income is higher than its contribution to national income. Here it is necessary to note that the information in Table 3 relates to those factories only which are included in the Census Part of the Annual Survey of Industries. Every registered factory is included in the Census Part of the ASI, if it (i) employs 50 or more workers if aided by power or (ii) employs 100 or more workers if not aided by power. The difference between the number of factories given in the State Government publications and

in ASI is mainly due to the difference in definition of factories. State Government publications include all factories which are registered under the Factory Act irrespective of the number of people employed.

If we take ASI data regarding factories in Gujarat and the information in Table 4 together it can be seen that out of the total of 3,994 registered factories in Gujarat in 1962 only 987 factories employed 50 or more workers with power or 100 or more workers without power. The remaining 3,007 factories were of small size giving employment to 68,730 persons out of the total factory employment of 3,70,982 in 1962.

A further analysis of these data shows that the largest increase in factories (64 per cent) has taken place in factories which are classified as "others". We do not know what types of factories this category includes; but it is clear that it does not include industries of any substantial significance as all important industries worth mentioning are separately classified. The smallest increase i.e. 4.5 per cent, is in the number of electricity, gas and steam factories followed by engineering (5.38 per cent). Thus it is clear that most of the increase in the number of factories has taken place in these years in Gujarat in industries which have very little significance from the view point of the industrial growth of the economy. Analysis of data for factories included in ASI reveals the same fact. The increase in gross output (ex-factory value) of basic industrial chemicals was only 10.3 per cent and of machinery (including electrical machinery) only 2.1, while that in gross output of consumers goods industries like textiles, food, animal oils and fats and grain mill was 70 per cent.

To measure industrial growth in terms of increase in number of reg-

istered factories—as is done by the government—would be misleading. The number of registered factories may show an increase because factories which already existed but which had failed to get themselves registered earlier under the Factory Act get registered for one reason or another. When a factory is in need of some financial assistance or some raw-material, such registration becomes necessary. It may also happen that a factory which is registered in one name, may be divided on paper and given four different names in order to obtain assistance as a small-scale unit. Extension of the effective coverage of the Factory Act may also increase the number of registered factories.

Employment in Industries

Same is the trend as regards the other indicators of industrial growth. For example, employment in factories covered by ASI decreased from 3,07,770 in 1961 to 3,02,252 in 1962. The increase in productive capital was 175.2 per cent over the period 1959 to 1962 as compared with all India increase of 77 per cent. The gross ex-factory value of output increased by 41.1 per cent as compared with 43.7 per cent in the case of country as a whole. Similarly value added by manufacturing increased by only 24.9 as compared with the all-India increase of 41.63 per cent.

Amongst the several indicators of industrial growth value added by factories is the most important one and here not only is Gujarat falling behind as compared with India, but we

find an actual decline of 8 per cent in 1962. The share of Gujarat in the total productive capital of the country in 1962 was 7.2 per cent, while that of Maharashtra was 20.2 per cent,

West Bengal 17.4 per cent, Madhya Pradesh 10.2 per cent and Bihar 9.4 per cent. The share of Gujarat in the gross output of the country was only 5.5 per cent which is much lower

Table 1: Comparison of Movement of Net National Output and National Per Capita Income with Gujarat State Income and Per Capita Income

Year	Net National Output at Current Prices (Rs 100 crores)	National Per Capita Income at Current Prices (in Rs)	Gujarat State Income at Current Prices (Rs crores)	Per Capita Income in Gujarat at Current Prices (in Rs)
1960-61	141.4	325.7	694	339
1961-62	148.0	333.6	765	366
1962-63	154.0	339.4	749	352

Sources: (1) Budget in Brief, Gujarat State, 1965-66, Part I (Socio-Economic Review), p 63.
(2) R B I Bulletin, "National Income", Vol V, No 8, March 1964, p 21.

Table 2: Distribution of State Income of Gujarat by Sectors

(Rs crores)				
Major Heads	1960-61	1961-62	1962-63	
(1) Agriculture	323	364	356	
(2) Mining, Manufacture and Small Enterprises	153	175	157	
(3) Commerce, Transport and Communication	109	112	117	
(4) Other Services	109	114	119	
Total at current prices	694	765	749	

Source: "Socio-Economic Review, 1965-66", Part I, Bureau of Economics and Statistics, Government of Gujarat.

Table 3: Annual Survey of Industries (Census Section)

Year	No of Registered Factories	No of Reporting Factories	Total Productive Capital (Rs '000)	Total Employment	Total Output Ex-Factory Value (Rs '000)	Net Value Added by Manufacture (Rs '000)
Gujarat State—All Industries						
1959	734	724	1272457	293873	2373209	738974
1960	771	749	1479698	282414	2704614	880290
1961	850	847	1848132	307770	3232344	1007329
1962 (Provisional)	987	960	2229351	302252	3359320	923394
All India — All Industries						
			(Rs crores)	(in lakhs)	(Rs crores)	(Rs crores)
1959	8607	8223	1737	28.7	2691	759
1960	8704	8391	2000	29.1	3150	864
1961	9161	8930	2379	30.5	3693	987
1962	9733	9314	3078	32.2	3966	1074

Source: ASI, Census Section Volumes, 1962

than the shares of Maharashtra 25.0 per cent, West Bengal 21.4 per cent, Madras 7.9 per cent, Bihar 7.8 per cent and U P 7.3 per cent (see Table 5).

One indicator of the tempo of industrial development is licences issued under the Industrial (Development and Regulation) Act 1951. Since the inception of the Gujarat State to March 31 1965, out of the total 1,479 applications received for licences, only 439 licences were granted. This means that only 30 per cent of the applicants were successful in obtaining licences. Again, out of the total licences issued only 205 had been implemented in the sense that some actions had been taken to execute them. This obviously does not mean that all of the 205 have reached the manufacturing stage. It should also be noted that out of 205 implemented licences, 141 licences (69 per cent) were for the expansion of existing undertakings and only 64 were for new undertakings. The largest share, i.e., 47 per cent, of the licences given for the expansion of existing undertakings went to textiles. Out of the 234 non-implemented licences 70 were revoked and 164 remained non-implemented for one reason or another. In percentage terms, out of the total licences issued till March 1965 only 49 per cent were actually implemented, which comes to 14 per cent of the total number of applications received.

An analysis of the licences revoked shows that out of the total 70, 54 were in the case of new undertakings and 16 were in the case of expansion of undertakings. What is more revealing is that out of the total licences revoked about 41 per cent were in

the case of engineering undertakings. Between January 1962 and January 1964 out of the total licences issued by the Centre, Maharashtra got the highest, 548, West Bengal 360 and Gujarat 213. Between February 1964 and January 1965 Maharashtra got 137, Madras 104, West Bengal 87 and Gujarat 57. Thus Gujarat which was third during January 1962 to January 1964 came down to fourth position. The above analysis indicates that there is a clear need for investigating the reasons for the very high proportion of applications for licences which are rejected and also for the high proportion of licences which remain non-implemented and are revoked.

A well-known reason for the low industrial growth of Gujarat is the inadequacy of certain basic facilities like power, water, roads and technical personnel and, perhaps, entrepreneurship. According to the second Annual Electric Power Survey of India, the per capita energy consumption in Gujarat was 62 kWh which was much lower than that in many States as indicated in following table:

	Per Capita Energy Consumption (kWh)	
	1962-63	1967-68
Delhi	192	400
West Bengal	99	166
Maharashtra	87	164
Punjab	84	136
Madras	85	280
Pondicherry	63	143
Gujarat	62	116

Source: Second Annual Electricity Power Survey of India.

Table 4: Number of Registered and Working Factories

Industry	No of Factories 1959	No of Factories 1962
Ginning and Pressing	545	471
Textiles	805	849
Food, Beverages and Tobacco	689	850
Engineering	687	724
Chemicals and Pharmaceuticals	71	97
Rubber and Rubber Products	10	15
Wood, Furniture and Fixtures	91	117
Paper and Paper Products	17	22
Non-Metallic Mineral Products	234	308
Electricity, Gas and Steam	66	69
Others	288	472
	3,503	3,994

Sources: (1) Budget in Brief, Gujarat State, 1960-61, 1962-63. Bureau of Economics and Statistics, Gujarat Government.

Power Survey of India

The position of Gujarat in this respect is going to remain relatively the same even at the end of the Third Plan, as will be seen from column 3 of the above table.

Similarly, as regards rural electrification the position of Gujarat as on March 31, 1964 was also not very favourable as compared with that of many other States. This is indicated in the following table:

	Percentage of Villages Electrified by March 31, 1964
Madras	43.9
Kerala	37.1
Punjab	23.5
Andhra	13.9
Mysore	12.7
Bihar	7.8
Gujarat	6.5

Source: The Financial Express, May 2, 1965.

In spite of the fact that per capita consumption of electricity in Gujarat is much lower than in many other States and that out of the total of 18,376 villages only 1,700 villages (9 per cent) are expected to be electrified by the end of the Third Plan, the installed generating capacity in Gujarat will increase from 316.2 mW in 1960-61 to 618 mW only at the end of the Third Plan (1965-66). The requirement of electricity in Gujarat by the end of the Third Plan has been estimated at 742 mW so that there will be a net deficit of 124 mW. There is likely to be a tremendous growth in the demand for power during coming years as the proposed gigantic petrochemical complex and the discovery of some important minerals like lignite, bauxite, etc., has opened a vast scope for starting several new industries in the State. According to the Second Annual Power Survey, the demand for power in Gujarat during the Fourth Plan will be 1050 mW, in the Fifth Plan 1960 mW and in the Sixth Plan 2,600 mW.

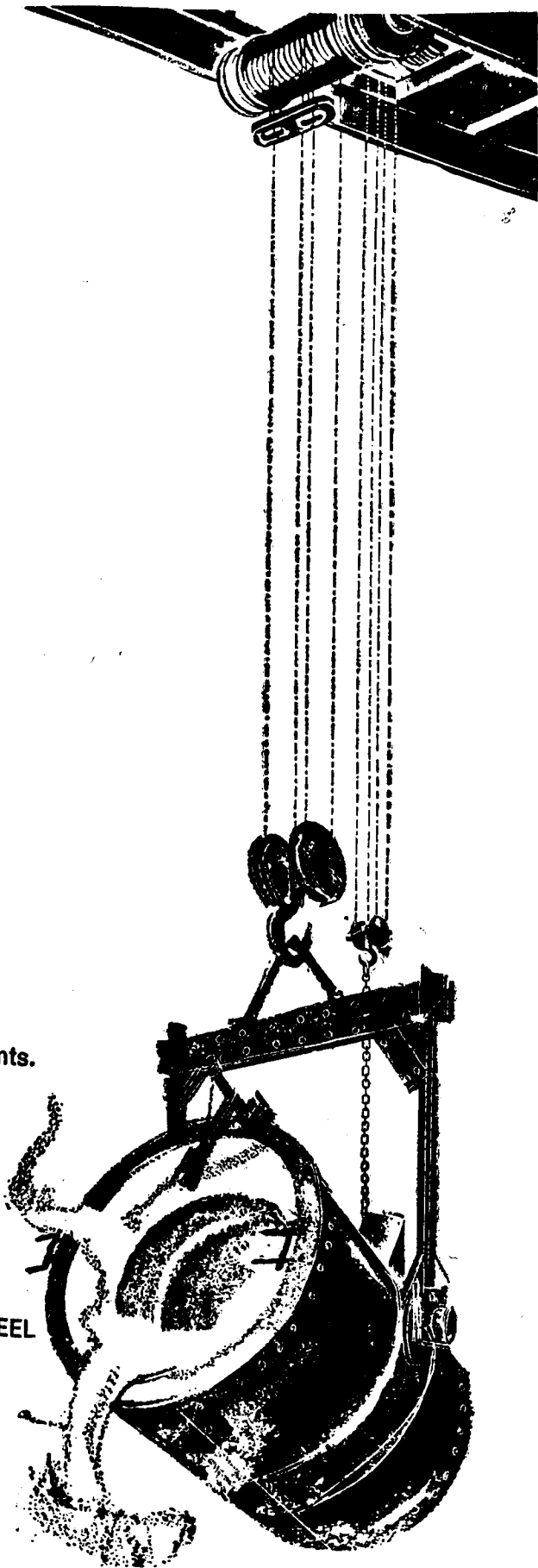
Here it should also be noted that electricity rates in Gujarat are perhaps the highest in India. The rate in Gujarat varies from 17 P to 21 P per unit while in Punjab it varies from 5.93 P to 6.04 P, in Madras from 2.01 P to 7.63 P and in West Bengal from 6.35 P to 7.89 P.

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Another important factor which has retarded the industrial growth of Gujarat is the inadequacy of roads. In 1961, there were 14,055 miles of roads in Gujarat out of which 6,905 were metalled and 7,150 miles non-metalled. The target fixed for road construction in the Third Plan is 3,474 miles, out of which till 1963-64 only 1,236 miles of metalled roads and 827 miles of non-metalled roads were built. This means that only 56.5 per cent of the target had been achieved in the first three years. The position of Gujarat in respect of roads per sq mile remains unsatisfactory as compared with many other States. This is indicated in the following table :

States	Roads per 100 sq Miles (As at the end of 1964-65)
West Bengal	120
Madras	71
Uttar Pradesh	56
Punjab	43
Gujarat	23
All India	36

Source : Nineth Report of the Estimate Committee of Gujarat Legislative Assembly, 1964-65.

Table 5 : Regional Distribution of Manufacturing Activity in India, 1962

State	Productive Capital	Gross Output
Maharashtra	20.2	25.0
West Bengal	17.4	21.4
Gujarat	7.2	5.5
Madras	6.4	7.9
Bihar	9.4	7.8
Uttar Pradesh	5.2	7.3
Mysore	3.4	3.1
Andhra Pradesh	3.0	3.3
Punjab	2.8	3.3
Kerala	1.8	2.3
Madhya Pradesh	10.2	3.5
Assam	2.2	1.8
Delhi	1.0	1.7
Rajasthan	1.1	1.1
Orissa	8.2	1.8
Pondicherry	0.1	0.1
Jammu and Kashmir	0.2	0.1
Himachal Pradesh	0.1	Neg
Tripura	Neg	Neg
Total	100.0	100.0

Source: Annual Survey of Industries, 1962.

The inadequacy of water supply for industries has also played its part in retarding the industrial growth of Gujarat. The Dhuvaran Power Project was delayed for some time due to inadequacy of water. Many industries depend for their manufacturing process on water supply and sweet water. At the same time, much of the irrigation facilities remain unutilized for one reason or another. This can be seen from Table 7.

The percentage of utilisation to potential was lowest, i.e, 33 per cent, in

Gujarat. This is indeed surprising as irrigated area in Gujarat is only 6.04 per cent of total against the all-India average of 17.65 per cent. Whatever the reasons for non-utilisation by farmers, there is obviously a case for allowing industries which can make use of this facility for industrial purposes.

Another important factor responsible for retarding the growth of industries in Gujarat is the inadequacy of finances. The following table shows the position of Gujarat as compared

Table 6 : Lags in Utilisation of Potential of Irrigation Projects

State	Potential created 1961-62	Utilisation 1962-63	Lag	Percentage of utilisation to potential
Andhra	664	701	-37	100
Assam	Nil	Nil	Nil	-
Bihar	971	800	171	82
Gujarat	740	241	499	33
Jammu and Kashmir	20	20	-	100
Kerala	350	350	-	100
Madhya Pradesh	118	98	20	83
Madras	611	625	-7	100
Maharashtra	200	163	37	82
Mysore	618	430	181	70
Orissa	908	830	78	91
Punjab	3,409	2,782	627	82
Rajasthan	689	657	32	95
U P	2,013	1,744	269	87
West Bengal	1,501	1,158	343	77
Total [Million Acres]	12.81	10.60	2.21	82

Source : "Monthly Statistical Commentary on Indian Economic Conditions" published by the Indian Institute of Public Opinion, Vol V No 6, January 1964.

Table 7 : Statewise Distribution of Engineers

States	Public Sector 1960	Private Sector 1961	No of Engineers
Maharashtra	8367	3808	12175
Madras	7124	1740	8864
U P	8046	1425	9471
Andhra Pradesh	6778	466	7245
Punjab	4792	649	5441
Madhya Pradesh	4549	784	5373
Kerala	4063	558	4618
Bihar	5638	1101	6739
Gujarat	3333	1431	4764
West Bengal	3254	4926	8180
All-India	71254	19482	90736

Source: "Monthly Statistical Commentary on Indian Economic Conditions" published by The Indian Institute of Public Opinion, Vol V, No 6, January 1964.

to that of other States in respect of loans sanctioned by State Financial Corporation, upto March 1965:

States	Rs lakhs
Maharashtra	1766.13
Punjab	1239.56
West Bengal	842.53
Andhra	787.17
Madhya Pradesh	681.54
Uttar Pradesh	639.28
Assam	595.24
Bihar	453.17
Rajasthan	413.87
Gujarat	337.08
Kerala	310.28
Jammu and Kashmir	42.95
Total	8326.42

The industrial growth of any region depends not only on the

physical facilities and resources available but also on the availability of technical personnel. Here also the position of Gujarat is unsatisfactory as revealed by the recent study by the Institute of Applied Manpower Research. The position of Gujarat in this respect is indicated in Table 7.

Besides these factors, delay in granting licences, in acquiring land or loan and in obtaining essential raw materials, particularly non-ferrous metals, are other factors which retard the industrial development of Gujarat. In fact one is surprised to note that the quota fixed for essential raw materials like non-ferrous metals, pig-iron, hardcoke, etc., by the Government of India is on the basis of the

capacity which existed before Gujarat came into existence. This is obviously inequitable to new and expanding industries.

We have analysed above the performance of Gujarat's economy since the inception of the State. The emerging picture is definitely not very encouraging. We feel that unless sufficient awareness of the problems responsible for retarding industrial growth is shown both by the Government and by the private sector the target of per capita output of Rs 445 by 1975-76, implying a 54 per cent increase in the net output of agriculture and 170 per cent increase in the net value of industrial output, would be impossible to achieve.

FROM THE CHAIR

India Steamship Company Limited

Address of Sir A Ramaswami Mudaliar, KCSI, DCL (Oxon)

THE following is the Address delivered by Sir A Ramaswami Mudaliar, KCSI, DCL (Oxon), Chairman, at the Annual General Meeting of the Shareholders of the Company held on September 20, 1965:

GENTLEMEN,

The Audited Accounts and Directors' Report for the period ending March 1965 have been in your possession for some time and, with your permission, I shall take them as read.

The Directors' Report shows that the freight earned during the year was Rs 8,30,47,416 as against Rs 8,28,05,846 in the previous year. The total number of voyages was 40 in the Liner service and 10 in the Coastal service compared to 43 and 25 respectively in the previous year.

After meeting all expenses and providing for depreciation of Rs 1,08,01,095 and interest on Government loans amounting to Rs 28,91,144 there was a trading profit of Rs 32 lakhs of which Rs 31 lakhs has been transferred to Development Rebate Reserve. The Directors feel that, in the circumstances of the trading results, a sum from the General Reserve may be appropriated for the payment of the 5% dividend on preference shares grossed up and a dividend of 5% on ordinary shares.

The Directors' Report records with some satisfaction that the optimistic note struck in the last Report has been justified by the results of the year under review. These results would have been more satisfactory if several adverse factors beyond the control of your Company's management had not affected the operation of your fleet and influenced its earnings. The course of events during the year illustrate the many handicaps that the industry had to encounter, some of them quite unforeseen, particularly in the trade that your Company's fleet is normally engaged in. Conditions of work in most ports, both in India and overseas, degenerated further during the year. Disciplined work by port or stevedore labour was a rarity in most of the ports. Accustomed as we are to some of these conditions in Indian ports, it was an unpleasant surprise to find that the position in the ports of the United Kingdom and even in some of the Continental ports had unexpectedly

degenerated and labour became very intransigent and not amenable to the guidance even of its union leaders. The ports of London and Liverpool in the United Kingdom, Genoa in Italy and sundry other ports in the West were unworkable on many days and the loss that shipping companies sustained by the intransigence of labour was heavy. Your ships had to wait sometimes over a month for a comparatively small amount of cargo to be discharged, even berthing proving difficult. Refusal to do overtime work, lightning strikes, strikes without even union authority, continued for some months in the ports of the United Kingdom and one or two Continental ports and I regret to say that conditions have not yet become normal.

In Indian ports, though the labour situation was not quite so serious, the port of Calcutta was gravely affected by an unexpected and unprecedented strike of Assistant Harbour Masters for over a period of 50 days. Ships could not be berthed or moved from anchorage to anchorage; and virtually the work in the port came to a standstill for some days. It was due to the resourcefulness and ingenuity of the port authorities and the co-operation of certain officers other than the Assistant Harbour Masters that a skeleton service was maintained for some time. Shipping companies had patiently to suffer the loss and chaos resulting from this strike and were greatly relieved when the strike was lifted.

I need not catalogue the delays and difficulties which shipping had to encounter and the congestion that resulted therefrom. Owing to berthing delays in India and abroad, your Company lost 696 days in the year, out of which 548 days were in Indian ports. All this had been aggravated, as I said, by lightning strikes including the strike of Assistant Harbour Masters in the port of Calcutta. The total days lost by your Shipping Company, apart from the normal holidays, was over 1000 days.

In fairness to the authorities concerned, the various Chairmen of Port Trusts and the Transport Department which is in charge of the national harbours and their expansion, it should be stated that worse conditions have

been avoided by timely and tactful action on the part of the Port Trust authorities and increased berthing facilities in some of the ports were organised through the Transport Department and the National Harbour Board Committee.

Increase In Expenditure and Limitation in Earnings

I have referred to delays caused to shipping by factors described in the previous paragraph. These have not prevented an agitation for increase in wages either of the floating staff or of workers on shore, whether they be stevedore labour or port workers. The wage bill of your Company has gone up considerably by such increases from Rs 97 lakhs in the previous year to roughly Rs 1 crore and 12 lakhs in the year under review. Amenities by contributions to Provident Fund and staff welfare expenses have further added to the costs. Port charges have been increased practically in every port in India to meet the demands for higher wages and the cost of development of port facilities. In Indian conditions, with fiscal policies as they are and inflationary conditions resulting from excessive expenditure, it is not easy to suggest that these increases are unjustified. The situation, however, becomes extraordinarily difficult for shipping companies and, in fact, may result in paralysing the Liner services at least, if by meeting all this additional growing expenditure, the shipping companies are denied the right to increase freight rates to a reasonable extent. I trust that such an impossible situation will not be allowed to arise and that Governments—we are concerned with more than one Government at the time—realise more clearly that shipping companies also earn foreign exchange and that Liner services are essential to the economy of the countries concerned.

Extraneous Factors

Shipping companies have been faced with certain extraneous factors which have a bearing on consideration of the freight rates and on the normal earning of shipping lines. I referred, in my speech last year, to the problem of earning foreign exchange facing

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Governments and the consequential issue of balance of payments. I had not anticipated then how much more seriously these problems will face Governments in the coming months. The Governments of Great Britain and India, with whose trade your Lines is most concerned, have had to face the problem during the year under review and will have to face it also in the current year. In September last year, the Government of Great Britain imposed a surcharge on all imports of 15 per cent. During April of this year it has been reduced to 10 per cent. The Government of India has recently put an embargo on practically all imports though a relaxation of this drastic cut in imports will, it is hoped, come about shortly.

These fiscal policies of Governments are no doubt dictated by high economic considerations and we have to accept them, though perhaps there may be a doubt whether these could have been avoided by careful husbanding of resources at earlier stages. The effect of this policy is to reduce the volume of international trade and it gravely affects the earnings of shipping lines in the Liner trade particularly. I need not repeat the obligations which the Liner companies undertake to keep a fair amount of regularity of service, to call at practically all ports from which international trade emerges, and take whatever cargo is offered, small or large, and more often, small than large, to various destinations.

The balance of payments position which faces the Governments results in a desire by Governments to export goods to various countries and encounter the competition in international markets. This fact again induces Governments to rely on freight reductions for enabling goods being sold in extremely competitive markets abroad. The dilemma that faces both Governments and shipping companies in these conflicting situations has to be resolved; and it cannot be resolved by ignoring the still small voice of shipping companies addressed directly to the Government concerned or indirectly through parliamentary representations. It seems to me that the time has come when Governments have to appreciate the fact that shipping companies also have to sustain themselves by earning a reasonable amount of profit on their stock and this cannot be achieved unless freight rates are increased.

There has already been a great deal of delay in the freight increases in the India/U K/Continent trade. Other Conferences have increased their freights considerably time after time. But in the India/U K/Continent Conference, possibly because Indian trade in this route forms the largest percentage of its external trade, there has been undue emphasis on maintaining low freight rates. I have no doubt whatsoever in my mind that if the level of service has to be maintained by Liner companies, freight rates both eastward and westward should be increased simultaneously and at the same level. I do not wish to ignore the necessity of export promotion and therefore, where it is absolutely inevitable, a reasonable rate of freight for these exportable commodities has to be considered. Hitherto, however, the need for the latter has resulted in an objection to any increase in freight rates or in a scaling down of the whole of the freight rates, and thereby seriously affecting the earning capacity of the shipping lines concerned.

It seems to me that the time has come when a radical review of the logic of this position should be made. There are many commodities which can bear a freight increase and whose export or import would not be seriously affected. It is not logical to bring down the level of freights generally to enable those commodities whose export will be affected to find a place in competitive markets. I suggest that the general level of freights increase need not be questioned by Governments. The controlling factor is the shipping companies' desire to get as much cargo as possible and companies are generally considerate enough to see that, if there is any fall in the movement of cargo owing to freight rates, they should be reasonably adjusted. But where what are called 'sensitive commodities' are concerned, which may not move without a certain amount of lowering of freight rates, a different pattern of freight rates may be considered. I suggest that there should be two levels of freight, whether eastward or westward; one, a general level which will be fixed by the Conference concerned taking all factors into consideration, and the other, a lower level which can be constantly reviewed for certain specific commodities described as 'sensitive commodities'. It is of course essential that the list of sensitive commodities should be as short as real necessity demands. The clamour

of some shippers who desire very low freights without examining diverse factors which otherwise militate against their ability to compete with like goods abroad should not form the main criterion for inclusion in the list. I hope the suggestion will be considered by shippers primarily and by Governments thereafter.

Thanks

I must record our grateful thanks to the Minister of Shipping who has, in various ways, showed his interest in the development of Indian shipping and in its prosperity. While sharing the difficulties as a member of the Government, he has as far as possible tried to understand the problems of Indian shipping particularly and to be of assistance to them. To the Ministry of Transport and its official, and particularly to the Secretary and the Director-General of Shipping, his deputies and assistants, we owe a debt of gratitude for the wise guidance and useful advice they have given to us from time to time. I would like to specially thank the Chairman of the National Shipping Board for the interest he has taken not merely in the development of Indian shipping but in its welfare and prosperity; and I trust that his influence as a prominent Member of Parliament and the detailed knowledge he has attained as Chairman of the Board will enable the Governments in general and Parliament in particular to understand the problems facing Indian shipping and to accept the recommendations that the Board may make from time to time.

Tribute

The last and not the least important of my duties is to pay a tribute to the officers and staff of the Company. The financial result of the Company for the year does not sufficiently reflect the hardwork and devoted attention which officers, both ashore and afloat, and staff of the Company have rendered during the year. Owing to conditions mentioned earlier, their responsibilities have been far greater and their work much heavier and I should like to express my and the Board's appreciation of their services. I should also like to convey the thanks of the Company to the Shippers who have extended their continued and firm support to us and to the Brokers and Forwarding Agents who have shown confidence in us and in the quality of our shipping service.

Machinery Manufactures Corporation Limited

Statement of the Chairman, Mr A K Mitra

THE following is the Statement of the Chairman, Mr A K Mitra, circulated to the members in advance with the Company's working results for the year ended March 31, 1965:

Instead of making a speech at the Annual General Meeting, I have taken the liberty of deviating from the past practice by circulating to you in advance a statement dealing with the Company's working for the year ended 31st March, 1965. I regret the delay, partly intentional, in circulating the statement—as I wanted to bring you upto date with the present position of the Company, particularly in respect of its expansion programme.

The Directors' Report and accounts for the year ended 31st March, 1965, which have been in your hands for the last few days, show improved working results. This has encouraged your Board to recommend a higher dividend of 17½ per cent (2½ per cent in the form of Bonus) after putting into reserve Rs 16.50 lacs as against Rs 12 lacs last year. Our General Reserve now stands at Rs 55.80 lacs against subscribed capital of Rs 69.71 lacs including Preference Shares. Your Company has also been able to reduce its indebtedness to Industrial Finance Corporation of India from the original figure of Rs 69 lacs to Rs 13 lacs. Our production for the year was 1316 Cards—exceeding our installed capacity of 1200 Cards a year.

Production Better

Although there was an appreciable increase in the production of diesel engines during the year under review, the plant was not able to reach its rated capacity mainly because of the difficulties encountered in substituting imported items by local manufacture. I am pleased to inform you that diesel engines manufactured by your Company have earned excellent reputation for their quality and the demand continues to increase.

In the field of Carding Engine which is the principal product of your Company we continue to hold the premier position and for the statistical minded, we have produced over 70 per cent of the total Carding Engines manufactured within the country. Having kept in touch with the latest

developments in carding technology your Company was the first to develop and market Semi High Production Cards which, when clothed with metallic wire, yield almost 100 per cent increase in production. By and large the cotton textile industry has accepted high production cards and orders are coming in.

The Semi High Production Cards are undergoing extensive tests at Textile Research Institutes at Bombay, Ahmedabad and Coimbatore from where we have received excellent co-operation and helpful suggestions. The member mills of these Institutes, after studying the evaluation test results, would have a clear idea of the best manner in which to harness the Crosrol-Varga High Production Technique to meet their individual requirements. It is my conviction that only by this method i.e. through a process of close collaboration between the Textile Machinery Manufacturers and the Textile Research Institutes that we will be able to improve the quality of our products and incorporate technological innovations to suit Indian requirements. The setting up of a separate Research Institute for Textile Machinery Manufacturers by drawing on the resources of individual manufacturers will not, to my mind, achieve the objective. I would, therefore, urge the authorities to discard the proposal of setting up a separate Research Unit for Textile Machinery Manufacturers and instead, give more direct help and assistance to individual manufacturers and to the Research Institutes mentioned above who have and are to my mind doing excellent work for the country.

Turning to the expansion programme of your Company, I am pleased to inform you that manufacturing licence for Crosrol-Varga High Production Units and letter of intent for High Production Draw Frames have been received. We have also received the licence for the import of tooling from Carding Specialists, UK. Under the expansion programme which is phased over a period of three/four years—your Company propose to manufacture two new products (1) Cross-Varga High Production Units (2000 Nos) and (2) High Production Whitin Draw Frames (200 Nos) Additionally, the manufacturing capacity in respect of the

following products will be expanded (1) Speed Frames to 90 which is the licensed capacity and (2) PH diesel engines from 2400 units to 5000 units. For implementing the programme the Company applied to Industrial Finance Corporation of India for a foreign exchange loan of Rs 138 lacs and a rupee loan of 25 lacs. I am pleased to inform you that the loan has been sanctioned in full. I should like to record our appreciation of the help and assistance we have got from Industrial Finance Corporation of India and I should like particularly to refer to the exemplary promptness with which they dealt with our application.

Diversified Expansion Programme

With the expansion programme mentioned above your Company will have diversified into a multi-product unit with a heavy bias towards textile industry. It was the promoter's intention to be able to service the largest industry in India with indigenously manufactured machinery. As one of the pioneers in this field your Company had substantially contributed to the building up of the textile machinery industry and we propose to continue to work towards the basic objective of manufacturing quality machinery which will meet their requirement. In the past your Company has had full co-operation from the industry and I hope they will continue to give their co-operation which is essential and necessary if the country has to attain the state of self-sufficiency in the field of textile machinery. I earnestly hope that the textile industry will bear with the manufacturers in their effort to build complete indigenous machinery and give their constructive suggestions. Our machinery industry has made rapid strides during the last few years and it has not only improved in quality but also, wherever possible, introduced latest technological improvements. Take for example, our High Production Carding Engines. By introducing the units in the market we have reduced the total requirement of cards in the country by at least 50 per cent. We expect that the manufacturing facility thus made available will be utilized for producing such other types of machinery which are not presently being manufactured in the country. I would appeal to the Government that before agreeing to the import of machinery from abroad

they should take the machinery industry into their confidence. In the past ad hoc import of machinery from abroad retarded its progress and if today when the industry is doing its best to supply quality machinery, imports were allowed under foreign credit arrangement, it will only again retard the efforts that the machinery industry is making.

Capacity for manufacture of diesel engines will also be increased and it will be possible for your Company to make available a larger number of diesels for agriculture which has high priority in the Fourth Plan.

I should like to add a note of caution. The increase in duty on machinery and excise duty on steel material announced in the Supplementary Budget will affect our expansion programme as the total capital outlay will undoubtedly increase. These issues are receiving your Board's careful attention.

I should like to mention in this connection that in the Supplementary Budget proposal whilst there are certain redeeming features like increased development rebate and removal of import deposit scheme, resultant increase in the excise duty on raw materials and custom duty on imported raw materials and components will, in effect, further increase the price level of indigenous products. In view of this your Directors may be reluctantly compelled to revise upwards the price list of your Company's products.

The order book remain full in respect of Carding Engines and production and despatch during the first 5 months of the current year continue at the same level as in the corresponding period of 1964/65. Recently, however, some of the mills are asking for postponement of delivery of capital goods. It is rather difficult to relate this phenomenon to a precise cause; the present economic scene is a little obscure to provide clear inferences. One can, however, see that the credit squeeze and the several other fiscal restraints imposed by the Supplementary Budget bear some measure of responsibility for the hesitant stance in the corporate sector. The textile industry has an important role in closing the gap of trade balance and there are some indications of this recognition in certain specific

measures recommended in the Supplementary Budget. I should like to think therefore that the incidence of postponement referred to earlier is no more than temporary.

I should like to conclude by placing on record on your behalf, the thanks of the Management and the Directors for the ungrudging work and loyalty of your staff throughout the year.

It is time now to start a FESTIVAL ACCOUNT for the next Diwali.

Monthly deposit of Rs. 5/- over the next year will yield Rs. 61.75 in time for the next Diwali.

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"Indian Economic Growth: Performance and Prospects"

Rejoinder

Ashok Rudra

I HAD no difficulty in recognising that the 5 per cent rate of growth for agriculture and the 7 per cent rate of growth for income were the targets of the Planning Commission for the decade 1965-75. However, I wondered whether any normative significance could be attached to these targets which could justify K N Raj's making such a statement as "Failure to achieve the higher rate now required can be fatal in its consequences". Raj has replied by saying that the figures are estimates of the Perspective Planning Division and since the details have been published I "should have had no difficulty in understanding the assumptions on which they are based" (*The Economic Weekly*, August 28, 1965). Now let me repeat for clarification's sake: I am not wanting to know the assumptions underlying the Perspective Planning Division's calculations, but the rationale, if any, of its targets which could lend them any normative significance.

In the "Notes on Perspective of Development India, 1960-61 to 1965-76" it is stated that the perspective plan has been drawn up with, among others, the following two objectives:

- "(a) to ensure a minimum consumption of Rs 20 per capita per month to the entire population by the end of the fifth five year plan; and
- "(b) to ensure that the economy will be capable of sustaining an average annual rate of growth of the order of 7 per cent even after 1975-76 without depending on foreign aid." (italics added)

The minimum consumption target has got indeed the air of being a normative objective but it is not really one such. For Rs 20 has no more normative significance than any other figure, say Rs 22 or Rs 17.50. The only minimum consumption objective that could have any normative significance is to provide to the poorest classes a level of living that would ensure them the physiological minimum requirements of nutrition, clothing and housing. The requirement works out to around Rs 35 per capita per month at the prices of 1957-58 according to my own calculation.

The second objective, that of arriving at the stage of self-sustaining

growth by 1975-76, is indeed one that is of crucial significance; but the significance cannot be passed on to the targets of 5 per cent for agriculture and 7 per cent for income, as nowhere in the "Notes" is it explained how the rates are derived from or based on this particular objective. It is about this particular argument that a 7 per cent rate of growth would lead the country to the stage of self sustaining growth within a decade that I have said that it has to be based on a plausible mathematical model to be convincing. I have not wanted that Raj should develop his arguments in his lectures with the help of a model. But I did expect that if he talks about certain targets as being "the minimum that needs to be achieved in the coming years", he should be convinced about the arguments that establish the rates to be the minimum in some sense. As I have said, no such arguments are to be found anywhere in any Planning Commission document. I wondered whether Raj had any of his own. The only systematic examination that has been undertaken of the possibilities of doing without foreign assistance by 1975-76 is that of Arjun Sengupta, published in this journal in the issue of August 14, 1965. His conclusions, I am afraid, would not lend much support to the Planning Commission in its wish-fulfilling attitude.

It is unfortunate that Raj confuses issues by referring to my results regarding the relative rates of growth of agriculture and industry, presented in an article and in some seminars. The problem examined there, among other things, was whether a 5 per cent rate of growth for agriculture is in balance with a 12 per cent rate of growth for industries, and if not what were the consequences of imbalance. The point I made in my comments on Raj's lectures has, however, nothing to do with inter-sectoral balance. I was merely asking why one should consider a 5 per cent rate of growth for agriculture as of such special significance that a failure to achieve it should be regarded as fatal. The question "what is minimum about the target of 5 per cent for agriculture" is certainly altogether different from the question, "is the

combination 5 per cent for agriculture and 12 per cent for industry balanced?"

I concede that I was less than fair to Raj in implying that he is not concerned about the increasing inequality in the distribution of income, for he has indeed expressed his dissatisfaction with this aspect of our economic growth on page 27. I also agree that the conclusion of increased inequality does not necessarily follow from the fact of the marginal saving rate being much higher than the average rates at the beginning and the end of a period. But I began my statement with, "To the extent that the pattern of income distribution determines the rate of saving...". Now it appeared to me that according to Raj the extent was very high indeed. I did understand him to mean that the high marginal rate of savings in India is primarily to be explained by the fact that "income distribution in India is perhaps more skewed than in many other countries."

Raj thinks that I have assumed "a priori that rates of growth of this order (of the order of 5 per cent) cannot be achieved". He also talks about my "apparent presumption that a higher rate of growth cannot be achieved in agriculture". Raj seems to think that rejection of a hypothesis is the same thing as the acceptance of a contrary hypothesis. However, in science the statement "data do not justify the acceptance of hypothesis A" is not at all equivalent to saying that "data justifies the acceptance of hypothesis not-A". Data can be neutral between the two hypothesis A and not-A. Of course, I do not have any stronger grounds to believe that a 5 per cent rate of growth in agriculture cannot be achieved than Raj has for believing that it can be achieved. I have not questioned Raj's assertion in order to advocate the negative view that no increase in agricultural rate of growth is possible. My position is that the evidence on which Raj is relying is too flimsy to sustain any hypothesis whatsoever, and one should not build up presumptions on such basis and gave them wide publicity. Presumptions about likely rates of growth should be based on countrywide diagnostic surveys carried out by competent experts who

will examine the performance and prospects of agriculture with adequate ing to scientific principles. No such number of observations made accord-facts have been gathered though there is no dearth of official research organisations that could have done it. The need for it cannot also be gainsaid, given the difficulties arising from the slow rate of growth of agriculture during the recent period. In the absence of any such objective collection and analysis of facts, all optimistic and pessimistic views about future performance of agriculture are to be regarded as equally baseless.

The point about an upward sloping curve for production and a downward sloping curve for market-supply has got unnecessarily confused due to a fatal misprint in my article. What I wrote was that given suitably chosen elasticities "increase in price, increased production, increased self consumption and decreased market supply may be shown as consistent". The word *decreased* was misprinted as *increased*, completely changing the meaning of the sentence. The error was pointed out in the issue of July 10, 1965, but Raj has not obviously noticed it. It should be clear now on re-reading the entire paragraph with the correction that I was not taking the aid of "suitably chosen" elasticities to conceive of a logical possibility different from the one defended by Raj but was asking that while Raj's position could conceivably be a logical possibility, was it anything more than that? Of course, Raj has initially disposed of the entire matter by describing it as "one of the elementary propositions of economic theory". But in so far as economic theory would aspire to lay any claims to scientific method, its propositions, elementary or otherwise, ought to be based on or confirmed by empirical evidence. I would like to know what empirical support one could provide for the so-called elementary proposition that non-monetised self consumption does respond to *imputed* income changes in the same way as monetised consumption to changes in monetised income when the income change, in either case is due to price change. I would like to know what it means to talk of "income effect of a price change" when one is talking of such part of production that is not brought to any relationship with prices.

Now that Raj has quoted the actual index numbers which have been the basis of his conclusions that prices remained at around the 1960-61 level

till 1963-64, it is possible to explain the differences between his figures and mine. It has caused me a little trouble to find out the explanation as he did not indicate the source from which he has taken his figures. However, the reader can check from Table No. 40, page 413 in the March 1965 issue of Reserve Bank of India Bulletin that the index numbers quoted by him refer not to the financial years 1960-61, 1961-62 and 1962-63 but to the last weeks of those years. The yearly averages are to be found in Table No. 40A page 414 of the same issue. While Raj's figures are 127.5,

122.9 and 127.4, the yearly averages are 124.9, 125.1 and 127.9. The explanation, therefore, is not that Raj has used financial year averages whereas I have used calendar year averages. What Raj has used are the prices of *single weeks* representing each year. Surely, no price comparison over time should be based on one week's figure to represent the whole year. In any case, for 1963-64 the last week's figure is 139.0 and the yearly average 135.3 so that even according to his own statistics it is not true that the prices remained in 1963-64 around the same level as in 1960-61.



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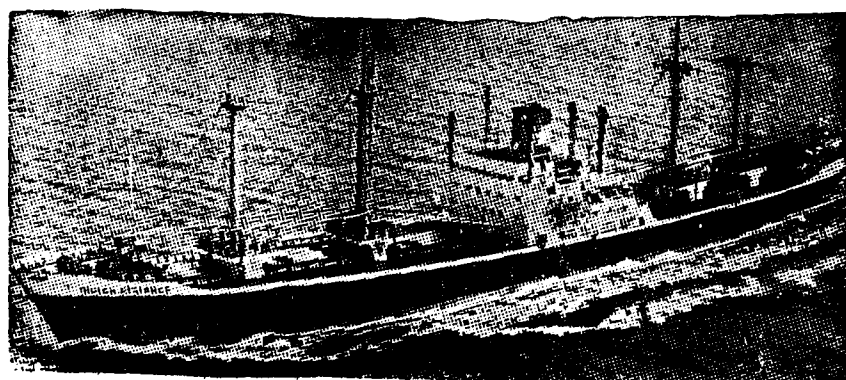
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AROUND BOMBAY MARKETS

Equities Spurt on Cease-Fire

Thursday Morning

TRADING sentiment on the stock exchange last week was guided entirely by political developments. Dalal Street which had managed to put up a fairly steady showing in face of the Indo-Pakistani conflict was forced to seek a new bottom—the lowest for nearly six years—following the threat of Chinese attack on the Himalayan borders. The market kept distinctly subdued until September 21 but staged a spectacular recovery the next day when it became known that both India and Pakistan had agreed to accept the Security Council's resolution on cease-fire. Century which had been sold down to Rs 506 on September 21 were marked up to Rs 528.50 the next day. National Rayon improved from Rs 382 to Rs 401.50, Tata Locomotive from Rs 201.25 to Rs 210.50, Indian Iron from Rs 24.36 to Rs 25.25, Tata Steel from Rs 138.25 to Rs 141.75, Hindustan Motors from Rs 16 to Rs 16.48 and Tata Chemicals from Rs 17.64 to Rs 19.28. Wednesday's rise enabled the market to recover the losses suffered in the past few weeks. The rise was due both to short covering and renewed bull support and a good deal of buying was said to be against options.

Prospects of Chinese invasion have receded with the cessation of hostilities between India and Pakistan because the latest reports from Peking give the clear impression that the Chinese move had been mainly aimed at exerting psychological pressure on India in its conflict with Pakistan. Improvement in the political situation should impart strength to the stock market, particularly when technical considerations seem quite favourable for a recovery. The recent decline in equity prices had pushed the average yield on equities to around 8.2 per cent which is probably an all-time low for Dalal Street. Of course, even this high yield cannot be regarded as very attractive in the context of the prevailing structure of interest rates. The marked decline in floating stocks of many market leaders following massive purchases by the Life Insurance Corporation should also help the process of technical recovery.

While prospects of a technical recovery seem fairly encouraging, it is doubtful whether this recovery could develop into an important uptrend. There are no indications of any easing

of pressures on the economy; the strains are likely to increase because of the likely increase in defence effort. Defence-oriented development need not be a 'bull' factor from the view-point of the stock exchange.

COTTON

Futures Hit New High

WHILE activity in the spot cotton market was virtually at a standstill most of the time, bulls and bears continued to have fairly good fun in the futures market—fun, because futures dealings do not have any really worthwhile economic function to perform though there are quite a number of people who live purely on fluctuations. Sentiment in futures was guided mainly by war news. After easing from Rs 884.50 to Rs 875.50, the hedge contract moved up to a new high level of Rs 888 on September 22. Earlier setback was due partly to corrective profit-taking and partly to some anxiety over the heavy concentration of Chinese forces on the Himalayan borders. The week-end spurt was attributable mainly to the announcement of cease-fire, putting an end to the armed conflict between India and Pakistan.

Apart from the normal seasonal slackness, activity in the spot market has recently been affected by disturbing political developments which not merely increased the risk of movement of goods to and from the border areas but also led to curtailment of credit facilities in the war affected areas. The Deshi cotton harvest is ready in the Punjab but its picking has been seriously affected by frequent Pakistani air raids. The end of hostilities should facilitate the marketing of the new crop both in the Punjab and Rajasthan. In the absence of any reliable estimates it is difficult to say to what extent the standing crops in these two border States have been damaged by Pakistani air attacks and the movement of land forces.

Despite the general disposition to convert stocks into cash and reduced spinner inquiry due to various factors such as financial stringency, accumulation of cloth and yarn stocks with mills, partial closure of several units and setback in cloth production, there has been no noticeable decline in ready cotton prices from their all-time high levels. This merely underlines the chro-

nic imbalance between supply and demand necessitating large imports of foreign cotton despite difficult foreign exchange position. If the country were to be unable to meet the shortfall in domestic production through adequate imports, the textile industry in India would be faced with a cotton famine even though the country has the largest area under cotton in the world.

Arrivals of foreign cotton into India during the 1964-65 season (September to August) totalled 824,514 bales against 627,481 bales in the previous season. These imports consisted of 394,402 bales of American cotton and 430,112 bales of global cotton, the corresponding figures for 1963-64 being 249,860 bales and 377,621 bales. Cotton exports during 1964-65 totalled 254,606 bales against 271,279 bales. As usual, Japan ranked first among the buyers of Indian cotton and accounted for 194,992 bales (205,616 bales). The USA was a distant second with 25,585 followed by the Continent 18,214 bales, Hongkong 10,759 bales, UK 4,272 bales and others with 784 bales.

OILSEEDS

Mixed Showing

THE oilseeds market made a mixed showing last week. While the spot section was distinctly subdued under the lead of groundnut and groundnut oil, futures held remarkably steady on strong bull manipulation and shot up at the week-end following the announcement of cease-fire by both India and Pakistan. Groundnut oil was marked down to Rs 27.90 (per 10 kilograms) and groundnut ready Khandesh variety declined to around Rs 67 per 50 kgs; not many weeks ago, groundnut oil had touched a high of Rs 33 and groundnut ready had been quoted around Rs 77. Linseed oil eased from Rs 25.50 to Rs 24.75 during the week and castor oil from Rs 18.40 to Rs 18 in sympathy with the weakness in groundnut oil.

But castor and linseed futures displayed remarkable firmness. After an early setback from Rs 94.87 to Rs 91.75 castor April shot up to Rs 97.25 in kerb dealings on September 22. Linseed April which had eased from Rs 111.75 to Rs 109.75 were up again at Rs 114 on September 22. The week-end spurt in futures was caused by nervous short covering and renewed bull support. The spot market also

turned a little steadier at the week-end mainly in sympathy with futures though sentiment was aided by the news of the cease-fire.

The recent setback in spot groundnut and groundnut oil prices has been attributed to a large extent to the general disposition on the part of stockists to convert their stocks into cash because of the anxiety over the political situation and frequent air raids by Pakistan. But sentiment has also been affected by the arrival of new summer crop and reports of a fairly satisfactory new crop of groundnut. Fresh buying by vanaspati manufacturers in the past few weeks has been restricted to the minimum because of the uncertain political situation.

Despite the recent decline, groundnut and groundnut oil prices are still on the very high side. While the movement of the new crop in the next few weeks should normally impart an easier tendency, prospects of any significant fall in prices are generally discounted because of the continuing inflationary pressures in the economy and the overall scarcity of edible oils and fats in the country. Oilseeds production continues to lag behind the country's growing requirements. Here again, as in the case of cotton, the problem is one of the stepping up of the miserably low yield. Export activity in recent weeks has been seriously affected by disturbing political developments which has made loading and unloading of cargoes difficult and risky. The situation should improve with the cessation of hostilities between India and Pakistan.

MONEY AND BANKING

Interest Rates Down

THE Bombay short term money market relaxed during the week to September 22. Though during the earlier part of the week the market continued to display some tightness, conditions eased as the week progressed. Demand slackened and the rate of interest fell. Supply continued to be ample with funds flowing freely into the market. Rates of interest on Wednesday were placed at between 7 and 6½ per cent.

During the week to September 10 scheduled bank credit advanced by Rs 1.59 crores to Rs 2,024.09 crores, according to the statement of affairs of scheduled banks issued by the Reserve Bank. Bank credit a year ago stood at Rs 1,728.71 crores. Aggregate deposits of the banks, however, declined from Rs 2,792.86 crores to Rs

2,781.37 crores during the week. The decline follows a Rs 40.69 crores decline during the preceding week. Borrowings from the Reserve Bank fell as well from Rs 21.33 crores to Rs 19.36 crores and balances with the Reserve Bank came down by Rs 4.59 crores to Rs 97.89 crores. Cash in hand with the banks were lower by Rs 1.18 crores at Rs 65.51 crores. Investment in government securities at Rs 830.61 crores declined by Rs 24.90 crores. Money at call and short notice, however, improved by Rs 3.82 crores to Rs 55.62 crores.

Foreign securities with the Reserve Bank during the week to September 17 increased by Rs 2.28 crores to Rs 70.63 crores according to the Statement of Affairs of the Reserve Bank. Balances held abroad, however, declined slightly from Rs 16.14 crores dur-

BUSINESS NOTES

Dyer Meakin Breweries

THE name of Dyer Meakin is known in India since 1855, when it started a brewery and a distilling plant on a small scale at Solan in Simla Hills. Since then it has expanded to its present size, and is now the only single unit of its kind in all Asia. The distillery at Kasauli is one of the oldest in Asia and its maltings are regarded to be one of the biggest in the East. They provide the vast quantity of malt required for the production of malt whisky. The Lucknow distillery is responsible for producing quality liquors. Apart from the expansion at the old units, an industrial township, named Mohan Nagar, was established in 1962 to house a chain of factories of Dyer Meakin. Already under operation here are a number of units — a yeast and malt plant, brewery and distillery, cold storage, ice factory, soft drinks unit and breakfast food factory. The expansion plans are still continuing.

The company is the first to manufacture malt extract and brewer's yeast in India. By manufacturing malt extract, the company not only meets the country's demands for the pharmaceutical and food industries but also saves the much needed foreign exchange. Dyer Meakin is today making over two dozen alcoholic products and an equal number of non-alcoholic ones. Its beers are amongst the best in the world and are exported. It has recently received an order for whisky from Scotland, a place where the world's best whisky is produced.

ing the preceding week to Rs 15.19 crores. Notes in circulation at Rs 2,580.40 crores showed a drop of Rs 11.55 crores and rupee coins declined from Rs 102.96 crores to Rs 101.43 crores. Rupee Securities stood at Rs 2,302.44 crores against Rs 2,304.72 crores the previous week. Central Government deposits fell sharply from Rs 109.55 crores to Rs 67.66 crores. State government deposits, however, improved from Rs 8.50 crores to Rs 19.66 crores. Deposits of scheduled banks at Rs 102.98 crores show an increase of Rs 5.26 crores. Loans and advances to governments declined from Rs 67.08 crores to Rs 40.24 crores and advances to scheduled banks were also lower by Rs 4.11 crores at Rs 17.38 crores. Investments were better by Rs 1.47 crores at Rs 155.01 crores.

The company has expanded its malting activities at Mohan Nagar by setting up a new modern malt house which not only enables it to meet the requirements of its various units, but also to make supplies in increased quantities to other consumers. A Rs 1.5 crores glass factory is under construction. The first phase of the manufacturing programme having started, the normal production is expected to being by the end of this year. The glass factory will produce bottles, containers, crystal glass, glassware for households and fancy glassware. It is proposed to set up many other ancillary units with the glass factory. Negotiations are in progress with a Japanese firm for securing technical know-how in the manufacture of fancy glassware. Besides, there are plans to treble the capacity of the glass factory to 300 tons per day.

During the year to March last, the company well continued its growth as is reflected in a 39 per cent jump in sales to Rs 9.13 crores followed by more than 26 per cent advance in gross earnings to Rs 2.18 crores, an impressive achievement notwithstanding the all-round rise in costs. The directors have proposed an increase in the dividend of four points to 25 per cent, which has followed a three-point rise in the preceding year. What is more, the enhanced distribution finds a bigger cover of 5.5 times, against less than 4.9 times a year ago. Not only that. A bonus issue in the ratio of 1:14 is also proposed. The scrip is fancied by

investors for its growth potential and very sound financial position.

Titaghur Paper

VARIOUS difficulties and misfortunes combined to affect the working results of Titaghur Paper Mills during the year to March last. The closure of No 3 mill for 4½ months due to labour trouble and acute steam shortage at No 2 mill resulted in a drop of some 10.5 per cent in production compared to the preceding year. After the prolonged closure, there were also a number of process difficulties which seriously delayed completion of some important engineering jobs. Besides, the company was obliged to pay profit sharing bonus of Rs 13.78 lakhs to workmen in respect of five years ended March 1964, apart from the minimum bonus for the year 1964-65. Pran Prashad, Chairman, has held out a hope of better performance in the current year. In his statement circulated with the 1964-65 report, he expects the year's profit position "more in keeping with the past record of this company, notwithstanding increases in labour and other costs."

During 1964-65, Titaghur's total production was 51,850 tonnes compared to 57,822 tonnes previously. Net sales of paper were substantially lower at Rs 9.88 crores (11.74 crores) and movement of stocks was restricted due to wagon difficulties resulting in accumulation of stocks. The accounts shows a loss of Rs 6.81 lakhs, as against a profit of Rs 13.65 lakhs in the previous year. A sum of Rs 16.40 lakhs has been withdrawn from reserves to wipe off the deficit and pay usual dividends on preference shares and at the rate of 2.5 per cent on 'A' and 'B' equity shares.

Rohtas Industries

THE financial results of Rohtas Industries, manufacturers of a wide variety of products such as paper and boards, cement, sugar, vanaspati and caustic soda, show a sharp setback due mainly to the payment of arrears of bonus, dearness allowance and wages for the previous years which demanded a fairly large amount. While production of paper and boards, asbestos cement, caustic soda and sugar showed an increase, that of cement and vanaspati declined. The impact of continuously rising costs was reflected in the lower profits of the paper unit. The company has ordered equipment required for modernisation of its soda

recovery plant. The modernisation scheme will cost about Rs 45 lakhs and will be completed in 2-3 years. The production of vulcanised fibre increased from 4.2 lakh kgs to 6.5 lakh kgs due largely to the use of base paper produced in the paper factory to supplement imported supplies.

The intensive cane development measures adopted by the company contributed to the substantial increase in sugar production. The vanaspati factory, however, could produce less because of shortage of groundnut oil and delay in the arrival of soyabean oil from the U.S. Production has since gone up with the receipt of this oil, and the current year's working of this unit should show significant improvement. Additions were made in the machine shop for creating extra machining capacity. The cast iron foundry is being modernised. This unit will now be in a position to undertake outside engineering jobs on a larger scale.

As to the future profitability of the company, much will depend on the Government's price policy, since most of the commodities manufactured by it are subject to rigid price control by the Government. The increase of seven Paise per kg in the price of Duplex board with effect from September this year and the increase of Rs four per tonne in the cement retention price from June should help improve the earnings.

The working results for the year to March last show a small decline in sales from Rs 18.90 crores to Rs 18.42 crores followed by a sharp fall in after-tax profit from Rs 43.44 lakhs to Rs 21.59 lakhs. After setting aside Rs 3.65 lakhs (Rs 5.95 lakhs) for transfer to development rebate reserve, there remains a surplus of Rs 17.94 lakhs compared to the previous year's Rs 37.49 lakhs. The usual preferential dividends and the reduced equity dividend of six per cent together demand Rs 36.52 lakhs, against Rs 46.72 lakhs a year ago. A part of the shortfall in the disposal profit is made up by writing back Rs 12.49 lakhs being depreciation provided in previous years.

Jay Engineering

THE financial results of Jay Engineering Works, makers of sewing machines and fans, for the year to March last show a notable recovery following a five-and-a-half month long strike that ended at the close of May

1964. No manufacturing operations could be carried on in the Works for the first two months of the year, but later the workers put in greater efforts to overcome the consequences of strike and helped produce distinctly improved results as reflected in sales which at Rs 12.16 crores were over 16 per cent more than the preceding year's and gross profits more than 63 per cent higher at Rs 89.13 lakhs. The provisions for depreciation and development rebate reserve are slightly lower at Rs 34.33 lakhs and Rs 2.75 lakhs compared to Rs 35.20 lakhs and Rs 3 lakhs, respectively, in the previous year, but the tax liability has mounted to Rs 29.25 lakhs against only Rs 8.60 lakhs. Even then, net earnings have risen three-fold to Rs 22.80 lakhs from the previous year's Rs 7.64 lakhs. Of this, as before the preferential dividend requires Rs 5 lakhs, and the unchanged equity distribution of eight per cent on a capital enlarged by a three-for-ten bonus issue demands Rs 15.80 lakhs as against Rs 12.15 lakhs. What is more impressive, these results have enabled ploughing back of a couple of lakh rupees to general reserve whereas in the preceding year as much as Rs 9.50 lakhs had to be withdrawn from that reserve for disbursement of a smaller total amount of dividend.

The management is optimistic about the outcome of operations in the current year, for the relationship with the rank and file of the workmen continues to be good and "the workmen are applying themselves sincerely" to normalisation of production activity. In line with the general trend, however, Jay Engineering's operations have lately been affected by the difficulties in imports and by the further financial squeeze recently initiated by the government. Costs, too, continue to rise.

The other two favourable factors which may influence this year's working are (1) operations at the Hyderabad factory have stabilised and (2) export earnings are expected to further look up on account of the continued efforts being made to promote exports. The company's products enjoy a world-wide market.

The Ceylonese subsidiary, Usha Industries Ltd, incurred a small loss of Rs 0.39 lakh during the year to March last. Production has now been started there of those parts which hindered operations last year owing to import difficulties.

Poysha and Lubecawerke

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India's packaging industry takes a big step forward as Poysha, the nation's second largest container maker, joins hands with one of Europe's leading packaging companies: Lubecawerke, West Germany. Lubecawerke is renowned in every field of scientific packaging, with 9 subsidiaries and 7 associates all over the Continent. All their technical know-how and valuable experience are pooled in Lubecawerke's Central Laboratory, which will be made available to Poysha. Poysha will now have the benefit of Lubecawerke's expertise. The technical collaboration agreement covers an extensive field: from advice on food preservation and quality control to assistance in setting up new production lines and training Poysha engineers in West Germany. It will also use Lubecawerke's many patented features. With all this, Poysha will soon move into new fields of packaging: plastics, paper, aluminium... This will mean a wider choice of packaging materials for Indian users and for exports, too. Most important of all, the specialised knowledge of Lubecawerke will now be at the service of Indian industry, through Poysha, and its subsidiary, Kaira Can Company Limited.



POYSHA INDUSTRIAL COMPANY LIMITED

BOMBAY NEW DELHI COCHIN

CURRENT STATISTICS

SUMMARY OF ACCEPTED RECOMMENDATIONS OF THE FINANCE COMMISSION

	Share of In- come-tax*	Share of Union Excise Duties**	Grant-in-aid under Article 275(1) (Sub- stantive por- tion)	Share of Estate Duty	Grant in lieu of tax on Railway fares	Additional Duties of Income to be Assured	Excise: Distribution of balance
States' Shares	75%	20%		98%			97.45%
Distribution	Per cent	Per cent	Lakhs of Rs	Per cent***	Per cent	Lakhs of Rs	Per cent
Andhra Pradesh	7.37	7.77	1,351	8.34	9.05	235.24	7.42
Assam	2.44	3.32	1652	2.75	2.79	85.08	1.98
Bihar	9.04	10.03	...	10.76	9.99	130.16	6.17
Gujarat	5.29	4.80	...	4.78	7.11	323.45	7.43
Jammu & Kashmir	0.73	2.26	657	0.83	...	...	****
Kerala	3.59	4.16	2082	3.92	1.85	95.08	5.65
Madhya Pradesh	6.47	7.40	270	7.50	9.85	155.17	4.62
Madras	8.34	7.18	684	7.80	5.81	285.34	11.13
Maharashtra	14.28	8.23	...	9.16	8.98	637.77	19.87
Mysore	5.14	5.41	2082	5.46	3.98	100.10	5.21
Nagaland	0.07	2.21	707	0.09	0.01	...	****
Orissa	3.40	4.82	2918	4.07	2.12	85.10	2.58
Punjab	4.36	4.86	...	4.70	7.43	175.19	5.01
Rajasthan	3.97	5.06	673	4.67	6.40	90.10	3.17
Uttar Pradesh	14.60	14.98	985	17.08	18.23	575.81	7.83
West Bengal	10.91	7.51	...	8.09	6.40	280.41	11.93
			14061			3254.00	

* The net proceeds of Income-tax, except those attributable to Central emolument and Union territories are divisible between the Centre and the States. The Commission has retained the share attributable to Union territories at 2½ per cent of the net proceeds.

** Representing net proceeds of Union Excise Duties on all commodities.

*** Applies only to tax allocated to other than immovable property.

**** Jammu and Kashmir and Nagaland will receive no compensation but 1½ per cent and 0.05 per cent respectively of the net proceed will be paid to them.

OUTSTANDING DEBT OF STATES

(As on 31st March)

(Rs lakhs)

		Loans from the Centre	Permanent debt*	Unfunded Debt	Floating Debt	Other Loans	Total
Andhra Pradesh	1952	—	500	698	611	17	12,497
	1957	10,671	4,083	928	1,358	606	22,798
	1961	15,823	5,738	1,089	—	843	33,513
	1964	25,843	7,950	1,285	—	891	43,895
	1966	33,769	—	—	—	—	—
Assam	1952	190	24	155	—	—	369
	1957	2,359	276	434	20	68	2,616
	1961	4,574	578	584	465	74	5,372
	1964	9,848	—	—	—	—	11,549
Bihar	1952	937	280	262	10	—	1,209
	1957	6,818	1,653	419	—	34	7,551
	1961	15,846	3,294	802	241	181	18,723
	1964	25,576	4,798(a)	1,289	552	428	31,139
	1966	34,173	—	1,709	390	753	41,823
Gujarat	1961	7,719	2,927	496	—	293	11,435
	1964	14,554	3,812	702	—	443	19,511
	1966	19,234	5,351	857	—	476	25,918
Jammu & Kashmir	1952	503	—	100	—	—	603
	1957	2,305	—	131	—	—	2,436
	1961	3,612	—	189	61	20	3,882
	1964	6,177	—	333	235	67	6,812
	1966	8,818	—	478	235	62	9,593
Kerala	1952	240	550	770	—	—	1,497
	1957	2,289	1,268	854	—	—	4,411
	1961	5,328	2,274	841	229	252	8,924
	1964	10,114	2,669	1,060	405	371	14,619
	1966	14,505	3,535	1,295	405	512	20,252

		Loans from the Centre	Permanent debt*	Unfunded Dept	Floating Dept	Other Loans	Total
Madhya Pradesh	1952	1,425	607	248	—	—	2,280
	1957	4,442	789	342	138	26	5,737
	1961	11,536	1,956	515	64	388	14,459
	1966	29,265	3,595	1,101	—	767	34,728
Madras	1952	2,021	2,241	707	80	—	5,049
	1957	6,302	3,736	669	170	26	10,903
	1961	12,764	5,892	955	—	455	20,066
	1964	20,469	7,285	1,344	—	1,112	30,210
	1966	27,190	9,511	1,845	380	1,381	40,307
Maharashtra	1952	2,289	2,323(b)	775	190	—	5,577
	1957	11,883	5,223(b)	1,730	36	—	18,944
	1961	15,847	8,002(b)	2,176	52	449	26,526
	1964	25,573	8,983	2,955	15	1,067	38,593
	1966	33,518	11,548	3,695	—	1,503	50,264
Mysore	1952	513	1,576	—	—	—	2,089
	1957	4,915	2,511	—	—	25	7,451
	1961	9,061	3,868	—	—	864	13,793
	1964	15,493	4,060	—	1,950	1,155	22,658
	1966	—	—	—	—	—	—
Nagaland	—	—	—	—	—	—	—
Orissa	1952	1,953	—	—	—	—	1,953
	1957	8,748	309	—	—	31	9,088
	1961	14,359	1,461	—	—	164	15,984
	1964	19,301	2,820	—	—	375	22,496
	1966	—	—	—	—	—	—
Punjab	1952	5,907	—	359	59	—	6,325
	1957	19,480	204	492	59	—	20,235
	1961	25,419	423	682	—	276	26,800
	1964	31,207	1,101	906	—	641	33,855
	1966	36,754	601	1,147	79	1,090	40,671
Rajasthan	1952	397	—	153	910	—	1,460
	1957	4,645	313	336	1,132	10	6,436
	1961	11,361	1,487	507	2,213	202	15,770
	1964	22,880	2,431	808	—	2,171	28,290
	1966	25,355	3,413	1,066	—	2,961	32,813
Uttar Pradesh	1952	3,547	1,571	616	25	—	5,759
	1957	12,734	8,395	1,032	—	—	22,161
	1961	22,749	14,233	1,738	—	441	39,161
	1966	46,820	15,854	2,978	—	1,334	66,986
West Bengal	1952	3,705	175	438	—	—	4,318
	1957	16,101	2,205	683	—	—	18,989
	1961	25,403	4,191	1,019	—	364	30,977
	1964	34,861	5,090	1,362	—	550	41,863
	1966	43,583	6,590	1,663	—	841	52,677

* Comprises market loans and bonds issued in connection with abolition of Zamindari, Jagirdari, etc.

(a) Includes Rs 17.72 crores on account of Zamindari Abolition Compensation bonds.

(b) Includes the amount raised by the erstwhile State of Bombay.

(x) Figures include those for Vidarbha.

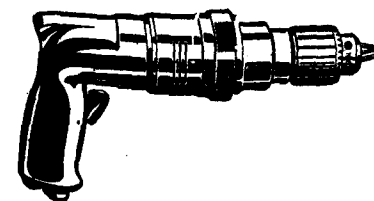
Source : Report of the Finance Commission, 1965.

BANKING RETURNS

Reserve Bank									
	Sept 17	Sept 10	Aug 20	Sept 18,		Sept 17	Sept 10	Aug 20	Sept 18,
				'64					'64
1 Note Circulation	2580.40	2591.95	2580.58	2389.81	3 Balances with the Reserve Bank	97.89	102.48	94.75	94.09
2 Rupee Coins	102.96	101.43	101.08	107.96	4 (2)+(3) as % of (1)	5.87	6.06	5.83	6.38
3 Deposits					5 Borrowing from Reserve Bank	19.36	21.33	3.00	2.04
(a) Central Govt	67.66	109.55	89.37	60.68	(a) Against usance bills and/or promissory notes	—	—	—	0.50
(b) Other Govts	19.66	11.16	10.61	13.68	(b) Others	19.36	21.33	3.00	1.54
(c) Banks	105.66	100.24	110.66	108.87	6 Advances	1798.89	1794.36	1793.15	1492.42
(d) Others	192.03	190.28	234.46	138.28	(a) State Bank	429.01	429.45	432.53	322.28
4 Foreign securities	70.63	68.35	68.35	85.46	(b) Others	1369.88	1364.91	1360.62	1170.14
5 Balance abroad	15.20	16.14	7.93	13.41	7 Bills discounted				
6 Rupee securities	2302.44	2304.72	2294.72	2095.93	(a) Inland	149.06	150.24	152.50	166.22
7 Investments	155.01	153.54	314.55	104.22	(b) Foreign	70.15	77.91	80.29	69.76
8 Loans and advances to Govts	40.25	67.08	57.37	18.41	(c) Total	225.21	238.15	232.79	236.29
9 Other Loans and advances	157.19	181.82	156.43	150.33	(i) State Bank	22.17	22.97	23.33	18.98
					(ii) Others	203.04	215.08	209.46	216.31
Scheduled Banks					8 (6)+(7) as % of (1)	72.77	72.42	72.47	69.69
	Sept 10	Sept 3	Aug 13	Sept 11,	9 Investment in Govt Securities				
				'64		830.61	855.41	829.04	759.75
1 Aggregate Deposits (net)	2781.37	2792.86	2795.69	2480.73	10 (9) as % of (1)	29.86	30.63	29.65	30.63
Demand (net)	1350.57	1360.29	1379.63	1180.12					
Time (net)	1562.11	1559.54	1564.09	1397.89					
2 Cash in hand	65.51	66.69	68.34	64.27					



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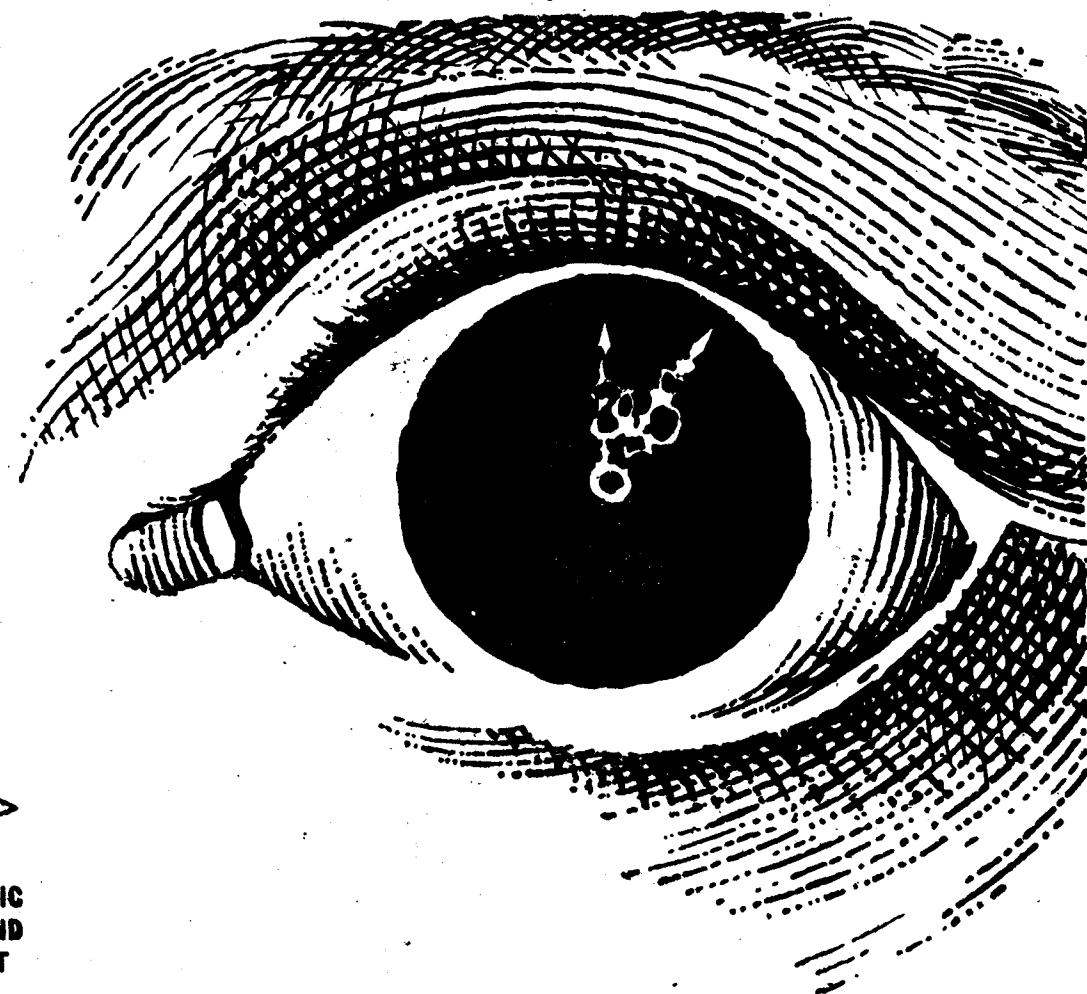
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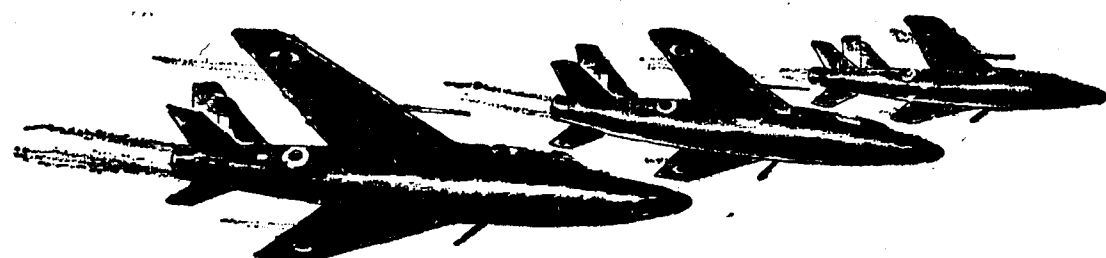
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THE ECONOMIC WEEKLY

Vol XVII No 40 Oct 2, 1965

EDITORIALS

- Out look for Aid 1499
 Magic Words — without Arsenic? 1500

WEEKLY NOTES

- IFC Emerging from Tutelage —
 Cbal Industrys Problems —
 Wilson Will Not Bite — Aden
 Crisis Deepens — Reserve
 Bank's Platitudes 1502

LETTERS TO EDITOR

- 1504
 CAPITAL VIEW
 The Statement Must End
 — Romesh Thapar 1501

BOOK REVIEWS

- Comecon's Progress
 — Surendra J Patel 1511
 In Quest of the Risk Premium
 — M. G Pavaskar 1513

SPECIAL ARTICLES

- Indian National and State
 Income Data: Some Aspects
 — Mahinder D Chaudhry 1515
 — Bert F Hoselitz
 UN's Failure in Kashmir: A
 Factual Survey 1506
 The Aftermath
 — S K Nath 1509

FROM THE CHAIR

- The Mysore Paper Mills Limited 1522
 The Jay Engineering Works Ltd 1524
 Industrial Finance Corporation 1526
 Imperial Tobacco 1529

AROUND BOMBAY MARKETS

- Equities Drift Lower 1533

BUSINESS NOTES

- 1494
 Machinery Manufacturers Corpo-
 ration—Raymon Engineering
 —Bombay Suburban—Hindustan
 Ferodo—Khatau Makanji
 —Ashoka Cement—Bradbury
 Mills 1534

CURRENT STATISTICS

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Outlook for Aid

THE World Bank and its two affiliates — the International Development Association and the International Finance Corporation — provide something like one eighth of total official international development assistance, but their annual meetings provide the occasion for a general dialogue on aid and allied problems between the donor countries (excluding the Soviet group and China, of course) and the beneficiaries. The former, very rightly, permit themselves some modest self-congratulation and, equally rightly, lecture the aid-receivers on the need to husband their own resources more effectively. Also, inevitably though less rightly, they extol the virtues of private enterprise and bid the governments of the developing countries to make every effort for its encouragement. The developing countries, in their turn, are grateful for the assistance they receive, but air their many problems: fluctuating or declining export earnings, widening balance of payments deficits and insufficient aid to cover them, leading to their inability to plan for satisfactory rates of growth.

The complaints should be if anything more insistent this year, though not against the World Bank and its affiliates themselves. The year ended June 1965 was the most active in the history of the World Bank group, with total loans, credits and other commitments amounting to \$1,358 million or over a fifth higher than in the previous year. Almost the entire increase was on account of the World Bank whose commitments exceeded \$1,000 million for the first time — being \$1,023 million against \$810 million last year. The comparatively small increase of \$26 million in the IDA's assistance, however, is a warning that the organisation is once again approaching the limit of its resources.

The distribution of assistance will no doubt cause some dissatisfaction; African countries in particular are not likely to regard the Bank's munificence to our country, Nigeria, as having made up the neglect of their continent against which they had angrily complained at Tokyo last September. The developing countries as a group may justifiably question the generosity to Japan and Italy who between them got slightly less than one-fourth of all World Bank assistance last year. Japan got three loans totalling \$125 million and was thus the second largest beneficiary after India, and Italy was only just behind with \$100 million. Neither is a 'developing' country and both have strong enough payments positions to have accepted the obligations of Article VIII of the IMF Agreement and rendered their currencies freely convertible. Technically there is nothing to prevent the Bank from financing whom it pleases, yet it needs to be asked why it chose to allocate so considerable a chunk of its resources last year to two countries which, relatively speaking, can very well take care of themselves — and this at a time when, according to the Bank's own reckoning, international development assistance is running well below what the genuine developing countries need and what they can profitably use.

However, it is not these errors of omission and commission — if they can be so described — which should most claim the attention of the aid givers and receivers assembled this week at Washington. What should be the fact that the proportion of the developed 'countrise' national product which is devoted to international assistance seems to be actually diminishing, instead of increasing. As the World Bank's annual report notes, the major industrial countries recorded very satisfactory rates of growth in 1964. The United States, enjoying the fourth year of continuous prosperity, increased its total output by as much as 5 per cent; in the UK output rose by over 5.5 per cent — the highest rate on record in the post-war period; in Europe the long-sustained expansion continued without interruption and aggregate output rose by more than 5 per cent; and Japan achieved a growth rate of 10 per cent demonstrating that the expansionary forces of the last decade still retain much of their momentum. Against this picture of rapid growth of their resources, financial assistance from the developed countries after a substantial rise in the latter part of 1950's has increased very little over the last four years. Official bilateral assistance from the developed

countries, other than the communist countries, remained at \$6 billion both in 1963 and 1964. This amounted very roughly to less than one-half of one per cent of the national product of these countries. Obviously, the injunction of the Economic Committee of the UN General Assembly at the beginning of the Development Decade that the developed countries should allocate at least one per cent of their national product for aid has been forgotten completely.

And as the flow of new assistance shows signs of having reached a plateau, the burden of debt which the developing countries have already accumulated is beginning to exact its toll. In 1956 their outstanding international debt was estimated at just under \$10 billion; in 1964 it reached \$33 billion. The annual service burden grew even faster, because of rising interest rates and accumulation of short-term debt. From 1956 to 1964 it rose over four times, from \$800 million to \$3.5 billion. As a result, these countries must now devote more than a tenth of their foreign exchange earnings to debt service; and the proportion will rise further. According to the World Bank's calculations, amortisation, interest and dividends are offsetting the current gross flow of capital to the developing countries from all sources by half, and will continue to offset it at an accelerating rate.

To forestall this catastrophic eventuality two things need to be done. First, steps have to be taken to reduce the burden of servicing existing debt. Here an adequate progressive increase in the annual gross flow of aid will serve the purpose as well as a rephasing of interest payment and amortisation, but since the aid-authorising agencies in the aid-giving countries are less likely to miss what they haven't got, a moratorium on debt servicing will be the surer way of helping developing countries. Second, fresh development assistance must be on such terms as will not add unbearably to the burden of debt servicing. Under a proposal advanced by the Governor of the Bank of Israel funds would be borrowed in private capital markets by the IDA or some other international agency and re-lent to the developing countries on concessional terms, made possible by a system of guarantees by the industrialised countries in support of such borrowing and the establishment of an 'interest equalisation fund' to which they would contribute amounts required to subsidise the difference

between the borrowing and lending rates.

Whatever the artifice adopted it is clear that if net transfer of resources from the developed to the developing countries is to be even maintained at the present inadequate levels without raising the gross flows required to

Magic Words—without Arsenic?

THE news reports that one gets from New Delhi about the Government's deliberations on the so-called defence orientation of the economy read more and more as original contributions to the literature of absurdity. Thus one learns from the Congress Working Committee that relentless efforts should be made on two fronts—on the production side, a quick rise in output through crash programmes, and on the consumption side, implementation of an austerity plan to restrain demand. The Committee, after deliberating for three full hours over these two lines of action ended by deciding to issue a call to the nation to forgo a meal a week as a part of the austerity drive! Its other suggestion is that the Centre should despatch teams of experts to the different States to work out on the spot programmes to increase production of food. This is not a very fresh or original proposal; as a matter of fact is it not one of the first things thought of and done every time there is some crisis or other? Again, it is reported that the Defence Ministry has been asked to estimate its requirements during the Fourth Plan. The assumption obviously is that it is possible to make such estimates. Why, one may wonder, were not these estimates made while the work on the Fourth Plan was originally undertaken? After all, the present situation with Pakistan is not at all something that has appeared out of nowhere. If it was not possible to anticipate in 1964 what might be the country's defence requirements in 1965, how is it possible to estimate in 1965 what they will be in 1966 or in 1967?

Yet another press report informs us that the Central Government is greatly impressed with the idea that one way of offsetting the likely inflationary effects of increased defence expenditure is to ask the public and the private sectors to curtail expenditure and to expect restraint on private spending. Characteristically, there are no concrete programmes, excepting hints about deferred payments in terms of defence savings certificates. The naive

unrealistically high levels (unrealistic not by the capacity of the developed countries but by the experience so far) the terms of future development assistance will have to be very different from those governing the bulk of it so far. Right now the terms are just not easing fast enough.

observer cannot but wonder again and again: if all this scope was there for increased production, decreased private spending and increased public expenditure without price rise, why were they not taken advantage of in the name of economic development and why are they now found so easily implementable when the task is defence?

Apart from news reports of this type there is very little that is as yet known about the final shape of the Fourth Plan. The National Development Council which met on September 6 authorised the Prime Minister to reorient the Fourth Plan according to his own discretion. On September 24 the Prime Minister is reported to have sent a note to the Planning Commission asking it to work out a reappraisal of the country's plans and policies. If anything got done during the 20 days that the Prime Minister took to ask the Planning Commission to take up the work, nothing of it is known to the public.

Apart from the series of announcements to anything, about the preference to be shown to defence oriented industries, the only official announcement of importance is that the outlay during the first year of the Fourth Plan would be cut by 10 per cent. Enthusiasm for the idea mooted after the Chinese aggression of 1962 that defence and development are mutually complementary and development should not slow down because of defence orientation has obviously given place to the more realistic, if fatalistic, acceptance of slower economic growth.

A step seems to have been taken in the matter of defining the defence-oriented industries. The criteria, it has been stated, is to secure an urgent increase in the supply of goods which are required for (a) purposes of defence including civil defence; (b) maintenance of essential requirements of the civil population, and (c) conserving foreign exchange by import substitution and increased exports. Vague though the first two objectives are, they are at least identification as tasks. How the conservation of foreign ex-

change could be a criterion is difficult to understand, especially in view of the fact that no suggestion has been made that the indirect effects due to

CAPITAL VIEW

The Stalemate Must End

Romesh Thapar

IT is one thing to make bold declarations in public about what India will do to secure her frontiers and national interests. It is quite another to hammer out a political and economic plan of action which will give India the strength to implement the public declarations. Already the peddlars of plan 'holidays', of 'reciprocity' and 'equi-distance' in foreign relations, of the opium that is free food and free military hardware, are busy breaking the urge towards self-reliance within the ruling party. The situation changes from day to day and, in the absence of a political-diplomatic lead, these elements are on the rampage.

Over a week ago, the position was that Pakistan had accepted Soviet mediation while our acceptance had been inexplicably held up somewhere in the Secretariat. When the position was corrected, and Soviet mediation apparently accepted, the friends of the USA within the Congress Party expressed their anxiety to assure President Johnson that India appreciated his helpful attitude—an exercise in equi-distance, no doubt! Even as the emissaries to Washington were being selected, news reached the Capital that the USA had persuaded Ayub Khan to wriggle out of Soviet mediation on the understanding that the gaps in his armoured divisions and air force would be filled. A full circle, but the GOI hasn't moved, diplomatically—unless, of course, going round in circles is understood as movement!

If the first reports about a fresh US military commitment to Pakistan are even broadly indicative of thinking in Washington, we might as well prepare ourselves to face even graver challenges in the future. I say this because now the assessment is fairly general that although the Pakistani army was punished the actual result of the campaign is a military stalemate. What's more, they sit on our territory and we on theirs. Such a result finds reflection in the political stalemate. The USA, however, views the stalemate as a threat to the stability of the Ayub Khan regime; apparently, Pakistani

inter-industrial linkage are also to be studied. It would be indeed a great achievement if the move for defence orientation somehow or other leads to

increased exports and import substitution—however, to kill sheep, we need not only magic words and ceremonies but also a sufficient quantity of arsenic.

politicians and armymen, are active exploiting the embarrassment of those who talked of "strolling to Delhi".

A fresh commitment to Pakistan by the USA would of course be dictated by the psychopathic desire of the Pentagon to possess a reliable base against the communist world on the sub-continent and also by the political objective of preventing a link-up of Pakistan with China. There could be a division of opinion on the matter of a commitment, whether it should be predominantly military or economic. But it looks as if the military commitment is inevitable, if only to repair the damage done to the Pakistani army and to Ayub Khan's prestige. And here is the rub. Any such 'repairs' will be viewed as a hostile act by India—unless, of course, the Johnson Administration still believes that it can produce the medicine to take the sting out of the hostility.

If western experts on India and Pakistan have gained new knowledge of the sub-continent during this last month, they do not seem to be making much use of it. The diplomatic grape-vine is again quivering with news that the West is putting finishing touches to a new formula on Kashmir which will make its independent status palatable to both India and Pakistan. Obviously, the unsuspecting Swaran Singh is going to get the formula thrown at him in the course of the UN General Assembly session. The political tacticians in London and Washington are probably living in the fond hope that the present circumambulation of the GOI will remind the Soviet Union that there is solid sense in watching from a distance.

If the talk we hear these days about self-reliance is seriously intended as the anchor of future policies, then the GOI will have to take the plunge very soon. The armed forces, who have had to pitch their courage against massive Pakistani superiority in armour and fire power, know at last that there is only one source which will give us the sort of help we need to make our military capacity effective in the immediate future. That source is the Soviet Union. The USSR can also provide the basic

material for building self-sufficiency in military hardware. Moscow's generous response to our demands, made always after our failure to obtain such hardware from the West, has convinced all but a tiny minority of diehards—and they no longer matter. The fear that such a step will upset our economic links with the USA and Britain is ill-founded as the experience of other countries shows. Anyhow, the fear must be fought energetically if the call for self-reliance has to be enforced.

This is the only way to end the present stalemate, to recognise the need to establish a balance of power which guarantees existing national frontiers, to establish relevant perspectives for both South Asia and South-East Asia in the context of China's traditional ambitions, and to discipline those who attempt to divide and rule this region on the pretext of fighting communism. This clarity in objectives is lacking in the GOI. The ruling party can become a leaderless mob unless this clarity is achieved. The danger signals are out: a hundred MPs demanding nuclear weapons; ministers talking loose about internal and foreign policy; and the continuing incapacity of the Cabinet to get the full military information on the recent conflict with Pakistan in order to draw the appropriate lessons.

Political and diplomatic fumbling at this juncture will delay and splinter the drive for economic self-reliance. The remarkable patriotic spirit kindled by recent events could also be suffocated by a haphazard tackling of the problems spawned by the war which will surely come to the surface in the coming months. We will continue to spend some Rs 3 crores per day on our defence and will also have to meet the cost of the war—anything between Rs 50 to Rs 100 crores. This burden of defence can become crippling if we postpone the intensive search for the answers to our problems.

Meanwhile, we must be prepared for all eventualities, even the possibility that we may have to guard a cease-fire line (hotted up every now and then) all along our western borders, from Kashmir to Kutch. But the stalemate—economic, political and diplomatic—must end.

Weekly Notes

IFC Emerging from Tutelage

THE Industrial Finance Corporation has entered its eighteenth year of operations but this is the first year with effect from which direct Government assistance to it would be progressively withdrawn. Refinance (not straight loans) would now be provided by the Industrial Development Bank, which has been entrusted with control over policy and 50 per cent of the share capital. Such refinance would be of a relatively limited order since IFC is expected to find the resources itself, mainly through the issue of bonds. The prospect of cultivating this source to a much greater extent than before (it has raised Rs 31 crores in this manner) under present capital market conditions has understandably not enthused the Chairman. He has drawn rather pointed attention to the fact that his resources are no longer perfectly elastic. This is a sobering thought indeed after net sanctions during seventeen years of Rs 227 crores and disbursements of Rs 156 crores. The change places the IFC on par with the ICICI which has had no readily tappable source in the Government, but it still has a favoured position insofar as its bonds and shares carry a Government guarantee and are, therefore, approved trustee securities.

Conditions in the capital market made a considerable impact on IFC in 1964-65. The demand for rupee loans went up and the ratio of their disbursements to net sanctions improved. Underwriting commitments proved highly onerous; given its built-in conservatism and the dubious benefit of intermittent Parliamentary scrutiny, it is hardly surprising that the IFC intends to limit its activities in this field. With the IDB around to take on major underwriting burdens, this reluctance should not prove too damaging to the capital market. Interest paid (and establishment expenses) have increased more steeply than earnings since the rate of interest on borrowings increased while that charged on loans given earlier was kept constant. There have been some defaults in payment of interest and discharge of guarantees but those in repayment of principal have been at previous year's level of less than 1 per cent.

The disbursement of foreign currency loans has been very slow: through June

1965, it was Rs 6 crores against net sanctions of Rs 22 crores, of which Rs 4 crores awaited clearance by other authorities. The Chairman attributes this delay in utilisation to the time taken by borrowers in finalising their orders and changing their equipment lists; utilisation of the French credit has been particularly slow. While the Chairman does not go further into this problem in the published statements, this curious phenomenon is, in large part, the result of tied credits, cartelisation by suppliers in aid-giving countries, prospects of expansion before the projects are fully worked out and fears of not getting adequate and timely licenses for maintenance imports after the equipment is ordered and erected.

IFC continues to take an active interest in the financing of sugar and other co-operative factories. Their share in total assistance extended has come down slightly from about 22 per cent in 1962 to 18 per cent now but this is partly due to the diversification of its business into guarantees and underwriting. So far Rs 40 crores of loans have been given to 52 sugar mills, 4 spinning mills and 1 vegetable oil extraction unit in the co-operative sector. Experience in this field has been, on the whole, encouraging and more applications are being received.

The procedures for processing applications and finalising loan formalities are being streamlined. Conditions for the registration of agreements have been liberalised, the burdens of periodical reporting reduced and, above all, completion of legal formalities is being expedited through strengthening and decentralisation of the legal division.

While the two traditional industries, textiles and sugar, continue to dominate the industrial pattern of assistance, it is clear from the appendix (provided for the first time) to the annual report that IFC has played a notable role in the financing of new industries, too. The concerns assisted in fertilisers, hardboard, general machinery, automobiles, bicycles, cement and chemicals, account for a considerable part of output in their respective industries.

In terms of its statutory powers, the Industrial Development Bank has instructed IFC to continue to carry out the directives previously given by Government till such time as these are modified or rescinded. The new rules

laid down by Government in consultation with the IDB, in substitution of the 1957 rules, represent no major change in the mechanism of its functioning. One curious rule stays as a reminder of past faith in the efficacy of industrial licensing. Rule 5 states that assistance should be extended for objectives which are approved by Government and consistent with the plans. In explanation, it is clarified that "any industrial concern for which a license has been issued under the Industries (Development and Regulation) Act 1951 shall be deemed to be established for a purpose which has the approval of the Central Government".

Coal Industry's Problems

SOME of the gnawing problems of the coal industry seem to have been virtually ignored in the recent discussions of fixing targets for the public and private sectors and for coking and non-coking coal. These are the questions of mechanisation, higher productivity, setting up of carbonisation plants, wider differentials for various grades and provision of rupee finance. Considerable emphasis has been placed over the last few years on mechanisation. For this purpose, fairly liberal foreign exchange allocations have been made for the industry, from World Bank and British credits and in trade agreements with Poland; the Durgapur mining machinery plant has also made progress. These allocations have produced results in the new public sector mines and those private mines which have large areas under exploitation. Except in open cast and difficult or deep mines, however, mechanisation has still to be proved a fully economic proposition. Most mines are much too small to benefit from mechanisation or to think about it—and some of the small mine-owners are sitting on valuable reserves. Even where it has been successful in speeding up operations, mechanisation has created problems of maintaining the quality of coal and also of full utilisation of equipment. The failure of moves to rationalise the industry through amalgamation of small collieries and increasing private sector doubts about the profitability of mechanisation are serious portents which threaten future investment as well as prevent deriving of full benefit from investment already undertaken.

The Central Fuel Research Institute has almost completed its experiments

THE ECONOMIC WEEKLY

with the carbonisation process which is in several respects more economical than washing for upgrading and blending of coal. Its pilot plant operations have given good results. Since washeries require substantial foreign exchange and high and varying ash content of coal is keeping down steel-making capacity, carbonisation plants offer a relatively easier way out, especially now when foreign aid prospects have become dim. Utilisation of coke oven gas, middlings, and thermal ash have still to receive the priority attention they deserve. Progress in the use of gas and middlings for power generation and for industrial purposes is tardy. In spite of the present extreme shortage of cement there is an almost complete indifference to the utilisation of thermal ash and steel slag for the manufacture of pozzolona cement which is a cheap and satisfactory substitute in non-structural construction.

Price differentials for higher grades have been widened considerably since 1961 but they are still inadequate. Further differentiation of prices would, however, have to await more careful—and honest—grading. The problems of rupee finance are not so simple as have been made out by the spokesmen of the industry. This is probably the only industry in which the offers of foreign exchange credits exceed the demand for them. Most of the procedural hurdles which blocked the utilisation of the World Bank credit have been removed since 1962. What makes both borrowers and lenders hesitant is the uncertain prospects of demand and the frequent inability of borrowers to produce a satisfactory project report.

Wilson Will Not Bite

Our London Correspondent writes:

THIS is the season of political conferences in Britain. The conferences take on particular significance in view of the Labour Government's paper thin majority. Last week's Liberal Party Conference, held in the intoxicating atmosphere produced by the important role the Liberals can now play in keeping the balance of power between the two major parties, was naturally dominated by discussion of the terms on which the Liberals will support the Government. The purpose of Grimond's oratory was to try and urge the Prime Minister to divorce the Labour party left-wing and espouse instead the Liberal Party and thus bring into being a new radical, but non-socialist, party.

Of course, Grimond would have liked it better if the Liberal Party Conference had been held after the Labour Conference at Blackpool. He could then have seen what line Wilson would take to meet the growing demands from the left-wing of the party for more full-blooded socialist policies. In the event Grimond had to insist that the Liberals will judge all issues critical for the survival of the Labour Party in office by the test of national, not partisan, interest and if on that basis the government is defeated, that is something that must be faced.

Although the Liberals seem obsessed by their new-found position of strength, this has not impressed the Labour Party overmuch. Dennis Healey contemptuously dismissed Grimond's rhetoric by saying that "Grimond is so busy trying to run the policy of the other two parties that he has given up trying to find one for his own. He is drunk with Walter Mitty dreams of power in Westminster. There is nothing behind that noisy rhetoric last week except a fumbling opportunism."

On the other hand, the Liberal threat to refuse to join in any rescue operations on Labour's behalf may well have strengthened Wilson's hand in dealing with his own left-wing rebels. On present showing Wilson's line will obviously be to carry on despite his wafer thin majority at least for another twelve months, by which time he hopes that he will be able to introduce some measures more palatable to the majority of his followers; but should the government be defeated he will not hesitate to appeal to the nation—both the latest opinion polls show Labour in the lead again.

In a sense Grimond was chasing paper tigers when he demanded that the Labour Government should drop its socialist programmes. Surely, whatever else Wilson's government may have been, it has not been particularly socialist? Even the steel nationalisation bill has now conveniently been relegated into the limbo of matters to be taken up at a future date.

With the future of the Sterling to secure, and international bankers breathing down its neck, the Labour Government has little socialist orientation to show in its policies. On the contrary, socialists see the Land Commission as a cowardly retreat from the election promise of nationalising urban land. Brown's Incomes policy has a pseudo-Tory ring about it and

the much vaunted National Plan certainly bids farewell to Clause Four. Describing the nature and purpose of planning, the introduction to the National Plan says: "Most manufacturing industry and commerce, is, and will continue to be, largely governed by the market economy...care will be taken not to destroy the complex mechanisms on which the market economy is based".

And what can one say of the Government's White Paper on immigration where it appears to have let itself be stampeded by Smethwick into a vicious racist scheme?

Is it any wonder, then, that there is a profound sense of disillusionment among the rank and file of the party—particularly among the left-wing members? So far the voice of the left-wing has been muted, in no small measure by Wilson's clever strategy of taking in the more militant and vocal members into the Cabinet. At Blackpool, however, Wilson will have to face the onslaught of the left on the incomes policy, Vietnam and immigration, among other issues. On the last issue, in fact, opposition can be found throughout the Labour party. For his part, Wilson will give warning to the party not to rock the boat at this critical moment. Appeals will be made to the loyalty of the members to keep the government in office. It will be particularly interesting to see how Harold Wilson will handle this tricky situation, and maintain the support of his disillusioned left without, in fact, making any significant concessions to them.

Aden Crisis Deepens

THE current crisis in Aden is largely a product of British intransigence. Since her supra-national ambitions dictate the necessity for a chain of military bases across the Middle East and Aden is a vital link in this outmoded defence line, Britain is determined to grant independence strictly on her terms; but the Adenis see no reason why it shouldn't be on their terms. Last week the British finally suspended the Constitution and placed Aden under the administration of the High Commissioner. The purpose is to force Aden to accept independence only within the South Arabia Federation (a ramshackle collection of Aden and sixteen neighbouring Sheikhdoms), and to maintain the military base there at all costs. The British would like to foist a unitary Consti-

tution on the Federation; then in Parliament the progressive Adenis would be outnumbered by the reactionary sheikhs, who would support the maintenance of the base in Aden in return for non-interference with their despotic rule. Meanwhile, the Adenis (backed by the NLF terrorists) demand repeal of the Emergency laws, removal of the base, and independence on the basis of a referendum to be held under UN auspices. The ostensible reason for the suspension of the Constitution was the increasing terrorist activity in Aden; thus the British have once again chosen not to recognise the right of a colony to self-determination because it is against British commercial and military interests.

The suspension of the Aden Constitution ill befits a Labour Government. It is clear, however, that all British political parties labour under the delusion that Britain requires a string of bases to protect her interests, and to protect the East from the menace of communism. The Aden base is a staging post to the Far East; there is another base in Hong Kong. If the Aden base is lost, another is needed fairly near, preferably on the Indian Sub-Continent. India will never agree to a base on her territory, hence the need to woo Pakistan sufficiently to obtain a base there. But the British government would also like to nurture the UK's rapidly expanding trade with China. Hence it finds itself playing down the Chinese threat to India and at the same time claiming that Britain must act as a watchdog against possible Chinese aggression. Moreover, for the moment it is equally expedient to dismiss Sino-Pakistan collusion as something minor until Britain has established a base on the sub-continent. Meanwhile, until Britain has achieved this, she must hold on to Aden, preferably until 1968 (the date set for independence).

Reserve Bank's Platitude

THE latest report of the Central Board of Directors of the Reserve Bank of India contains the usual platitudinous and rambling description of conditions in the Indian economy during 1964-65. The public is advised by the Bank that in its "Report on Currency and Finance" they should look only for facts while the views of the Bank should be sought in its Annual Report. Reading through the latest Annual Report one fails to see

any difference between the two reports.

The Annual Report opens with the expected references to inflationary pressures, expansion of money incomes outstripping growth of real output, stagnation in agriculture and so on. The remedies suggested are general; "the magnitude of plan outlays... has to be determined with due regard to the realities of the situation", "exports must be allocated a fairly large share of additional output", "growth of bank credit must maintain a proper relation to growth of real output" and so on. These recommendations are all as unexceptionable as they are obvious; surely, from the country's chief monetary authority we are entitled to a more incisive treatment of the problems of the economy?

In places, what the authors of the report intend to convey is not exactly clear. For instance, it is stated that "liquidity in the economy continued to expand at a slightly reduced rate" and then in the very next sentence that "it is also significant that the rate of accretion of bank deposits has increased". Since bank deposits constitute an important part of the liquid assets of the community, it would have been useful if the report had made clear what exactly it meant by "liqui-

LETTERS TO EDITOR

Without Aid, if Need be

THE opposition to a big Plan is nothing new as you try to make out in your editorial in the issue of August 7, 1965. Actually many people been warning Government that planning on a scale which is beyond our capacity or beyond our resources is disastrous. While Jawaharlal was alive criticism of planning was simply brushed aside by Government. After his death a little more democracy seems to be coming in and therefore more vociferous and more forceful opposition to planning beyond the resources which we can muster is heard.

I do not think it is right to say that people who should know better are losing their nerve and succumbing to the spirit of defeatism. In my opinion nobody is succumbing to defeatism. What is actually happening is that an effort is being made to bring in a sense of reality into this whole process of planning. I wonder as to what you mean when you make the statement, "But now the task, it is made

THE ECONOMIC WEEKLY

dity in the economy".

A similar confusion appears conspicuously in the discussion of public finance. In the beginning of the Report it is stated that "as fiscal resources grew there was less need for the government to finance its deficits through the banking system", but later on in para 29 we find the statement that "Government indebtedness to the banking system comprising investments in government securities by the Reserve Bank and other banks (excluding PL 480 and PL 665 funds) and ways and means advances adjusted for Governments' cash balances with the Bank continued to be the major expansionary factor". Isn't there a contradiction between the two statements? And this is not all. In para 16 while discussing the finances of the Government an entirely different concept of budgetary deficit is used. It is stated that "in the revised estimates for 1964-65, the overall deficit of the Centre has been estimated at Rs 30 crores". This is "deficit" in the narrowest sense: *ad hoc* treasury bills and change in cash balances. It would certainly have helped comprehension if the authors of the Report had not used concepts to mean different things in different paragraphs.

out, is that of resource-based and not of need-based planning. How far can any under-developed country go if it bases its aspirations on free, existing resources?" Is not this differentiation between resource-based and need-based planning a futile one? After all, our needs are much greater than even a Rs 21,500 crores plan can fulfill. Why do not we plan on something like Rs 50,000 crores? What is preventing us from doing so if planning is to be based only on the needs of our country? Granting that planning should be based on need, who is going to provide the resources? Obviously for a country like ours we have to muster all resources and after having done that we have to be realistic and say: thus far and no further. If we try to plan beyond our resources then we will be living in a fools' paradise hoping that somehow or other resources are going to fall from heaven. Can this ever happen? If so, I should be very much interested in knowing how this can happen? After all, in

THE ECONOMIC WEEKLY

Iyoti Limited, I want to plan in a big way and want to have an investment of Rs 10 crores or, why not, Rs 20 crores. The requirement of Pumps, Turbines, Switchgear and Switchboards is far more than what I can produce. However, I know that the resources I can muster are not as much as my aspirations. Therefore, I have got to limit my planning to what I can collect with all the possible efforts that I can put in.

Please do not misunderstand me. I am not at all advocating a holiday from planning. Planning must continue. However, we must plan in a little more intelligent way, taking into account that the various multipliers which the Planning Commission or the wise men in Delhi have arrived at for converting physical production targets into investment requirements are not as right as they imagine. A happy blending of indicative planning with a positive push in given directions should be practiced more and more.

We have seen that in the process of mustering resources we have created an unprecedented inflation in the country. Government goes on collecting resources with the avowed purpose of mopping up surplus funds so that they can be diverted into a more productive and desirable channel instead of allowing the people to use them on commodities which are scarce in supply and thus pushing up their price. However, in my opinion after collecting the funds they are again utilized for non-productive administrative purposes. Not only this, but a great deal of money is spent by various Government Departments which does not bring in the production the Departments expects and they end up with their estimated capital requirement by anywhere between 50 per cent and 100 per cent. Therefore, I certainly do not agree with you when you make the statement that "the Centre had in the last budget, chosen the easy path of winning cheap popularity with minor tax concessions in preference to the unpopular fiscal measures that were needed to contain the inflationary pressures". You yourself admit that "this is not because the programme itself is mis-conceived but its execution has been half-hearted, slack and halting, particularly in an area of heavy industry, heavy electricals and chemicals, including fertilizers." It is only because at the Government level they are not able to do these things and they are not able to run the plants in which

very heavy capital investment has been made both of foreign resources as well as rupee resources that people like me would like to advise the Government to stop experimenting further with incompetent bureaucrats as its advisors. Let people have a little breathing period and let them try and do something without imagining that wisdom lies only in Delhi and particularly in the Finance Ministry and Yojana Bhavan. Beyond any doubt it has been proved that if there is any wisdom in this country it certainly is not in the Finance Ministry and in Bhavan.

You mention that "If aid ceases to be as freely available as in the past, we have to gird up our lions and face it... After three five-years plans, if the present leaders are not prepared to face the prospects of doing with less aid, there are others to take up the challenge." I would like to know how is this to be done if the foreign exchange content of the Rs 21,500 crores plan, is not reduced? On the one hand you do not want to reduce the size of the plan. On the other hand you want to do without aid. How are these two contradictory statements to be reconciled? As far as frittering away of foreign exchange is concerned, I think the bureaucrats are to be blamed far more than others. They have constantly encouraged buying of know-how from abroad even for very simple things. Even now so many of the public sector organizations insist on importing either components or raw materials or machinery simply because they are available cheaply abroad.

I personally feel that we have to learn to live within our means. Not only this, but we will also have to learn to utilize these means more wisely than we have done. One way to do this is to enlist more co-operation and put more confidence in the people instead of in bureaucrats.

NANU B AMIN

Baroda,
August 23.

For reasons of space, publication of the above letter has been delayed.
—Ed.

The Need Not to Moralise

WITHOUT agreeing with all the points he makes about India's foreign policy, let me warmly congratulate Sudhir Mulji for the stand he takes in favour of morality and his courageous and lucid denunciation of the immoral aspects of our foreign

policy. I would like, however, to make one point which Mulji does not touch upon. I hope he will agree with me that while we should be moral, we should eschew our moralising postures. It is not so much our lack of morality which has made us lose friends all the world over. We are certainly not the most immoral of the lot. However we have managed to appear to be concerned more about other peoples' morals than our own, which has earned us the reputation of being not the most immoral but the most hypocritical. Recently there has been a large volume of opinion in the country against this moralising attitude: unfortunately however it has often gone together with support for immoral policies. If one had foreign policies based on principles, one could take morally correct stands in international matters without appearing merely to stand on moral pedestals.

ASHOK RUDRA

Bombay,
September 22.

Newspaper Profits

A PROPOS your Weekly Note "What Happens to Newspaper Profits," may I point out that the *Times of India* is not the only group which has used "its booming profits to start new dailies and a large number of periodicals"? Since 1950 the *Times* group has started 12 new publications—five dailies, one weekly, three fortnightly and three monthlies. Compare this to the performance of the *Express* group which has since 1950 started 21 new publications—11 dailies, 10 weeklies. And since 1955 the *Times* group has started two dailies two fortnightly and three monthlies and the *Express* group seven dailies and seven weeklies.

In discussing the use of newspaper profits for expansion, reference has to be made to the policy of the Government not to allow newsprint for new papers brought out by newspaper groups (or "common ownership units" in the language of the Registrar of Newspapers). The contrary results of this policy can be seen from the experience of *Maharashtra Times*, the Marathi daily of the *Times* group from Bombay started in 1962, whose circulation stays pegged for want of newsprint, to the advantage of *Lok-satta*, the competing Marathi paper of the *Express* group!

R RAMACHANDRAN

Bombay,
September 28.

UN's Failure in Kashmir

A Factual Survey

THE outbreak of fighting between the armies of India and Pakistan in August reminded the world of one of the signal failures of the United Nations. For eighteen years the UN Security Council has debated, passed resolutions and appointed commissions, mediators and representatives without getting near a solution of the Kashmir problem. Now with its resolution of September 20, the Security Council has, so to say, re-assumed responsibility for Kashmir. Whether it will succeed any more this time it is, of course, impossible to say, but a survey, even a brief one, of the UN's past efforts may yield some pointers, besides being interesting in itself.

The United Nations was formally introduced to the Kashmir problem on December 30, 1947 when the Government of India announced its decision to bring the dispute before the Security Council under Article 35 of the UN Charter. This Article provides that any member-state can bring to the attention of the Security Council or the General Assembly any situation which it considers likely to lead to international conflict. In its reference, India complained that Pakistani nationals had taken part in the invasion of Kashmir and that the invaders had been actively assisted by Pakistan with equipment and supplies, training and guidance and bases within Pakistani territory from which to operate. India called upon the Security Council to take steps to prevent Pakistani nationals from participating in the attack on Kashmir and Pakistan from rendering assistance in any form to the invaders.

The Security Council took up the matter for consideration on January 15, 1948. India and Pakistan were represented by Gopalaswami Ayyangar, Minister without Portfolio in the Government of India, and Sir Muhammad Zafrulla Khan, Pakistan's Foreign Minister. The two countries agreed to the appointment of a UN Commission to mediate between them. A resolution moved by Belgium for a three-member Commission was approved by the Security Council. The Commission was to consist of one nominee each of India and Pakistan and a third member agreed upon by both. It was directed to proceed to India and Pakistan to ascertain the facts of the

Kashmir situation. Differences cropped up almost immediately about the role of the Commission. Pakistan insisted that it should supervise the withdrawal of Indian forces from Kashmir; this was naturally rejected by India who argued that her forces must stay in Kashmir to ensure its internal and external security.

Finding India and Pakistan unable to compose these differences, a resolution was moved on April 18, 1948 in the Security Council by seven members, including the UK and the US. The resolution, which was passed despite protests from both India and Pakistan, expanded the size of the UN Commission on Kashmir from three to five and directed it to place its services at the disposal of India and Pakistan to restore peace and order in Kashmir and, when this was achieved, to hold a plebiscite there to determine the wishes of the people. To this end it directed Pakistan to withdraw all her personnel in Kashmir and to deny help to the invaders; when the Commission was satisfied that the invaders had started withdrawing, India would withdraw her forces leaving behind only a minimum necessary for maintaining law and order. The plebiscite was to be conducted by a Plebiscite Administrator to be appointed by the UN Secretary-General.

UN Commission on Kashmir

The Security Council nominated Belgium and Columbia to the Kashmir Commission; India nominated Czechoslovakia and Pakistan Argentina. India and Pakistan could not agree over the fifth member and so the Security Council President nominated the US. The Commission arrived in Karachi on July 8, 1948 and within five weeks presented its report to the Security Council. It called for a cease-fire in Kashmir. It recognised the presence of regular Pakistani troops in Kashmir and called for their withdrawal as well as of all Pakistani nationals and invading tribesmen. On this being accomplished India was asked to withdraw the bulk of her forces. India and Pakistan were asked to affirm that the future of Kashmir would be decided through a plebiscite after the cease-fire and truce and to create conditions which would make a plebiscite possible.

India and Pakistan accepted the

cease-fire call, Pakistan with the condition that her views would not be binding on the so-called Azad Kashmir Government which alone, she said, had the power to order a cease-fire and which would continue to administer the territories under its control. In its report to the Security Council, submitted on November 23, 1948, the Kashmir Commission pointed out that the conditions attached by Pakistan made a cease-fire and solution of the problem impossible. The Security Council, however, asked the Commission to continue its work.

India and Pakistan voluntarily agreed to a cease-fire in Kashmir from the midnight of December 31, 1948. That being achieved, the UN Commission adopted a resolution on January 5, 1949 directing that the future of Kashmir would be decided by a plebiscite to be held when the conditions regarding withdrawal of forces contained in its earlier report were fulfilled and arrangements for a plebiscite completed. It called on the UN Secretary-General to appoint a Plebiscite Administrator.

The Kashmir Commission announced on March 12, 1949, that India and Pakistan had agreed to convert the cease-fire line into a truce line. On March 21, Fleet-Admiral Chester Nimitz, the US Naval Commander-in-Chief during the Second War, was appointed Plebiscite Administrator with the consent of India and Pakistan. However, on June 6 the Commission issued a communique stating that differences between India and Pakistan on the withdrawal of troops remained uncomposed and after another six months it presented its third interim report to the Security Council pointing out that a five-member commission was not the best agency for bringing India and Pakistan together on the issues which remained to be resolved, particularly the withdrawal of troops; it suggested instead the appointment of one person to tackle the job. On December 17, 1949 the Security Council appointed its current Chairman, General McNaughton of Canada, to hold talks with India and Pakistan. It, however, took less than two months for General McNaughton to report back to the Security Council that his efforts had failed. On March 14, 1950 the Council adopted a resolution moved by the UK, the US,

THE ECONOMIC WEEKLY

Norway and Cuba providing for the appointment of a UN Mediator on Kashmir and for the dissolution of the Kashmir Commission. It called on India and Pakistan to agree, within five months, to a programme of demilitarisation under the supervision of the UN Mediator who would decide when the demilitarisation had proceeded enough for a plebiscite to be held.

On April 12, 1950 Owen Dixon, a judge of the Australian High Court, was appointed UN Mediator. Dixon presented his report on September 19, 1950. He stated in his report that he had proposed that the first step in demilitarisation should be the withdrawal of Pakistani regular forces to be followed, after the lapse of a "significant number" of days, by withdrawal of Indian forces and withdrawal and disarming of Kashmir State forces and Azad Kashmir forces. Ultimately only minimum forces would be left on either side. According to Dixon, Pakistan accepted these proposals while India rejected them on the ground that the continued presence of Indian troops in Kashmir was necessary to guard against a renewed Pakistani attack and to maintain internal security.

Dixon's Proposal for Partition

He was convinced, Dixon said in his report, that "India's agreement would never be obtained to demilitarisation in any such form, or to provisions governing the period of the plebiscite of any such character, as would in my opinion permit of the plebiscite's being conducted in conditions sufficiently guarding against intimidation and other forms of influence and abuse, by which the freedom and fairness of the plebiscite might be imperilled. Having come to this conclusion, I thought, must either abandon all attempts to settle the dispute or turn from the plebiscite—by which the destination of the whole State would be decided—to some different solution". He had therefore suggested, he said, a partition of the State either outright or combined with a plebiscite limited to an area which would include the Valley of Kashmir. In response to the suggestion he had found that India would agree to a plebiscite in the Valley of Kashmir, to the part of Jammu lying east of the cease-fire line going to India, and to the Gilgit area and the part of Jammu to the west of the cease-fire line going to Pakistan. Pakistan, on the other hand, was prepared to accept partition only if the

Valley of Kashmir went to her. This India rejected.

These differences led Dixon to the admission that "there no longer existed any possibility of my bringing the parties to any composition of the dispute". A plebiscite covering the whole state was not possible because neither he nor the Kashmir Commission had been able to secure the agreement of India and Pakistan to the steps necessary to make an impartial plebiscite possible. The alternative of a partition hinged on the question of the disposal of the Valley of Kashmir; since the Valley could not be partitioned its future could be determined only through a plebiscite. "The difficulty of using the expedient of a plebiscite (for the Valley) appears to lie entirely in the conflict between, on the one hand, the necessity of ensuring that the plebiscite is held in conditions which make it an effective means of ascertaining the real will of the people, independently formed and freely expressed and, on the other hand, certain conceptions and pre-conceptions of the Indian Government. These are based in part on what India conceives to be the origin and course of the fighting in 1947 and 1948, and in part on her unwillingness to have any interference with or restriction of the powers of government in the state, whether in reference to the use of armed forces or in reference to the civil administration".

When the Security Council resumed consideration of the question on February 21, 1951, the UK delegate introduced a joint Anglo-American resolution proposing the appointment of a UN Representative for India and Pakistan to succeed Dixon. The resolution proposed that after consultation with India and Pakistan the UN Representative should effect the demilitarisation of Kashmir on the basis of Dixon's proposals and get the consent of both Governments to a detailed scheme to hold a plebiscite. In the event of differences between the two countries, these should be submitted to an arbitrator or a panel of arbitrators to be appointed by the International Court of Justice. This resolution was totally unacceptable to India and to meet Indian objections, the UK and the US introduced a modified resolution on March 21. The principal changes made were that demilitarisation would be carried out according to the resolutions of the UN Kashmir Commission and not Owen Dixon's report; the proposal that

the UN Representative would present India and Pakistan with a detailed scheme for a plebiscite was omitted and he was asked only to report to the Security Council on the points of difference between the two countries. The revised resolution was passed by eight votes to nil, with the Soviet Union, Yugoslavia and India abstaining.

Graham's Four Reports

The Security Council appointed Dr Frank P. Graham of the United States as the UN Representative to India and Pakistan on March 30. After visits to the two countries extending over two and a half months Graham presented his report to the Security Council on October 16. The report highlighted the differences on demilitarisation. Pakistan, he said, wanted forces on either side of the cease-fire line to be reduced to four infantry battalions (4,000 men); India, while agreeing that the bulk of her forces should be withdrawn, wanted that she should be allowed to keep 16 infantry battalions in Kashmir against a Pakistani civil armed defence force of 4,000 men. On November 10, the Security Council adopted an Anglo-American resolution asking Graham to continue his work and report back within six weeks.

Graham submitted his second report on December 18, 1951. It stated that while agreement had been secured on a number of points, differences remained on the scope of demilitarisation, the date for completing demilitarisation and the size of forces to be left on either side after demilitarisation. Once more the Security Council asked Graham to continue his efforts and report to it by March 31, 1952. Graham visited India and Pakistan again from February 26 to March 25 and presented his third report on April 25, stating that there was still no agreement on the size of forces to be left on either side after demilitarisation and suggesting continuance of negotiations.

Within five months, on September 24, Graham submitted his fourth report, once again reporting lack of agreement on demilitarisation. On November 16 a joint resolution was moved by the UK and the US urging India and Pakistan, *inter alia*, to "enter into negotiations at the UN headquarters in order to reach an agreement on the specific number of forces to remain on each side of the cease-fire line at the end of the demilitarisation period, this number to

be between 3,000 and 6,000 remaining on the Pakistani side of the cease-fire line and between 12,000 and 18,000 remaining on the Indian side". The resolution requested Graham to continue his efforts and asked India and Pakistan to report to the Security Council within 30 days. The resolution was passed by the Security Council on December 23 with the Soviet Union abstaining.

Graham reported to the Security Council on March 31, 1953 that discussions between the two countries had been fruitful and that differences, while they remained considerable, had been somewhat narrowed. He suggested that India and Pakistan should negotiate directly instead of through the UN Representative. Accordingly, the Prime Minister of Pakistan, Mohammed Ali, came to India in August 1953 and the two Prime Ministers held discussions between August 17 and 20. At the end of the talks a communique was issued stating that the two countries had agreed to appoint a Plebiscite Administrator by the end of April 1954. Pandit Nehru wanted the Plebiscite Administrator to be from one of the smaller countries and indicated that General Nimitz, the Plebiscite Administrator appointed by the UN, was no longer acceptable to India. General Nimitz, therefore, resigned on September 4, 1953. Joint committees of Indian and Pakistani civil and military experts met in Delhi towards the end of December to discuss the preliminaries to holding a plebiscite, including the vexed question of demilitarisation. From a statement issued at the end of the meetings it appeared that satisfactory progress had been made.

US Military Aid to Pakistan: The Fateful Development

This was perhaps the most hopeful point in the search for a solution to the Kashmir problem. Subsequent developments were sharply retrograde and differences between the two countries widened into a chasm. The publication of the long correspondence between Pandit Nehru and Mohammed Ali between August 1953 and September 1954 showed Pakistan's decision to accept US military aid as the fateful development which obliterated all hopes of a settlement in Kashmir. India now maintained that it was imperative for her to maintain sufficient forces in Kashmir to guard against attack by Pakistan emboldened and strengthened by US military aid. Subsequent contacts between the two countries inevitably led to a deadlock

and Pakistan's Prime Minister declared that the issue would have to be referred back to the Security Council.

However, simultaneously with the possibility of a direct settlement between the two countries receding, the UN's ability to solve the Kashmir problem had also been seriously undermined and for the same reason: Pakistan's involvement in Western military pacts and her decision to accept US military aid and permit US bases on her territory. The Soviet Union was naturally concerned at these developments and from now on she took anti-Pakistan and pro-India positions in discussions of the Kashmir question in the Security Council.

Soviet Support to India

Though negotiations between India and Pakistan had broken down in 1954, it was not till January 1957 that the Security Council resumed consideration of the Kashmir question. The Foreign Minister of Pakistan had asked for a meeting of the Council in view of the coming into force of Jammu and Kashmir's new constitution from January 26, 1957 and the State's integration into India from then. At the Council meeting five countries, including the UK and the US, moved a resolution calling attention to the earlier resolutions of the Security Council and the UN Kashmir Commission and reaffirming that the "final disposition of the State of Jammu and Kashmir will be made in accordance with the will of the people expressed through the democratic method of a free and impartial plebiscite conducted under the auspices of the United Nations". The resolution stated that the Security Council would continue its consideration of the Kashmir question. The resolution was adopted by 10 votes to nil, with the Soviet Union abstaining.

On February 15, another resolution was moved in the Security Council by four countries, including the UK and the US, empowering Gunnar Jarring, the Swedish representative to the Council, to hold discussions with India and Pakistan on proposals for settling the Kashmir dispute. It requested Jarring to examine proposals "likely to contribute to the achievement of demilitarisation in Kashmir or to the establishment of other conditions for progress" with the two governments, keeping in mind "the proposal for the use of a temporary UN force". India objected to the resolution, and though it was passed by the Security Council by 9 votes to one, since the dissenting vote was that of the Soviet Union it was

rendered inoperative. This was the first time that the Soviet Union had vetoed a resolution on the Kashmir dispute.

The UK, the US and Australia then submitted a revised resolution. It made no reference to a plebiscite or to a UN force and asked Jarring only to examine with India and Pakistan any proposals which may lead to the settlement of the Kashmir dispute having regard to the earlier resolutions of the Security Council and the UN Kashmir Commission. The resolution was adopted with the Soviet Union abstaining. Jarring arrived in India and Pakistan in March 1957 and submitted his report within five weeks, expressing his inability to make any proposals likely to lead to a settlement.

The Security Council took up Kashmir for consideration next in September 1957, and on November 16 five countries, including the UK and the US, moved a resolution asking Graham to work out within three months "an early agreement on demilitarisation procedures". The Soviet Union, however, threatened to veto the resolution and so a revised version was submitted which omitted reference to demilitarisation and asked Graham to make recommendations to India and Pakistan for a peaceful settlement and for implementing the earlier resolutions on the subject. This resolution was adopted, the Soviet Union abstaining. Graham submitted his report on April 3, 1958. His major proposals were for the evacuation of Pakistani forces from Kashmir, stationing of UN forces on the Pakistani side of the ceasefire line, discussion between the UN Representative and the two Governments on the possibility of a plebiscite and a meeting between the Prime Ministers of the two countries. These proposals were, however, unacceptable to India. This was virtually the last serious attempt by the UN to solve the Kashmir question.

UN Shelves Issue

The Security Council met on Kashmir in February 1962 at the request of the Pakistani representative but agreed to postpone discussion till after the Indian General Election. Discussion was resumed in April and on June 22 a draft resolution was introduced reminding India and Pakistan of the principles contained in the Security Council's and the UN Kashmir Commission's resolutions of 1948 and 1949 and asking the two countries to enter into negotiations to settle the question. The resolution, though passed, was vetoed by the Soviet Union. Subsequently,

the Security Council held a series of meetings in February, March and May 1964 on Kashmir without, however, adopting any resolution. During the last of these meetings on May 12-13 1964 all members of the Council urged direct negotiations between India and Pakistan. Since there was no earthly prospect of direct negotiations producing any results, this was plainly an admission of the Security Council's inability to do anything about Kashmir and an excuse for shelving the issue.

The above account of the UN's efforts on Kashmir, as well as its performance in respect of other problems, make it quite clear that the UN can be effective only if the US and the Soviet Union do not take up antagonistic positions—unless, of course, one

The Aftermath

S K Nath

THE large-scale Pakistani infiltration of Kashmir and her powerful armoured thrust through Chhamb towards the life-line of Kashmir made inevitable all the military actions which we took. No matter how willing some Indian Government might have been to negotiate for a permanent and mutually agreed solution of Kashmir, it could never let Pakistan annex Kashmir by force. Granting that our response was inevitable, it is perhaps not useless to examine the likely aftermath of this war.

The immediate effects on the economy are nothing but unfavourable. There has been some destruction of life and property; the civil defence measures have interfered with production, as also have the measures to move military men and material to the front; and of course the demand for food-stuffs, etc., of the armed forces has also gone up. These are comparatively minor effects. The serious (and the long-term) effect will take the form of increased diversion of foreign exchange and other resources from civil to military purposes. It is estimated that the expenditure on the armed forces is already about 40 per cent of the annual budget of the Central Government. Moreover, the recent foreign exchange crisis (one of the severest so far) was largely due to a steep rise in imports on government account during the previous months; imports on private account hardly rose; and of exports there was a sub-rose. It is possible that the steep rise of government imports was largely of arms and ammunition.

of the two is prepared to go the whole hog to push the UN into action in spite of the opposition of the other, as happened in the Congo. Since the second possibility can be ruled out in the case of Kashmir, the UN can hope to play a useful role in settling the dispute only if the US and the Soviet Union do not act at cross-purposes. The prospects of this are as yet uncertain, though the Security Council resolution of September 20 calling for a ceasefire and withdrawal of Indian and Pakistani forces and deciding to "consider... what steps can be taken to assist towards a settlement of the political problem underlying the present conflict" was passed unanimously with the Soviet Union for the first time ever voting in favour of a Security Council resolution on Kashmir.

Paradoxically, a war can also have some beneficial effects on an economy—especially an economy like ours where there is more than one kind of excess capacity only waiting for a change in the human factor. There is the excess capacity in agriculture: the yields per acre on the best farms are five to seven times the local average in a number of regions. These higher yields are mostly the result of introducing simple improvements in techniques which a large number of other farmers could also adopt if they had enough initiative and awareness. A national emergency can sometimes introduce initiative and awareness in the hitherto apathetic rural areas. There were high hopes on this account after the Chinese attack, but they proved wrong. It remains to be seen if the new emergency can spark off a mental revolution. It has been a much more serious war, with a large number of men fighting and dying, and with a lot of damage to civil life and property; therefore, there is greater hope of people being reminded of the nation and the national needs.

There is also excess capacity in industry. Businessmen complain that it is due to their not being able to import enough raw materials and components; but government spokesmen often say that there could be lot more import substitution regarding these intermediate goods. During the last world war, belligerent countries on both sides invented a number of import substitutes; the effects of the war were particularly beneficial on the development of man-made fibres. It is possible then that the

new emergency may have some inspiring effect on our inventors and innovators. To some extent it is true even in an underdeveloped country which has various important shortages that demand creates supply.

The net effect on the economy of a war, or the preparation for a likely war, is then the result of these two opposing tendencies. It must always be very difficult to say in advance with confidence which of the two will be stronger; it is easier to make a judgement after the event. One can say with full confidence that the British economy in 1945 was much weaker than it would have been if there had been no war. I think one can also say with substantial confidence that any prolonged war, or the preparation for one, will do the Indian economy a great deal more harm than any incidental good.

What about the other elements of the aftermath? Once this war had been forced on us, our aim was to give a crushing blow to the Pakistani armed strength. Three important elements in that strength were: American tanks, American jet fighters and bombers, and American radar equipment which most effectively covered not only the approach to West Pakistani borders from our side but also all our advance air bases. We seem to have more or less achieved our purpose in crippling a substantial number (possibly half or even the majority) of the American tanks with Pakistan. We have also destroyed a number of their fighters; but the toll of their bombers does not seem to have been substantial. And as for their radar installations, the only time it has been clearly reported that we destroyed some such station was on the penultimate day of fighting; we seem to have destroyed then the radar station near Kutch. In short, our objective of thoroughly crippling Pakistan's borrowed armour does not seem to have been fully achieved, even though our armed forces have demonstrated that their valour and skill are second to none; it is just that Pakistan has had much superior equipment.

It is to our advantage that the cease-fire resolution of the U.N. recognises that the hostilities began on August 5, when Pakistan sent her armed infiltrators into Kashmir. But if the cease-fire is going to mean that we shall not exercise our rights to continue rounding up these raiders, then this agreement is greatly to our disadvantage, because Pakistan may withdraw about 200 infiltrators and say that there are not any more

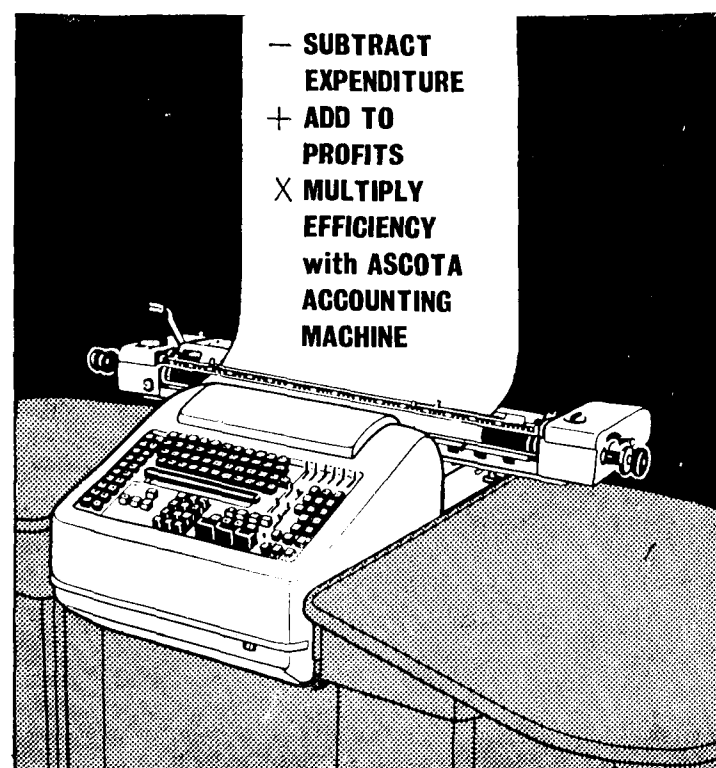
while, in fact hundreds of others lie low only to harass the Kashmir authorities later. Lastly, the Security Council has talked of settling the underlying political question. Once we have accepted one part of their resolution (the one about the cease-fire) it will be difficult not to co-operate about this other part. In any case, if we do not co-operate, we shall be running a risk of the Security Council being driven to favour Pakistan much more than it might otherwise. Indeed, some degree of give and take about Kashmir through the Security Council seems inevitable, and our aim should be to co-operate with its efforts, to plead our case with the best arguments, to persuade Pakistan to climb down from total demands, and thus reach a mutually agreed permanent solution of Kashmir.

Yet another element of the aftermath is the knowledge on our part of the lengths to which China is willing to go to create difficulties for us; we have in fact had a proof that China is in a mood to open as severe hostilities against us as our distraction on other fronts as well as her involvement elsewhere would permit her. Though we have known of her hostility since 1962, the recent events give still greater support to the belief that China is only waiting for an opportunity. To face her with equal strength, we shall need to have much more armaments than we have now; to produce or buy them all is bound to place a very heavy burden on the economy — in effect on the poor majority, for, the slower the growth of civil production, the slower the rise in their standard of living. Even China has not paid for all her present armour; in the years which mattered she had a great deal of military aid from Russia.

The aftermath of this war, above every other thing, poses the question for us: Shall we arm in a big way, and shall we pay for it all ourselves? In some countries there is plenty of spare armour of the kind we shall need. Shall we take greatly increased military aid? (Incidentally, getting gifts of the most expensive defence equipment from abroad need not be inconsistent with self-sufficiency in armaments of that degree which is consistent with not sacrificing the other aims of development policy.) Which block is the aid to come from? And talking of blocks, with the emergence of China as a major threat to us, and as a country which is unfriendly towards Russia, is there

not one more block in the world today than there was a few years ago? If it is so, what is the exact nature and significance of non-alignment for us today? Indeed, the most important element in the aftermath of this war is the emergence of a world situation which, from the standpoint of India at least, is fundamentally different from what it was

in the early 1950's. The new pattern was already visible in 1962, but now it has been confirmed. In this new situation we must examine whether the foreign policies formulated in the bygone era are still rational and moral; if they are not, then we must not waste too much time in formulating alternative policies and in cleverly and actively furthering them.



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BOOK REVIEWS

Comecon's Progress

Surendra J Patel

Comecon: Integration Problem of Planned Economies, by Michael Kaser, Oxford University Press, 1965, pp 215 + viii, 25 sh.

MICHAEL Kaser's study is a valuable contribution towards an understanding of intra-regional economic co-operation in an important area. The socialist countries constituting the Comecon (the Eastern European Council for Mutual Economic Assistance) account for some three hundred million people; their combined Industrial output is, as the author suggests, as great as that of the countries in the European Common Market and in the Commonwealth together, comprising over a billion persons; the per capita industrial output is nearly three times higher in the former, and the differences in its level among countries within the group much narrower. Despite their economic significance, very little so far has been known to western scholars about the attempts of these countries, bound by common ties of socialist ideology and operational practice of overall economic planning, to foster mutual economic co-operation among them for their accelerated development. According to the author, there are only two books on the subject in German, and one in French is soon to appear: his work is the "first study in English" (p 2). The descriptive aspects of his study supplement S Dell's work on "Trade Blocks and Common Markets" (London, 1963).

With seventeen years of specialised studies on the area, Kaser is admirably suited to the task of providing the facts of Comecon's evolution. His competence in the languages of the countries, his wide and frequent travels, twelve years of his work with the ECE, a pioneer in studies of eastern European economies—all these come out clearly in his sound command of the material at hand.

The study is divided into two parts. Part I deals with the history of the formation of the Comecon, and Part II with its achievements and prospects, though a more adequate phrase (as the author puts in his Introduction) would perhaps be "current problems". It also contains nine appendices, including three of Comecon's major documents — extracts from its Charter, from the

The views expressed here are the author's own and should not be taken as those of the ECAFE with whom he works.

act of establishing its Secretariat, and from its declaration of principles; it also lists its agencies conferences and major decisions. For those to whom Russian still remains a forbidding language and even for those who may know the language but have limited access to well-equipped libraries, this study should prove a valuable source material.

Part I opens with the Chapter "Circumstances of Birth" in 1948 characterised by Kaser as "a marriage on the rebound" ("alleged rebuff" from the "Marshal Plan" powers) and therefore involving less chances of success. In contrast to the trend of thought in early postwar western Europe, there was a clear emphasis "upon national sovereignty" in international co-operation among the centrally planned economies (p 12). From then on through the next four chapters, the author examines the bases for economic co-operation within the initial framework and traces the details of the relatively few conferences which were convened strictly on an *ad hoc* basis from the foundation of the Comecon until 1956. This was followed by a period of rapid strengthening of its activities between 1956 and 1960. The May 1956 session created twelve standing commissions "each allocated to a member country". Every capital was the headquarters of at least one commission, reflecting its major economic activity (p 67). A number of major projects are taken up, such as, the Iron Gates Project in the Danube, multi-lateral clearing arrangements, construction of a network of oil pipelines, and joint investment projects.

The widening of the planning horizon and the lengthening of the time perspective up to 1980 made it increasingly clear that the Comecon needed "commonly agreed guidelines on the international division of labour" in their perspective plans (p 83). Here was the basis for a conflict between emphasis on national sovereignty and need for supranational co-ordination. Kaser has dealt at great length with the reasons for dissensions within the Comecon since 1961. At the back of all these were the Soviet proposals "for a Central Comecon planning organ" which was to decide the most

"rational allocation of investment" (p 93).

Part II "Achievements and Prospects" begins with an analysis of the growth of industrial output and trade among the Comecon countries, emphasising that output increased faster than trade. By far the most important chapter for the developing countries is Kaser's treatment of technical co-operation among Comecon countries. To quote at length:

"The interchange of expertise has unquestionably been one of Comecon's most successful objectives: as just observed, the diminution of trade dependence can be regarded as the consequence of rapid industrialisation as much as of the slower development of trade. Comecon can take credit for the supply of knowledge which generated the new industries. The gratuity of this aid, under its 1949 recommendations, was a practical expression of the injunction of communism: 'from each according to his ability, to each according to his needs'. Comecon members have already done much to extend such service to other, poorer economies."

The social system of the countries had obviated trade secrecy: in fact, as the author put it, it made "a positive virtue of the exchange of advanced experience" (p 129).

Next chapter on pricing, perhaps the weakest piece in the study, describes the new thinking which is taking place within the Comecon countries. The final chapter on "Integration" serves as an epilogue which Kaser ends with a suggestion to the Comecon countries to pay special attention to the "economics of the 1960s" (a phrase left unexplained) in evolving new techniques for their domestic practice.

The author is at his strongest in description. The weakness of this otherwise very valuable study is at the level of generalising from description. Let me pick up a few points as illustrations:

(1) The European Common Market is taken as an advance guard in the field of international economic co-operation; the efforts of the Comecon countries are often shown as a feeble

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3. Applications in the *candidate's own handwriting* in the prescribed form obtainable from the Reserve Bank's offices at Bombay, Calcutta, Kanpur, New Delhi, Nagpur, Madras, Bangalore, Hyderabad, Trivandrum, Lucknow, Patna and Jaipur accompanied by copies (originals should not be sent) of certificates regarding age and educational qualifications, statements of marks secured in the graduate and post-graduate degree examinations and two testimonials should be sent to the Secretary, Central Recruitment Board, Reserve Bank of India, Department of Administration and Personnel, Central Office, Post Box No. 466, Bombay No. 1, so as to reach on or before the 18th October 1965.

4. Candidates already in service will be required to produce a proper discharge certificate from their employers (in the event of their being selected) at the time of their appointment in the Bank's service.

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

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

7. For the purpose of selection, the candidates may be required to appear for interview before the Selection Board at any of the Bank's offices. Such of the candidates as are called for interview will be reimbursed single first class railway/bus fares by the shortest route from their places of residence to the office/s of the Bank where they are called for interview and back.

8. Appointments will be subject to the candidates being declared medically fit for service in the Bank by the Bank's Medical Officer.

9. If any candidate desires to have his application acknowledged, he should send it by "Registered Post—Acknowledgement Due". Apart from those who may be specially called, interviews will not be granted to candidates not will the Bank enter into correspondence with them.

10. Canvassing in any form will be regarded as disqualification.

"riposte" (the word is used too often in the text) by the Comecon. The evolution of actual international co-operation in both eastern and western Europe shows that it is easy to demonstrate the virtues of co-operation (or co-ordination, harmonisation or whatever name is chosen), but its implementation in a society full of independent nation states has remained a hard problem. In the West, the early euphoria is disintegrating in the face of France's insistence on national sovereignty. In his press conference on 9 September, President de Gaulle bluntly said that a crisis in the European Common Market was "sooner or later" inevitable because of "errors and ambiguities" in the original European treaties drawn up "when France was weak". Eastern European countries started at the other end: beginning with the recognition of national sovereignty they came to feel the need for long-term planned co-ordination; but their efforts began to be stymied by Rumania, speaking in an accent not much different from that of France in the west. One can hardly suggest that the experience of the European Common Market has proved a promising patent pill.

(2) Kaser to be irritated by the emphasis on "heavy industry" in planning (pp 16-20, 37-38, 50-51, 55) in the socialist countries. He shows relief with Stalin's death when at times it appeared as if the ghost of heavy industry was laid to rest, though real economic life seems to have given it nearly indestructible powers of survival. It is a pity that the simple fact that nearly everywhere — whether the countries were small or large, capitalist or socialist — heavy industry has expanded during the period of industrial transformation nearly twice as fast as light industry has so far remained beclouded in sterile controversy; that the gap in these growth rates has tended to narrow only when an advanced industrial economy was created; that the pattern of industrial investment in the post-civil War United States (where there was no Stalin) was not altogether different from that in post-1928 Soviet Union; that structures of industry in the advanced western or eastern countries now appear as identical twins; and that the perspective development plans of many a developing countries also reproduce carbon-copies of this historical experience. But we have now become familiar with frequent quarrels among economists about lables of empty boxes.

(3) The author's thoughts on the

pricing mechanism are not always clear. Much in the pricing system in the Comecon countries need a thorough-going revision. But to attribute rationality to the pricing system in the non-socialist countries (pp 1, 140-157, 159-161) would seem to suggest a sublime disregard for all the divergence of real economic life from the theoretical motions; it would seem as if the Great Depression, Cartels, imperfect or monopolistic competition (Robinson and Chamberlain), general and partial equilibrium and immobility of price changes (Keynes), public control of key prices in most western countries choice of techniques and shadow prices (Sen and Chakravarty), underdevelopment, cumulative causation and distortions of the price system (Myrdal), losses (not gains) from trade, terms of trade and UNCTAD and all that (List, Prebisch) were all aberrations of an inverted mind. That the planned economies have yet not satisfactorily resolved this problem is beyond dispute; but to say that the theoretical inheritance of an essentially unplanned political economy has much to contribute to the quest seems like unravelling the mysteries of the galaxies through the microscope, how-

ever powerful, rather than a telescope.

(4) Kaser's treatment of trade and autarky also suggests a not altogether dissimilar attitude. There is nothing unusual in the fact that since 1920's trade has expanded slower than industrial output (pp 111-118). Nor is there so much to be said about "gains" from trade between unequal partners; gains at a point of time have in fact turned out to be losses over a period of time. Insistence by the economists from the developing countries upon "cost comparisons...on a dynamic basis" is all the more necessary in determining not only the gains but also the losses from trade. It may well be that the success of the Comecon countries "in fostering the expansion of production" rather than trade (p 116) was less of a paradox than the author suggests; it was perhaps with minor qualifications an essential instrument.

The observations made above concerning some of Kaser's concepts are not intended to detract from the general merit of study—which is indeed a welcome addition to the growing literature on international economic co-operation.

In Quest of the Risk Premium

M G Pavaskar

The Theory of Futures Trading by L S Venkataramanan. Asia Publishing House, 1965; pp xi+115. Rs 16.00.

EVER since Keynes presented his 'Theory of Normal Backwardation' in his "Treatise on Money" (Vol II, 1930), many leading economists, both in UK and USA, have been in quest of the risk premium in commodity futures markets. Though their efforts have generally been in vain and largely resulted in discovery of a few more 'empty economic boxes' labelled "hedgers' aversion to price risk", "hedgers' risk premium," "speculators' profits", etc, they set at rest many misconceived traditional theories and concepts regarding hedging, speculation and prices in futures markets, and produced some important and interesting methodological contributions for testing empirically the economic usefulness of futures markets. In this small but interesting book, Venkataramanan has briefly surveyed these valuable contributions made by such well-known economists as Keynes, Hicks, Kaldor, Working, Telser, Houthakker and others, over the last three decades to explain the mysterious behaviour of the men who ope-

rate in the futures markets.

Although futures markets have been functioning in this country for over half a century, the subject of futures trading has never engaged serious attention of any of our leading economists. The few books that are available on the subject ("Futures Trading and Futures Markets in Cotton with special Reference to India" by H L Dholakia, "Commodity Exchanges" by P G Salvi and "Regulation of Futures Markets" by W R Natu) are entirely descriptive and deal mainly with the organisational and institutional aspects of futures markets. In the last few years, futures markets have come under repeated attacks from both the uninformed public and politicians alike. And yet, there have been practically no important methodological or empirical studies on the merits and the functioning of futures markets—which are verily the textbook examples of perfectly competitive markets—by even those individuals and institutions who tirelessly affirm their faith in the economic effi-

cancy of the competitive market mechanism in the allocation of resources. Venkataramanan's comparative survey of rival theories of futures trading is, therefore, most timely as it might stimulate serious research and empirical thinking on the working of futures markets in this country.

After briefly reviewing the origin and historical development of futures markets in many countries including India, Venkataramanan discusses in the early chapters of the book the role of futures trading in the marketing of agricultural commodities, especially in reducing the risk of price fluctuations faced by different functionaries in trade and industry. In the subsequent chapters, he successively deals with the intricate theories of hedging, speculation, storage and inter-temporal price relations presented by different economists. Although Venkataramanan claims no originality, readers gain valuable insight from his discussion of complex theories.

What forms the core of discussion in the various theories on futures trading is the basic Keynes-Hicks hypothesis that hedgers in futures markets pay risk premium to speculators for the service which the latter render to the former in assuming price risks. According to this hypothesis, as hedgers are generally 'shorts' in commodity futures markets, the risk-premium payable by them takes the form of 'backwardation' which results in futures price being quoted at any time at a level lower than the level of the expected spot price at the same time. Holbrook Working and others, however, have attempted to explain the 'backwardation' in the futures markets in terms of convenience yield on stocks which reduces or inverses the carrying charges. Empirical data on the subject are conflicting and cannot be accepted uncritically. Curiously enough, Venkataramanan finds confirmation of the Keynes-Hicks hypothesis of risk premium in the functioning of the cotton futures market at Bombay and infers from the large backwardation that is witnessed in the cotton futures price that "the Bombay market was used quite substantially for hedging purposes". Knowledgeable persons in the cotton trade who attribute the backwardation in the cotton futures market to such complex factors as the broad-based nature of the cotton futures contract, the system of fixing tendering differences at the East India Cotton Association, etc., could hardly accept this inference for they, more

than any one else, are aware that 'short' hedging in the cotton futures market at Bombay by dealers and stockists has been very small for the last over a decade. Far from confirming the hypothesis of risk premium, this reviewer feels that Table 7 (which gives data on cotton futures prices and cotton stocks) in Venkataramanan's book lends some support to the operation of the theory of inverse carrying charges in the Bombay cotton market. Nevertheless, what needs to be emphasised is that the factors which determine the basis between the ready and the futures prices are so varied and many and necessarily differ so much from commodity to commodity and market to market that any empirical inferences drawn from statistical studies must be interpreted and accepted with utmost caution.

To those who seek an answer to the question whether speculation *per se*

stabilises prices or not, Venkataramanan's book may be a little disappointing, for it gives no clear verdict. But this is as it should be. Both Baumol's and Telser's models are inadequate as they are based on certain assumptions about the behaviour of speculators, which are unfortunately not true in the real world with regard to all classes of speculators operating in the futures markets. Venkataramanan therefore rightly concludes that the question of the stabilising influence of speculation must be answered on empirical grounds.

This book is perhaps the first which surveys the major contemporary contributions to the theory of futures trading. It is superfluous to say that it should be read by all those who are interested in the subject. One must, however, voice a small protest against the very high price of the book.

Indian National and State Income Data

Some Aspects

Mahinder D Chaudhry

Bert F Hoselitz

This paper is devoted to a general survey of the state income studies available to us at the present time. Its purpose is not to test the accuracy of the national income estimates at the state or national level, but to identify areas where improvement is needed through comparison of national and state income data.

We place principal emphasis on the nature and type of discrepancies and the direction of differences in estimates rather than their magnitude. We are primarily concerned with inconsistencies, gaps, double counting, lack of explanation of the assumptions and omissions in income estimates. Above all, our aim is to improve the presentation of material so as to enhance the usefulness of the reports and to avoid any misuse of the findings by attempting to explain fully the validity of the data which form the basis of estimation.

We also hope to indicate how the inclusion of basic data in the reports can help other research workers on state incomes to duplicate the procedures adopted by some states and to show how this will aid efforts to reconcile national aggregates derived from state income estimates with those compiled at the national level.

[The preliminary findings of this study, based on the national and state income data then available to us, were presented at the Fourth Indian Conference on Research in National Income held at Gokhale Institute of Politics and Economics, Poona, in December, 1962. In the present, revised version, use is made of all the additional and revised state income estimates and income series now available. In the summer of 1964, one of the authors, Mahinder Chaudhry, visited the Central and State Income Units in India for collection of data and discussions with the officials engaged in the compilation of income data. The financial support for the field work received from the Research Centre in Economic Development and Cultural Change, University of Chicago, is gratefully acknowledged. We are grateful to the Planning Commission, New Delhi, particularly to Asoka Mehta and Tarlok Singh, for the help received in the preparation of this study. A word of thanks is also due to the National and State Income Units who made available the needed documents and also spared time for discussions. Of course, the responsibility for the views expressed is entirely ours.]

WE shall, first, compare the aggregate of State income estimates with national estimates compiled by the Central Statistical Organisation. The national totals will be subsequently apportioned among States and compared with the official State income estimates, wherever the required details are available. Finally, we shall attempt to indicate those areas in which the State income estimates need to be revised and how the methods of estimation may be improved.

The income estimates in this paper relate to 1955-56, i.e., April 1, 1955 to March 31, 1956. This choice has been dictated by the fact that the largest number of State income estimates were available to us for this period.

In this study, India has been divided into 17 units (14 States designated under the States Reorganisation Act of 1956, and six centrally administered territories which have been grouped into three units: Delhi, Himachal Pradesh, and Other Union Territories).

For reason of space this article is being printed in two parts. Detailed discussion of the areas in which state income estimates need to be revised and of how the methods of estimation may be improved will appear in the second part to be published next week. — Ed.

This last group includes Andaman and Nicobar Islands, Laccadive, Minicoy and Amindivi Islands, Manipur, and Tripura, Himachal Pradesh and Delhi are treated separately, since economic data are collected and published for these territories separately. For the Other Union Territories we have no information as to whether independent income studies are either in progress or under publication. For these regions data computed by us were used wherever this was necessary.

II

Comparison of National Totals with Corresponding Aggregates of State Income Estimates

In comparing the various measures of national income during 1955-56 for India as a whole and the different sectors of the economy, emphasis is intended on the nature rather than the extent of the differences to be observed in the various income estimates. It has not been possible to extend this exercise to the point of reconciling the State and national income data, since all the details needed for such analysis were not available in the State reports at our disposal. But given the limitations of reports available to us we shall try to indicate what attempts need to be made in order to reconcile the different measures of national income totals.

Three sets of national income estimates for the year 1955-56 are compared: (1) A conventional series compiled by the Central Statistical Organisation (CSO) and published annually;¹ (2) a revised series, also compiled by the CSO, published more recently;² (3) a series obtained by aggregating the findings of State reports compiled by various State Statistical Agencies. The currently available estimates, included in group (3), cover 99.32 per cent of the population and 95.17 per cent of the area of the country. The actual data and the estimates for sectors and subsectors, as well as the State total, are presented in Table 1.

In terms of availability of "firm" State income data for the year 1955-56, the sources used in compiling Table 1 can be classified as follows:

(1) "Firm" figures, that is, estimates pertaining to the fiscal year 1955-56: This group includes 15 States covering 94 per cent of the population and 89 per cent of the area of the country, i.e. Andhra Pradesh, Assam, Bihar, Bombay (Maharashtra and Gujarat), Jammu and Kashmir, Kerala, Madhya Pradesh, Madras, Orissa, Punjab, Rajasthan, Uttar Pradesh, West Bengal, Delhi, and Himachal Pradesh.

(2) "Contiguous" figures, that is, estimates for a period close to 1955-

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Table 1 : State Income Estimates Based on Local Data

Economic Sectors and Subsectors	(Millions of rupees)															
	Andhra Pradesh	Assam	Bihar	Gujarat	Kashmir	Kerala	Madhya Pradesh	Maharashtra	Mysore	Orissa	Punjab	Rajasthan	Uttar Pradesh	West Bengal	Delhi	Himachal Pradesh
(1) AGRICULTURE AND ALLIED	3,996	1,371	3,619	1,885	337	1,700	3,859	3,316	3,046	2,442	2,972	1,893	7,023	2,217	51	163
(2) Agricultural Crops	2,667	1,258a	2,863	1,565	193	1,513	3,015	2,718	2,619	2,156	2,144	1,500	5,107	1,878	26	83
(3) Animal Husbandry	1,276	63	635	287	105	107	722	504	361	160	802	478	1,869	233	23	61
(4) Forestry	22	26	23	25	38	25	117	36	36	69	24	4	44	10	neg	19
(5) Fisheries	31	24	98	8	1	55	5	58	30	57	2	1	3	96	2	neg
(6) MINING, MANUFACTURING, AND SMALL ENTERPRISES	783	693	1,265	1,160	155	354	626	2,454	625	278	744	729	2,148	2,195	307	27
(7) Mining	56	43	262	40	neg	20	94	52	58	47	6	30	148	115	5	neg
(8) Factory Production	214	465b	728	721	6	120	194	1,628	258	56	183	41	336	1,596	138	3
(9) Small Enterprises	513	185	275	399	149	214	338	774	309	175	555	658	1,812	484	164	24
(10) COMMERCE, TRANSPORT, AND COMMUNICATIONS	1,233	321	852	929	69	629	801	2,285	618	415	1,272	810	2,525	1,674	527	19
(11) Communication Services	45	6	21	17	d	c	19	39	16	d	22	d	f	d	16	1
(12) Railways	84	33	236	192	nil	35	147	267	75	d	95	d	84	158	45	mil
(13) Banking and Insurance	38	3	84	82	1	35	33	342	38	18	27	c	c	102	c	neg
(14) Other Commerce & Transport	1,066	279	511	638	68	559	602	1,637	489	397	1,128	810	2,441	1,414	466	18
(15) OTHER SERVICES	1,452	282	857	787	119	639	1,149	1,987	702	574	930	1,023	2,693	1,403	577	47
(16) Professions and Liberal Arts	637	65	316	355	55	286	d	753	212	199	435	447	f	392	123	4
(17) Domestic Services	50	84	44	102	6	27	d	91	18	58	48	e	f	140	315	2
(18) Government Services	524	117	172	157	29	146	883	487	149	124	345	395	f	445	47	22
(19) Residential Property	241	16	325	173	29	180	266	656	323	193	102	181	f	426	92	19
(20) TOTAL	7,464	2,667	6,593	4,761	680	3,322	6,435	10,042	4,991	3,709	5,918	4,545	14,389	7,489	1,462	256

Notes : neg=Negligible, less than .5 million; nil=0.

(a) Includes industrial component of tea industry; (c) Included in line 14, (d) Included in line 18, (e) Included in line 16, (f) Included in line 15.

Sources:

- Col 1: Government of Andhra Pradesh, Bureau of Economics and Statistics, "Revised Estimates of State Income of Andhra Pradesh from 1952-53 to 1958-59", (Hyderabad, November, 1960), p 3.
 Col 2: Government of Assam, Department of Economics and Statistics, "State National Income of Assam 1950-51" (Shillong: 1960), p 3.
 Col 3: Government of Bihar, Directorate of Statistics, "State Income of Bihar, 1959-60, (Patna, 1963), p/9.
 Col 4: Government of Gujarat, Bureau of Economics and Statistics, "State Income Estimates 1955-56 to 1960-61, Gujarat State, (Ahmedabad: 1964), p 63.
 Col 5: Government of Jammu and Kashmir, State Statistical Bureau, "Estimates of State Income 1950-51 and 1955-56 to 1958-59," (Srinagar: 1961), p 4.
 Col 6: Government of Kerala, Directorate of Statistics, "Regional Income of Kerala, 1955-56 to 1957-58," (Provisional), (Trivandrum: 1960), p 2.
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 Col 8: Government of Madras, Director of Statistics, "Madras State Income Estimates 1950-51 to 1959-60," Typewritten. The summary tables made available to us by G D Nandagopal, Director of Statistics, Madras.
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 Col 10: Government of Mysore, Department of Statistics, "State Income of Mysore 1956-57 to 1960-61," Typewritten. The report made available to us by MA Wali, Director of Statistics, Mysore.
 Col 11: Government of Orissa, Bureau of Statistics and Economics, "State Income of Orissa 1951-52 to 1958-59, (Cuttack: 1961), pp 6
 Col 12: Government of Punjab, Economic and Statistical Organization, "State Income of Punjab 1952-53 to 1956-57," (Chandigarh: 1962), pp 4-5.
 Col 13: Government of Rajasthan, Directorate of Economics and Statistics, "State Income Estimates of Rajasthan 1954-55 to 1962-63," (Typewritten). The summary table of estimates made available by K L Baraya, Director, Evaluation Organisation, Cabinet Secretariat, Jaipur, D O No PA/EVA/65, dated February 10, 1956.
 Col 14: Government of Uttar Pradesh, Arthik Bodhy Sankhya Nideshak, "Estimates of National Income of Uttar Pradesh 1948-49 to 1959-60," (Typewritten). The summary tables of findings made available by D P Octania, Training Officer, Lucknow.
 Col 15: Government of West Bengal, State Statistical Bureau, "State Income of West Bengal 1955-56," (Calcutta: no date), p 27.
 Col 16: Mahinder D. Chaudhry and Bert F. Hoselitz, "State Income of Delhi of State, 1951-52 and 1955-56", Economic Development and Cultural Change, Vol XI, Number 3, Part II (April, 1963), p 12.
 Col 17: Himachal Pradesh Administration, Directorate of Economics and Statistics, "State (National) Income of Himachal Pradesh for 1950-51 to 1960-61, (Simla: 1963), p 69.

THE ECONOMIC WEEKLY

56: This group includes only the state of Mysore, which contains 5.38 per cent of the population and 6.30 per cent of the area of the country.

(3) A residual group of States and territories for which no direct or derived income data are available: Other Union Territories—this group contains less than one per cent of the national population.

In order to obtain 1955-56 income estimates for group (2) above, we have made extrapolations from the available income data for three years, from 1956-57 to 1958-59. The 1955-56 figures were thus estimated by deflating the 1956-57 income estimates in each subsector of the State economy (Table 1, col 16) by the average annual growth rate of each sector experienced over the period.

For territories included in group (3), shares based on allocation from national income during 1955-56 have been used.³ The total income of these regions makes up less than one per cent of the national income of India during 1955-56.

The income estimates, both at the national and at the State level, measure net domestic product at factor cost. The national income of a country is equal to the country's net domestic product at factor cost plus or minus, as the case may be, the net balance of income earned from, or paid to, foreign countries. Since in 1955-56 the net amount of income earned from abroad by India was nil, both sets of national income estimates are made up of the identical item.⁴

A comparison of national income estimates made at the central level with that obtained by aggregating independent State income estimates based on local data, shows substantial divergences in the total reached, mainly for two reasons:

One is the presence of variations in definition and scope of individual sectors and subsectors making up the national or State income total. Although the classification of economic activities into different sectors and subsectors employed in most State reports is the same as that used in the national accounts of India, some variations have been observed. For example, while in some of the State reports Banking and Insurance also comprises non-organised banking activities, these activities are included elsewhere in national estimates. Because of the lack of detailed break-

downs in most State reports, we could not make adjustments in the State income data to make them strictly comparable with the corresponding national totals.

The second serious difficulty was the lack of detailed information on the composition of the various subsectors of economic activity, particularly as regards the working force. If extensive working force data had been included in the State reports, it would have been possible to determine the scope of economic activity included in each subsector.

In some State reports, income estimates for various subsectors, especially for "services", are grouped together and no details are provided as to the contribution of each component activity. For example, in some reports "professions and liberal arts, domestic services, and government administrations" are combined in a single service sector. In these cases, the estimated income for a larger sector had to be allocated by us among the various component subsectors. In these cases we assumed that the shares of each subsector form the same proportion of the total for that sector as may be found in the corresponding estimates based on the allocation of the national totals. (See Table 4).

These limitations must be borne in mind in assessing the comparison attempted here. In Table 3, the three sets of estimates are compared and their differences in absolute terms and percentages are noted. In the first two columns the conventional and revised national estimates for 1955-56 are presented and each series is compared with the State aggregates presented in column 3. The data presented in this column are based on the 1955-56 data drawn from Tables 1 and 2, to which amounts for Other, Union Territories, equal to the shares of these territories derived from the allocation method (see column 18 in Table 4), have been added.

If the conventional national income estimates are assumed to be a relatively accurate measure of the level of economic activity in the country, then the aggregated State income data fall short by just 7 per cent. This is not likely to raise any serious doubts about the validity of the State estimates, since the national estimates themselves are reported to be subject to an over-all margin of error of "about 10 per cent for the aggregate domestic product."⁵ But closer analysis suggests that behind this over-all difference of 7 per cent there are much

larger differences at the sectoral and subsectoral levels which mutually offset each other when the sectoral data are totalled up. For example, in Agriculture and Allied Products, the sectoral difference is only 3.4 per cent, but for Agricultural Crops (a subsector of the former) the aggregated State estimates are lower by 7.5 per cent, and the difference in the evaluation of livestock products (another subsector of Agriculture and Allied Products) is 20 per cent. Similarly, the estimates of the value of output by forestry (a third subsector) differ by 23 per cent. Further differences between the conventional national income estimates and the aggregates of State income data can be found in columns 4 and 5 of Table 3.

Table 2: State Income of Mysore, 1956-57
Estimates Adjusted to 1955-56

Economic Sectors and Subsectors	(Millions of rupees)	
	Average Annual Growth Rate 1956-57 to 1960-61	Adjusted 1955-56
(1) AGRICULTURAL AND ALLIED	8.45	2,789
(2) Agricultural Crops	9.05	2,382
(3) Animal Husbandry	2.42	352
(4) Forestry	25.69	27
(5) Fisheries	8.33	28
(6) MINING, MANUFACTURING, AND SMALL ENTERPRISES	10.76	558
(7) Mining	4.74	55
(8) Factory Production	11.92	227
(9) Small Enterprises	10.92	276
(10) COMMERCE, TRANSPORT, AND COMMUNICATIONS	8.33	567
(11) Communication Services	4.69	15
(12) Railways	6.00	71
(13) Banking and Insurance	9.87	34
(14) Other Commerce and Transport	8.69	447
(15) OTHER SERVICES	7.66	648
(16) Professions and Liberal Arts	7.78	196
(17) Domestic Services	4.17	17
(18) Government Services	16.44	125
(19) Residential Property	3.71	310
(20) TOTAL	8.62	4,562

Source: Estimates of income for 1956-57 have been projected backward according to the average annual growth rates over the four year period, 1956-57 to 1960-61. For 1956-57 income data see Table 1, Col 10, and, for 1956-57 to 1960-61 estimates see Mysore Report.

In the same Table we also present a comparison between the revised national income estimates and the aggregates of State income estimates. According to the revised series which are based on fresh data made available by National Sample Surveys and other research studies, the national income of India during 1955-56 is estimated to have been Rs 92,071 million, as compared with Rs 99,773 million in the conventional estimates.

This downward revision of the national income estimate for the year 1955-56 has reversed the picture presented by the earlier comparison of the national and state aggregate estimates of national income. The aggregated state income estimate is higher by Rs 503 million, or .5 per cent, than the revised national estimates. The largest differences may be observed in two subsectors, namely (1) commerce, transport and communication, and (2) other services.

A very large difference also is found in the evaluation of animal husbandry products. Despite the fact that the

nationally computed figure for this subsector has been revised upward from Rs 7,040 million in the conventional estimate to Rs 8,132 million in the revised estimate, the aggregated state reports estimate stands at the higher figure of Rs 8,447 million. We must cite another example, where the aggregated state reports estimate is much lower in comparison to both national estimates: the contribution of railway services to national income. The revised estimates of national income show Rs 2,200 million for this subsector, whereas the aggregated State reports estimate comes to only Rs 1,723 million. It is highly likely that the national estimates for this subsector possess much greater accuracy since the railway system of India cuts across state boundaries and railway accounts are kept on a regional or national basis. This facilitates the estimation on the national level and hence the state estimates which, by necessity, are based on the estimation of each state's share in the national total, may be wrong. This point is discussed in greater detail below.

III Allocation of National Income Estimates Among States and Comparison with State Income Estimates

We shall now turn to another method of analysis, the apportionment of various sectors and subsectors of national income estimates among the states. The results of this process of analysis are presented in Table 4. The allocated shares of each sector and subsector of national income for each state are compared with the corresponding official state estimates. Attempts at apportionment of national income totals among states have been made by various scholars and organizations, among them: B Natarajan, K N Raj, Ravi Verma, and the Indian Institute of Public Opinion.⁶ These findings were not used in this paper for various reasons: (1) the studies do not relate to the period of 1955-56; (2) the regional units adopted by them do not coincide with those being used by us; (3) in some cases the principles by which allocations were made are not stated clearly in these publications:

and (4) in general the findings are only rough approximations. In order to obtain a reliable set of regional income data based on uniform methodology and assumptions, we have used a detailed allocation of national totals among 17 units made by one of the authors of this paper.⁷ The national income of Rs 92,071 million for the fiscal year 1955-56 (according to the "revised series" compiled by the CSO) is allocated among states on the basis of appropriate economic indicators available. For purposes of allocation, the national totals are initially divided into various economic sectors and subsectors (Table 4) and, in turn, each subsector total is further divided into a feasible number of homogeneous economic units.

The national income originating in the agricultural crops subsector, for example, is divided into 33 units consisting of one or two crop groups; similarly, in the animal husbandry subsector, the national totals are divided into 25 such units. Each unit national total is allocated among states with reference to the suitable available allocator for that unit. The output of rice for each state, for example, evaluated on the average prices of rice in that state, forms the basis of allocation for the national totals for rice. In some cases, where price data by state are not available, the basis of allocation is the physical output of the product concerned. For forestry, fishery, and mining, the gross value of annual output in each state, as reported in the official publications, is the basis of allocation. The national income from factory production subsector is subdivided in the four groups:

(1) The factories covered by the annual census of Manufacturing industries. The value added data according to this survey classified by states are available, and form the basis of allocation.

(2) Tea industry: In view of the fact that the tea industry is not covered by the above survey and is localized in two or three states, it is treated separately. The state wage bill for the tea industry, taken as a percentage of the corresponding national wage bill of all the national workers engaged in tea industry, forms the basis of allocation.

(3) Income from electricity: the basis of allocation in this group is the state distribution of electricity generated in each state as published by the Water and Power Commission.

(4) All the factory workers not

covered in any of the above three groups: With the help of employment data and average annual earnings per factory worker, by state, and following the procedure adopted for Group (2) above, we have allocated the national totals for this group among states. For allocation purposes, the small enterprises subsector is divided in the following seven industrial groups: (1) textile and tailoring; (2) leather and leather products; (3) wood, glass, stone and ceramics; (4) metals manufactures and engineering; (5) chemicals; (6) food, drink, and tobacco; and (7) other industries.

For a given state, the number of workers, rural and urban taken separately, in each of the industrial groups are multiplied by the corresponding rural and urban national average net-value-added per worker engaged in the small enterprises. Similarly, for a given state, the number of workers, rural and urban separately, engaged in the construction subsector are multiplied by the corresponding national average of value added per rural and urban worker respectively. Combined annual value added by the total workers in each state is taken as a percentage of the aggregated similar total for all the states together.

The national totals for this subsector are allocated among states according to the respective shares obtained above. In the professions and liberal arts, and domestic services subsectors, in each state the total workers engaged are divided into the following nine industrial groups separately for rural and urban areas: (1) medical and other health services; (2) educational services; (3) letters, arts, and science; (4) legal services; (5) religious and charitable services; (6) sanitary services; (7) barber and beauty shops; (8) laundries and laundry services; and, (9) domestic services.* With the help of state employment data, and assuming the differences in rural and urban average earnings in each of the above groups to be the same as estimated in the National Sample Survey report,⁸ the national totals are allocated among states following the procedures adopted for the construction subsector.

In the other subsectors, where national totals are based on income approach, namely, other transport, other commerce, railways, communication services, and government services, the procedures of allocation analogous to the above are followed. Income from Banking and Insurance subsector is allocated with reference to the percentage

share of each state in the national total of loans and deposits of commercial banks. Income from the residential property subsector is allocated on the basis of the number of urban and rural houses in each state; while allocating urban property income account has also been taken of the size-composition of the urban centers.

The preceding explanation of the principles of allocation used gives only a very rough and approximate indication of the complex computations which were actually made to determine the share of income of each state in each of the subsectors. The procedures followed are described in full detail in M D Chaudhry's publication. The allocated shares are, nevertheless, approximations which facilitate comparison between the two sets of state income estimates. The objective of suggesting allocated shares is not to propose "better" income estimates for the states, but rather to make a general enquiry into the state findings and to point out inconsistencies and limitations of state reports, on the assumption that the national estimates may serve as control figures. At the same time, it is also possible that the aggregates of state income estimates may indicate the need for new appraisals and some revision of existing assumptions and bases of estimation in some sectors of subsectors of national income.

In general, it is reasonable to argue that the state income data, especially if they are based on local data obtained through direct surveys, are likely to present a more realistic picture of the state economy than the allocated shares from national income estimates. But a survey of the state income reports shows that some of the state estimates are not based on systematically collected local data, but either on national averages or on very slender empirical evidence. This holds particularly for those sectors in which the income approach is employed to estimate state income.

Any differences observed in the two sets of measures of state income estimates, either for all the sectors or for any one sector, are taken as indicators of the need to examine more closely the underlying method of estimation, the sources of information used, and to question the validity of the allocator. Even if the income estimates arrived at by the two methods are fairly close to each other, there may be significant differences on the sectoral

Table 3: Comparison of National Income Estimates and State Report Aggregates

(Millions of rupees)

Economic Sectors and Subsectors	Conventional National Income Estimates	Revised National Income Estimates	Aggregate of State Reports	Difference of Col 1 and Col 3		Difference of Col 2 and Col 3	
	(1)	(2)	(3)	amount	percent	amount	percent
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) AGRICULTURAL AND ALLIED	45,173	44,733	43,616	1,557	3.4	1,117	2.5
(2) Agricultural Crops	36,860	34,730	34,073	2,787	7.5	657	1.9
(3) Animal Husbandry	7,040	8,132	8,447	-1,407	-20.2	-315	-3.9
(4) Forestry	725	1,338	560	165	22.7	778	58.1
(5) Fisheries	548	533	536	12	2.2	-3	-0.6
(6) MINING, MANUFACTURING, AND SMALL ENTERPRISES	18,500	16,257	16,130	2,370	12.8	127	0.7
(7) Mining	1,000	777	838	162	16.2	-61	-7.8
(8) Factory Production	7,800	6,440	7,317	483	6.2	-877	-11.2
(9) Small enterprises	9,700	9,040	7,975	1,725	17.8	1,065	11.0
(10) COMMERCE, TRANSPORT, AND COMMUNICATIONS	18,800	15,600	16,658	2,142	11.4	-1,058	-6.78
(11) Communication Services	500	500	458	42	8.4	42	8.4
(12) Railways	2,500	2,200	1,723	777	31.1	477	21.7
(13) Banking and Insurance	900	730					
(14) Other Commerce & Transportation	14,900	12,170	14,477	1,323	8.4	-1,577	-12.9
(15) OTHER SERVICES	17,300	15,481	16,237	1,063	6.1	-756	-4.9
(16) Professions & Liberal Arts	5,600	4,600					
(17) Domestic Services	1,400	1,680	7,432	-432	-6.2	-1,152	-18.3
(18) Government Services	5,700	5,500	4,545	1,155	20.3	955	17.4
(19) Residential Property	4,600	3,701	4,260	340	7.4	-559	-15.1
(20) TOTAL	99,773	92,071	92,574	7,199	7.2	-503	-0.5

Sources: Col 1: Government of India, Central Statistical Organisation, Estimates of National Income 1948-49 to 1960-61, (Delhi: 1961), Table 2, p. 2.

Col 2: Government of India, Central Statistical Organisation, "National Income Statistics: Proposal for a Revised Series of National Income Estimates for 1955-56 to 1959-60", (Calcutta: 1961), Table 16, p. 175.

Col 3: Tables 1 and 2, and Col 18 of Table 4, of this study.

Table 4: National Income, by State, 1955-56: Allocation Method

(Millions of rupees)

Economic sectors and subsectors	Andhra Pradesh			Madhya Pradesh						Uttar Pradesh						Hima- chal Pradesh		Other Union Terri- tories
	India	Assam	Bihar	Bombay	Kashmir	Kerala	Madras	Mysore	Orissa	Punjab	Rajas- than	West Bengal	Delhi	(16)	(17)	(18)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
(1) AGRICULTURAL AND ALLIED PRODUCTS	44,733	3,809	1,414	3,390	6,323	374	1,438	4,068	3,135	2,613	1,467	3,105	2,434	7,441	3,359	49	232	172
(2) Agricultural crops	34,730	2,919	1,230	2,379	5,171	187	1,264	3,230	2,580	2,087	1,132	2,227	1,730	5,511	2,841	21	108	113
(3) Animal husbandry	8,132	804	112	838	805	88	103	621	471	421	185	757	685	1,773	377	25	50	17
(4) Forestry	1,338	12	68	68	262	98	33	211	16	90	92	30	19	148	78	—	74	39
(5) Fishery	533	74	4	105	85	1	38	6	68	15	58	1	—	9	63	3	—	3
(6) MINING, MANUFACTURE, AND SMALL ENTERPRISES	16,527	1,134	527	1,084	3,493	71	601	873	1,431	893	334	444	552	2,145	2,344	295	12	24
(7) Mining	777	63	37	245	63	—	11	85	13	58	61	1	29	1	110	—	—	—
(8) Factory establish- ments	6,440	169	401	594	2,127	6	184	148	518	156	45	131	39	415	1,381	113	3	10
(9) Small enterprises	6,350	621	59	126	873	55	299	483	629	411	158	203	349	1,379	613	72	8	12
(10) Construction	2,690	281	30	119	430	10	107	157	271	268	70	109	135	350	240	110	1	2
(11) COMMERCE, TRANSPORTATION AND COMMUNICATIONS	15,600	1,080	269	779	3,058	71	641	792	1,473	700	254	803	623	2,200	2,402	411	13	31
(12) Communication services	500	33	8	37	89	2	18	21	56	20	9	45	5	60	84	11	1	1
(13) Railways	2,200	138	88	131	443	—	24	164	160	60	38	75	85	367	390	36	1	—
(14) Banking and insurance	730	24	3	14	239	2	21	16	57	26	2	28	13	43	144	97	—	1
(15) Other commerce	10,240	746	149	524	1,957	52	427	507	1,038	519	187	557	474	1,461	1,380	228	8	26
(16) Other transportation	1,930	139	21	73	330	15	151	84	162	75	18	98	46	269	404	39	3	3
(17) OTHER SERVICES	15,481	1,312	264	863	2,639	134	567	928	1,370	791	444	855	744	2,545	1,575	379	24	47
(18) Profession and liberal arts	4,600	409	54	242	738	40	169	206	437	205	117	247	261	895	465	100	4	11
(19) Domestic services	1,680	84	41	103	301	20	65	62	102	41	94	63	72	308	292	25	2	5
(20) Government services	5,500	498	106	224	971	43	217	412	472	330	118	388	259	776	459	196	10	21
(21) Residential property	3,701	321	63	294	629	31	116	248	359	215	115	157	152	566	359	58	8	10
(22) TOTAL (LINES 1+6+11+17)	92,071	7,335	2,474	6,116	15,513	650	3,247	6,661	7,409	4,997	2,499	5,117	4,353	14,331	9,680	1,134	281	274

Sources: Column (1) Government of India, Central Statistical Organisation, "National Income Statistics: Proposals for a Revised Series of National Income Estimates for 1952-56 to 1950-60" (Delhi, 1961), table 16.1, p 75; Columns (2) through (18) based on allocation of national totals.

For detailed method of allocation and supporting data see: Mahinder D Chaudhry, "Regional Income Accounting in an Underdeveloped Economy: A Case Study of India." (Calcutta: Firma K L Mukhopadhyay, 1965, in press), Table 4.

THE ECONOMIC WEEKLY

and subsectoral levels which compensate one another when all sectoral figures are added up. Therefore, in order to make the comparison more meaningful and to appraise the state estimates in greater detail, each sector and subsector has been analyzed separately. But as a result of the difficulties of finding detailed information in the state reports on some subsectors, and because of the lack of uniformity among income reports concerning the scope of economic activities included in the various subsectors, we are often forced to combine some of the subsectors. An example is provided by the combination of the following activities into one single sector: professions and liberal arts and domestic services.

The estimated national income (revised series) during 1955-56, as compiled by the Central Statistical Organization, is allocated among 17 administrative units (Table 4). The comparison here, however, is confined to 16 states only; the other centrally administered Union Territories are excluded for lack of information. The exclusion of this group does not materially alter the comparison since these areas accounted only for less than one per cent of the national income during 1955-56. For 15 out of the 16 states, income estimates based on local data for the year 1955-56 are available, and for Mysore state, data have been adjusted to 1955-56. The detailed reports for Rajasthan, Madras, Mysore, and Uttar Pradesh are in the process of publication and only summary tables of findings (in some cases, along with brief notes of methods of estimation) were available to us, and hence had to be used for purposes of analysis.

Broadly speaking, the allocations of national income totals among states reflect to a reasonable degree the differences in the agricultural-industrial mix of the various state economies. In seven states—Andhra Pradesh, Bombay, Kashmir, Kerala, Madhya Pradesh, Rajasthan, and Uttar Pradesh—the differences between the income estimates obtained by the allocation and direct state estimate approaches are less than 5 per cent; and in five states—Assam, Bihar, Madras, Mysore, and Himachal Pradesh—the differences range from 7 to 9 per cent. If Delhi, largely a city, is excluded because it is the seat of the central government and accounts for only one-fifth of one per cent of the national total population, wider discrepancies are observed

only in three states: Punjab (16 per cent), West Bengal (23 per cent), and Orissa (48 per cent). The Orissa state, with a difference of 48.4 per cent, is the only case in which the state report claims the state income to be higher than the corresponding allocated share by such a wide margin. It should be noted that serious discrepancies may be found in the *Orissa Report*, particularly in the evaluation of agricultural production which are at least partially responsible for this difference.

Among the states whose own estimates are lower than their allocated share, two states, Bombay and Madhya Pradesh, differ by less than 5 per cent; two others—Mysore and Himachal Pradesh—differ 8.9 per cent, and West Bengal differs by 23 per cent. It should be noted here that it is surprising that West Bengal, one of the economically most highly developed states in the country, should have, according to the state's own estimates, a level of economic development below that of the national average. It must be remembered that in West Bengal the share of the urban population of 26.8 per cent is not only the highest among states⁹, but almost twice the proportion of the nation as a whole. West Bengal also employs, next to Bombay, the largest number of factory workers, and harbored during 1955-56 one-fifth of the total industrial labour force in the country. A detailed examination of the state estimate of West Bengal, however, reveals that there are omissions, (particularly in the estimate of the size of the working force in several subsectors), and other doubtful assumptions which explain this wide difference.

The seven states in which the difference between the allocated shares of national income and the corresponding state estimates are less than 5 per cent account for 64 per cent of India's area of 56 per cent of its population. In addition, this group represents a fair sample of the cross-section of the country's economy—Bombay may be described as representative industrial areas; Uttar Pradesh, Andhra Pradesh, and Rajasthan are chiefly producers of agricultural products; and Kerala may be described as a comparatively underdeveloped region. Therefore, it may be assumed that the allocators adopted to determine state distribution of the national income do not appear to contain built-in bias.

(To be continued)

Notes

¹ India, Central Statistical Organisation, "Estimates of National Income 1948-49 to 1960-61". (Delhi: Manager of Publications.)

² India, Central Statistical Organisation, "National Income Statistics: Proposal for a Revised Series of National Income Estimates for 1955-56 to 1959-60", (Calcutta: 1961), Table 16, p 175.

³ For detailed magnitudes see Table 4, col 18.

⁴ "National Estimates", Table 2, p 2.

⁵ See Government of India, Ministry of Finance, Department of Economic Affairs, "Final Report of the National Income Committee", Delhi: Manager of Publications, 1954, (hereinafter cited as *NIC Final Report*), p 146.

⁶ B Natarajan, "An Essay on National Income and Expenditure in India" (Madras: Economic Advisor to the Government of Madras, 1949); K N Raj, "Some Features of the Economic Growth of the Last Decade in India," *The Economic Weekly*, XIII (February 4, 1961), 253-71; Ravi Verma, "Estimates of State Income by Allocation Method," a paper submitted at the Third Indian Conference on Research in National Income, held at Bombay, November, 1961; Indian Institute of Public Opinion, "The Regional Distribution of Income 1950-51 to 1955-56," *Quarterly Economic Report of the Indian Institute of Public Opinion*, III (Sept-Oct, 1956), 18-33.

⁷ See Mahinder D Chaudhry, "Regional Income Accounting in An Underdeveloped Economy: A Case Study of India". (Calcutta: Firma K L Mukhopadhyay, 1965, in press).

⁸ Government of India, Cabinet Secretariat, "The National Sample Survey Number 14: Report on Some Characteristics of the Economically Active Population", (Delhi: 1959).

⁹ N J Nanporia, (ed) "The Times of Indian Directory and Year Book 1960-61", (Bombay: Bennet Coleman & Co, Limited, 1961), pp 9-11.

The Mysore Paper Mills Limited, Bangalore 9

Speech of the Chairman and Managing Director, Shri M D Shivananjappa, I A S

THE following is the Speech delivered by Sri M. D Shivananjappa, I A S, Chairman and Managing Director, The Mysore Paper Mills Limited, at the Thirtieth Annual Meeting of the Company held at Bangalore on Thursday, September 30, 1965:

Ladies and Gentlemen,

I extend to you a most cordial welcome to the Thirtieth Annual General Meeting of your Company. The Report of the Directors and Audited Balance Sheet for the year ended 31st March 1965 have already been circulated and with your permission, I shall take them as read and would proceed to review the salient features of the year's operations.

We are, as you are all well aware, passing through critical times and facing a National Emergency caused by the unprovoked aggression of Pakistan and threats of China. At this juncture it is the sacred duty of every Indian citizen to rise to the occasion and to contribute his mite to make the War efforts of our Government a success.

I have the pleasure and the privilege to inform you that implementation of the scheme of expansion to step up production to 18,000 tonnes of paper has been successfully completed during the current year, thus raising the Gross Block of your Company, which stood at Rs 167 lakhs in 1961, to Rs 552 lakhs in 1965 (i.e., as on date).

It is appropriate that I should recall the objectives that your Board of Directors had in view while formulating the scheme of expansion. Your Mills are an integrated Pulp and Paper Mill which had a capacity to produce 8000 tonnes of paper and a capacity to produce sufficient quantity of bamboo, rag and waste paper pulp. Taking into account the capacity to produce only bamboo pulp it should be noted that the Paper making capacity exceeded the Pulp making capacity. It was considered advantageous to use only one kind of pulp namely Bamboo Pulp to maintain production and quality and hence it was decided to discard the use of Rag Pulp and Waste Paper and to step up Bamboo Pulp production. Again from an economic view

point, small size is a distinct handicap to an integrated Pulp and Paper Mill like yours. The financially significant saving that attaches to large scale operations is that of combined heat and chemical recovery secured by the installation of the Tomlinson Furnace. It is only production above 15,000 tonnes that justified installation of this kind of equipment. It is to correct this imbalance between Pulp and Paper making capacity and to increase production with a view to instal Modern Soda Recovery Unit for recovery of chemicals too valuable to be discarded and to increase production of paper to 18,000 tonnes which would diminish labour charges, and reduce overhead charges, and decrease cost of equipment per unit of output that the scheme just implemented was undertaken.

His Highness Sri Jayachamaraja Wadiyar, the then Governor of Mysore, graciously inaugurated the scheme of expansion and laid the Foundation Stone for the new Paper Machine on 17th December 1962 and I am happy to say that the new Paper Machine was commissioned in March 1964, within fifteen months and well ahead of schedule. This is an achievement of no mean value.

During the year under review Duplex Super Cutters ordered with Messrs Masson Scott were erected, installed and taken to service. All the other units ordered under the scheme of expansion, namely Pulp Plant, Soda Recovery Unit, and other equipment have all been erected, installed and taken to service during the current year. However, the erection, installation and commissioning of the Pulp Plant took much longer time than was anticipated, the main reason for the delay being the delay in the delivery of the equipment from the indigenous sources and also partly due to defective machinery parts. The Pulp and the Modern Soda Recovery Units are complementary to one another and for this reason, delay in the erection and installation of the Pulp Plant led inevitably to the delay in the erection and installation of the Soda Recovery Unit. This delay had considerable adverse effect on production and capital costs. However, it is a matter of great satisfac-

tion to your Directors now to be able to report that all the difficulties have been surmounted and all the units are now working satisfactorily.

Production for the year ended 31-3-1965 was 10,037 tonnes as against 9384 tonnes during the previous year. As is mentioned in the Directors' Report, our three Paper Machines could not be run concurrently and continuously for want of Pulp. Adequate quantities of foreign wood pulp could not be procured because of import restrictions and indigenous pulp was not available in adequate quantities though its price was high and uneconomic for us. There were interruptions to operations because of frequent power shut-downs, besides interruptions necessitated my erection work. These factors accounted for an increase only by 700 tonnes. Even this increase was obtained by the substitution of expensive wood pulp and indigenous pulp to our own pulp which has considerably added to our production costs.

I am happy to say that we are now comfortably situated in regard to Pulp production as our Units, Old and New, have capacity to manufacture sufficient pulp to feed all our three machines and satisfactory arrangements have been made with the Government of Mysore for supply of the requisite quantities of bamboos.

In this connection, I would like to emphasise that the Government of India should take necessary steps to provide adequately all materials necessary for the Paper Mills to utilise the installed capacity to the full instead of keeping the Machines idle during many days in the year. This would assume considerable importance in the context of expanding the existing units and starting of new Mills in Private or Public Sector. Shortage of foreign exchange to import necessary equipments and consumable stores has come in the way of better utilisation of the installed capacity of the Mills. I do hope that the authorities would appreciate the relevance and urgency of this aspect and see that full facilities are afforded to carry on un-interrupted operations in the Mills, and I would like to add that without such provi-

sion no useful purpose would be served by liberally issuing licences, as in many cases, licences would have to be cancelled as they could not be made use of for want of necessary facilities.

Now that all our units are satisfactorily working from this month, I expect that production of pulp and paper would very much improve and the benefits of increased production and economies incidental to chemical recoveries would accrue. In regard to higher earnings and profits, I should refer to one or two problems that the Paper Industry as a whole is facing i.e., the problem of marketing and price.

Ever since the Indian Tariff Commission fixed prices in 1960 (the slight increase given in 1962 being absolutely inadequate) the representatives of Paper Industry have been pleading with Government of India for a suitable revision of the prices, having due regard to the mounting costs of production. I am afraid the representations have not received due consideration and the case of the Industry is probably shelved. I would like to urge that it is not in the interest of expansion of Paper Industry or in the interest of the existing units that such an unrealistic and uneconomic price structure is continued. It should also be remembered that there is a limit for securing economies by increased production and operational efficiency. I am confident that the authorities concerned will take these factors into consideration and revise the prices so as to allow the Industry to plough back a part of their earnings for expansion and to make investment remunerative to attract capital. While holding out hopes of high production and operational efficiency I should like to bring to your notice that it is only high production and operational efficiency coupled with reasonable prices for paper that would help to improve our earnings and profits.

The demand for paper was dull during some months in the year. There was accumulation of stocks and consequent locking up of funds. This lack of demand was attributed to reduced or lack of purchasing power to some extent. This, I hope is purely temporary and a passing phase, and having regard to the development activities of the Central and State Governments under the Five Year Plans, the demand for paper will certainly increase and we shall not find much difficulty to market our products. The supply of certain varieties

of paper like printings and writings sometimes exceeds demand. There are certain 'speciality papers' like manifolds, coated paper, Tissue and Art paper etc., which will be in great demand. I strongly feel that at the present day, there is need for diversification of products. In our case, as I have stated earlier, the level of production was raised to 18,000 tonnes per annum to make the Unit economic by securing advantages of large scale production and economies of chemical recovery. Today, the economic minimum is considered to be 100 tonnes a day or 30,000 tonnes per year of 300 working days and in this context I am glad to inform you that your Directors are examining the question of expanding the production capacity of your Mills to 30,000 tonnes with a view to make it more economic and to diversify the products to meet the market requirements. As a preliminary step, your Directors are examining the availability of bamboos and the Government of Mysore have been approached in this behalf, and I shall be able to report progress made at our next meeting.

Though there was increase in production of paper during the year under review, there was decline in profits compared with the previous year, mainly on account of increase in the cost of raw materials, chemicals, coal and power and interest charges while the selling price remained the same. The crux of the problem has been one of mounting cost and fixed selling prices. As I have said before, everything possible will be done to keep the production costs under control by operational efficiency. But the real and substantial relief comes only by a revision of prices and I again assure you that we shall continue our efforts to secure a revision of prices and I hope the Govt. of India will appreciate the position of the Industry and afford the much needed relief without further delay.

Turning to the Balance Sheet, you would observe that depreciation of Rs 7.06 lakhs as against Rs 5.76 lakhs for the previous year has been provided. Depreciation on Fixed Assets has been calculated in accordance with the rates allowed for normal depreciation and E S A (extra shift allowance) as per Income-tax Rules in respect of Fixed Assets acquired before the commencement of the Companies (Amendment) Act, 1960 and on additions to Plant and Machinery under Expansion Scheme after commencement of the Companies (Amendment) Act, 1960,

depreciation provided is on the straight line method as per Section 205 (2) (b) of the Companies Act 1956 for the proportionate period the Machinery has worked.

Your Company is entitled to Development Rebate under Income-tax Act amounting to Rupees 120,657.00 on Plant and Machinery erected, installed and taken to service during the year and provision has been made in accounts to the extent of Rs 91,000.00 to secure the above benefit.

Your Directors have transferred from the Reserves to the Profit and Loss Appropriation Account as detailed below:—

From Dividend Equalisation Reserve	Rs 240,000
From General Reserve	369,000
	Rs 609,000

No provision is required for taxation as the Company has no assessable income for the year due to carry forward of loss on account of Development Rebate. Provision however has been made towards tax on dividend as per Finance Act amounting to Rs 56,250.

Your Directors have carefully considered the question of declaration of dividend in all its aspects. Having regard to the interest and wishes of shareholders your Directors have decided to recommend declaration of a dividend at 6 p c subject to tax or at the rate of 60 Paise (taxable) per Share of Rs 10 fully paid absorbing Rs 750,000 and to carry forward the balance of Rs 4,115. In the circumstances, your Directors hope that the proposal to recommend 6 p c dividend would meet with your approval.

I have said earlier that the capital cost went slightly higher because of delay in the delivery of Pulp Plant and in the installation of Pulp Plant and Soda Recovery Plant, which added to our capital cost by way of interest erection and other charges. To meet additional expenditure, arrangements have been made for a short term loan to the extent of Rs 40 lakhs with the Canara Banking Corporation Limited, against which a sum of Rs 20 lakhs was drawn during the year. To carry on operations without interruption, it is necessary to provide for the first set of spares and machinery clothings for the New Plant & Machinery and also for obtaining new Diesel Generator Set necessary to supply uninterrupted power to the new Soda Recovery Unit and for this purpose arrangements have been made with the

Industrial Credit and Investment Corporation of India Ltd, Bombay for an additional loan in foreign currency to the extent of Rs 12 lakhs. Further, the expanded Plant requires larger working capital for purchase of raw materials, chemicals and consumable stores etc, and your Directors have made arrangements for a cash credit accommodation upto Rs 80 lakhs with the State Bank of Mysore, on the hypothecation of floating assets.

I am glad to inform you that Labour-Managements relations continue to be cordial. The peace settlement with our Labourers' Association having expired, our Labourers' Association have placed a number of demands, chief of them being revision of wages and salaries, enhancement of D A etc, and these demands are receiving sympathetic consideration consistent with the capacity of the Mills to bear additional expenses.

On behalf of the Company, it is my pleasant duty to express my thanks to the authorities of the Common-

wealth Development Finance Co, Limited, London, the Industrial Credit and Investment Corporation of India, Ltd, Bombay; the Industrial Finance Corporation of India, New Delhi, the State Bank of Mysore (Trustees), the State Bank of India and the Canara Banking Corporation Ltd, for their support and assistance in the implementation of the Development Plans.

I take this opportunity to express our grateful thanks to Messrs J M Voith of Heidenheim, Messrs Escher Wyss of Ravensburg, Germany, Messrs Millspaugh of England, Messrs Bobcock and Wilcox, Messrs English Electric Company Ltd, and Messrs Ernest Scott, Messrs Masson Scott of London the suppliers of Plant & Machinery for their prompt delivery of equipments and for having deputed efficient technical officers for erection of various equipments at our factory. I should also express my grateful thanks to the Mysore Construction Co for their satisfactory execution of Civil Engineering Works and to Messrs Aswathanarayana

and Eswara our Consulting Architects for their technical advice and assistance.

I would also wish to express on behalf of the Directors and Shareholders our grateful thanks to the Central and State Governments for the continued interest they are evincing in the progress of the Mills.

I am very grateful to my colleagues on the Board for their whole-hearted support and valuable guidance.

I wish also to express on behalf of the Directors and my own warm appreciation of the willing and efficient co-operation of all our employees.

Ladies and Gentlemen, with these observations, I now move that the Directors' Report and Audited Balance Sheet and Profit and Loss Account for the year ended 31-3-1965 be APPROVED AND ADOPTED.

N B This does not purport to be a report of the proceedings of the Shareholders' meeting a copy of which shall be sent to the Shareholders separately.

The Jay Engineering Works Ltd, Calcutta

A Year of Progress

Export Performance Back to High Level

THE following is the Speech of the Chairman, Lala Charat Ram, at the 28th Annual General Meeting of the Jay Engineering Works Ltd, held in Calcutta on September 20, 1965:

Friends,

I have great pleasure in welcoming you to the 28th annual general meeting of the company.

Pledge To Meet The Emergency

We meet in the shadow of open hostilities between our country and Pakistan, aggravated by the ulterior interests of Communist China. The hostilities are not of our seeking, but now that they are upon us, it is our paramount duty to play our role as individuals, and as social groups, to support our Government, in seeing these hostilities to a successful conclusion in the country's interest. Our hearts go out to the men of our armed forces who are giving a gallant account of themselves. Our Prime Minister Shastri has shown his mettle, by accepting Pakistan's challenge, as indeed in the apt handling of many matters which in earlier years had been allowed to drift. We offer Shastriji our whole-hearted

support and offer the promise of our best endeavours, so that we may emerge from the present difficulties with our heads high.

Profit Performance

The annual report for the year's operations has been with you for some time now. You will observe that the profits for the year show a substantial increase, touching about the highest absolute gross profit level figure ever reached before. This is specially gratifying in view of the fact that there were no operations in the first two months of the year due to the continuing strike of the previous year, and the results therefore reflect the operations of only 10 complete months. This speaks of the improved effort, which all ranks of personnel of the Company have put in.

Bonus Shares Issued

During the year, the amount standing to the credit of the share premium account was capitalised by issuance of bonus shares. This has raised the equity capital of the company by over 30 per cent from Rs 1.52 crores to Rs 1.97 crores.

In view of the improved profit position, the Directors have been able to recommend an equity dividend distribution of Rs 15.8 lacs for the year, against Rs 12.2 lacs last year; this represents an increase of 30% dividend disbursement over last year.

Increased Costs

In the present stage of the country's economy, price maintenance is both an economic necessity and a social responsibility. Lately, however, all efforts at cost reduction have been more than neutralised on account of vastly increased governmental imposts, which have made selective price increases unavoidable, in order to maintain the economic viability of the Company. The burden of all taxation, direct or indirect, and that of consequential inflation, is in the ultimate analysis always borne by the common man, either in the form of increased prices of goods and services, or of lower return on his savings.

Pro-Production and Anti-Pro-duction Policies

The Plan-frame of the 4th 5-Year Plan is now on the anvil. The Government has wisely decided to eschew

deficit financing, and to emphasise food production in this Plan. The extent to which the Plan can be successfully executed without undue strain on the economy, will depend upon the efficiency of capital investment and the efficiency of operating costs. It is my submission, that a stage has now been reached in national economic affairs, when doctrinaire considerations need to be made subservient to economic considerations, and investment directed strictly through channels which will mean the lowest investment costs per unit of output and lowest costs of production. In this context, there is a need in my view for having a relook at what may be termed as the social philosophies. Here again one bane of our country seems to have been that doctrine has ridden rough shod over economic considerations. In a country like ours, in its present state of development, it is not a question of capitalism or socialism, or management or labour or the government. Every single policy, economic or political should be measured only by the simple yardstick of its being either "pro-production" or "anti-production". No social or economic or political action can do good to the country or

the people, if it is likely to affect production adversely in terms of quantity or costs. If this yardstick of evaluating decisions on the basis of their being "anti-production" or "pro-production" is used, then we might be able to avoid a great many pitfalls, which we have not been able to avoid so far.

A Call To The Workers

I have mentioned earlier, that we have been able to repair the economic damage done to the corporation by the labour strike of 1963-64. Our executives merit great credit for this. I shall be failing in my duty, however, if I do not unreservedly compliment the bulk of the rank and file of our workers, whose dynamism alone made the return to constructive endeavour possible, in the face of the hostility of a band of self-seeking labour leaders, having anti-national attachments, and echoing a foreign voice. I hope and pray, that the workers will in the coming time, withstand with greater courage the pressures of those whose interests and loyalties conflict with the productive system of the nation.

Export Earnings Revived

In our current operations, two things continue principally to claim

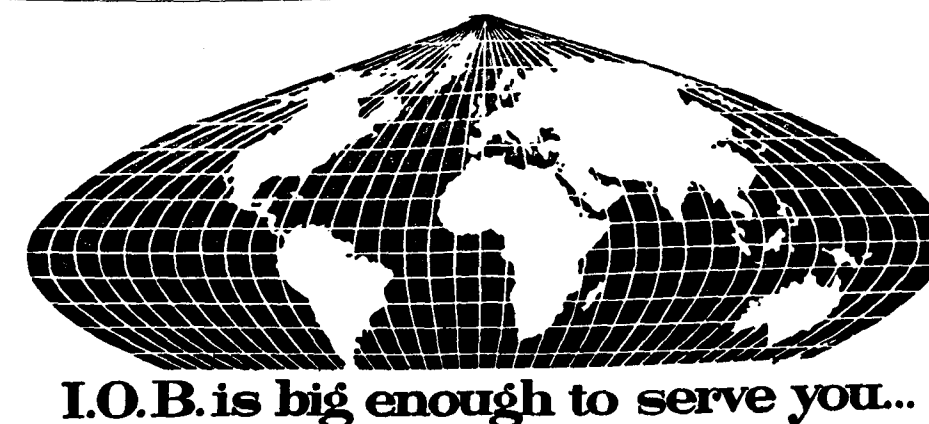
our attention. One is the strengthening of the fabric of the management structure at all levels, and the other is the improvement of liquidity position of the Company. I am happy to say, that we have made a fair progress in these fields, and these are reflected in the improved operations of the current year. I am hopeful, that unless some unforeseen developments occur, we should end the year on a considerably better financial showing, than even of the last year, which itself has been a year of good progress.

Our exports which had gone down to Rs 55 lacs in the year ended March, 1964, due to the strike, reached back to a level of Rs 90 lacs in the year under review. Efforts are continuing to enlarge our contribution to the national earnings in this sphere.

Friends, I hope that you find the results of the year satisfactory, and will join me in complimenting all the executives and the operatives of the company whose sincere and devoted efforts have made these possible.

Thank you.

Note: This does not purport to be a record of the proceeding of the annual general meeting.



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Industrial Finance Corporation of India

Statement by the Chairman, Shri A Baksi

THE following is the Statement made by Shri A Baksi, Chairman, Industrial Finance Corporation of India, at the Seventeenth Annual General Meeting of the Corporation held in Delhi on September 29, 1965: Gentlemen,

I welcome you to this Annual General Meeting of the shareholders of the Corporation which is being held in a situation very different from that of past years.

Printed copies of the Seventeenth Annual Report of the Board of Directors and the Accounts of the Corporation for the year ended the 30th June, 1965 are in your hands and I shall, with your permission, take them as read.

During the year under review the Corporation sanctioned financial assistance totalling Rs 33.44 crores to 98 industrial units. The figure for the preceding year, excluding sanctions declined or cancelled, came to Rs 35.18 crores in respect of 88 units. After the establishment of the Industrial Development Bank of India the size of the demand for assistance on us has in certain cases been smaller than it might otherwise have been. This enabled your Corporation to spread its assistance over a larger number of industrial units. The total of Rs 33.44 crores was made up of rupee and foreign currency loans of Rs 26.03 crores, underwritings of Rs 4.59 crores and guarantees for deferred payments and for loans from abroad of Rs 2.82 crores.

The quantum of assistance disbursed during the year was Rs 31.92 crores out of which cash outgoings amounted to Rs 21.96 crores. The corresponding figures for the preceding year were Rs 21.88 crores and Rs 17.99 crores respectively. The improvement reflects the efforts made to shorten the period and the formalities between sanction and disbursement of assistance. The efforts will be further strengthened.

The gross income for the year was Rs 612.56 lakhs as against Rs 507.28 lakhs for the preceding year. Deducting interest of Rs 342.02 lakhs on borrowings and other expenses of Rs 28.33 lakhs, the gross profit was Rs 242.21 lakhs from which a sum of Rs 110.79 lakhs was set apart towards taxation. The net profit for the year came to Rs 131.42 lakhs as against Rs 125.44 lakhs for the preceding

year. You may like to know why the net profit was not still larger. The interest on our borrowings went up by Rs 80 lakhs and the provision for taxation by Rs 9 lakhs; our investment in shares of new companies increased sizably but dividends were rare; while there was no bond issue in 1963-64 we made one in 1964-65 and this naturally cost us some money; disbursements in the shape of dearness allowance and house-rent allowance to staff were larger and an ex-gratia payment equal to one month's salary was made to all members of the junior staff.

As appropriation out of the net profit, a total sum of Rs 107.24 lakhs has been transferred to Reserves which now aggregate Rs 524.17 lakhs against the paid-up capital of Rs 834.60 lakhs. The balance of Rs 24.18 lakhs is being distributed as dividend.

Gross financial assistance sanctioned by the Corporation during the 17 years upto the 30th June, 1965, totalled Rs 274.41 crores. The net figure for this period, after adjustment of cancellations and withdrawals, was Rs 226.96 crores. This consisted of rupee loans of Rs 152.25 crores, foreign currency loans of Rs 22.42 crores, underwritings and direct subscription to capital of Rs 18.10 crores and guarantees of Rs 34.19 crores. Out of the total of Rs 226.96 crores, Rs 154.16 crores (68 per cent) was for new projects and Rs 72.80 crores (32 per cent) for existing concerns for expansion, modernisation and diversification. The industries assisted cover a wide range: while sugar and textiles have been the two largest beneficiaries, industries like basic industrial chemicals and fertilisers, non-ferrous metals, electrical and other machinery, cement and paper have received substantial help. The equitable geographical distribution of assistance has been a constant care with us. Aware of the fact that industries located in the advanced regions have certain natural advantages for raising money we have consistently given all eligible applications from the less developed areas of the country the fullest and most constructive attention. In these respects, Appendices "C"(i) and "C"(ii) to the Annual Report and the map inserted in it for the first time may be of special interest to you.

As against the net sanctions of Rs 226.96 crores, assistance actually

rendered upto the 30th June, 1965 was Rs 156.37 crores of which cash disbursements totalled Rs 127.74 crores. The disbursements came to the extent of Rs 35.79 crores (28%) out of repayment of loans and sale of investments etc, Rs 31.48 crores (25%) from market borrowings, Rs 40.94 crores (32%) from Central Government loans, Rs 5.94 crores (4%) from foreign credits and Rs 13.59 crores (11%) from the paid-up capital and reserves of the Corporation. Total assistance outstanding on the 30th June, 1965 aggregated Rs 117.15 crores.

Dr B K Madan ceased to be a Director on the Board on the nomination in his place of Shri V G Pendharkar by the Reserve Bank of India on the 1st July, 1964. I take this opportunity to thank Dr Madan on behalf of the Board for his valuable participation in the affairs of the Corporation during his long association with it. Our thanks are also due to the members of the various Advisory Committees for the able and objective assistance they gave to the Corporation during the year. I would also thank the non-officials nominated by us on the boards of our assisted concerns for the interest they have taken in their work.

With the rise in the Bank Rate from 4½% p a to 5% p a in September, 1964 and from 5% to 6% p a in February, 1965 and the consequent increase in the cost of borrowing funds, the Corporation, with the prior approval of the Central Government, raised the nominal rate of interest on rupee loans with effect from the 5th March, 1965 from 7½% p a, which was the rate prevailing since the 17th July, 1962, to 8½% p a with the usual rebate of ½% p a for punctual repayment of principal and payment of interest. The revised rate was not charged in the cases of loans the disbursement of which had commenced prior to the 5th March, 1965. The effective rate of interest charged during the year on foreign currency loans continued at 8% p a.

Last year I had indicated that further efforts would be made to simplify the system of work of the Corporation. A few recent decisions taken in this regard may be of interest to you and the industrial circles. We have waived registration of bi-partite agreements. Our borrowers no longer have to send us annual lists of machinery stores and spares or copies of the agenda and minutes of their Board meetings. To

THE ECONOMIC WEEKLY

expedite completion of legal formalities, the work of engrossment of legal documents which was so far being done at the Head Office has been entrusted to the Branches.

Notwithstanding that the Annual Report with its Appendices contains a great deal of statistical information it is my duty to place before the shareholders certain facts of special interest about our underwriting operations, the use of foreign credits, the help given to co-operative societies, the dividend performance of our assisted concerns and their general condition during the year. A few words about our procedures and problems will also not be out of place.

Upto the 30th June, 1965, the Corporation had sanctioned underwriting facilities in 114 cases for a net aggregate of Rs 16.28 crores made up of equity shares of Rs 7.55 crores, preference shares of Rs 4.85 crores and debentures of Rs 3.88 crores. Out of these, 78 issues involving commitments on our part of over Rs 13.37 crores were placed in the market and shares and debentures of Rs 10.85 crores devolved on the Corporation. Shareholders need hardly be told that in the last two or three years the percentage of devolution in many cases has been very high. In the year under review, against a total of Rs 3.76 crores of shares and debentures which were placed in the market, having previously been underwritten by us, we had to subscribe to as much as Rs 3.17 crores. The demand on us for underwriting is growing. While we cannot take very large commitments in this field consistent with financial prudence, we are doing our best to act as a catalyst.

The net total of foreign currency sub-loans sanctioned by the Corporation upto the 30th June, 1965 in 88 cases was equivalent to Rs 22.42 crores, out of which the year under review accounted for Rs 6.60 crores, spread over 30 cases. Against the three loans totalling \$ 40 million from the Agency for International Development of the United States of America, the Corporation had committed itself upto the 30th June, 1965 to an aggregate of \$ 30.43 million. The first three lines of credit totalling DM 55 million from Kreditanstalt Fur Wiederaufbau of the Federal Republic of Germany have been fully committed and sub-loans of about DM 3.21 million sanctioned upto the 30th June, 1965, have been adjusted against a fourth loan of DM 20 million very recently allocated to us. The utilisation of the credit of 50 million Francs from the Banque Francaise

du Commerce Extérieur, Paris, has continued to be slow. We had, upto the 30th June, 1965, sanctioned six sub-loans aggregating 10.37 million Francs out of this credit.

While we have simplified the process of examination and sanction of applications for foreign currency sub-loans we are not satisfied with the actual pace of their utilisation. Disbursements of foreign currency sub-loans amounted to a total of only Rs 6.48 crores as on the 30th June, 1965. We recognise that the actual utilisation of these sub-loans involves conclusive action by a number of parties in different countries and can thus be inherently time-consuming. But we shall be helped considerably if our assisted concerns expedite the processes of selection of suppliers and finalisation of the specifications of equipment to be imported.

Net assistance sanctioned up to the 30th June, 1965, to industrial co-operatives comprising 53 sugar units, four spinning mills and one unit for extraction of vegetable oil amounted to Rs 40.45 crores, representing about 18% of our total financial commitments. Though a few of the assisted co-operatives have met with only indifferent or moderate success so far, many have done excellent work. Sugar co-operatives in particular have often brought to the farmers a steady income, given a fillip to the demand for goods and the habit of saving, led to the setting up of ancillary and small-scale industries and have, in a few instances, brought about a remarkable change in the country-side. It is not a matter for surprise, therefore, that the Government is receiving more and more applications for licensing of new sugar co-operatives and expansion of existing ones. We trust that while encouragement is given to deserving cases the essential prerequisites to success in the field e.g. an abundance of good cane in the areas concerned, a genuine co-operative spirit among the people, a willingness not to depend too much on the Government, and the formulation of a sound core of management will be actively borne in mind.

Coming to the question of the dividend-paying capacity of the Corporation's existing borrowers, our shareholders will be interested to hear that out of the 164 concerns which were in production before the 30th June, 1965, 78 had declared equity dividends during the year under review. While 39 concerns maintained the dividend at the rate of the previous year, 5 reduced the rate and 34 increased it.

Concerns which declared 10% or more numbered 41 and 12% or more 28.

A review of our loan accounts shows that no additional provision is necessary towards our Reserve for Bad and Doubtful Debts, the balance in which now stands at Rs 14.46 lakhs. The existing provision relates to two old accounts, action in regard to which is already in hand.

The credit record of our borrowers continues, on the whole, to be satisfactory. The Corporation received during the year Rs 18.40 lakhs from loanee concerns on account of premature repayments of principal. The total amount received in this regard upto the 30th June, 1965, was nearly Rs 7.80 crores which included Rs 1.74 crores from sugar co-operatives. No premium is charged on premature repayment of rupee loans. We welcome such repayment as it increases our ability to meet the needs of other industrial units.

Out of the 237 concerns to which the Corporation has disbursed loans, 46 have so far made full repayment. Loans were outstanding on 30th June, 1965, either wholly or in part, from the remaining 191 concerns of which 27 had not yet gone into production.

As the prosperity or adversity of our assisted concerns has a decisive impact on our own operations in the long run, a word will not be out of place here on some of the difficulties that industry has been facing recently. Shortage of imported raw materials like copper, zinc, lead, alloy and special steels, rubber, sulphur, rayon grade pulp, etc. has tended to inhibit production in a number of our assisted units and to increase their cost of manufacture. Recent additions to the duties on imported equipment and raw materials have necessitated recalculation of the estimates of cost of several projects which are yet to go into operation. Delays in the construction of factories and erection of plant and machinery owing to various cases ranging from alterations in specifications to shortage of cement have also added to the burden. Several of our assisted concerns find that the total capital cost to be incurred before they can go into regular production is much higher than what they had originally estimated. In some instances this has happened due to switchover from imported to indigenous equipment which may cost more and take longer to secure. Then again, some units in fields like paper and caustic soda notice, after going into production, that their size is too small and that

their earlier ideas of economic viability have been belied. A few units manufacturing refractories, sheet glass, household meters or certain grades of writing or printing paper find that the market prospects on which they had based their schemes are not likely to materialise in the very near future. In some instances, our assisted companies have resorted to heavy unsecured borrowings in the shape of short-term deposits from the public at rates of interest very much higher than they would normally like to pay.

The Central Government is not unaware of the difficulties that industry is encountering. In fact, the recent Supplementary Budget contains certain ameliorations and incentives which will be of help to entrepreneurs with initiative and foresight.

It is not unnatural that in a developing economy industrial concerns should find themselves exposed to certain hazards from time to time. Knowing this, our Corporation has to ask itself continually the question whether while sanctioning assistance to a project it has taken all possible care to foresee the hazards and provide for suitable insulation. If this self-questioning results in our standards of scrutiny of individual projects becoming stricter than before industry will, I hope, bear with us.

A strict scrutiny does not necessarily mean delay in the processing of an application. Assistance to a project, whether in the form of loan, or guarantee, or underwriting or a combination of these, involves a joint quest by the entrepreneur and the financial institution for all relevant data, a joint endeavour to eliminate intangibles to the extent practicable and provide for unforeseen contingencies, and an exercise in mutual accommodation. Our Corporation is not omniscient. We learn as we go along, examining new projects of increasing complexity. Nor are we guided entirely by altruistic motives. Unless we justify our operations by our annual balance sheet we should not be in existence for long. But once we get an application in reasonable detail, conforming to our standard questionnaire, we employ a team of financial and technical officers to go into the project, discuss all relevant questions with the entrepreneurs, their executives, and their collaborators, if any, pay a visit to the site if necessary and make a complete appraisal without delay for the Advisory Committee whose recommendation our Board needs before reaching its final decision. Our Board meets once a

month and, whenever there are cases to consider, the Advisory Committees also meet once a month, a few days before the Board. There are recent examples of complicated cases where, with the co-operation of the entrepreneurs, we have been able to take final decisions in less than two months from the receipt of the applications. In cases which are too large to be handled by ourselves alone we advise the entrepreneurs at the outset to ascertain which other financial institution would be interested. When the entrepreneurs have approached more than one institution we try to hold joint discussions with the entrepreneurs so that the latter do not have to face many overlapping questions at different times from different institutions. This practice, we expect, will be developed further.

All this, however, does not mean that every application will have a smooth passage and every entrepreneur will secure the sanction of the Corporation to his scheme in the shape in which he brings it up. The Corporation's financial resources are limited. Sales out of the shares and debentures we hold can hardly, in the present market conditions, be made except at a loss. We have loans of Rs 33 crores outstanding which carry an interest rate of 6½% and of Rs 34 crores which carry 7% per annum. The effective rate of interest we charge in cases where the first disbursement has been made on the 5th March, 1965 or later is 8%. Though under our agreements with the loanee concerns the rates of 6½% and 7% can be increased to 8% we have so far refrained from doing so. Consequently, the generation of internal surplus is not as satisfactory as it could have been, in spite of the fact that the dividends that we are able to pay to our shareholders in accordance with our law are very modest. As for sources of funds outside, our main resorts at present are to Government loans and market bonds. In addition to the Rs 3.5 crores it lent us in the months of April to June 1965 the Central Government has been good enough to assure us of an additional loan of Rs 10 crores upto March 1966. This is not, however, a large sum of money in the present-day context of Indian industrialisation. As banks and other financiers are aware, conditions in the capital market are not propitious at the moment for a large issue of bonds by our Corporation. The demand for funds from industry, on the other hand, is growing fast. There are schemes for many pro-

ducts like fertilisers, alloy and special steels, petrochemicals, pig iron, cement, sugar, textiles, paper, chemicals, synthetic fibres and machinery and equipment for diverse purposes. There are also schemes for the renovation and modernisation of established industries like cotton and jute textiles. And now a new dimension may emerge in the shape of industries specially oriented to defence requirements. Many of these will need large underwriting as well as loans. Our practice of assisting industries urgently needed by the country in accordance with the policy of the Government will continue. But unless we have access to much larger funds, and funds at an overall cost lower than what we now pay, it is impossible for us to adequately help all the schemes we would like to help. Inevitably, therefore, a structure of *inter se* industrial priorities has to be formulated and adhered to and our assistance rationed. These matters are receiving the attention of other financial institutions, too, and it is our hope that with the Government's cognizance a clear picture will emerge in the near future. Meanwhile, we have to examine each project that comes before us on its intrinsic merits, see whether the need it seeks to fulfil is basic or peripheral, whether the scale of operations visualised will be economically viable, whether the assessment of the market demand has been made realistically, whether the imports of raw materials etc necessary to maintain optimum operation of the unit are likely to be available over a period of years, to what extent the unit will be able to effect genuine export earning or import saving and, last, but not the least, whether the promoters are in a position to accept such a financial stake that with the contributions which the financial institutions and others interested can afford to make in the present circumstances the project will really be completed without undue delay.

The times ahead will be difficult ones, both for industry and the Corporation. But looking back on the long record of mutual co-operation and thinking of the lessons of the emergency we are passing through I have no doubt that we shall be equal to the tasks that await us.

Before I conclude I wish to express my gratitude to the Directors on the Board for their wise counsel. I would also like to express, on behalf of the Board, our appreciation of the devoted work of the General Manager, the other officers and the entire staff.



The Imperial Tobacco Company Limited

Speech by the Chairman, Mr C A Bone, at the Fifty-fourth Annual General Meeting of the Company on 23rd September 1965.

BEFORE commencing his speech, the Chairman expressed his grave concern at the serious events that had recently overtaken the nation, and to the universal pleasure with which the news of the cease fire agreement had been received.

He referred also to the effect of such events on the nation's economy and, incidentally, on the Company's affairs and the need for everyone to continue to work as purposefully and diligently as they can and in this way do their utmost in support of the country's economy.

Gentlemen,

Mr F A Collett and Mr R K Banerjee retired from the Board at the end of March this year. Mr Collett joined the Board in 1959 and became Chairman of the Company on 1st April 1960. Mr R K Banerjee joined the Company in December 1938. He was elected to the Board in April 1953 and served your Company as Deputy Chairman from April 1960. We wish them both health and happiness in their well-earned retirement.

I joined the Board in November 1964, and, following Mr Collett's retirement, was elected Chairman of the Company on 1st April 1965. It is my earnest endeavour to serve you in this capacity as zealously and effectively as my predecessor.

In his speech last year my predecessor intimated that he would expect moderately improved results during the year now completed. I am happy to report that his assessment has proved correct to the extent that, although not spectacular, results have shown a heartening recovery as may be seen from our published Accounts. The value of sales turnover increased by approximately 7 per cent and this reflects an increase in the volume of our business. However, I should mention in this regard that due to certain economic factors, the volume

increase during the year has tended to be greater in the medium and lower priced categories.

I am pleased to say that, although not yet reaching the level of that for the year ended 31st March 1963, our net profit shows a welcome improvement over that of last year. This has been achieved despite the higher prices of raw materials and it is satisfactory to note that we have been able to contain our overheads despite the incidence of rising costs. This is attributable to improved performance generally, streamlining of management and some reduction in the number of other employees through voluntary retirement schemes.

At a time of increasing volume of sales, we have been faced with considerable difficulties in procuring adequate quantities of some of our raw materials. Every effort is being made and I am hopeful that, in the coming months, durations of these materials will be restored to what we consider to be a desirable and economic level. In addition, the foreign exchange position has continued to be extremely difficult and we have not been able to obtain import licences to replace old machinery as we should have liked and, indeed, for which we had planned. We are now hopeful, however, that, with Molins of India Ltd already making arrangements for the building of machinery a substantial part of the plant we require will become available from Indian sources. We have now, therefore, re-planned and indeed extended the programme of modernisation in our factories. I mention these two points not only as an outline of our future plans but also to indicate the substantial sums that are required to be earmarked for the purpose of giving effect to these plans. The implementation thereof will certainly require considerable funds but I assure you that, as a result of our long-term planning, adequate resources have been built up.

Before proceeding to a general review of the Company's activities and future prospects I must mention the new Cigarette Excise Duty that was introduced in the 1965 Budget. You may be aware that the previous system had some disadvantages and, in particular, that it precluded economic pricing within certain sections of the overall price range. I am, therefore, very pleased that the new structure to a large extent removes these obstructions and facilitates a more flexible policy. Gratified as I am at this welcome change in the excise structure I must, however, point out that its introduction has been at heavy cost to the cigarette industry as a result of the adjustment in the rates of excise duty inherent therein. It was stated at the time of the Budget announcement that some Rs 40 lakhs per annum additional revenue was expected to result. Our own estimates, however, show that the cost to this Company alone is substantially in excess of this amount and other manufacturers must be similarly affected. So far as the scales themselves are concerned, unless a ceiling is fixed, the burden on higher priced brands is inequitable as these brands also bear a considerable customs duty and thus excise becomes payable also on the duty element. Your Company has shown willingness to give the new structure a fair chance and, at the same time, to do what it can to assist in the prevention of inflation by absorbing the increased cost. I do, therefore, sincerely hope that Government, in turn, will co-operate by allowing us an extended period of stability in excise rates which, I am sure, will result in a natural increase in volume and will, ipso facto, generate higher revenue and assist in Government's efforts to resist inflation.

The general stability in cigarette retail prices during the year under review has resulted in a welcome buoyancy in the cigarette business as a whole. This, I am glad to report, has

been shared by your Company in the face of intense and increasing competition. I might add that our famous SCISSORS brand which, as mentioned last year, was introduced in a new dress, has continued to give a good account of itself.

It is evident that the taste for filter cigarettes is growing in India in keeping with the trend in many other countries throughout the world. I am happy to report that your Company's filter brands have established a very equitable share of the filter business albeit against strong competition. The success of WILLS filter is particularly worth mentioning as one of the largest selling filter brands in India and this pays tribute to its high quality. Another of your Company's filter brands, PLAYER'S GOLD LEAF, was also warmly welcomed by consumers during the year.

We have continued during the year to make every possible endeavour to export our products but import tariffs levied by prospective customer countries to protect their own manufacture are a considerable stumbling-block. There are, however, indications of progress and we will continue to explore every avenue as vigorously as we can in the future. Principally with export markets in mind a filter version of our prestige brand, INDIA, was also introduced in June 1964, and this is finding favour with our Embassies abroad.

On account of a rather short crop, particularly of air cured types of leaf tobacco, the overall prices of tobacco purchased has shown some increase which will naturally be reflected in future costs. However, some consolation may be derived from the improved quality of the flue cured types of leaf that we have been able to acquire from this Crop. I might add that it is our leaf tobacco suppliers' (Indian Leaf Tobacco Development Co Ltd) constant endeavour to improve quality and they maintain extensive experimental centres and elaborately equipped laboratories for this purpose, which their experts are putting to invaluable use in the interests of the future of India's leaf tobacco industry. It is, I think, of interest to mention here that with the development of the Nagarjunasagar irrigation project certain areas previously under leaf tobacco cultivation will no longer be suitable for this purpose. However, it is gratifying to note that our suppliers, who also export sub-

stantial quantities of Indian tobacco, are putting the whole of their organization and research facilities behind efforts to maintain and even enhance future production and are working closely with Government to consolidate the position for the future. I have, as a result, every confidence that our leaf supply position will not only be safeguarded but improved.

I am happy to report that our long-standing policy of negotiation and collective bargaining with recognized Unions continued to contribute to our endeavours to put our industrial relations on a sound basis, although the growth of dissident Unions has been a discouraging feature. It was this policy that led to the formation of the Committee of Management and Union representatives referred to by my predecessor. The deliberations of this Committee in turn have resulted in long-term Agreements now being completed with some of our Unions. With improvements in our workers' emoluments resulting from these long-term Agreements, it is my earnest hope that our Unions will give us all their co-operation to increase productivity, for it is only with a steady and continuing improvement in productivity that it can be made possible to maintain the high standard of working conditions at which we have always aimed.

Consistent with this policy of increasing productivity and improving efficiency, still greater concentration is being given to the existing training programmes at our factories in order to develop the skills and know-how of our employees to the best mutual advantage. There is always scope for further improvement and it is hoped that, in this also, both employees and Unions, in realization of our mutual interests, will extend their full support and co-operation.

Regular training is equally valuable for more senior staff. This is so not only as far as technical skills are concerned but also in administration, leadership and management. Similarly, therefore, we have carefully planned development programmes for this purpose incorporating courses held in our own management development establishment, "Aldeen", here in Calcutta; at the Administrative Staff College in Hyderabad and at other Indian institutions. In addition, some 12 members of management have been overseas for training during the year, of whom 8

attended courses at our Associates' training centre in the United Kingdom and one at the Portsmouth College of Technology.

Looking now to the future, I have already indicated the more recent pattern of rising sales and, given an extended period free from further increases in tobacco and cigarette excise, I see no reason why this growth in volume should not be maintained. I have, however, made reference to rising costs, not the least of which is that of increased cost of living which, it follows, must have an effect on our manufacturing, selling and distribution expenses. As emphasised, such rising costs can only be met with increased productivity which I am confident, given the co-operation of our work force and Unions, can be achieved.

I have said earlier that I welcome the flexibility of the new excise structure. One of my reasons for this is that I am sure that it will develop the already intense competition between all manufacturers, and with the research and product improvements which are constantly engaging our attention, together with developments in the fields of marketing and distribution, I am confident that your Company's brands will continue to give a good account of themselves.

In the light of the results of the trading for the year under review, your Directors have felt justified in recommending a final dividend of 4% making a total of 9% for the year, thus restoring the dividend to the level of that for the year to 31st March 1962. At the same time, it is proposed to maintain the first interim dividend for the current year at 2½%.

NB This does not purport to be a report of the proceedings of the Annual General Meeting.

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Alind's Nineteenth Annual General Meeting

Mr S Narayanaswamy Reviews Activities

ADDRESSING the Nineteenth Annual General Meeting of the Aluminium Industries Limited held at Registered Office, Kundara on 24th September 1965, Mr. S. Narayanaswamy, Chairman said:

In the last few weeks this country, which is engaged in a major programme of economic development, has been obliged by a trigger-happy and perfidious neighbour to engage in bitter battle with her. Foiled and frustrated in her effort to capture Kashmir through infiltration revolt, Pakistan decided on open aggression, breaking many solemn undertakings, the most important of which is one relating to non-use of American military equipment against India. The Indian Army and Air Force have displayed rare bravery and skill in the use of striking power and carried the battle deep into enemy territory. We have reason to be deeply proud of and grateful to our fighting forces and wish them even greater strength to their elbow. I desire to take this opportunity of telling Government that our hands and our hearts, our men and material are at Government's disposal, in their hour of anxious pre-occupation.

Solidal Manufacture

To come to domestic affairs, the year has again been a period of broadening activity and fresh achievements. As is to be expected, Sales touched a new high figure of Rs 7.60 crores. The new plant for the manufacture of 'SOLIDAL' low-voltage underground cable was commissioned by end of 1964. I am glad to say that this new and rather unconventional cable has been very well received by the consuming institutions and local bodies that constitute the main market for this product. Some who brought a professional eye to bear on the somewhat massive looking metallic cross-section embedded in multiple layers of insulation material that constitutes SOLIDAL had some misgivings about the degree of its flexibility, but after seeing its behaviour during installation, even fastidious power engineers were satisfied with its functional efficiency and compactness in handling. Your Directors are satisfied that SOLIDAL is well on the road to becoming a favourite. It would appear that the spread of its use is likely to be condi-

tioned more by our own machine capacity rather than by limits in demand.

New Share Issue

It is a measure of the magnitude and character of our expansion schemes, that during the year under review, your Board had to make an issue of share capital, the largest so far made by the Company, namely Rs 67.50 lakhs face value shares at a premium of 25 per cent; negotiate for a medium term loan of Rs 27 lakhs with the Company's bankers; apart from availing two foreign exchange Loans aggregating Rs 9.70 lakhs from the Industrial Credit and Investment Corporation of India. The Share Issue made during the year brings the paid-up capital of the company to Rs 202.50 lakhs, while adding Rs 16.87,500 to the Premium Reserve Account.

Unit For Cable-Making Machinery

The Company has received from Government the Industrial Licence for the manufacture of cable making machinery. It is proposed to set up this plant at Lingampalli, Hyderabad, alongside of our covered conductor plant there. The renowned firm of Miyazaki in Japan have agreed to collaborate with us and assist us in setting up this unit. An application for a foreign exchange-cum-rupee Loan has been submitted to the Industrial Credit and Investment Corporation of India to help the implementation of this project. Work on this project is just commencing. Manufacture of cable making machines is a logical follow-on of our present activities and should make for long-term self-sufficiency in the matter of machines required by new units and replacements by existing units, apart from making available spares and vital component to wire drawing and stranding machines that operate in the country. It is a matter of special gratification to us that the House of Miyazaki has agreed to help us with the design, erection and commissioning of this mother machine unit.

Expansion of Production Capacity

The new Properzi continuous rod rolling mill is under erection at Kundara and is expected to be commissioned before the end of the calendar year. This will bring the number of our rolling units to three, two operat-

ing at Kundara and one at Hirakud. This will substantially enhance our ingot converting facilities and obviate the need for importing rods. With the increase in indigenous sources of aluminium metal production, the need for converting ingots into rolled rods becomes larger.

The demands made on the Company's bare conductor producing capacity are getting larger every year and the back-log of orders are tending to get over extended. The strains imposed on our plant at Kundara and Hirakud are considerable. The company has therefore applied for and obtained a licence to add to existing capacity at Kundara as well as Hirakud and the enhanced capacity will be very shortly available to the company. Our production of covered conductors at Kundara and Hyderabad has been stepped up and this is reflected in a small measure in the consolidated sales figure in the Profit and Loss Account. We can claim to have made satisfactory headway in a market for covered conductors that is getting more and more competitive. It is however comforting to know that the consumer has shown a preference for quality material.

Switchgear Manufacture

Your company has been negotiating for sometime with a reputed firm in the United Kingdom for establishing a unit for manufacturing switchgear and allied products. If these negotiations are successful, a unit for manufacturing switchgear is expected to be set up in Kerala with foreign financial participation. This arrangement is expected to benefit your company. Since this activity may involve legal formalities and perhaps the raising of fresh capital, you will have an opportunity of obtaining fuller information in due course. That about summarizes our expansion achievements and blue prints.

Gentlemen, you are all aware of the credit regulation and import control measures introduced some two months ago and the wide-spread distress it had begun to cause to industry and trade. It is hardly necessary to discuss them, as Government have very thoughtfully abandoned those measures as both unworkable and ill-timed in an emergency like the present when production in

every sphere must be stepped up. I congratulate the Union Finance Minister for revoking these obstacles to unfettered production with promptitude. This brings me on to our own ways and means problems.

I have already referred to the capital issue we made towards the end of last year. There are a small number among our shareholders, who believe we are fond of making share issues on slender provocation, while on the other hand those who give us short term and long term loans, believe that we elect to operate on a narrow capital base, and that we prefer borrowed money even at high cost to enlarging the area of dividend liability. Ideas on the debt-equity-ratio even among our pundits are happily not any longer dogmatic or text-book inspired. In that Jerusalem of Corporate Industrial Enterprise, the USA, the debt-equity ratio has undergone such a transformation that the weightage in favour of debt will make the most unabashed of corporate borrowers in India lift his eyebrows. The debt-equity ratio is determined in terms of profit intensity, by the character of expansions, by the potentiality of accelerated amortization and by the degree of Federal Government's partnership in softening the expenses of borrowings. In India, the high incidence of corporate taxation makes the last of these motivations the primary one and indeed this very fact makes equity dividend an expensive luxury. I would like to assure shareholders that while there is no intention to plunge the company deep in long or short-term repayment obligations, it is not the Board's intention to widen the area of dividend liability by frequent share issues. Indeed your Management is keenly conscious of the strains imposed by large dividend payments after making statutory provisions towards depreciation and taxation. Our capacity to plough back profits has been grievously crippled by tax out-goings in the last few years—years during which no effort has been made to step up the dividend. I must commend the Managing Agents for the manner in which they have surmounted the ways and means problems in the last financial year, in making limited resources go a long way.

The two special Resolutions that await your approval at this meeting intend to increase the overall borrowing limit to Rs 700 lakhs and the Authorised Capital to Rs 500 lakhs. These are intended to facilitate the Company's activities in future years. I may assure you there is no proposal

to immediately increase the Subscribed Capital.

The new import and excise duties and the regulatory import duty of ten per cent inflate the bill of costs of our capital programmes and of raw material and in turn that of our end products. In our case the customers are overwhelmingly Government departments, Electricity Boards and Project administrations. They will be called upon to pay more for what we sell to them. It is a process of book entry inflation on both sides of a ledger, on which Government will do well to have a second and critical look.

Raw Material Position

The position of aluminium metal, high tensile steel wire and in a small way, zinc supplies has been causing us some concern, though currently we are reasonably well-stocked. It is a matter for gratification that the Madras Aluminium Company, the second metal reduction unit in the Southern region, has been recently commissioned, adding ten thousand tons of metal to Indian production. We welcome this addition to the small band of Indian producers. The statement by the Company's Chairman that arrangements are under way to double the capacity of the Mettur plant affords us great comfort, as the single largest consumers of electrolytic aluminium in the country. However, the technical position as to metal supply is not free from anxiety—considering the enlarging gap between indigenous metal sources and the industrial demand for the metal compelling us to look to distant countries for the not inconsiderable balance of our requirements, at a time of acute foreign exchange stringency and a national emergency. The news that the Indian Aluminium Company have finalized arrangements with Mysore Government for erecting a thirty thousand ton reduction unit in the Sheravathi Shimoga region, utilizing Sheravathi power is perhaps most important to consuming markets in India. This will probably be commissioned in three years' time from now. It is our hope that meantime Central Government will not deny to the cable industry its metal requirements from abroad to the extent of the shortfalls in Indian supplies—in the interests of power development under the Plan schemes. By the same token we hope until indigenous production of high carbon steel is established on a commercial scale, imports upto minimum requirements of the cable industry will be freely permitted.

Technical Consultant

Coming to administrative matters, I am glad to announce that Sri K P S Nair, who recently retired from the Central Water and Power Commission has agreed to be and has been appointed as Technical Consultant for this Company. Sri K P S Nair brings his vast fund of knowledge and experience in the field of electrical development to his assignment besides his own past association with this Company as Director representing Kerala Government. On your behalf, I would welcome Mr Nair to our midst. We look forward to his advice and guidance from time to time.

Sri Peer Mohammed, who was our Works Manager at one time and till recently Sales Manager has been appointed General Manager from January this year in place of Mr V G G Nayar who relinquished office. Sri Peer Mohammed brings to his new office his intimate knowledge of market requirements acquired over years of sales promotion effort and a zestful and sober approach to administrative problems. He was mainly responsible for the success of our export promotion efforts. At the executive level, the Company has drawn up a programme of "training within Works", which should equip our boys to fill middle-management positions with reasonable efficiency.

Employee Relations

In the field of personnel relations, we have entered into Long-Term Agreements with all cadres of employees at Kundara. The recent Bonus Ordinance limits the quantum of bonus payable to an amount substantially below what is laid down in the bilateral agreements. Nevertheless, the Company has decided to adhere to the provisions of these agreements and pay the bonus at the level covenanted. At the same time, the Company is determined to see that the employees honour the agreements for their part, as was demonstrated in the case of the steel wire plant employees who sought an upward revision of their term agreement through direct action recently. We are happy that negotiations resulted in an appreciation of the Company's stand in the matter. The Hiralakud Long-Term Agreement having expired, a fresh agreement has been negotiated with the Employees Union there. In the Hyderabad plant, the results of a works study are being examined with a view to negotiate a Long-Term agreement with the employees in Lingampalli.

I have reason to look forward with confidence to a future in which expansion and diversification of production will occupy a significant place. It is a future in which our employees whose unstinted labours in the past have helped us to build this impressive edifice give promise of sustained effort and enthusiasm in the bigger tasks

AROUND BOMBAY MARKETS

Equities Drift Lower

Wednesday, Morning

DALAL STREET last week was unable to move beyond its previous week-end high recorded on September 22. Apart from the fact that the rise following the announcement of the cease-fire had been rather too steep and the market needed time to consolidate its position, Dalal Street could scarcely be expected to ignore the Prime Minister Shastri's warning that the cease-fire did not necessarily mean the dawn of peace. And as the week progressed, trading sentiment was adversely affected by frequent reports about the violation of cease-fire by the Pakistani armies almost on all the fronts. Equity prices gradually drifted lower and most of the popular counters shed a major portion of their gains immediately following the announcement of agreement on the cease-fire. Century eased from Rs 528.50 to Rs 514, Standard from Rs 371 to Rs 356, Tata Steel from Rs 141.75 to Rs 138.75, Indian Iron from Rs 25.25 to Rs 24.80, National Rayon from Rs 402 to Rs 391, Tata Locomotive from Rs 211.50 to Rs 207, Hindustan Motors from Rs 16.48 to Rs 16.24, Indian Dyestuff from Rs 172 to Rs 162 and Scindia from Rs 13.68 to Rs 13.28—to mention a few counters.

The extremely uncertain political situation is by no means the stock market's only worry. Not many observers are inclined to expect any major recovery in equity prices even after the effective implementation of the cease-fire. This is because the economic prospect has been blurred by the likely increase in defence outlay. Diversion of scarce resources to defence production is bound to have far reaching effects on the economy which is already under serious strains. As rightly pointed out by the directors of the Reserve Bank of India in their latest annual report the imbalances generated as a result of rapidly mounting expenditures on defence and development in a situation of a relatively slow growth

that are round the corner.

I must express on behalf of you all my appreciation of the great work done by the Managing Agents and in particular by Sri B V D Menon, Managing Director, Seshasayee Brothers (Travancore) Private Ltd, who has piloted the Company's affairs with rare skill, dynamism and forbearance

of output and export earnings has caused intense pressures on the price level and the foreign exchange reserves and affected the country's capacity to undertake larger Plan expenditures commensurate with the needs of the economy.

The prospect of raising funds for financing the enhanced defence effort through additional taxation is quite disturbing from the stock market's point of view. Both the Industrial Development Bank and the Reserve Bank have emphasised the need for reviving the capital market. But the question is how can there be any significant revival of the capital market when the economy continues to be under serious strains.

COTTON

Futures at New Peak

THE cotton mill industry has long been complaining about the developing crisis of accumulation of stocks of both cloth and yarn which has now begun to tell on production because quite a number of ill-equipped and inefficient units have been forced to reduce shift working and some dozen-and-a-half mills have had to be closed down. Cloth and yarn output in August, provisionally placed at 420 million yards and 174 million lbs. is substantially down compared to July and cloth production is the lowest for several months, excluding February. Mills are also known to have been running down their stocks of cotton because of the acute financial stringency and fresh purchases have been on a comparatively restricted scale, especially during the past several weeks. Even so, cotton prices have continued to hold remarkably firm—well above their statutory ceilings. Cotton futures last week were bid up to a new all-time high. The March hedge contract—Virnar 27/32"—which had been sold down to Rs 861.50 on September

in a truly trying year. I must express the Board's appreciation of the splendid work put in by the General Manager, the Supervisory staff and all ranks of technical and administrative personnel during the year.

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

7 rose to Rs 902 (per quintals) on September 28 which takes it fairly close to its revised ceiling of Rs 936.

In view of the stock accumulation with mills and the continuing slack off-take in the cotton piecegoods market, the spurt in cotton futures to a new all-time high might seem rather intriguing. But the rise in futures reflects essentially the likely deterioration in the supply position of cotton in the current season. The recent dry spell in almost all the cotton producing areas has led to a downward revision of crop estimates and it is widely feared that if the weather does not oblige soon enough the new crop might turn out to be only a little better than in the preceding season. Apart from some damage due to frequent Pakistani air raids, the cotton crop in the Punjab is reported to have been seriously affected by the 'Jassid' disease and against the earlier estimate of about 12.75 lakh bales the crop is currently mentioned around 16 lakh bales. Crop conditions in most other areas are also said to be rather unsatisfactory due to the absence of the much-needed rains towards the end of September. Some anxiety has also been expressed recently about prospects of importing US cotton under PL 480. Cotton is likely to prove to be industry's major problem in the current season.

Cotton consumption during the 11 months of the 1964-65 season—September to July—is placed at 58.64 lakh bales made up of 51.63 lakh bales of indigenous cotton and 7.01 lakh bales of foreign cotton. Consumption in the same period of the previous season amounted to 55.58 lakh bales consisting of 50.02 lakh bales of indigenous cotton and 5.56 lakh bales of foreign cotton. Stocks with mills at the end of July totalled 21.11 lakh bales as against 22.93 lakh bales at the end of May and 20.26 lakh bales at the end of July 1964.

OILSEEDS

Bull Manipulation

OILSEEDS futures made news last week. In kerb dealings on September 28 castorseed April and linseed April were bid up to Rs 101 and Rs 119.50 (per quintal) respectively—new high levels for the current season. Earlier in the month, castor futures were quoted around Rs 87 and linseed futures around Rs 107. The spectacular rise in futures cannot be satisfactorily explained in terms of developments in the political situation. Nor has there been any significant change in the overall demand and supply equation of vegetable oils. The plain truth is that speculation in castor and linseed futures has assumed serious proportions, with a few powerful operators dominating the scene all the time. The wide swings in castor and linseed futures noticed over the past several weeks have no parallel over the past many years.

The main reason why speculation in linseed and castor, the total annual production of which rarely exceeds 5.5 lakh to 6 lakh tons, is that there exist no facilities for forward trading in the other major and more important oilseeds—groundnut and mustardseed. Because of the very small production of castor and linseed, manipulation in these commodities is easy. That is precisely what has been happening for many months. It is time that the authorities realised this elementary fact. If the Forward Markets Commission is unwilling to allow forward trading in groundnut and mustardseed then it ought to ban futures trading in castor and linseed as well. If the major crops of groundnut and mustardseed can be marketed without the facilities for forward trading there is no sense in permitting futures dealings in the other and much less important crops. In an economy characterised by chronic shortages, speculation can serve hardly any useful purpose and it is bound to aggravate inflationary pressures. The sooner the authorities realise this, the better.

The steep rise in linseed and castor futures last week, resulting primarily from strong bull manipulation, imparted firmness to the general market sentiment. Groundnut and groundnut oil also hardened considerably. Groundnut oil which had been marked down to Rs 27.75 (per 10 kgs) in the preceding week improved to Rs 29.75. Linseed oil rose from Rs 25 to Rs

26.75 and castor oil from Rs 18 to Rs 19. Apart from the spurt in castor and linseed futures, sentiment was influenced by fears of a likely setback in groundnut production due to inadequate rains in some of the producing areas. Export activity was restricted throughout the week due to continued political uncertainties.

MONEY AND BANKING

Interest Rates Fluctuate

Conditions in the Bombay short-term money market during the week to September 29 showed a fluctuating movement. During the earlier part of the week interest rates held around the previous week's levels. Towards mid-week the rates fell sharply on weak demand and increasing supplies. The market, however, climbed back to the previous week's levels on Tuesday. Demand for funds increased while supply remained unchanged. It is expected that the rates will continue their upward trend during the coming weeks with the arrival of the busy season. The rates of interest on Thursday stood around 7 per cent.

Scheduled bank deposits during the week to September 17 increased by Rs 5.80 crores to Rs 2787.17 crores

THE ECONOMIC WEEKLY

according to the weekly statement issued by the Reserve Bank. During the corresponding period last year deposits stood at Rs 2506.56 crores. Credit issued by the banks, however, declined from Rs 2024.09 crores to Rs 2014.81 crores. There was a slight decline of Rs 58 lakhs in cash balances with the banks and borrowings from the Reserve Bank were lower as well by Rs 2.83 crores. Balances with the Reserve Bank increased by Rs 3.83 crores. Money at call and short notice were higher by Rs 5.47 crores to Rs 61.11 crores. Investments in government securities at Rs 829.83 crores showed a fall of Rs 78 lakhs.

Notes in circulation during the week to September 24 declined by Rs 17.70 crores to Rs 2562.70 crores, according to the Statement of Affairs of the Reserve Bank. Balances held abroad were lower from Rs 15.20 crores to Rs 12.78 crores. Foreign Securities remained unchanged at Rs 70.63 crores. Deposits of the Central Government increased by Rs 25.77 crores to Rs 93.43 crores, while those of State Governments fell from Rs 19.66 crores to Rs 11.06 crores. Loans and advances to governments were higher by Rs 12.24 crores at Rs 82.51 crores. Advances to Scheduled banks declined from Rs 17.38 crores to Rs 8.94 crores.

Machinery Manufacturers Corporation

AS one of the pioneers in the field, Machinery Manufacturers Corporation has contributed substantially to the progress of the textile machinery industry, during the last few years. It has not only improved the quality but also introduced latest technological improvements. Carding engine is the principal product of the company, and it continues to hold the premier position, producing over 70 per cent of the total carding engines manufactured within the country. Having kept in touch with the latest developments in carding technology, the Corporation was the first to develop and market semi-high production cards which, when clothed with metallic wire, yield almost 100 per cent increase in production. These semi-high production cards are undergoing extensive tests at Textile Research Institutes at Bombay, Ahmedabad and Coimbatore.

Speaking to shareholders at the annual meeting recently, A K Mitra, chairman, stated that by introducing high production carding engines the company had reduced the total requirement of cards in the country by at

least 50 per cent. He hoped that the manufacturing facility thus made available would be utilized for producing other types of machinery, at present not manufactured in the country. Mitra appealed to the Government to take the machinery industry into confidence before agreeing to the import of machinery from abroad. In the past ad hoc import of machinery had retarded the industry's progress, and if now, when it was doing its best to supply quality machinery, imports allowed under foreign credit arrangement, it would frustrate the efforts the machinery industry was making.

The Corporation has on hand an expansion programme which will make it a multi-product unit with a heavy bias towards textile industry. It has

Correction

The heading of the Company Chairman's statement published on page 1489 of our last week's issue should read "Machinery Manufacturers Corporation Limited" and not "Machinery Manufacturers Corporation Limited". The error is regretted.—Ed.

THE ECONOMIC WEEKLY

received manufacturing licence for Crosrol-Varga high production units and letter of intent for high production draw frames. It has also received licence for the import of tooling from Carding Specialists of the UK. Under the expansion programme, which is phased over a period of 3-4 years, the corporation proposes to manufacture two new products — Cross-Varga high production units (2,000 Nos) and high production Whitin draw frames (200 Nos). Besides, the manufacturing capacity of some other products is to be expanded — of speed frames to the licenced capacity of 90 and of PH diesel engines from 2,400 units to 5,000 units. The company has been sanctioned a foreign exchange loan of Rs 1.38 crores and a rupee loan of Rs 25 lakhs by I F C for implementing the expansion programme.

Raymon Engineering

SATISFACTORY progress is being made by Raymon Engineering in implementing its scheme for expansion of existing units and setting up of new lines of manufacture with foreign financial and technical collaboration. Final offers for the required machinery and equipment are awaited from abroad. Meanwhile, steps are afoot to purchase/acquire land adjacent to the existing works, and indigenous machinery is being purchased. The foreign participants, Garvey Grain of the U S and Phoenix-Rheinrohr and Handels Union, both of West Germany, have subscribed to the fresh equity capital of the company. A loan of Rs 21.4 million has been obtained from (ment). In addition, increased banking facilities have been provided by the company's bankers. The company has thus secured considerably improved USAID under PL 480 (Cooley amendment) financial resources. When this scheme is fully implemented, there would be a substantial improvement in the quality, variety and volume of wagons, forgings, pressings and structural fabrication, and the company would also undertake production of new items such large diameter spirally welded pipes, cranes and heavy steel construction. The future outlook for this growing concern, therefore, appears promising.

Meanwhile, the year to March 31 last has again been a period of "stress and strain" when, though the structural fabrication and forgings, stampings and pressing operations showed slight improvement, the wagon production operations received a set-back.

with the labour troubles continuing and hampering the work. The order for 1,000 'O' type broad-gauge wagons, however, has since been completed, and work on the two orders for 1,750 'CR' (covered) type wagon has been taken in hand under more favourable conditions. The large inventories of matching steel and other items which were procured in advance should stand the company in good stead in the manufacture of these wagons. The 1964-65 results show that, despite increase in the amount billed from Rs 60.27 lakhs to Rs 68.12 lakhs, the outcome was a bigger loss of Rs 9.70 lakhs (5.60 lakhs) due mainly to the increased interest charges on borrowings and higher wages paid to workers. Together with the previous losses of Rs 28.73 lakhs and miscellaneous expenditure yet not written off or adjusted amounting to Rs 7.01 lakhs, the total deficit has amounted to Rs 45.44 lakhs.

Bombay Suburban

WHILE the proposal to amend the Electricity (Supply) Act, 1948 to provide inter alia, for a measure of liberalisation of the rate of permitted "reasonable return" is still in suspense, this rate has undergone an upward revision following the two increases of one-and-a-half per cent in the Bank Rate during the past about a year. The basic proposal now pending before Government is to permit licensees to treat as operating expenditure the actual interest plus a half per cent on loan capital if a licensee is obliged to raise such capital at a rate of interest higher than the "standard rate".

Bombay Suburban Electric Supply intends to issue debentures of the face value of Rs 2.5 crores at a rate of interest not exceeding eight per cent for raising additional finance to cover capital expenditure required for further expansion. In his Chairman's review circulated to shareholders with the company's report for the year 1964-65, A N Haksar says that over the last decade system demand and energy off-take has been doubling itself every five years and that barring some temporary recession, demand for electric power will continue at the present pace for some time to come. Haksar has pleaded for prompt release of foreign exchange and quick issue of import licences for the very essential requirements of the electricity industry, which has been accepted as a basic industry.

Meanwhile, the company has well maintained growth in sales and earnings during the year ended March last when energy sales increased nearly 19.5 per cent to exceed the 300 million kilowatt-hours mark and revenue receipts over 19 per cent to top Rs 3 crores mark. The company earned a profit of Rs 48.83 lakhs, against Rs 34.09 lakhs, after providing for depreciation and taxation. Of this, the increased total dividend of 10 per cent requires Rs 21.01 lakhs (15.85 lakhs).

Hindustan Ferodo

IN order to keep abreast of market trends, Hindustan Ferodo has set up a market research department and plans to add during 1966, two new products to its manufacturing range; one is asbestos millboard, which is used for heat insulation and as an alternative form of gasket material, and the other is "Ferobestos" asbestos-based industrial plastic materials. This was stated by Kenneth Neve in his Chairman's statement read at the first annual meeting of shareholders held in Bombay recently. The demand for products of all the three main manufacturing divisions — friction materials, textiles and jointing materials has been at a high level, and extra plant is to be installed to meet anticipated demand.

During the nine-month period ended March last, the company's total turnover amounted to Rs 3.04 crores and profit before tax Rs 1.37 crores, exceeding the last year's comparative performance of Asbestos, Magnesite and Friction Materials, whose entire manufacturing business was acquired by Hindustan Ferodo from July last year. H D S Hardie, Managing Director, who presided in the absence of the Chairman, told shareholders that the current year's turnover was likely to be around Rs 4 crores and that the company could look forward with confidence to steady progress in the future.

Khatau Makanji

IN a year when things have not been pleasing for textile mills, erosion of margins revealed by Khatau Makanji Spinning and Weaving Company is scarcely surprising, particularly because nearly half of the company's production has been under statutory price control and costs have increased owing to continuous rise in dearness allowance, interest charges and prices of cotton, stores, chemicals and colours. Commenting on the current

year's prospects the directors say that unless prices of controlled varieties of cloth are suitably revised margins will continue to be under pressure. In addition, fresh increase in import duties and excises on various commodities announced on August 19 last is also likely to lower margins. The company continues to face the problem of getting its foreign exchange requirements due to the difficult foreign exchange situation, though new foreign markets continue to be explored for the company's products with a view to earning more foreign exchange.

The building for the Company's Borivli unit is nearing completion and the machinery is being installed. Some 1,500 spindles are expected to begin production by June next. The processing activities of Fashion Prints, the company's subsidiary, have been expanded to increase its earnings capacity. The financial results for the year to June last show sales slightly up from Rs 5.43 crores to Rs 5.51 crores and gross profit down from Rs 85.53 lakhs to Rs 74.53 lakhs. Of this, taxation absorbs a little more but there is a considerable saving in the provisions for depreciation and development rebate, with a result that equity earnings are a shade better at Rs 23.80 lakhs (23.36 lakhs).

Ashoka Cement

THE improved performance of the foundry division has helped Asoka Cement to produce better results for the year ended March 1965, even though production and despatches were almost at the same level as last year. Production of clinker and cement in 1964-65 stood at 1,59,822 tonnes and 1,66,006 tonnes as against 1,59,963 tonnes and 1,67,036 tonnes, respectively, a year before. Similarly, despatches totalled 1,65,104 tonnes compared to 1,66,218 tonnes previously.

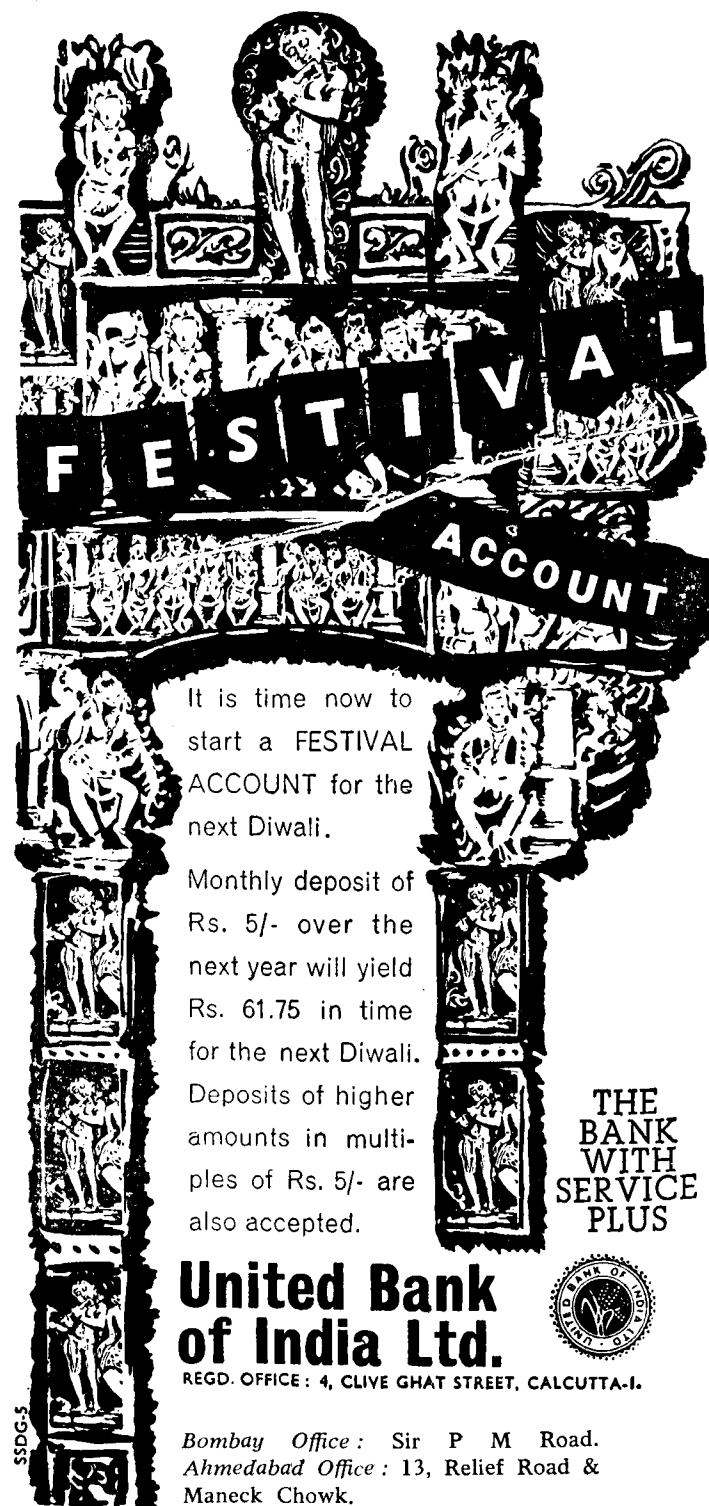
The year's trading resulted in a bigger net profit of Rs 9.49 lakhs against Rs 5.61 lakhs, after making necessary provisions. Of this, the proposed dividend raised by one per cent to eight per cent requires Rs 4.80 lakhs (Rs 4.20 lakhs) and has a much better earnings cover.

Bradbury Mills

RISING costs of manufacture with no corresponding increase in realisation coupled with substantial increase in interest charges due to heavier borrowings on account of expansion programme, brought down

Bradbury Mills' gross earnings in the year ended March last to Rs 8.64 lakhs from the previous level of Rs 14.03 lakhs even though sales were up from Rs 2.36 crores to Rs 2.54 crores. After making necessary provisions, net profit is reduced to only Rs 0.49 lakh (2.53 lakhs). The usual dividend on preference capital and that on equity dividend lowered from 30 per cent to

20 per cent together demand Rs 3.48 lakhs (4.48 lakhs). The shortfall is to be made up by a sizable transfer from reserves. During the year, the company added new machinery worth Rs 32.37 lakhs. All the major items of machinery like bleaching, dyeing and processing plants and automatic looms have already arrived and are in the course of installations.



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Industrial Production

	June 1965	May 1965	April 1965	June 1964
Seasonally adjusted	188.1	183.6	182.9	171.7
Crude	183.2	181.6	180.5	167.2
Mining and quarrying	181.1	184.2	187.6	163.3
Coal	172.2	174.6	178.8	154.7
Manufacturing	178.1	175.3	174.4	162.0
Food mfg industries	139.7	130.2	148.1	125.2
Wheat Flour	341.3	148.1	352.7	145.9
Sugar	20.8	77.6	215.7	6.7
Tea	170.4	119.7	76.0	157.5
Salt	456.7	353.2	273.3	380.0
Beverages and tobacco	234.1	231.3	135.3	170.0
Cigarettes	132.2	132.0	130.9	115.4
Manufacture of textiles	125.6	125.5	124.2	115.4
Spg, wvg and finishing of cotton textiles	135.9	139.4	140.1	120.1
Cotton spinning	121.6	120.1	118.0	113.7
Weaving of cotton textiles	95.0	96.5	96.6	93.2
Mill sector	193.5	184.2	176.3	169.1
Decentralised sector	111.9	110.2	106.5	119.2
Spg, wvg and finishing of wollen textiles	220.5	221.4	217.0	209.5
Spg, wvg and finishing of textiles from silk and synthetic fibres	128.2	127.2	129.3	123.3
Spg, wvg and finishing of jute mfg	282.9	235.4	240.2	197.5
Footwear and other wearing apparel and made up textile goods	242.2	242.1	238.7	191.2
Wood and cork except furniture	—	241.9	239.3	—
Paper and paper products	157.5	156.9	143.7	127.2
Leather and fur products	220.8	224.1	224.7	181.1
Rubber products	233.7	235.6	237.0	216.6
Chemicals and chemical products	379.2	387.2	389.4	327.7
Basic industrial chemicals	429.1	429.0	447.3	326.4
Heavy organic chemicals	412.5	431.6	426.2	363.3
Heavy inorganic chemicals	587.7	620.6	572.7	570.7
Synthetic resins and plastics	194.6	170.3	185.6	186.9
Dyestuff	256.5	268.1	237.8	257.9
Fertilisers	176.8	171.9	175.1	177.5
Paints, varnishes and lacquers	138.2	141.1	162.8	148.6
Soaps	148.2	128.1	135.2	112.4
Matches*	242.1	228.2	183.3	213.1
Petroleum products	230.4	235.4	222.3	210.1
Non-metallic mineral products	231.6	222.9	205.0	202.6
Structural clay products	175.1	175.31	16.4	182.6
Glass and glass products				
Pottery, china and earthenware	299.7	309.8	329.7	358.3
* Cement	203.3	219.1	201.6	175.4
Basic metals	258.4	251.7	249.6	242.7
Iron and steel	268.6	259.4	257.8	249.4
Pig iron	350.8	323.1	309.5	324.7
Finished iron	309.8	312.9	305.6	287.7
Copper smelting and rolling mill products	148.8	141.7	140.4	121.7
Aluminium	403.1	402.2	404.2	390.6
Brass	161.1	188.1	156.7	186.8
Metal products	243.8	252.7	277.3	214.1
Bolts, nuts, screws, nails, springs, chains etc	196.5	196.5	193.6	132.2
Hand tools and small tools	579.5	655.9	691.9	462.6
Metal products not classified elsewhere	215.1	218.2	197.0	195.1
Machinery except electrical machines	475.8	471.9	546.5	418.9
Internal combustion engines	456.5	470.6	471.1	356.7
Industrial machinery	527.9	515.5	486.8	469.7
Commercial office and household machinery	388.3	359.8	355.3	379.0
Sewing machines	350.5	314.3	311.9	250.2
Electrical machinery, apparatus, appliances and supplies	304.3	303.3	291.5	276.2
Power transformers	479.9	425.1	382.9	310.4
Electric motors	454.5	484.9	455.5	369.9
Electric cables and wires	279.5	278.6	259.5	325.7
Batteries	206.8	176.3	165.9	184.7
Electric lamps	311.5	293.0	224.7	282.8
Electric fans	398.2	459.9	454.3	308.2
Radio receivers	353.2	300.0	375.8	328.7
Transport equipment	210.6	208.4	190.7	189.6
Railway wagons	161.7	165.7	157.0	156.0
Motor vehicles	221.6	221.1	185.4	203.5
Motor cycles and scooters	1,008.9	971.6	930.2	683.2
Bicycles	251.6	237.6	233.1	202.4
Electricity, gas and steam	311.6	327.2	313.6	302.2
Electricity				

* 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.

Source: Department of Statistics, Central Statistical Organisation, Calcutta

STATE GOVERNMENTS' OUTSTANDING LOANS

(As on 31st March)

(Rs lakhs)

	Local Bodies	Agriculturists	Others	Total
Andhra Pradesh				
1957	286	1,250	1,387	2,923
1961	661	1,431	2,754	4,846
1966	1,326	2,561	12,452	16,339
Assam				
1957	89	117	749	955
1961	151	275	1,923	2,349
1964	—	—	—	5,195
Bihar				
1957	239	1,626	771	2,636
1961	461	1,526	2,768	4,755
1966	495	1,150	10,000	11,645
Gujarat				
1961	524	233	1,358	2,115
1964	904	401	5,339	6,644
1966	1,136	497	7,463	9,096
Jammu & Kashmir				
1957	11	—	204	215
1961	80	—	416	496
1966	112	—	652	764
Kerala				
1957	122	36	318	476
1961	178	89	1,688	1,955
1966	—	—	—	9,586
Madhya Pradesh				
1957	155	1,050	3,055	4,260
1961	371	1,221	5,244	6,836
1966	501	2,871	14,549	17,921
Madras				
1957	783	847	1,343	2,973
1961	1,839	917	13,199	15,955
1964	3,015	1,278	17,099	21,392
Maharashtra				
1957	1,766	1,536	4,102	7,314
1961	1,909	2,438	7,585	11,932
1964	1,901	2,845	12,280	17,026
Mysore				
1957	—	—	—	987
1961	—	—	—	3,212
1964	—	—	—	8,407
Orissa				
1957	153	323	273	749
1961	171	288	463	922
1964	195	303	897	1,395
Punjab				
1957	—	—	—	2,428
1961	—	—	—	4,496
1966	—	—	—	12,694
Rajasthan				
1957	159	1,102(a)	—	1,261
1961	842	3,894(a)	—	4,736
1966	1,585	7,415(a)	—	9,000
Uttar Pradesh				
1952	566	320	707	1,593
1957	1,352	755	1,565	3,672
1961	1,257	642	11,265	13,164
1966	2,504	3,105	27,444	33,053
West Bengal				
1957	218	339	3,968	4,525
1961	283	533	5,954	6,770
1964	290	361	10,900	11,551
1966	—	—	—	14,689

(a) Includes others.

Source : Report of the Finance Commission, 1965.

STATE GOVERNMENTS' ARREARS OF REVENUE

(Rs lakhs)

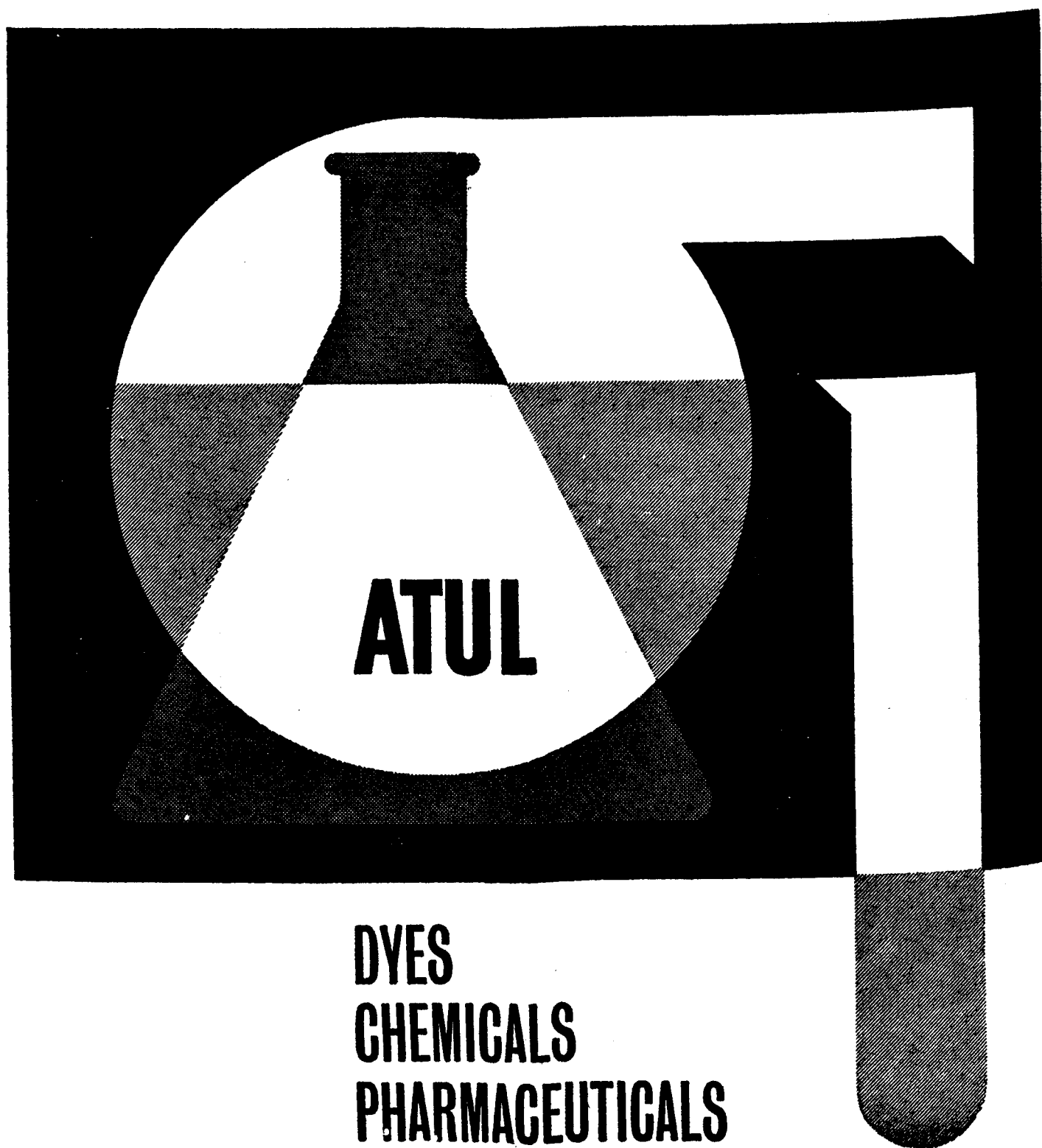
State/Particulars	As at the end of				
	1960 61	1961 62	1962 63	1963 64	1964 65
Andhra Pradesh					
Land revenue	576	589	928	513	—
Sales tax	371	332	363	331	—
All revenues	—	—	—	1642	—
Assam					
Land revenue	169	183	207	218	—
Sales tax	70	68	71	83	—
All revenues	—	—	—	573	—
Bihar					
Land revenue	658	641	772	432	360
Sales tax	159	153	163	168	265
All revenues	—	—	—	1028	—
Gujarat					
Land revenue	—	534	264	185	127
Sales tax	—	78	79	91	102
All revenues	—	—	—	544	—
Jammu and Kashmir					
Land revenue	—	—	—	—	—
Sales tax	—	—	—	—	—
All revenues	—	—	—	667	—
Kerala					
Land revenue	47	49	19	390	—
Sales tax	305	368	343	387	—
All revenues	—	—	—	1018	—
Madhya Pradesh					
Land revenue	252	277	322	329	360
Sales tax	79	90	111	130	156
All revenues	—	—	—	470	—
Madras					
Land revenue	248	208	202	204	178
Sales tax	200	260	296	279	357
All revenues	—	—	—	680	—
Maharashtra					
Land revenue	120	76	161	137	212
Sales tax	487	587	647	767	—
All revenue	—	—	—	1,448	—
Mysore					
Land revenue	168	218	261	248	—
Sales tax	175	179	182	184	—
All revenue	—	—	—	801	—
Orissa					
Land revenue	107	109	92	82	—
Sales tax	170	189	254	249	—
All revenue	—	—	—	357	—
Punjab					
Land revenue	117	154	91	82	—
Sales tax	52	81	58	61	—
All revenue	—	—	—	339	—
Rajasthan					
Land revenue	—	377	444	353	342
Sales tax	—	36	53	80	103
All revenue	—	—	—	902	—
Uttar Pradesh					
Land revenue	485	599	554	458	396
Sales tax	686	792	964	1,081	1,172
All revenue	—	—	—	2,842	—
West Bengal					
Land revenue	445	514	372	369	—
Sales tax	1,130	1,393	1,496	1,574	—

Source : Report of the Finance Commission, 1965.

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THE ECONOMIC WEEKLY

JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

AFTER THE WAR: DANGERS AHEAD

NINE LIVES OF SUKARNO

STATE INCOME ESTIMATES

VOLUME XVII NO 41

OCTOBER 9, 1965

SEVENTY-FIVE PAISE

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THE ECONOMIC WEEKLY

Vol XVII No 41 Oct 9, 1965

EDITORIALS

Nine Lives of Sukarno 1539
Without P L 480 1540

WEEKLY NOTES

Undelivered Cloth — The High Price of Cheap Gas — Agricultural Refinance Goes Abegging — U K and the Indo-Pak Conflict — A Religious War? — Labour's Left Wing Muzzled 1542

LETTER TO EDITOR

Illusion of the Student Revolution? 1546

CAPITAL VIEW

The Danger Ahead — Romesh Thapar 1541

BOOK REVIEWS

India's Decade of Development — Aloo J Dastur 1547
Divide et Impera? — S P Aiyar 1549

SPECIAL ARTICLE

Indian National and State Income Data—II — Mahinder D Chaudhry 1551
— Bert F Hoselitz

FROM THE CHAIR

The Bombay Gas Company Limited 1563
Fertilisers and Chemicals Travancore Limited 1566

AROUND BOMBAY MARKETS

Equities Drift Lower 1569

BUSINESS NOTES

Tata Hydrel Group — Shipping Corporation — Mysore Paper — Hind Brown Boveri 1571

CURRENT STATISTICS

1572

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Nine Lives of Sukarno

SUKARNO seems to have survived once again. Only this much is clear in a situation otherwise completely confused. He has not only escaped physical annihilation, he still seems to be in power, though how effective he is at the moment as the leader of the State apparatus and the armed forces is a matter of conjecture. The news reports on which one has to depend do not give the impression that he is fully in control of events; rather, one feels, he is a more or less helpless and passive witness. If he is still in power, that is because the real leaders of the situation, whoever they are, want him to be in power as a popular figurehead. According to this view, Sukarno would be much in the same situation as Imre Nagy was in the first phase of the Hungarian uprising of 1958 when he was issuing appeals over the radio against the rebels with bayonets pointed at his back. Only later on did one know that his sympathies really lay with the rebels and far from being the effective head of the State when issuing his radio appeals against the rebellion he was in fact prisoner in the hands of the Soviet army. In support of the hypothesis that Sukarno's position today is similar, one can point to the silence of Sukarno during the initial phase, the mystery surrounding his whereabouts and activities during that period, his admission that he had thought it safer to be near an airport—the Indonesian Air Force is still suspect as being sympathetic towards or even an accomplice of the rebellion—, his very brief radio announcements and the airs Maj-General Suharto has been openly giving himself as the "protector" of Sukarno rather than as one obeying his orders. Supporting this view are also the so-called diplomatic reports that go so far as to suggest that Sukarno not only knew of the coup plan in advance but in fact engineered it.

Against this much too pretty theory one has to argue that if indeed Sukarno wanted to get rid of some army generals too right wing for his liking it would be senseless of him to instigate some other army generals to organise a coup directed against the State which he himself represents. The expected and very much more efficient course of action for him would be to sack the army generals who meant danger to his position or his policies and install in their places those with whom he has allegedly conspired to bring about the present situation. This course might also lead to strife but in this situation the onus of defying the State authority would lie with the dismissed generals whereas his supporters would enjoy the position of the loyal and be able to command the support of the larger part of the army, now still under the right wing generals. A head of State would not have to take recourse to the devious technique of instigating a coup against his own regime unless he is really not an effective head of State, unless he is virtually a prisoner of other men wielding actual power though formally under his authority. Sukarno was not in such a position: there was no doubt at all about his supremacy.

However, the thesis that Sukarno himself engineered the coup becomes very much more plausible if it is modified by assuming that Sukarno was indeed contemplating taking steps against the right wing army generals and replacing them with some of his more trusted men. But before he could do it the right wing generals took over effective power, making Sukarno a prisoner for all practical purposes, and this in turn might have led to the attempted coup by the so-called left wing army men on whom Sukarno was counting. In support of this modified hypothesis one can cite the news report on the very first day of the rebellion that the initial spark was an attempted right wing coup. It may be recalled that when the rebel forces had control of the radio for a few hours it was announced that the "September 30 Movement" had saved the President and the country from a plot organised by the generals.

The hypothesis that the coup that had been organised was really a right wing one is further supported by the almost total inactivity of the communist party of Indonesia. The left wing rebels are described in press reports as "pro-communist" and the so-called leftist coup as "communist".

inspired". If indeed the communist party had plotted for insurrectionary seizure of power, it would not depend only upon the breakaway parts of the armed forces; it would also organise its own guerillas and also make full use of whatever other weapons it has got in terms of hold over trade unions and other mass organisations. However, there has not been any serious participation by the communist party. It has not tried to organise countrywide strikes; it has not indulged in sabotage and subversion; and the reports one gets of armed communist bands scouring some parts of the country indicate precisely a hurried and belated attempt to organise self-defence. Once again, we have to conclude that

if the rebel forces fighting under Lt-Col Untong are "communist inspired", the communists did not time the coup but were caught unawares by a rightist coup and reacted with an attempted counter-coup.

If this line of analysis is not all wrong, then the victory of the right wing generals should mean an end to Sukarno's authority and to his policy of a middle course; then one has to seriously doubt such reports as would have Sukarno firmly back in power and predict a leftward change in Sukarno's cabinet composition and in his policies. One should expect changes exactly in the opposite direction, with or without Sukarno.

Without P L 480

THE public has been busy counting the number of Pakistani tanks and planes destroyed; no one has been too eager to consider in any realistic fashion the damage caused to our men and equipment. It is, therefore, not surprising that the public has not woken up to the dire effects of the war on the economy. According to certain press reports, the war has ruined the harvests in the Punjab, Gujarat and Rajasthan; the stoppage of canal waters during the days of fighting has adversely affected the kharif and sugarcane crops in the border States; the military authorities had to cut down standing crops for miles around military installations for security reasons; the full impact of the dislocation of transport during the emergency is also likely to be felt in the near future.

The prospects for agriculture during the last year of the Third Five-Year Plan was not so bright even otherwise. What, however, is making the situation appear almost menacing is that the import of foodgrains under PL 480 is now seriously threatened to be interrupted or stopped. The Deputy Chairman of the Planning Commission did not hesitate to describe dependence on imports of grains under this agreement as part of our development strategy. It is, therefore, to be expected that uncertainty regarding PL 480 has caused much greater anxiety than the uncertainty regarding our harvests. The anxiety is not misplaced; the imported grains all go to the market whereas only a small part of the domestically produced grains is

traded. The degree to which we depend on PL 480 wheat for price stability in our urban markets is to be judged by comparing not the volume of imports with the volume of domestic production but the volume of imports to the marketed surplus of our domestic production. One might have to import several million tons of foodgrains on commercial terms and the prospect is made even gloomier by the reported shortage of rice in the world market tending to raise import prices which will affect domestic prices as well.

The Government has, of course, decided to put on a brave face and has declared in the voice of the Deputy Chairman of the Planning Commission that "if there is any attempt at using economic aid as instrument of exercising pressure on us, we have alternative plans ready to go ahead without such aid". It is, of course, a little bit of an exaggeration to say that one has got alternative plans ready. However, one does read in newspapers almost every day about various programmes that are being discussed and adopted. The suggestions that are emanating from government quarters are, however, far from being new or original. The idea of kitchen gardens is at least as old as the "Grow More Food" campaign of the Second World War days; the talk of compost as substitute for chemical fertilisers trails back to the days of the First Five-Year Plan; the enthusiasm for green manures had its day in the early years of the Second Five-Year Plan; missing a meal a day or diversion of resources

away from cash crops do not really amount to production plans. Talking about "crash programmes" does not amount to having a crash programme.

All the same, one need not be pessimistic. After all, it is infallible logic that the very low per acre yields of our crops leaves wide open the possibility of great increases in their production; also there is nothing very much wrong with all the different plans and programmes for solving once for all the problem of our agriculture that have been mooted at some time or other during the last fifteen years in a rotation of preferences. There is really nothing wrong with talk of increasing production with the help of better utilisation of irrigation water. The failures in the past were not of the proposals but of their implementation. If a determined effort is made now to implement them seriously, there is no reason why we cannot expect to get from them results that were not obtained in the past. After all, the war is a great booster of morale and whatever may be in short supply in the country at the present moment, this particular commodity is in abundant supply. One should, therefore, welcome all the talk of "defence plan for food", and "emergency plan for food", despite all the trite ideas and catch phrases in which they abound.

There are one or two encouraging signs. The government is reported to be considering a proposal for the direct procurement of wheat and rice from big producers. The proposal when earlier mooted was rejected on the ground that it would alienate the sympathies of this particular class of peasant proprietors that is the main electoral support of the Congress party. Similarly, one has dared to raise once again the idea of increasing land revenues — another proposal rejected earlier on the same grounds. There are, however, other signs which raise doubts as to the willingness of State Governments to take resort to unpopular measures even now. Only a few weeks back, while the shooting war was on, the Food Minister announced the immediate introduction of rationing in all cities with a population of one lakh or above. However, no sooner had the war stopped than news started to come from the States about their tardiness in the matter. One is perhaps waiting for the shooting war to start again to take any action.

The Danger Ahead

Romesh Thapar

THE Prime Minister would have us view the recent war as if it were an episode from the *Ramayana* and write the story of the last few weeks in 'letters of gold'. The Defence Minister would have us all become 'Kshatriyas'. There is talk of self reliance and self sufficiency. And a whole variety of politicians and publicists would have us 'quit' the Commonwealth or 'make' nuclear weapons or take-off on a path of 'national fulfilment'.

All this revivalism and modernism is indicative of the growing passion to forge new perspectives for the nation; but in the process there is a tendency to forget that Pakistan, who threatened us only yesterday, is merely bandaging its wounds, feverishly searching for the opportunity to take revenge.

At a special press conference, held soon after the cease-fire, the chiefs of the army and the air force could not but leave the question about Pakistan's capacity to attack unanswered. The campaign on the ground and in the air has yet to be carefully analysed, but it is clear that our estimate of the armoured strength and fire power of the enemy was far from accurate.

Foreign correspondents, obsessed with the desire to prove our claims about damage inflicted as false, pointed to the fact that we had declared as destroyed over 200 Patton tanks when in earlier briefings we had said that Pakistan possessed only 170. Now these correspondents 'believe' that on September 1 Pakistan had over a thousand tanks of various types, including some 400 Pattons. The same is true of the self-propelled guns which gave the enemy tremendous striking power. The defence system before Sialkot and Lahore was elaborate — and so were the radar-encircled fighter and bomber bases of the Pakistan air force.

When we total the US military aid which must have been invested cynically in Pakistan, the figure will startle observers. It is bound to be more than the much publicised figure of 1,200 million dollars.

It is, of course, possible that the punishment inflicted upon the enemy, who seemed unable to effectively use the equipment at his command, could start a political chain reaction which

loosens the grip of the military regime and sets in motion trends which caution the revenge-seekers in Pakistan. But it would be a grave mistake to imagine that there is no likelihood of fresh trouble for the moment. True, the Prime Minister speaks of the need to be vigilant. Can vigilance, or for that matter self reliance, be built without a detailing of the threat that Pakistan still presents and the sacrifices we must make?

Reports are current that the huge CENTO and NATO arms dumps in Iran and Turkey are being used to repair the damage done to the Pakistani army and to replenish its stocks. Fuel, too, will receive high priority in this operation to restore the muscle of the Pakistani armed forces. Meanwhile, the US Pentagon is most unhappy about the fate of its satellite army and is anxious to prove that it is not the useless machine it has been reported to have been reduced to.

These are ominous pointers—and diplomatically, through the cease-fire and other assurances, we do not seem to be able to prevent aid from reaching Rawalpindi at this critical moment in the history of the sub-continent.

The so-called cease-fire line, which now stretches from Kutch to Kargil and is difficult to discipline, could encourage the theocratic revanchists in Pakistan to attempt another thrust in the direction of Jammu, where the enemy holds a fairly sizeable 'bridge-head' on our territory. Such a plan would be, of course, based upon Pakistani confidence that the Sialkot and Lahore sectors could be held approximately along present alignments. Some such assessment apparently conditions the thinking of foreign military experts now busy analysing the results of the campaign.

Adventurism of this kind would naturally require the support and connivance of China. This should be available in adequate measure, if only to prevent Pakistan from depending entirely on the US alliance. Peking, facing growing isolation in Africa and unable fully to command events in South-East Asia, might well decide that the situation in South Asia must also be kept on the boil. Events in Indonesia would reinforce this thinking.

In a fast changing situation we

must continuously re-assess the tactics likely to be adopted by the Chinese — and we must project these assessments to our friends in Asia and Africa who still imagine that Peking is motivated only by a firm dedication to the battle against imperialism and colonialism.

Diplomatically, even as one section of the Pakistani leadership moves to restore its ruptured links with the US Pentagon, there is a show of determination to preserve the alliance with China. The sudden severance of Pakistan's relations with Malaysia is designed to underline how independent Pakistan is of western attachments, even of Commonwealth associations. This adventurism might well pay immediate diplomatic dividends in Asia and Africa, but we must be a hundred times more active to break this and related conspiracies. And, for heaven's sake, let us realise that the recent burning in the Capital of the effigies of Ayub, Mao, Sukarno and Ho Chi-minh does not help our cause.

More urgent than anything else is the need for co-ordinated direction of our efforts by the Centre. The military situation on our borders is closely related to the effectiveness of our diplomatic initiatives. Internal political strength is dependent on our capacity to distribute fairly the food resources we have within the country. Defence production is tied up with the problem of allocating scarce raw material and foreign exchange. The mobilisation of the people hinges on how we organise and inspire work throughout the country.

The Prime Minister and his colleagues will have to find the framework for this central co-ordination and direction without delay. To drift now would be unforgivable.

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Weekly Notes

Undelivered Cloth

THE current phenomenon of cloth accumulation with mills is very similar to that in 1957-58. Stocks have piled up because traders are refusing to carry any more than the minimum inventories due to a number of reasons: credit stringency, disruption caused by the recent hostilities, and sluggish consumer demand in a traditionally busy period. At various levels and in different contexts, traders receive credits from mills and, in many cases, also extend credit to mills, especially the weaker ones in mofussil areas. These conventional relations have been upset by tight money. Demand from the north-western and eastern States normally reaches a peak at this time of the year but the hostilities, diversion of transport to defence uses, and continuing uncertainties in both these regions have accentuated trade unwillingness to extend commitments and have, correspondingly, increased the burden on mills. Exports, too, are disappointing this year.

Prices of raw cotton, dyestuffs and other materials have risen steeply and so has workers' dearness allowance which is linked to the cost of living index in nearly all centres. It has not been possible to shift these higher costs fully since almost one-half of mill cloth output is subject to price control—and some varieties also face competition from powerlooms and handlooms. So far as uncontrolled varieties are concerned, significant price increases had been effected during the period of voluntary price control and subsequently too. The scope for further increase is extremely limited, partly, because of consumer and trade resistance and partly because changes in the pattern of output have been extremely rapid over the last few years and many of the varieties are still in the promotional stages.

Bank credit limits, as in other industries, are under strain but the impact of this strain on cotton mills and trade is somewhat greater because profit margins are relatively smaller and the materials, labour and freight components of final prices are comparatively higher. Prosperous mills have extended their capital commitments in modernisation, diversification and investment in new companies; besides tapping banks and financial

institutions, they have been eager seekers of public deposits. The weaker mills have exhausted their resources in what little modernisation they have been able to achieve; both cloth wholesalers and cotton dealers who are their traditional sources of finance are cutting them dead.

Given its economic and political strength, long history of unsound financing and its propensity, when in trouble, to seek weird solutions, it is hardly surprising that the industry should have appealed to the Industrial Finance Corporation, among others, for assistance on special terms. The terms demanded—concessional rates of interest, easy procedures for disbursement, relaxation of security margins, non-levy of commitment charges on undisbursed portions of sanctioned loans, etc—from IFC were such that no financial institution could have accepted them, particularly coming from an established industry which should normally be able to look after itself.

Such heroic efforts aside, what should be done for the financial rescue of the industry? This slump should help to create the environment for cost-reduction and improvement of technical and marketing efficiency, though the demands of both capital and labour being what they are, one cannot have much hope in this direction. The immediate step taken by Government was to liberalise the flow of bank credit, for this month at any rate. But deliveries have to improve before the mills can consider themselves out of the woods. While further credit liberalisation may be in order, it should be clearly understood that this is no substitute for price reductions and greater exports.

The High Price of Cheap Gas

TO turn from the innumerable instances of failure of price control to one where control has been effective would be heartening if the results of success in this case were not so perverse. The State government has zealously controlled the price of piped cooking gas in Bombay, keeping it virtually unchanged between 1949 when control was first imposed and early this year. Consumers have thus got their gas at 1949 prices when prices of everything else multiplied manifold. They have much to be

thankful to the government for—not all those who today use gas for cooking but only the 18,000 or so fortunate ones who got their connections when the city's sole supplier of piped gas, the Bombay Gas Company, was still in a position to give new connections. Now it isn't any more—thanks to the success of price control! Bombay's population has grown rapidly and so has the demand for a clean, convenient fuel like gas, but price control has seen to it that the Bombay Gas Company cannot meet any of it, to the advantage of the two private oil companies with refineries in Bombay who, though much later entrants in the market, supply bottled gas to over five times as many families as does Bombay Gas. This they do because they are allowed to sell their gas at three times or more the price permitted to Bombay Gas under law.

That the hopelessly uneconomic price has prevented Bombay Gas from expanding and giving new gas connections has been so plain that one would think that the Government has had some weighty reasons for holding down the price. The purpose, one hopes, has not been to 'protect' the private oil companies. Is it, then, that in the Government's view, any increase in the price of piped gas would cause unbearable hardship to the 18,000 or so existing consumers in whose interest, therefore, further expansion of supply has to be sacrificed? However, this cannot be the reason either, since the present consumers are mostly people of much more than average means, living in the prosperous residential areas of Malabar Hill, Cumbala Hill, Fort and Colaba.

What deep social concern then underlies the Government's policy of denying an economic price to the Bombay Gas Company? It has been suggested that the intention has been to see that the company runs up huge losses so that it can be taken over at a very low valuation. The company's cumulative losses at the close of 1964 amounted to Rs 24.78 lakhs, being nearly one-half of the paid up capital of Rs 40 lakhs and free reserves of Rs 12.61 lakhs taken together. If the Government really wants to nationalise the company, the despicable procedure of achieving this through eu-

THE ECONOMIC WEEKLY

thanasia so as to save a few lakhs of rupees of compensation money deserves to be unreservedly condemned.

And why should the Government want to nationalise the company, anyway? It is unimaginable that the Government will be able to expand or even maintain supplies without raising the price of gas. Official spokesmen have admitted as much. If the aim is to nationalise an essential service—the supply of cooking gas—then taking over Bombay Gas will achieve nothing since by far the larger proportion of gas used in the city is supplied by the private oil companies. If it is none of these spurious objectives but really the expansion of gas supplies that the Government wants, Bombay Gas has repeatedly said that it has expansion plans ready which are held up just by the uneconomic price foisted on it.

True, the company has been allowed a price rise, from Rs 3.94 to Rs 5 per thousand cubic feet, from January this year. This increase was recommended by the Gas Advisory Committee which examined the company's cost structure in the first half of 1963. The Chairman of the company, N K Jalan, contends, with evident justification, that both material and labour costs have gone up in the two and a half years since the Committee's enquiry and that allowance must be made for this in the price. Cost-plus price fixing presents problems when there are many units in the industry with varying efficiency. These problems do not arise in this case and once the price of gas is fixed on the basis of costs for a base period, subsequent rise in costs can be taken care of by automatic adjustments in price made after consultation with the Government. The alternative to some such rational arrangement is continuance of the present stalemate between the company and the Government at the expense of Bombay's middle and lower middle class population which needs gas for cooking but cannot afford it at the prices charged by the oil companies for their bottled gas and to the advantage of the well-to-do consumers who have got piped gas connections and the oil companies—neither of whom deserve this bonanza.

The Admirable Corporation

EXPANSION of shipping tonnage has proceeded considerably faster than was envisaged originally in the Third Plan, to make this industry one of the few in which targets have been

over-fulfilled. The overall position remains, nevertheless, unhappy in many respects. Only 10 per cent of our foreign trade is carried in Indian bottoms and the net outflow of foreign exchange on account of freight, repairs etc, is Rs 155 crores a year. Our tonnage and its utilisation have to increase substantially to keep pace with the expansion of foreign trade and to raise our share in the freight carried. The net foreign exchange saving of shipping expansion is, perhaps, the highest among all industries. The foreign exchange cost of a ship is earned back within a period of 8 years or less, not counting the strategic advantages for defence and direction of trade.

Further expansion of shipping in which the public sector Shipping Corporation is playing an active and dominant role is, however, bedevilled by a number of adverse developments. International prices of ships (including second-hand) are going up and so are time rates for charters while cargo freights are in general pegged. The Visakhapatnam Shipyard has reached its lowest production in five years, for which inadequate foreign exchange allocations are alleged to be responsible. Coastal ships are over-aged and are in urgent need of replacement as well as assured dry cargo, 60 per cent of which at present consists of coal and salt, which are carried at somewhat uneconomic rates. Coastal tanker capacity (sadly deficient at present) required in future would progressively diminish as more coastal refineries come up. Port delays and inadequate berthing and handling facilities lengthen the turnaround time of ships. All these add up to a formidable list but no more formidable than that for most industries.

One of the curious features of recent tonnage expansion is the fact that apart from the Shipping Corporation and Jayanti none of the major shipping companies has added significantly to its fleet, in spite of large and easy credits available from the Shipping Development Fund. The slump in overseas freights which lasted a couple of years had something to do with this but its influence appears to have been somewhat exaggerated. Both the major private shipping lines, Scindia and India, give the impression of having reached the end of their managerial resources and enterprise for the time being. Scindia is expanding again but India Steam remains stagnant and still relies largely on foreign personnel. Great Eastern, once a prodigy in the industry, slowed down in the early sixties and

threatens to take things easy till there is a substantial revival in tramp business. New entrants have come in—among them, Birla, South India (P & O in collaboration with Tata, etc), Chowgule and Thakur—but these have still to make an impact. Only the Shipping Corporation has expanded and prospered through difficult times.

The merchant navy can do much better than was expected earlier and it must. For this, cheap loans and a limoing shipyard are not enough. Inadequate attention has been paid over the years to the training of personnel for floating crew and shore establishments, and the development of domestic repair facilities. Shortage of personnel could, in the end, prove a greater handicap than lack of foreign exchange.

Agricultural Refinance Goes Abegging

THE concluding observation of M R Bhide in his chairman's speech at the Second Annual General Meeting of the shareholders of the Agricultural Refinance Corporation is indeed a sad one: "... in the last two years of the Corporation's existence a large number of States have not taken advantage of its refinance facilities. It would indeed be a national waste if millions of acres of land remain unutilised even after big dams costing huge amounts have been constructed for providing irrigation facilities and other necessary aids such as fertilisers, improved seeds and technical personnel are made available." This is, of course, not to deny the advance that has been made so far. Thus in 1964-65 the Corporation sanctioned ten schemes of agricultural development involving a financial outlay of over Rs 20 crores, as against three for Rs 2.7 crores in 1963-64. Most of the schemes sanctioned are for reclamation and development of land under various major irrigation projects such as Nagarjunasagar and Parambikulam Aliyar. Others envisage development of coconut and rubber plantations and horticulture. All these schemes except one are to be implemented through central land mortgage banks. Bhide was perhaps understating the general feeling of disappointment when he said: "With all the efforts made so far in bringing scheduled banks into the picture, the planters are, by and large, still experiencing difficulty in persuading banks to finance them". He went on to say that considering the vast potentialities for development of plantation crops, which are among the main

foreign exchange earners of the country, and the great need for increasing exports, the schemes relating to plantation crops under the consideration of scheduled banks at present do not touch even the fringe of the problem. Without much greater support from all the scheduled banks or at least from those which are operating in the States that offer scope for development of plantation crops, the growth of this sector of the agricultural economy would greatly suffer.

It is not necessary to seek far to discover some of the reasons which may be holding scheduled banks back from this line of business, though one will read the Agricultural Refinance Corporation annual report and chairman's speech in vain to find any mention of them. Among the more important of these are: (1) the relatively long repayment schedule for loans in the agricultural sector as compared with loans in the industrial sector; (2) the risks to which agricultural operations are exposed due to natural factors like floods, draughts, insect pests, etc; (3) the risks of price fluctuations in the case of export plantation crops due to supply/demand changes in overseas markets, while in the case of industrial products such risks are of much less significance due to the protection which import restriction usually confers; and (4) in the event of default, realisation of assets is relatively more difficult in the agricultural sector than in industry. To these could be added such other factors as the lack of adequately trained staff to assist in the preparation of and appraisal of loan applications for agricultural operations where norms of assessment have yet to be set up and universalised, the absence of the same promise of developing normal banking business with the help of these long-term loans as there is with term loans to industrial projects, etc. It is possible to devise price and credit guarantees and crop insurance schemes to counter some of these factors — and also perhaps some positive incentives for banks. But these are old proposals on which no action has been taken for years. Will the Government do something now under the much-publicised "crash programme" for agriculture?

U K and the Indo-Pak Conflict

A Correspondent writes:

THERE have been some surprising elements in the British reaction to the India-Pakistan conflict over

Kashmir, yet her overall attitude has been consistent with her stand in this matter since 1948. Britain has from the beginning shown an exaggerated enthusiasm for a plebiscite in Kashmir. Even her present government—ostensibly socialist—has not stopped to contrast this enthusiasm with Britain's traditional reluctance to grant the right of self-determination to a colony (currently the Labour Government is cheerfully refusing this right to Aden) or to recall that the closest historical parallel to the Indo-Pakistan conflict over Kashmir is the American Civil War when the central government of the USA, in the name of high and truly democratic principle, refused the constituent states the pseudo-democratic right of self-determination.

Britain has, then, always supported Pakistan's propaganda, at the UN and elsewhere, for a plebiscite in Kashmir. This support emanates from three sources: malice, self-interest and misguided moral fervour. Malice was quite important in the immediate post-independence years. Then there was an active anti-India group of Conservative politicians and journalists who had earlier opposed the granting of independence, and who went on to specialise in maligning the Congress party, Nehru and India. This group has very rapidly dwindled in recent years, so that malice in Britain against India is no longer so important.

But self-interest is one of the strongest motives both for individuals and nations, and Britain is particularly a scheming and calculating country; it is not for nothing that the British have been called a nation of shop-keepers. We had come to expect the British Labour Party to be significantly different from the Conservative Party in this respect, but Wilson has proved to be as opportunist as the worst Conservative premiers; what is far worse, his interpretation of the British interest is struttily old fashioned, narrow and short-sighted. When SEATO and CENTO were formed, the Labour Party in opposition had at least an ambivalent attitude towards them, but now Wilson has become the custodian of Britain's self-chosen world-wide responsibilities. For fulfilling these responsibilities Wilson feels that Britain must have a chain of bases in the Middle East and South and South-East Asia. Unbelievable though it may sound, it does begin to seem that Wilson is wooing Ayub for a base somewhere in Pakistan, the

THE ECONOMIC WEEKLY

need for which—given the neo-Dulles philosophy of Wilson—will be greater, the more likely Britain's expulsion from Aden. Vijayalakshmi Pandit, who was our High Commissioner in London for seven years till 1961, also felt moved to say in the Lok Sabha during the last session that Britain is looking for a foothold in Pakistan. Again, both the old Conservative and the present Labour governments have been passionately interested in the Chinese market; there has been a plethora of trade delegations and fairs. (Needless to say, because it did not suit their interests, British governments have not cared in the slightest for the American susceptibilities about this.)

These considerations of British self-interest as seen by Wilson explain the partiality towards Pakistan of which there has been definite evidence. (Some politicians and highly important sections of the British press, of course, actively supported the Dulles policies and their descendants, and, therefore, though they have perhaps no active malice for India, they have always had greater sympathy for Pakistan and her allegations of not being treated fairly by her large bullying neighbour.)

A Religious War?

WE come now to misguided moral fervour. There is no doubt that Britain has had a tradition of nurturing eccentrics, reformers, pacifists and radical thinkers; one of the great qualities of her society is her ready tolerance of such people. The presence of such thinkers has meant that there has always been in Britain a large section of leaders of public opinion who have stood by moral principles as they saw them. It was the British leaders of this kind who supported us in our struggle for independence; our own national leaders drew a great deal of inspiration from them. One can in fact claim that Nehru's policy of non-alignment was based on principles which were partly derived from the philosophy of such British thinkers. To Britishers of this kind, our war with Pakistan has seemed greatly regrettable and unnecessary because they believe that there has been a lack on both sides of a sufficient amount of give and take. Therefore, such British commentators, with the friendliest feelings towards the democratic, secular and trying-to-be socialist India, have not been entirely on our side in their comments. Though this too has annoyed us, the justification for

THE ECONOMIC WEEKLY

our indignation against them is very slight.

Yet there is one respect in which these well-meaning commentators also have been seriously wrong; even they have called the recent war a religious war. This is utterly silly. Pakistan has dragged religion in to gain some illicit support from Muslim countries and from the Muslims in India; but from the Indian side, it is a fight between sovereign states over territory and over the principle that in secular India no sect has any *sectarian* rights. Muslims have fought with Hindus against Pakistan. If the Indian armed forces had consisted of only Hindus, and if there had been officially supported or condoned persecution of Muslims in India, then it would have been a religious war. Hardly any of the well-meaning commentators we are now considering would claim that the facts are such; they should, therefore, realise how silly (and inadvertently mischievous) they have been in calling this a religious war.

Should India leave the Commonwealth as a recent private bill in the Lok Sabha proposed? Our economic self-interest is better served by staying in it, even though the Commonwealth preferences in trade have been weakening. That these preferences are still very important for us is proved by the concern our government felt when Britain was about to join the Commonwealth. Then there are facilities offered by the Sterling Area, and, presumably, a certain additional attraction of India to a British investor due to our being in the Commonwealth. At the political level again there is the great advantage of having built-in closer contacts with a number of African countries; this is extremely important vis-a-vis China. There also are lesser and more commonly cited advantages. Vijayalakshmi Pandit has said that there is a certain division between the white and the black countries within the Commonwealth. This is certainly true. To expect it to disappear at once will be unhistorical: provided it is a division which is weakening, we need not leave the Commonwealth for this; it might then in fact be a very good reason for staying in it, so that a genuine multi-racial club of nations does get evolved.

Labour's Left Wing Muzzled

Our London Correspondent writes:

THE Labour Party Conference at Blackpool was dominated throughout by Harold Wilson whose two brilliantly conceived speeches not

only served to enthuse the rank and file but also succeeded in obtaining the endorsement of the Conference for all the Government's controversial policies, including those on Viet Nam, immigration and incomes. The left wing of the Party, which had been growing increasingly restive in the last few months as step by step the Government seemed to be walking away from a socialist programme, was surprisingly quiet and ineffective. Is it now Wilson's aim to convert the Labour Party into what has always been the Liberal dream—a non-socialist radical party? This is the gnawing doubt which the left wingers must have carried with them from Blackpool. Their leaders like Frank Cousins and Barbara Castle, through being in the Cabinet, are virtually Wilson's prisoners.

The general impression left by the Blackpool conference, the first after 13 years held with Labour in power, is that Wilson is determined to provide the country with a Government whose objective will be not to achieve socialism but to make a mixed economy work. The word socialism did not find even a polite mention in Wilson's speeches at Blackpool and the question of nationalisation of steel was left discreetly in the background.

Certainly the morale of the Party as a whole is high. The national opinion polls show that Labour is once more on top, and that there is no reason why it should really dread a general election now, if one is forced on it. If an election were held now, the results would almost certainly repeat the voting pattern of October last. This is also the main finding to emerge from a survey carried out by Research Services Limited for the *Observer* in 92 key marginal constituencies: the 20 seats carried by Labour last October with majorities of less than 1,000, the 20 Conservative seats won with similar small majorities, and a further 52 constituencies where Liberal candidates came second. With the sterling out of danger and the more unpopular measures out of the way, Labour can now look forward to introducing more popular measures and thus increase its popularity with the electorate.

All this, however, is small comfort to Labour's left wingers. The fact that they have to reckon with is that the life of the Labour Government hangs on a slender majority of three; a revolt against one of the more ob-

noxious of Wilson's policies may leave them with the guilt of having brought down the Government. Obviously, they are unprepared to take the leap. So they can do little but live with their disillusionment made the more bitter by the Blackpool conference. It is ironic that Harold Wilson has been the man to disillusion Labour's left wing considering that he gained his spurs in the party as the champion of the left, despising High Gaitskill's Atlanticism abroad and "revisionism" at home! At Blackpool Wilson used brave words to say that there was no connection between American support for the pound and his Government's support of American policy in Viet Nam, but no one was convinced. Indeed, hadn't Wilson himself told the TUC conference in 1964: "Yes, we can borrow... You can get into pawn, but don't then talk about an independent foreign policy or an independent defence policy".

The voting on the three supposedly explosive issues at Blackpool are a tribute to Wilson's political skill. Even in the case of Viet Nam, where feeling among the rank and file was strongest, the vote was still two to one in the Government's favour. On Commonwealth immigration, the vote was more comfortable, the Government's majority being no less than three to one. After the vote, however, 41 Labour MPs and 28 candidates issued a call to carry on the fight. The most surprising victory of all was perhaps that on incomes policy. Here the motion was carried by 3,625,000 against 2,504,000. Prominent in opposition was the Transport and General Workers' Union and the Amalgamated Engineering Union. That despite such formidable opposition the motion could get through shows how far the Labour Party has moved from its traditional image.

As the Labour Government enters the second phase of its term in office—a phase that it hopes to sweeten with more palatable measures now that sterling is momentarily safe—one is tempted to wonder what type of policy it will follow. For the left, steel nationalisation has become a major issue and it will judge the socialist credentials of the Government on the basis of whether nationalisation is to be taken up in the Queen's speech. But the left wingers will not be the only ones watching; the Liberals, and particularly Jo Grimmond, will also decide their attitude to the Government on the basis of whether steel nationalisation is pushed or shelved.

LETTER TO EDITOR

Illusion of the Student Revolution?

SOME comment seems required on P G Altbach's Letter from America "The Illusion of the Student Revolution" in the issue of July 3. I would take objection to his views on "lasting change in the campus". Indeed, "if history is any indication", the leadership coming from American universities and colleges during the past few years and heading infinitely into the future has never been so inclined toward a wide view of society's needs and a long perspective on international problems. The American student, especially at the better institutions, has seldom been an organisation man. The quality and pressure of education is such that extra-curricular activities are limited to those that can be kept to the campus and that will permit him to manage his own time. College and graduate education is usually built on the belief that the student will be a wiser and better-equipped citizen by building up a large body of knowledge from which he can deduce his generalisations than by demonstrations over the great issues of the day. Too often has a reform movement been fought on precisely the same pattern of dogmatism and unperceptivity as its antagonist.

Also: student reform activity, more often than before working from this broader base of understanding, has been directed into the summer vacation months where, instead of taking an hour from classes for shouting, students have given their full time to particular programmes, again becoming more knowledgeable and competent. Student groups still have their place in this work. They have, however, been overshadowed by the federal government and its combination of anti-poverty and urban and rural development campaigns. If you or Altbach would look for one outstanding explanation of why students seem less radical, I would point you to the fact of State and Federal Government participation in precisely those areas that students were concerned about. True, the government has political responsibilities of its own and thus appears less aggressive, but the fact is the work is being done and many young people are involved in it, more (I would venture) than were ever attracted to the exclusively student groups.

I might add: upon returning to New York from two years in India, I found a veritable revolution had taken place. That is, there were all sorts of government and private groups aimed at

the educational level of city poor: pre-school summer classes (a permanent fixture it seems), summer theatre groups performing on the streets in neighbourhoods where children had never before seen plays (the plays themselves being concerned with problems the children saw about them every day), teaching high school students to teach younger children, etc. Also: legalised rent strikes whereby tenants can now refuse to pay rent until landlords make repairs, voter education and adult education; all this with the active, person-to-person support of the

government. As new as these programmes are, (1) they have been accepted by the public with few reservations; (2) they are already proving effective; and (3) the long range results throughout the nation could prove far more disruptive of social structure than anything that has happened thus far. Hopefully the nation is preparing itself for that day.

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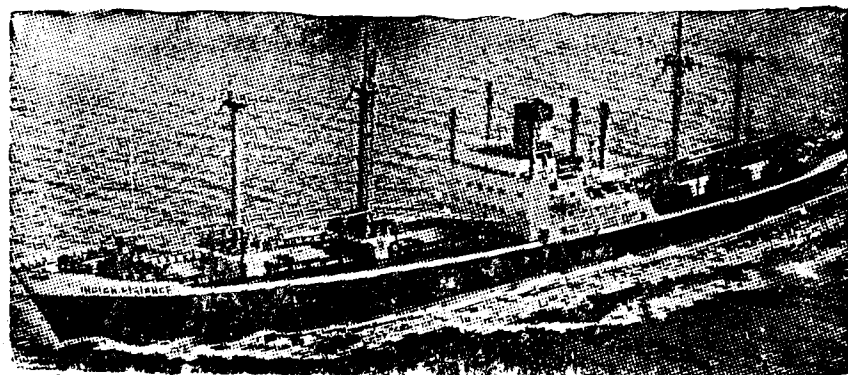
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BOOK REVIEWS

India's Decade of Development

Aloo J Dastur

India's Roots of Democracy by Carl C Taylor, Douglas Ensminger, Helen W Johnson and Jean Joyce; Orient Longmans, 1965, pp 694, Rs 18.00.

INDIA has fascinated, attracted or repelled foreign scholars, tourists and observers in various degrees. During the last two decades literature on India has covered the entire gamut from indiscriminate appreciation to overdrawn condemnation. Perhaps the lead it gave in the disintegration of western imperialism, the imagination it displayed in pledging itself to a democratic set-up, the boldness it exercised in extending the suffrage to all adults certainly evoked both interest and scepticism in the world. Was it possible for a huge population, steeped in traditionalism, ignorance, poverty and illiteracy in a big way to enjoy the expensive luxury and walk along the slow, sometimes sluggish, path of democracy? Was it again practicable to experiment with planning which had produced results only in totalitarian states?

"India's Roots of Democracy" is not an attempt at seeking answers to the questions. It is, as the subtitle reveals, "a sociological analysis of rural India's experience in planned development since independence." Eight of the twenty-seven chapters are given over to the delineation of the background. The caste system and the joint family, both institutions in a state of flux rather than disintegration, inevitably focus attention, but the authors have brought to bear an understanding and appreciation, so rare in these days, on both these age-old institutions. The great rise in population, pressure on land, low per capita income enter into the base which has to support planned development. The other obstacle to development planning and action was "the position of India's services in 1950 in the fields of education, health, and welfare as well as transportation and communication facilities".

It is against this dismal backdrop that the planners had first of all to create "the desire for a higher standard of living". This was no easy task. Community development and national extension schemes and more recently Panchayati Raj have been steps taken to give the villages a much required economic, social and

educational lift. A primary source of weakness is the absence of trained personnel, the training programme itself involves new concepts to satisfy new needs.

Rural programmes must be and are oriented towards increasing agricultural production. This obviously necessitates land-reforms. This issue is well clinched by the authors:

"For some time to come, millions of families will and must remain on the land. During this time, it can be expected that Indian leaders will justifiably continue to experiment with the evolutionary development of co-operative farming, village industries, and co-operative village management. Over this period of time, industrial development of the nation's economy will create increasing employment opportunities and thus alleviate the extreme population pressure on the land. Hopefully, the development of village industries will strengthen the whole rural economy. There will still be, for some time, the carry-over of old economic, social, and political status and influence of those who for generations have benefited from the old agrarian structure. But their status and influence will decline, and the status and influence of peasants will increase. All of which is to say that land reform will and must be part and parcel of the total economic, social, and political development of the country." (p 295)

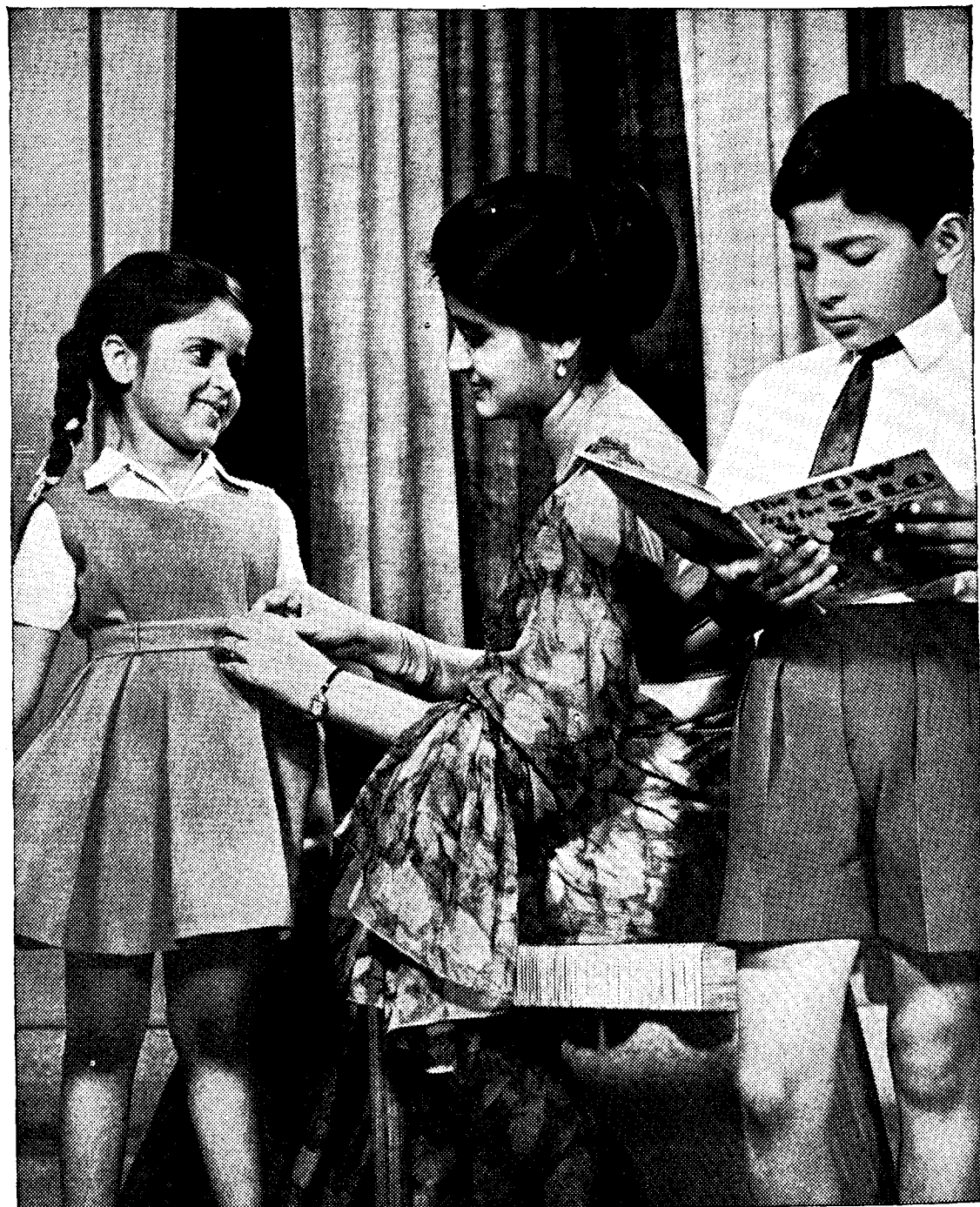
A comprehensive view of development is taken, no aspect or problem related to such development is left out. The role of co-operatives is particularly emphasised because "there is a high probability that the necessity for, and effective organisation and operation of, service Co-operatives will do more than any other one thing to gradually remake the social structure of Indian rural society. We hasten to say, however, that this is not meant to imply that the development of co-operatives is or can be a substitute for all other facets of the community development-extension programmes. It is to say that co-ope-

ratives will have a more rapid development, as has been the case in other countries, when they are recognised as part and parcel of total community, and total social and economic, development, rather than thought of as some unique catalytic agent of total economic and social development." (p 328)

Programmes of education, health and social welfare have been analysed and critically appraised. Herculean efforts are made to meet the shortcomings, difficulties and realise the possibilities in these three spheres; the conclusion reached is not without hope:

"Looking back over these past years at India's enormous problem of promoting the general welfare, of providing elementary education, health, even food for its vast population, as the basic 'welfare' services needed by all its people, we must feel encouraged that India has at least made some gains and some beginnings, however small and marginal, in accepting and stimulating both private and governmental responsibility for the welfare of especially vulnerable groups." (p 475)

Never before has rural India been more thoroughly investigated by a team of sociologists and experts, who have brought to bear on their task an understanding of history, a sympathetic approach to regional disabilities and social weaknesses, and an appreciation of human endeavour. The sociological approach unfolds for the reader the various confusing factors that must enter into planned development. Written essentially for planners the tome is a veritable mine of information as also guide lines for political leaders, administrators, teachers, scientists and field-workers. It is a first-hand analysis resulting from study, observation and interviews with a wide spectrum of Indian society at all levels. It studies Indian efforts at development, underlines the pitfalls and enunciates the principles of further development. While several captious critics and superficial observers have been anticipating, even expecting, a collapse of the country the learned authors weigh the



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THE ECONOMIC WEEKLY

Indian achievement in the balance and find it not wanting:

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production by some forty-two per cent, has raised her low industrial output by an average of ninety-three per cent, and has moved ahead with formation of the numerous policies and institutions, including education and community services, that are required for realizing her goals of future

growth. These achievements are monumental and deserve recognition. It is probably safe to say that no other great nation has ever before made so many and so great gains in the short period of time that has passed since India began her first planned 'decade of development' " (Preface).

Divide et Impera?

S P Aiyar

The Oxford History of India, 1740-1947, by Percival Spear; Oxford University Press, 1965; pp 426, Rs 16.50.
Advent of Independence, by A K Majumdar; Bharatiya Vidya Bhavan, 1963; pp 427, Rs 20.

ONE of the most significant features of modern India is the remarkable continuity which has been maintained in the political and constitutional history of the country. Whether one looks to the Constitution of India or to the administrative system, to parliamentary institutions or to the system of higher education, one is struck by the solid foundations of British rule on which India could build. For this reason, if for no other, the history of British India is one of perennial interest. But the history of modern India more than that of any earlier period, is one which rouses the emotions, thus lending itself to varying perspectives and interpretations. While lasting contributions of British rule to the making of modern India have generally come to be recognised, there is also a widespread belief that Britain was responsible for aggravating the Hindu-Muslim conflict in the Indian sub-continent, thus bringing about the partition of India. In the context of Indo-Pakistani conflict, the politician and the demagogue have exploited the theory that Britain played a diabolical role in India in cynical pursuit of the Roman strategy of *divide et impera*.

"The Oxford History of Modern India" has been issued at an appropriate period of Indian political development and it is to be hoped that it will be widely read by everyone concerned with public affairs in this country. In content, presentation and historical impartiality, Spear's work will be widely appreciated and there is no doubt that every teacher will now include it along with the "History of British India" by P E Roberts and the Cambridge History of India (vols V & VI) as the core reading in any course of modern Indian history. "The Oxford History of India" is not a new book; it is a reprint of Part III of the Third edition of the Oxford History of India by Vincent Smith. Professor

Spear had considerably recast the older work in the light of later scholarship and to this were added four chapters which he wrote for Roberts's "History of British India".

Professor Percival Spear has a standing among historians of modern India. He brings to his task an unrivalled mastery of the formidable literature of the period. As the tangled history of modern India unfolds itself, we see the characters play their part in all the complexity of the situations. The historian's judgement rarely falters; the facts are carefully weighed and assessed; and on every page one notices the anxiety to be fair. One has to turn to Spear's account of the controversial makers of British India from Clive to Curzon, to note the care with which their work is examined. Comparison and flash back technique are often used with a telling effect. Let me illustrate what I have in mind with a random example. Evaluating the work of Lord Dalhousie, Professor Spear writes:

"When we look at Dalhousie's administration as a whole we cannot fail to recognise the work of a masterly as well as a masterful mind. In some respects Dalhousie's was not an attractive personality. He seemed cold and unfeeling to some, harsh and overbearing to others; only rarely did the human warmth of a man eaten up by his passion for improvement emerge to inspire his closest confidants. He was almost morbidly sensitive to criticism and fiercely determined to dominate; he lacked imaginative sympathy with tradition and the Indian point of view. But for all that he was with a vision of the modern India that was to be; he exhausted his strength in the service of that India and did more, perhaps, than any single man to bring it about. Wellesley had acquired much territory and dis-

played singular drive and purpose but Dalhousie spent more energy in organizing than in acquiring. Bentinck had a vision of a westernized India, but while he could do little more than set up a few signposts, Dalhousie laid down the roads of progress. Curzon was a great systematizer but Dalhousie created what Curzon sought to perfect... His weakness was that of going too far too fast. He was a sick man in a hurry... He lacked sympathetic understanding, the intuitive knowledge of how his measures would appear to those they affected. For this he paid the penalty of the Mutiny disaster, but he had also provided the antidotes of a contented Panjab, of railways, and of telegraphs."

I make no apologies for this somewhat long quotation but I do not wish to give the impression that the reader is not likely to dissent from Spear's historical judgments. He might feel at times—probably not often—that Spear's assessment of some of the leaders of the nationalist movement is not quite fair. Occasionally, Spear seems to contradict himself. Thus on p 339 he says of Tilak that his "nationalism had *always* (italics mine) been provincial and sectarian rather than all-Indian". Yet on the same page, in the very next paragraph he writes: "Tilak who had been released in 1914 emerged from his retirement. He showed that he could now think both nationally and politically." Spear's remark that Tilak had never been a constitutionalist except from expediency is one widely shared by western scholars in the modern period of Indian history but it is one not altogether fair to Tilak. It must be said however, that existing evidence leads to diverse interpretations and an historian is free to draw his own conclusion in the light of his understanding.

There is one aspect of the "Oxford History of Modern India" which is unfortunate. The brief references at the end of chapters are riddled with errors which are not included in the errata slip prominently included in the beginning of the book. The proof reading seems to have been extraordinarily slipshod. Those who have been accustomed to regard the Oxford histories as the hall-mark of accuracy will undoubtedly be disturbed by this bibliographic carelessness. Occasionally errors are noticed in the body of the text itself. Thus "James Silk Buckingham" appears as "John Silk Buckingham".

Both in scope and treatment, A K Majumdar's "Advent of Independence" is a work of a different kind. It provides the historical background for the

Hindu-Muslim conflict and describes the political events which led ultimately to the partition of India. Majumdar's account emphasizes the "two-streams theory"—that there developed in India in the nineteenth century, two distinct nationalisms, the Hindu and the Muslim. This is a point of view elaborated by Majumdar's father, the distinguished historian, R C Majumdar in "Three Phases of India's Struggle For Freedom" (1961). By the 1930s the Congress had become, the author argues, a Hindu organization, its aims and objectives notwithstanding. For all its unconventional tone, this is a point of view for which there is ample evidence. What the British seem to have done is to search for a "counterpoise" in the existing situation; the Hindus and the Muslims provided just what the rulers were

seeking. It is unfair to denounce this as a ruthless pursuit of divide and rule. Partition came to the sub-continent because it seemed then to be the only solution to the communal problem. The inevitability of partition is now documented in a number of books—V P Menon's "An Outline of Indian Constitutional History" (Bombay: 1965) is the latest in the series. All this recent historical writing needs to be carefully read during the present period of Indo-Pakistani conflict. Majumdar's book contains some very interesting appendices. Unfortunately, this book also suffers from bad proof-reading. The author himself seems indifferent to proper names and grammatical niceties. One wishes too, that some attention had been paid to neatness of presentation and elegance of style.

Indian National and State Income Data—II

Some Aspects

Mahinder D Chaudhry
Bert F Hoselitz

This paper attempts a general survey of the state income studies available with the objective of identifying, through comparison of national and state income data, areas where improvement is needed. It is primarily concerned with inconsistencies, gaps, double counting, lack of explanation of the assumptions and omissions in state income data.

In the first part of the article, published last week, the aggregate of state income estimates was compared with national estimates compiled by the Central Statistical Organisation and the national totals were apportioned among the States and compared with the official state income estimates. In what follows an attempt is made to indicate in some detail the areas in which the state income estimates need to be revised and how the methods of estimation may be improved.

IV

Agriculture and Allied Products

THE difference in the value of agricultural and allied production between the revised national estimate and the corresponding aggregate of state estimates for India as a whole is only 2.5 per cent (see Table 3, p 1518), but the two estimates differ by a wider margin at the sub-sectoral level. Orissa and West Bengal, where the differences are largest, are discussed in detail.

Orissa. The state report evaluates Orissa's agricultural production during 1955-56 at Rs 2,156 million, whereas the allocated share from the national estimate is Rs 1,132 million. The following two factors appear to be responsible for most of the difference between the two estimates: (1) Output of paddy (uncleaned rice) has been evaluated at the price of rice in the state report.¹⁰ If paddy is evaluated at paddy prices, the average prices would have to be much lower than those now employed in the state report, and if rice output is evaluated at rice prices, output figures of rice have to be reduced from 3,054 thousand tons accounted for in the state estimate to 2,129 thousand tons.¹¹ If this overestimate is corrected the state estimate of the value of agricultural production will be much lower than at present, since rice is one of the major agricultural products of the state and accounted for 54 per cent of the gross value of agricultural production in 1955-56.¹² (2) The deductions of the cost of seed, manure, and marketing charges, etc, which were made to estimate the net value of the agricultural products in the Orissa Report. This is the lowest ratio among all state or national income studies (Table 6).

West Bengal. Against West Bengal's allocated share of Rs 2,891 million of

the value of agricultural production from the national estimates of income, the corresponding state estimate is Rs 1,826 million. Even if the estimated agricultural component of the tea industry¹³ is added to the state figure, the total does not exceed Rs 1,878 million. The probable reason for this difference appears to be that, according to the state report, the deductions made from the gross value of agricultural production for the cost of seeds required, dung manure, other chemicals and fertilizers, maintenance and repair of farms and implements, fencing, marketing, depreciation, and value of services rendered by livestock, to arrive at net value amount to 37.8 per cent of the total gross value of agricultural crop output (Table 6). This proportion is double that for all-India and many other states. A detailed examination of various items deducted for netting the value of agricultural production reveals that the estimate for the cost of feed for livestock required on farms in West Bengal appears to be out of all proportion to the corresponding figures in other national and state income studies. A comparison of these figures will be found in column (3) of Table 6, and it will be noted that the estimate of West Bengal is between two and three times as large, proportionally, as that of any other state.

Animal Husbandry. In a predominantly agricultural economy, like that of India, the cultivation of land and the production of livestock products, particularly milk and milk products, are very closely associated. The line of demarcation between these two sub-sectors drawn for income estimation purposes becomes blurred at times, particularly when estimates are made for the cost of feed for livestock required on the farms for purposes of cultivation and for livestock needed for the production of milk and other commodities.

If these two sub-sectors of agricultural production are combined, omitting the estimate for allied primary products, the difference for all-India between the aggregate of state income estimates and the national estimate comes to 0.8 per cent. But for purposes of analysis these two subsectors must be treated separately.

The aggregate state income estimates of the value of the output in the animal husbandry subsector is larger by 20 per cent than the corresponding national estimate. Among individual states the two estimates differ, from 14 per cent for Orissa to 60 per cent for Madras. Such wide differences as this last one may be explained partly by the fact that there are very wide differences among the state reports in the netting ratios, i.e., in the deductions made from the gross value of animal husbandry production for the cost of feed of animals not used for field services, and the cost of other materials used, as well as depreciation. For instance, Assam, with a netting ratio of 16.1 per cent, is at the lowest end, and West Bengal with one of 84.4 per cent is at the top end (Table 6). Another probable reason is that the national estimates of the value of output in the animal husbandry sector are underestimates. As many as ten state estimates are larger by a significant margin than the corresponding allocated shares. West Bengal would be added to this group, if it is considered that the netting ratio in the "West Bengal Report" is so high that the estimate of the net value of income in animal husbandry is much lower than it would be, if a more modest netting ratio had been adopted.

Forestry. According to the revised estimates the national income from the forestry subsector is Rs 1,338, as compared with the conventional series estimate of Rs 725 million. The aggregate

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of state estimates falls short of the revised national totals by Rs 778 million, or 58 per cent. It appears that the state estimates are not based on the additional data collected through the State Forest Departments which form the basis of estimation of the revised national totals.

Fishery. The sum of state income estimates in this subsector is fairly close to that of the revised national totals, but for some of the individual states, particularly the maritime states of Kerala, Mysore, and West Bengal, the differences between the allocated shares from the national totals and the direct state estimates are significant. The CSO publication provides the state breakdown of net value of marine and inland fishing which could help in the revision of state estimates for this subsector.

V

Mining, Manufacturing and Small Enterprises

The sum of state income estimates is almost identical to the revised national totals in this sector of the economy. At the subsectoral levels, however, the two measures differ significantly. The chief source of the differences between the two sets of measures lie in the estimates relating to the small enterprises. But all the three subsectors, mining, factory production and small enterprises are examined separately.

Mining. The two principal producers of minerals in India are Bihar and West Bengal; the differences between the allocated shares and the state-report estimates are 7 per cent in the former and 5 per cent in the latter. In West Bengal, the probable reasons for the difference appear to be comparatively higher rate of deductions for netting to arrive at the net value of the minerals. As in the case of netting ratios for livestock products, those employed by West Bengal in the field of mining are more than twice as high as the all-India average and approximately three times as high as those of several other states (Table 6, Col 5). At times, significant differences have been noticed in the data available with the state agencies and those published by the central organizations. Mysore state's estimate, for example, of the gross value of minerals of Rs 58 million, "based on the data available in the Department of Mines and Geology, Mysore state",¹⁴ differs from the corresponding estimate of Rs 97 million

published by the Indian Bureau of Mines.¹⁵

Factory Production. For purposes of national income estimation, the manufacturing and processing activities are divided into two subsectors: (1) factory production covering organized industrial units; and (2) small enterprises composed of unorganized smaller handicraft type units and one-man units of independent workers. A factory, according to the Indian Factories Act, 1948, covers establishments employing ten or more workers using power, or twenty or more workers without the aid of power.

The aggregate of state estimates relating to income arising in factories is higher by 14 per cent than the national totals. Since it is one of the most organized sectors of the economy, the available data are comprehensive and relatively accurate. The national totals are based on census-type survey and are expected to possess greater reliability than the corresponding state estimates. If details were available of all the industrial groups included in the state reports, it would have been possible to identify the sources of the above differences.

Small enterprises. The aggregate of state estimates of income arising in the

small enterprises subsector differs from the national estimate for 1955-56, by about 12 per cent; for individual states differences range from 10 per cent in Bombay to 108 per cent in Assam. The chief sources of these differences appear to be the following: (1) The average value added per worker differs rather widely between states and also between states and the corresponding all-India average (Table 7); (2) The scope of the subsector, i.e., the occupational subdivisions included in it, is not uniform, at least in some state estimates, and does not correspond exactly to the coverage of the national estimate. The major difference, as will be discussed below and as can be seen from Table 7, is the inclusion or exclusion of construction activities. In the allocation procedure the scope of each subsector is identical with that of the national estimate. In addition to differences in the over-all scope of the small enterprise subsector, there are differences in its composition among industries. For example, in Delhi and Punjab 3 per cent of the small industry working force is in "food, drink and tobacco processing", whereas the share of the labour force of this industrial branch in Orissa is 25 per cent. Similarly the share of workers in textiles ranges from 18 per cent in Bihar to 40 per cent in Bombay, and that of workers in metal industries from 6 per cent

Table 5: Comparison of State Income Estimates Based on Local Data with Allocated Shares from National Totals, 1955-56

State	Allocated share (1)	State report estimates (2)	Difference of Col 1 — Col 2 (Millions of rupees)	
			amount (3)	percent (4)
(1) Andhra Pradesh	7,335	7,464	-129	-1.7
(2) Assam	2,474	2,667	-193	-7.8
(3) Bihar	6,116	6,593	-477	-7.8
(4) Bombay	15,513	14,803	+710	+4.6
(5) Gujarat	.....	4,761	.....	.....
(6) Maharashtra	.....	10,042	.....	.....
(7) Kashmir	650	680	-30	-4.6
(8) Kerala	3,247	3,322	-75	-2.3
(9) Madhya Pradesh	6,661	6,435	+226	+3.4
(10) Madras	7,409	8,006	-597	-8.0
(11) Mysore	4,997	4,562	+435	+8.7
(12) Orissa	2,499	3,709	-1,210	-48.4
(13) Punjab	5,117	5,918	-801	-15.6
(14) Rajasthan	4,353	4,545	-192	-4.4
(15) Uttar Pradesh	14,331	14,389	-58	-0.4
(16) West Bengal	9,680	7,489	+2,191	+22.6
(17) Delhi	1,134	1,462	-328	-28.9
(18) Himachal Pradesh	281	256	+25	+8.9
(19) Other Union Territories	274	n.a.	.....	.....
(20) INDIA	92,071	92,574	-503	-0.5

Notes: n.a. = Not available.

a. Includes an allocated share for Other Union Territories.

Sources: Col 1: Table 4, line 20.

Col 2: Tables 1 and 2.

in Rajasthan to 21 per cent in Bihar.¹⁷ At the same time, productivity in the various industries, at least on the national level, varies greatly. For example, productivity per worker in the "metal and industrial engineering"

group is 53 per cent greater than in the "food, drink and tobacco" group and 41 per cent greater in "leather and its products" than in "textiles and tailoring".¹⁸ Because of the absence of detailed data on these matters in most state reports, we could not take account of variations in the value added in small enterprises among states, and this, in turn, is partly responsible for the wide differences observed between some state estimates and allocated shares of national income estimates in this subsector.

If the figures in the state reports of value added per worker assumed to be accurate measures of economic performance in the small enterprises subsector, then the corresponding national average of value added per worker needs revision, because only the three states of Kashmir, Punjab, and Delhi in which value added is higher than the national average (Table 7) cannot compensate for the states with figures well below the national average. On the other hand, if the national estimate is assumed to provide an accurate measure, then the corresponding state estimates need reappraisal. In view of the very wide difference in the two estimates, it is probable that both sets of estimates require extended further investigation and surveys. However, some state estimates themselves are based on somewhat unreliable and limited empirical information, as is indicated quite clearly in some of the reports.

For example, the "Orissa Report" states that figures for value added in the small enterprise subsector has been computed from findings of the National Sample Survey,¹⁹ a series of scattered data which does not form a sufficiently large sample for any findings relating to the state alone. In Assam a very rough estimate, essentially a barely informed guess was made,²⁰ and in Andhra Pradesh, earnings data were collected on an "ad hoc basis in respect of a few units in the state."²¹ The "West Bengal Report" frankly admits that the difficulty of estimating value added in this subsector has been due to the absence of regular statistics which would have been relevant,²² and the Punjab Report states that earnings data were collected "by personal inquiries from eleven centres".²³ Similarly, in Madhya Pradesh data on value added and earnings of workers were taken from available scattered information derived from a few "small scale and cottage industry surveys carried out in the

Table 6: Associated-Cost Deductions from Gross Value to Estimate Net Value in the Various Subsectors, by State

States	Years	Agricul- tural Crops (1)	Cost of Feed for Lives- tock ^a (2)	Animal Husban- dry (3)	Mining (4)
(1) India: Final Report	50-51	17.8	28.7	39.9	13.3
(2) India: Initial series	55-56	17.2	n.a.	37.9	11.9
(3) India: revised series	55-56	17.5	21.7	23.8	21.1
(4) Andhra Pradesh	55-56	34.0	28.6	28.6	10.9
(5) Assam	52-53	15.0	n.a.	16.1	n.a.
(6) Bihar	55-56	18.9	n.a.	26.6	19.7
(7) Bombay	54-55	26.0	27.2	32.1	8.5
(8) Gujarat	55-56	18.0	n.a.	56.5	n.a.
(9) Maharashtra	55-56	21.7	n.a.	33.7	n.a.
(10) Kashmir	55-56	22.0	n.a.	39.8	n.a.
(11) Kerala	55-56	15.9	21.7	44.3	n.a.
(12) Madhya Pradesh	55-56	18.9	27.4	29.7	13.8
(13) Mysore	56-57	26.0	n.a.	37.5	10.8
(14) Orissa	55-56	10.8	n.a.	50.0	20.3
(15) Punjab	54-55	25.2	30.3	30.7	n.a.
(16) Uttar Pradesh	55-56	21.3	38.5	25.0	n.a.
(17) West Bengal	55-56	37.8	74.1	84.4	31.5
(18) Delhi	55-56	20.0	n.a.	40.0	n.a.
(19) Himachal Pradesh	55-56	25.0	14.0	15.5	4.5
(20) British India	31-32	24.3	31.4	...	...
(21) United Provinces	31-32	...	39.5	...	...
(22) Undivided Punjab	39-40	20.3	...	...	...

Notes: n.a. = not available.

a. Included in the animal husbandry subsector.

Sources:

- Line 1: "NIC Final Report", Table 8, p. 45; Table 10, p. 51; Table 15, p. 69.
 Line 2: and 3: "National Income Statistics", Table 2, 11, p. 47; Table 3.4, p. 63; Table 16.2, p. 176; Table 6.4, p. 96; Table 2.7, p. 37; Table 3.4, p. 63; and, Table 6.4, p. 96.
 Line 4: "Andhra Pradesh Report", pp. 3, 11, 14, and 24.
 Line 5: "Assam Report", Table 7, p. 4; and Table 9, p. 17.
 Line 6: "Bihar Report", pp. 32-33; 54-55; 88-89.
 Line 7: "Bombay Report", Table 8, p. 64; Table 9, p. 65; and Table 7.4, p. 85.
 Line 8: "Gujarat Report", p. 17; and, Table 3.2, p. 26.
 Line 9: "Maharashtra Report", Table 6, p. 74; and Table 7, p. 75.
 Line 10: "Kashmir Report", Table 3, p. 10; and Table 4, p. 17.
 Line 11: "Kerala Report", Table 4, p. 11; and Table 5, p. 11.
 Line 12: "Madhya Pradesh Report", Table 6, p. 74; and Table 7, p. 75.
 Line 13: "Mysore Report".
 Line 14: "Orissa Report", Table A-2, pp. 28-29; Table A-4, p. 33; and, Table A-7, pp. 38-39.
 Line 15: "Punjab Report", Table 3, p. 20; and, Table 5, p. 32.
 Line 16: "Uttar Pradesh Report".
 Line 17: "West Bengal Report", Table 2.8, p. 45; Table 3.16, p. 61; and, Table 7.4, p. 85.
 Line 18: "Delhi Report". Tables 4.1 and 5.1, pp. 36 and 40 respectively.
 Line 19: "Himachal Pradesh Report", Table 3.3, p. 85; Table 4.1, p. 89; and, Table 7.1, p. 97.
 Line 20: V K R V Rao, "The National Income of British India, 1931-32", (London: Macmillan and Co, 1940), p. 81.
 Line 21: Shri Gopal Tiwari, "Economic Prosperity of the United Provinces", (Bombay: Asia Publishing House, 1951), Table 50, p. 114.
 Line 22: Punjab Board of Economic Enquiry, "A Statistical Analysis of the Economic Conditions of the Punjab, 1939-49", p. 12.

different regions of the State".²⁴ It is clear that all these methods of collection of data can scarcely be said to provide reliable and definitive figures for a state income estimate.

As we already mentioned earlier, one of the most serious sources for variations in state and national estimates in this subsector is the treatment of construction. But in some states, e.g. in West Bengal, the difficulties are even enhanced by inadequate attention to working force estimates in construction. According to the state estimate, there were only 40,000 workers engaged in construction activities in West Bengal in 1955-56,²⁵ whereas, according to the 1951 census, there were 104,599 self-

supporting persons engaged in construction in the state.²⁶ If the earning dependents who derive income from construction are added to the number of self-supporting persons, and, if the 1951 figure of total employment (self-supporting persons plus earning dependents) is projected to 1955-56, the likely employment in West Bengal in this subgroup would come to approximately 130,000 workers. It is not clear from the state report whether and where the remaining workers are included. If the income for this group has not been estimated or accounted for, then this would partly explain the wide difference observed between the allocated and the direct state estimates.

The growing importance of construction activities and their manifold forms of organization and varying kinds of technology is increasingly recognized and so is another important problem, that of the great difference in the value added and in earnings in small industry in urban and rural areas. It is very satisfying to see that these distinctions are clearly made in a new publication of the National Income Division of the Central Statistical Organization. This group is following the recommendations of the United Nations in classifying construction separately, and the small enterprise estimates of state income reports would greatly profit if they also adopted this procedure. A review of the

Table 7: Value Added Per Worker in Several Subsectors, by State

State	Year	Small Enterprises		Construction		Communication Services		Other Transportation		Other Commerce	
		Per Worker	All India	Per Worker	All India	Per Worker	All India	Per Worker	All India	Per Worker	All India
		(rupees)	100	(rupees)	100	(rupees)	100	(rupees)	100	(rupees)	100
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) India	1955-56	678	100	720	100	1825	100	1067	100	1095	100
(2) Andhra Pradesh	1955-56	537a	79	n.a.	...	n.a.	...	563	53	1540	141
(3) Assam	1952-53	582a	86	n.a.	...	n.a.	...	962	90	1365	125
(4) Bihar	1955-56	197	29	720	100	n.a.	...	748	70	1133	103
(5) Bombay	1954-55	699a	103	n.a.	...	1356	74	1131	106	1093	100
(6) Gujarat	1955-56	642	95	771	107	1671	92	1239	116	1039	95
(7) Maharashtra	1955-56	623	92	n.a.	...	1444	79	1312	123	1392	127
(8) Kashmir	1955-56	847a	125	n.a.	...	n.a.	...	743	70	1134	104
(9) Kerala	1955-56	310	46	n.a.	...	n.a.	...	1052b	98	1340	122
(10) Madhya Pradesh	1955-56	656a	97	n.a.	...	864c	47	991	93	1531	140
(11) Orissa	1955-56	275a	40	n.a.	...	n.a.	...	989	93	1450	132
(12) Punjab	1954-55	850a	125	n.a.	...	n.a.	...	n.a.	...	1825d	167
(13) West Bengal	1955-56	515	76	1315	183	n.a.	...	1201e	113	1492	136
(14) Delhi	1955-56	1065	157	851	118	2106	115	1482	139	1962f	179

Notes: n.a.=Not available; a.=Includes construction workers;

b=Represents average annual earnings; c=Represents average annual earnings for the entire sector of other services; d=Includes communication services; e=Includes banking and insurance; f=Includes other transport.

Sources:

- Line 1: "National Income Statistics", Table 8.2, p 114; Table 9.2, p 120; Table 1.4, p 13; Table 11.2, p 134; and, Table 11.1, p 134.
 Line 2: "Andhra Pradesh Report", pp 31, 42, and 48.
 Line 3: "Assam Report", Table 8, p 7; Table 18, p 24.
 Line 4: "Bihar Report", pp 102, 113, and 125.
 Line 5: "Bombay Report", Tables 4 and 7, pp 61 and 71; Tables 5 and 19, pp 62 and 71; Tables 6 and 19, pp 61 and 71.
 Line 6: "Gujarat Report", Table 8.1, p 42; Table 9.1, p 43; Table 10.1, p 44; Table 13.1, p 54; and Table 12.2, p 50.
 Line 7: "Maharashtra Report", Tables 4 and 9, pp 72 and 76.
 Line 8: "Kashmir Report", pp 33, 39, and 41.
 Line 9: "Kerala Report", Table 13, p 17; Table XV, p 20; Tables 14 and 15, pp 19-20.
 Line 10: "Madhya Pradesh Report", Table 17, p 108; Table 22, p 130; Table 20, p 126 and, Table 21, p 128.
 Line 11: "Orissa Report", Table A-9, pp 44-45; Table A-11, p 49.
 Line 12: "Punjab Report", Table 13, p 57; Table 17, p 63.
 Line 13: "West Bengal Report", p 13; Table 9.4 and 12.1, pp 106 and 113; and, Table 12.2, p 114.
 Line 14: "Delhi Report", Table 8.1, p 56; Table 9.2, p 64; Table 12.2, p 79; and, Table 11.2, p 71.

pertinent figures relating to the year 1955-56, based on the revised national income estimates published by the Central Statistical Organizations, shows that the national average of value added in construction was Rs 720, and in small enterprises Rs 678. But this last figure is further broken down into a rural and an urban portion, the former showing an amount of Rs 355 and the latter of Rs 636.²⁷ These are very wide differences which appear to indicate that average earnings in rural small enterprises are of the same order of magnitude as average wages of rural labourers, whereas in the urban areas they approximate the earnings of industrial and other urban workers. These differences indicate, however, that only a good deal of further research and study, not only of the occupational composition of the workers in small enterprises, but also of their residence in rural and urban centres will yield more reliable and accurate data for state income estimates.

VI

Commerce, Transportation and Communication

The over-all difference between the aggregate of state estimates of income arising in 1955-56 in the commercial, transportation and communication sector and the corresponding national estimate is 7 per cent. The aggregate state estimates are lower than the national estimate at the subsectoral levels; and the greatest difference of 22 per cent is encountered in the railways subsector.

Railway. It is surprising that, despite the availability of ample statistical information, there is such a wide gap in the aggregate of state estimates and the corresponding national estimates. The "NIC Final Report" states, on this point, that "for railways, apart from the Railway Budget and financial accounts relating to railways, the annual reports of the Railway Board provide a wealth of statistics relevant or national income purposes."²⁸ In view of the comprehensive statistical coverage of the national railway system, one is inclined to accept the national estimates as having greater validity than the state reports. Hence the difference of 22 per cent between the aggregate of state estimates and the national estimate as well as the differences between the allocated shares of national income and the direct state estimates by themselves must be attributed to vary-

ing underlying assumptions and sources of estimation in the state reports. In some cases the proportion of route mileage in a state has been used, in others a combination of the two measures for the apportionment of wage and salary income, on the one hand, and surplus derived from railway operations, on the other, has been employed. West Bengal used the first principle of apportionment,²⁹ Punjab and Bombay, the second,³⁰ and Andhra Pradesh and Mysore the combined measure.³¹ A procedure not

too different from the last was employed in the "Delhi Report", only that there the amount of wages and salaries of railway workers was obtained from local sources, to which was added the share of total surplus earned by the railways on the basis of the proportion of the state railway wage bill to that of all-India.

In the light of this evidence, it is clear that lack of uniformity in the method of estimation on the state level is the likely reason for the less than full apportionment of the total

Table 8: Income from Residential Property

State	Year	Rental Income as % of Total State Income	Urban Houses as % of Total (1951 Census)	Average Annual Gross Rental Per House (Rs)	
				Rural	Urban
(1) India: Conventional series	1955-56	4.6	16.0	50a	246a
(2) India: Revised series	1955-56	4.0	16.0	n. a.	n. a.
(3) Andhra Pradesh	1955-56	3.2	14.4	n. a.	n. a.
(4) Assam	1955-56	0.6	3.9	16b	n. a.
(5) Bihar	1955-56	4.9	6.4	n. a.	n. a.
(6) Bombay	1954-55	6.6	27.4	52	303
(7) Gujarat	1955-56	3.6	25.6c	n. a.	n. a.
(8) Maharashtra	1955-56	6.5	27.9c	n. a.	n. a.
(9) Kashmir	1955-56	4.1	15.5d	50	246.
(10) Kerala	1955-56	5.4	11.4	n. a.	n. a.
(11) Madhya Pradesh	1955-56	4.1	10.7	37	46
(12) Madras	1955-56	5.8	19.6	n. a.	n. a.
(13) Mysore	1956-57	4.7	19.7	n. a.	n. a.
(14) Orissa	1955-56	5.2	4.0	73	217
(15) Punjab	1954-55	1.9	17.8	116	148
(16) Rajasthan	1955-56	4.0	16.5	n. a.	n. a.
(17) Uttar Pradesh	1955-56	n. a.	12.8	n. a.	n. a.
(18) West Bengal	1955-56	6.3	24.9	45	n. a.
(19) Delhi	1955-56	6.8	82.7	40e	350
(20) Himachal Pradesh	1955-56	7.5	4.5	105	326

Notes: n.a. = Not available.

a Figures relate to 1950-51.

b Figures relate to 1952-53.

c Figures relate to 1961 census urban population.

d Figures relate to 1955-56.

e Net rental value.

Sources: Col 1 and 2: Table 1, except Line 1: Table 3; Line 6: Bombay Report, Table 20, p. 72;

Col 3: Government of India, Census Commissioner, "Census of India: Paper No. 1, 1957, General Population Tables", (Delhi, 1957), Table A-1, p 6, except Lines 7 and 8: *Ibid*, "1961 Census: Final Population Totals", (Delhi, 1962), Table 1, pp 4-5; Line 9: "Kashmir Report", pp. 50-51.

Col 4 and 5: Line 1: "NIC Final Report", Table 27, p. 101.
 Line 4: "Estimates of State National Income of Assam, 1948-49 to 1952-53", Table 28, p 29.
 Line 6: "Bombay Report", Table 18, p 70.
 Line 9: "Kashmir Report", pp 50-51.
 Line 11: "Madhya Pradesh Report", Table 23, p 138.
 Line 14: "Orissa Report", Table A-14, pp 56-57.
 Line 15: "Punjab Report", Table 21, p 79.
 Line 18: "West Bengal Report", Table 14.8, p 127.
 Line 19: "Delhi Report", p 108.
 Line 20: "Himachal Pradesh Report", Appendix 14.2, pp 114-15

national income earned in the railway sector. For example, the West Bengal estimates based on proportionate railway mileage within the state boundaries are not, perhaps, using the best possible allocation for the surplus because: (1) the railway traffic of passengers and goods is comparatively heavy for a small state such as West Bengal, due to the state's large mining and industrial complex and to the fact that Calcutta is an important import and export centre for the eastern part of India; (2) the number of railway workers employed in West Bengal was estimated by assuming that it bore the same ratio to all-India railway employment as the ratios of railway mileage; and by this procedure comes to 65,000 persons.³² According to the 1951 census, there were over 95,000 railway workers in the state of West Bengal. If this 1951 figure were to be projected for a likely increase by 1955-56, the state estimates of the railway working force differs considerably from what may be assumed to have been actual employment. It is not clear from the "West Bengal Report" where the other approximately 40,000 workers and their incomes are counted;³⁴ (3) another piece of evidence of the probable underestimation by the "West Bengal Report" of the contribution of railways to state income is a comparison with Bombay. According to the 1951 census, the number of railway workers in Bombay state is very close to that of West Bengal, but the Bombay estimates of income from railways in 1955-56 are Rs 459 million as compared with West Bengal's estimate of Rs 158 million (see Table 1, p 1516). According to this line of reasoning, the Uttar Pradesh estimate of an income of Rs 84 million for its 96,000 railway workers, according to the 1951 census³⁵—again, almost the same number as in West Bengal and Bombay—appears also to be too low.

Communication Services. The state aggregate of estimated income from this subsector, which includes the activities of Posts and Telegraph Departments and Overseas Communication service, falls short of the corresponding national totals by Rs 42 million, or 8.4 per cent. The principal reason for this difference appears to be the omission of state share of operating surpluses of these undertakings. From the available data of value added per worker for the five states, all except one are well below the national average (Table 7, col 5); even

Maharashtra figure is 20 per cent below the national index. It may be recalled here that Maharashtra is the highest urbanized state in India. In some states, e.g., Andhra Pradesh and Madhya Pradesh, the basis of estimating income in communications is the same as ours, i.e., by using the estimated number of persons engaged in communication services in each state. But in other states, such as Bombay, Punjab and Delhi, the estimates of total earnings were obtained by the use of local employment and average annual earnings data and the share of each state of the estimated national surplus earned by the communication services was apportioned in accordance with the number of employees. Separate income estimates for communication services are not presented in the "West Bengal Report" and the "Kerala Report", which appear to have included them with all or part of the transport sectors.³⁶ The average earnings per worker in these two reports are derived from surveys conducted in each state. Since it is not stated explicitly in the state reports that the state's share in the estimated national surplus from these services is taken into account, this omission probably crept in.

Organized Banking and Insurance and other Commerce and Transportation. The aggregate of state income estimates in these subsectors are higher than the corresponding national estimate by Rs 1,577 million, or 13 per cent. In the case of other commerce subsector, which accounts for over three-fourths of the total income in this group, the estimated value added per worker in all the states, except one, is significantly higher than the corresponding national estimate (Table 7, Col 9). The detailed examination of the methods of estimation and the sources of data in the various state reports reveals that much remains to be done before any serious confidence can be placed in them. The state estimates, in general, rely heavily on national estimates of annual earnings because of paucity of local data. For example, in Andhra Pradesh³⁷ the earnings data reported in the NIC Final Report were used, and the same data were used in Madhya Pradesh³⁸ and Bihar³⁹ for non-taxed income in the other transport and commerce subsector.

In Punjab a curious method has been used: "the contribution to State Income from this sector has been based

on the ratio of average earnings (annual) per engaged person in all sectors except this on the one hand and only this sector on the other, at the Union (national) level. The per head average earnings in all other sectors taken together in the Punjab, have been multiplied by this ratio to get the average per head earnings in this sector." It is observed that the average annual earnings per worker engaged in this subsector obtained for Punjab are not only the highest among all states in India but also 67 per cent higher than the corresponding national average (Table 7, Col 9). How much confidence can be placed in the findings of income estimates in this subsector in the Punjab Report remains an open question.

In Mysore some information available in the State Department of Labour relating to industrial and plantation labour was utilized. These data also included several establishments engaged in transport and commercial undertakings.⁴⁰ In the Kerala Report nothing is said on the method by which average earnings in this subgroup were estimated, and the Bombay, Delhi, Himachal Pradesh, Orissa and West Bengal data are based on local data collected through various surveys and investigations. The Bombay, Delhi, and Orissa estimates, as also the Madhya Pradesh estimates, as pointed out earlier, distinguish between taxed and non-taxed incomes in this sector. Hence, we see that a great variety of procedures was used.

We shall now turn to a brief discussion of some of the problems arising in using these different methods of estimation. The procedure used by the "Mysore Report" very likely produces misleading results, since the data available in the Department of Labour are probably obtained from highly organized industrial, transport and commercial companies, whereas a large share of the persons engaged in economic activities subsumed under this subsector fall into non-organized trade and transport. Within the non-organized part of this subsector, which is made up of hawkers, peddlers, street vendors, petty traders, rickshaw drivers and a multitude of similar self-employed persons, there is a large amount of underemployment, there are many earning dependents, and there are varying levels of low annual earnings, which differ greatly from those of the labor force in organized industry and commerce. Hence, the application of data collected in a survey of organized firms is likely to produce too high a level of

income for this subsector. In the "Kerala Report", in which, as we mentioned earlier, no explanation of the method of estimation is given, average earnings of employers are estimated to have been four times, and of independent workers twice, those of employees and earning dependents. On the other hand, the "Bombay Report" states that "the average income of an employer (or independent worker) engaged in trading activities... is about 20 per cent higher than the average earnings Survey."⁴¹ It is likely that, on the basis of this evidence from an actual survey, though carried out in another state, the Kerala estimate is too high. This impression is confirmed by the fact that, in the small enterprise subsector, average earnings in Kerala are only 46 per cent of the national average, whereas in this sector, which is composed largely of small and unorganized traders, it is 122 per cent of the national average (Table 7).

In two states, the difference between the state estimate for the income earned in this subsector and the allocated share of national income is relatively large. In West Bengal the independent estimate is more than 21 per cent lower and in Delhi it is more than 28 per cent higher than the allocated share. The reasons for these discrepancies may be explained as follows: the "West Bengal Report" accounts for the annual earnings of 94,000 workers in the communication and transportation subgroup whereas, according to the 1951 census there were 232,000 self-supporting workers engaged in transport other than railways in West Bengal.⁴² If the 1951 census figures of the working forces are projected to 1955-56 at a rate of growth of 16 per cent, which is the rate estimated in the "West Bengal Report", and if additions are made to account for the earning dependents who derive their income from activity subsumed under this subsector, the probable employment in the subsector in 1955-56 may have been nearly 300,000. The wide difference between the allocated share and the "West Bengal Report" estimate for other commerce and transport appears to be due mainly to this serious difference in the estimate of the working force. In Delhi the difference between the two estimates may be due (1) to the limitations of the taxed income data which form the basis of part of the state income estimate, (2) to the fact that Delhi, the commercial and financial hub of the northwestern part of India, and a heavily urbanized area, has a higher

level of average earnings than other states in India, and (3) to the inclusion in the state income estimate of the banking and insurance subsector, thus yielding a figure which contains economic activities additional to that resulting from the allocation method. If banking and insurance were excluded, the difference between the two estimates would be lower by approximately 10 per cent.

VII

Other Services

For purposes of analysis, the sector covering all other services may be divided into two parts: (1) government services, professions and liberal arts, and domestic services; and (2) income from residential property. The reasons for combining the three subsectors in the first group are as follows: (1) there is no conceptual uniformity in the delineation of the scope of government services and professions and liberal arts in several state reports. The working force estimates for the professions and liberal arts subsector are obtained from the census records, and, according to the 1951 census economic classification scheme, those government employees classifiable under other occupational subdivisions are excluded from the group of governmental employees. Government employees engaged in medical or educational services, for example, are classified under professional subdivisions, instead of being included in the group of government employees. (2) If government employment data are obtained directly from local sources, and the working force estimates for professions and liberal arts are obtained from the census figures, adjustments have to be made either in the census data or in the data obtained from local sources in order to avoid double counting, since many professional people employed by the government would otherwise be counted twice. (3) Some of the state reports, such as those of Madhya Pradesh and Uttar Pradesh, have not attempted separate estimates for these subsectors and have treated them collectively.

In view of these limitations, it is desirable to combine, for purposes of comparison, the three subsectors of government service, liberal arts and profession, and domestic services. The method of income estimation for these subsectors in several state reports is identical with that adopted for the allocation of national income among states. For either all or part of the

workers, income estimates are made on the basis of the number of workers engaged in these services in each state. The aggregate of state income estimates and the national estimates for the three subsectors differ only by 1.2 per cent. But inspection of Tables 1 and 4 yields the result that, in some states, the differences between the estimate based on allocation of national income and that produced by direct estimation in the state reports is large, in fact, they are among the largest, proportionally, of any subsectors. The explanation of these wide divergences tends to show clearly one important weakness of the method of allocating shares of national income among states on the basis of a rather inflexible formula. For the allocation method does not take account of differences in earning levels in different states, which, in some cases, may be substantial, especially in professional and related services. In addition, as concerns the government services subsector, some differences may be due, at least in part, to the fact that the state estimates are based on available local data for 1955-56; whereas the allocation of shares among states was done on the basis of data published in the 1951 census. These findings suggest one important point about the nature and validity of national income estimates, in general. They show that the difficulties in the economic sectors in which the income approach has to be used tends to produce much less reliable data than in the economic sectors in which the production approach can be employed. For, although the differences laid bare by the comparisons are probably due more to the shortcomings of the allocation method than to the direct estimates at the state level, quite a few of the state estimates in this field were made by procedures very similar to the allocation method; and even where direct estimates were made, a large number of points could only be approximated, which implies a high degree of inaccuracy. The result of this is that improvement of state income estimates depends, to a considerable extent, on improvement of estimates in those sectors of economic activity in which the income approach must be applied.

A few further shortcomings of some state estimates relating to these subsectors may be noted: (1) The state estimate of West Bengal does not include the annual income of defence personnel stationed within the state boundaries.⁴³ This omission is probably due to the fact that the employment data of defence personnel are not pub-

lished separately in the census reports for security reasons. But this difficulty has been overcome in other state income studies by using the 1951 census data in which army, navy and air force personnel have been included in the census occupational division 8.8, Employees of the Union Government.⁴⁴ (2) No account has been taken of house-rent allowances paid to government employees.⁴⁵ (3) Since the government employment data have been obtained by direct enquiry from local sources and the working force estimates for the professions and liberal arts and domestic services subsectors were obtained from the 1951 census, it is hoped that in the West Bengal Report the necessary adjustments were made to avoid double counting.

The estimates of average earnings in professions and liberal arts and in domestic services are based, according to the "Punjab Report", on "personal inquiries from ten urban centres and some forty-five villages." This sample is of limited validity for providing reliable data applicable to the entire state, a fact which is recognized by the authors of the Punjab Report themselves.⁴⁶ (2) The estimates of the income of army and air force personnel were made on "the basis of the ratio between the total population in the State and the Indian Union."⁴⁷ It is probable that this ratio results in too low an estimate, in view of the fact that the number of troops stationed in Punjab is likely to be rather large because of its propinquity to West Pakistan and the Ladakh area in Kashmir state.

VIII

Income from Residential Property

The national estimates of the actual or imputed annual rental value of residential property are made separately for urban and rural dwellings. In the case of urban houses estimates are made "... on the basis of average rental per house and on the basis of municipal collection of house tax and an assumed relationship between taxes paid and the gross rental."⁴⁸ From the estimated gross rental value of urban residential property, deductions are made for cost of repairs and maintenance and municipal taxes collected to arrive at the net contribution by this subsector to total national income.⁴⁹ The estimates of annual rental value of rural houses are made differently, i.e., "on the basis of rural interest rate."⁵⁰ The gross annual rental value of rural residential property is taken as 10 per

cent of the estimated current value of all the rural houses; deductions are made for annual costs of repair and maintenance to arrive at the net annual rental value. There appears to be an element of double counting in this procedure of estimation of the contribution of residential property to national income. In general, the houses in India, and, indeed, in any predominantly agricultural economy, are used not only for residential purposes, but also as work places. This is particularly true of rural houses, where the same structure is used as a cattle shed, a storage place for agricultural products, a store, or as a workshop in which cottage and handicraft products are manufactured. To the extent to which a house is put to other than residential uses, there is double counting, since the contribution of the structure has already been estimated in other sectors, depending upon the nature of the use. The difficulties of obtaining the necessary statistical information to avoid this type of double counting are doubtless great, but the fact remains that double counting is there.

The method of estimating the contribution to national income of urban houses by using the relationship between the municipal taxes collected and the gross annual rental value is not without limitations. The basis of taxation may differ from one municipality to another. In some places taxes may be based on (1) a flat rate on the rental value; or (2) a flat rate on the capital value; or (3) on different rates on different capital value groups. Another difficulty may arise because of "underestimation due to under-assessment of the value of property and poor collection of tax—both understood to be general features of the municipal house tax."⁵¹ The "Bombay Report", highlighting the limitations involved in this procedure, says, "It may be stated here that the receipt of taxes has no direct relation with the letting value because in case of a number of municipalities the actual collection of taxes falls short of actual demand of taxes due to heavy arrears. The correct procedure would be to estimate the letting value on the basis of the annual demand of taxes."⁵² The procedure followed by the state estimates is, in general, identical with that of the national estimates. The number of rural and urban residential houses, which forms the basis of estimation, is taken, like the national estimates, from the 1951 census. In general, the state estimates of the rental value of rural resi-

dential property are based on the national average as estimated in the "NIC Final Report", after making adjustments for changes from one year to another: whereas the estimates of urban property in some of the reports, e.g., those of Bombay, West Bengal, Delhi and Orissa, are based on local data, particularly data relating to municipal taxes. The limitations of some state estimates for which the necessary information on their underlying assumptions is available, are discussed below.

A few general remarks on the likely share of this item in the total state income may be useful. The share of rental value will be greater in more heavily urbanized states than in less urbanized ones.⁵³ The share of rental value, other things being equal, will be the higher the lower the general level of income in a given state, and the share of rental value, again other things being equal, will be the higher the better the quality and size of the residential structures. These three factors, i.e., degree of urbanization, level of average earnings and the size and quality of structures will affect the share of the gross rental value of residential properties in a state income. Their net value will also depend upon the magnitude of the netting ratio applied. Finally, if the estimated rental value in 1955-56 is based upon data from the 1951 census or other figures relating to a different year, the estimate for 1955-56 will also depend upon the price index employed. In the analysis of various state estimates of rental value of rural and urban residential houses all these factors will be considered, wherever their impact is discernible.

According to the findings of the "Assam Report", the income from residential property is only 0.6 per cent of the total state income in 1955-56. This ratio is remarkably low compared with the corresponding national average of 4 per cent. In Orissa, where the percentage of urban houses is almost the same as in Assam (4.0 per cent as against 3.9 per cent, see Table 8), the ratio of income from residential property in 1955-56 is 5.2 per cent. Even if we allow that the Orissa figures may be somewhat overestimated, a point which will be discussed below, they nevertheless indicate that the Assam estimates are probably too low. Some of the underlying assumptions in the state report supply most likely grounds for such a low percentage of income from residential property in Assam: (1) The state estimate does not include the annual rental of "25 per

cent of rural houses in the plains and the rural houses in the hills,"⁵⁴—on the assumption that these houses have no rental value. On the other hand, the national estimates of income from rural residential property include the imputed rental value of all the houses recorded in the 1951 census. (2) The annual cost of repairs and maintenance of the rural houses is assumed to have been 42 per cent of the imputed annual gross rental value⁵⁵ as against a national average of 28 per cent.⁵⁶ The "Assam Report", recognizing the unreliable basis of this estimate, says the "imputation of rental value of rural house property has been very roughly made in view of the absence of any data directly bearing on the rental value of rural houses."⁵⁷

The income from residential property in Kerala constituted, according to the state estimates, 5.4 per cent of the total state income in 1955-56. In explaining the basis of its income estimate in this sector, "the Kerala Report" says that, "the net value of houses in Kerala is estimated from all-India figures in proportion to the number of occupied houses",⁵⁸ but does not specify whether the separate estimates have been made for rural and urban houses. In the field of the rental value of residential properties, as in so many other areas (small enterprises, non-organized commerce and transport, domestic services and others), the separate treatment of urban and rural data is highly desirable. As we shall show, this reasoning applies with full force to the estimate of the rental value of residential property. According to the 1951 census, the percentage of urban houses to the total number of occupied houses in Kerala was 11.4, whereas the corresponding all-India percentage was 16.0 (Table 8). We suspect that the omission, to take account of this difference in the share of urban and rural houses, has resulted in the state estimates of income from residential property being rather high, and perhaps too high. It should be pointed out that in allocating national income in this subsector among states, account is taken of the proportion of rural and urban houses as well as composition of city-size in each state.

In Madhya Pradesh and in Andhra Pradesh the state estimates were obtained with the help of the national average of the gross rental values of urban and rural houses as estimated in the "NIC Final Report" for 1950-51. Adjustments for 1955-56 values were made on the basis of changes in the

wholesale price indices of food articles.⁵⁹ The estimated gross rental value per rural house in 1955-56 in Madhya Pradesh was Rs 37, whereas the all-India average was Rs 50 in 1950-51 (Table 8). No changes were made in the average annual rental value of urban houses and the national average of 1950-51 was assumed, in the Madhya Pradesh Report, to hold for 1955-56. The implied assumption is that there exists a direct relationship between the price of food and the rental value of a rural house, but no such relationship is assumed between prices and the rental value of urban houses. The national estimates show that income from residential property during the period from 1950-51 to 1955-56 increased by 15 per cent, from Rs 4,000 million to Rs 4,600 million.⁶⁰ But, according to the "Madhya Pradesh Report", estimates of the rental value of rural houses declined from Rs 286 million to Rs 266 million, or by 7 per cent during the same period.⁶¹

The state estimates of income from urban residential property in Orissa are computed "on the basis of information received from some municipalities in the State for the purpose."⁶² According to the "Orissa Report", income from urban houses increased by 93 per cent⁶³ from 1951-52 to 1955-56 as against an increase of only 12 per cent in the national estimates.⁶⁴ It is probable that the information furnished by "some" municipalities, which forms the basis of estimation, does not provide fully accurate data for the entire state. The estimates of the rental value of rural residential property are made by adopting the national average during 1950-51, "after being duly adjusted on the basis of change in the annual rental income per urban house during the corresponding period."⁶⁵ In the relatively low-income state of Orissa the national average is inflated by 46 per cent⁶⁶ whereas in the economically more advanced state, comparatively, of Madhya Pradesh, the same figure is deflated by 26 per cent for purposes of state income estimation.⁶⁷

Punjab is, comparatively, one of the more economically developed states in India, and, apart from Delhi, has the highest per capita income in the country. Yet, the income from residential property, according to the state estimate, constitutes only 1.9 per cent of the total state income in 1954-55. This is, excluding Assam, the lowest percentage (Table 8). The con-

dition of rural housing in Punjab is better than in other states, since the "Punjab Report" itself estimates the average value of a rural house to be Rs 1,447 in 1954-55⁶⁸ as against a national average of Rs 877 in 1950-51.⁶⁹ The percentage of urban houses to the total number of houses is also greater than the national average (Table 8). Hence, the main reasons for the low ratio of income from residential property exhibited in the "Punjab Report" are not the poor quality of housing or the low proportion of urban residential property, but appear to be the following: according to the "Punjab Report" the gross rental value per rural house was taken to be 8 per cent of its current value,⁷⁰ whereas the national estimates are based on gross rental value of 10 per cent.⁷¹ Deductions for the current year's depreciation from the estimated gross rental value of rural residential property amount to 54.4 per cent, or 4.4 per cent of the value of all rural houses. Additional deductions for repairs and maintenance amount to 20 per cent of the gross rental value of rural houses. In other words, about three-fourths of the estimated annual gross rental value is deducted to arrive at the net contribution of rural residential property to total state income. Similarly, from the estimated gross rental value of urban residential property, 43.6 per cent is deducted for depreciation; and 10 per cent for repairs and maintenance. For these reasons, the average annual net rental value of urban houses is considerably below that computed in other state reports (Table 8). Hence, Punjab data in this subsector are lower because of netting procedures and not because of poor housing or a preponderance of rural residences.

IX

Conclusions and Suggestions

This survey of state income reports may be concluded by suggesting some improvements of estimation procedures and presentation of findings. The general impression gained from the reports available to us is that the main objective of most studies is the determination of a single, often doubtful and little supported, figure of global state income. The details of how this global estimate is reached appear to be lost sight of in many cases. Though we do not wish to dispute the importance of this objective, we believe that the state income estimates may properly perform other functions at the

present state of planning and economic activity in India. In the first place, any state income study will reveal, if properly made, the economic structure of a state, the areas of economic activities in which it is strong and those in which it is weak. In addition, any state income study, if properly presented, will provide a guide for similar studies in other states. New approaches to income estimation made in one state may exert an influence on procedures used in others, with the result that the over-all set of practices in the estimation of state income by all states will be improved. If this improvement takes place, it will also help the general estimation procedures of national income.

Lack of Detail. The usefulness of state income studies lies in the methods of estimation used, the explicit identification of underlying assumptions, and the sources of the statistical information which form the bases of the estimates. The lack of exposition of these details does not permit the reader to appraise the methods used and the validity of the data employed. Adequate comparison of state estimates, either with one another, or with corresponding national totals, is very much limited in the absence of these details. If all the underlying detailed estimates were available in the central and the state income studies, it would be possible to identify the sources of any differences between the two measures of national income, one compiled on a national scale by the CSO, and the other arrived at by aggregating the incomes of all Indian states. The improvement of the income accounts at the central and state levels may be viewed as a two-way traffic: the central estimates, at least of physical annual output, may serve as control figures, and the state data of prices (assuming they reflect an accurate picture of local economic conditions) may serve to check the national valuations arrived at in the CSO's estimates. It is not suggested that either the central or the state findings are more accurate, but, in an attempt to reconcile the two estimates, one may find ways to improve both sets of figures. With the currently available information from the state reports, it is not possible even to check whether the data of annual physical output of agricultural crops in the national and the aggregate of state reports are the same or not.

Basic Data. The basic data of such items as annual production, prices, employment, and average annual earnings

employed in a state report, should be included, preferably in an appendix, even if these data are obtained from standard documents such as the "District Census Handbooks" or "State Statistical Abstracts". These documents are not readily available to other research workers.

Netting Ratios. Another source of under- or over-estimation in the state reports appears to be arbitrary and not well supported netting ratios applied to the evaluation of agricultural crop output, livestock production, and production in the mining subsectors. We have discussed some of the problems which arise in these subsectors in earlier part of the paper (Table 6). Though some netting ratios employed in some state reports may be based on inadequate samples, it is possible also that some of the ratios employed in the national estimates need refinement. This is an area of research in which substantial progress is still required.

Distribution of National Totals among States. In some subsectors such as railways, communication services, and organized banking and insurance, in which statistics are available on the national level, and separate accounts by states are not normally maintained, it is necessary to apportion national totals among component states. The basis of allocation of national totals will depend upon the availability of relevant information. As revealed by the state reports available to us, most state reports have adopted different bases of allocation. This had the result, in the case of railways for example, that the value of output of Rs 2,200 million by railways, is reduced to an aggregate income derived from the state reports of only Rs 1,723 million. Similarly, the two measures of income from communications services differ by about 8 per cent.⁷² These examples show that there remains need in the co-ordination between central and state agencies engaged in national income compilation work. Regardless of what basis of allocating national totals among states is used, a common procedure would ensure statistical uniformity among state and national data. At the same time, it is important to consider carefully which formula of allocating national totals is the best, since the adequacy of the formula selected will enhance the accuracy and reliability of state income totals.

Sectors and Subsectors. Frequently the state reports mention the lack of required data for state income esti-

mation purposes, particularly average annual earnings of various groups of workers, for example, those engaged in transport, commerce, and other services. The state income estimates for these subsectors are obtained either by using national averages derived from the "NIC Final Report", sometimes adjusted to local economic conditions, or by making use of locally available data. Some of the more enterprising state agencies have made efforts to collect fresh data for state income purposes. Whenever, because of lack of local data, use is made of national figures, the attempt should be made to form as many homogeneous subgroups of economic activity within each subsector as possible. This can be done by making the most extensive use of data available in census records. The present method, used in some state reports, of treating one large group, such as "other services, including construction workers, professions and liberal arts, domestic services, and government services", fails to reflect even the regional differences in the averages of earnings data upon which their estimates are based. We particularly wish to point out that the recent publication of revised national estimates (CSO) does not include the average earnings of all those sub-groups which are mentioned in detail in Appendix Table 12.1. For example, under the medical and other health services group, there are seven or eight other subgroups for which average annual earnings data are not published.⁷³ We further wish to add that greater realism would be injected in the national and state income accounts, if attempts were made to obtain separate income estimates for urban and rural workers engaged in non-agricultural occupations. No novelty is claimed for these suggestions, since some state reports are already employing them and we merely wish to stress the need of a fuller use of this approach in all state and national income reports.

Improvement of Classification of Sectors of Economic Activity. The currently used classification of economic activities in national and state income estimation studies needs a thorough re-appraisal to suit the growing needs of economic planning in the country. The recent introduction in the revised national income series of a separate subsector of construction under the sector mining, manufacture and small enterprises, is a move in that direction. But other changes, espe-

cially in the very cumbersome services sector are needed. In particular, the workers engaged in personal services, such as barbers, cleaners, and washermen need not be combined with highly skilled professional workers engaged in medicine, education, journalism, and others, because the two groups have nothing in common. Separate subgroups, one under the heading of Personal Services, and the other of Professional Services should be formed. Similarly, the Commerce, Transport and Communication sector may be divided into the following distinct economic groups: (1) Whole-sale and Retail Trade; (2) Finance, Insurance and Real Estate; (3) Transport—rail, road, water, and air; and (4) Communications and Public Utilities. These changes, as well as others, may often be difficult to make, but they are not impossible.

Time Lag in the Publication of State Income Reports. In general, there appears to be a three to five year lag in the publication of the state income data, and some of the studies have even taken a longer time; and still some (e.g. Madras, Mysore and Rajasthan) have not been published. As a result of these prolonged delays, these otherwise valuable findings are becoming to have chiefly an historical interest rather than forming an underpinning of economic planning. In this context, a well-known authority commented thus:

In national accounting, as in any other field, the statistician has a responsibility to ensure that his data reflect and do not distort, reality. At the same time, he must avoid being perfectionist. Information should not be withheld merely because it is approximate.⁷⁴

(Concluded)

Notes

- ¹⁰ Government of Orissa, Bureau of Statistics and Economics, "State Income of Orissa 1951-52 to 1958-59", (Cuttack: 1961) Table A-1, p 26. Hereafter cited as "Orissa Report".
- ¹¹ Government of India, Central Statistical Organization, "Statistical Abstract, India, 1955-56" Delhi: Manager of Publications, 1957, Table 143, p 482.
- ¹² "Orissa Report", Table A-1, p 26.
- ¹³ See "NIC Final Report", Tables 7 and 36, pp 36 and 66 for the ratio of the agricultural component of the tea industry.

- ¹⁴ Government of Mysore, Department of Statistics, "State Income of Mysore 1956-57 to 1960-61," (typewritten), p 6. The report made available to us by M A Wali, Director, Mysore. Hereafter cited as "Mysore Report".
- ¹⁵ "Statistical Abstract, India, 1956-57", Table 165, p 598.
- ¹⁶ See K S Srikantan, "Working Force Estimation for National Income Compilation," *Monthly Abstract of Statistics*, XIII (Feb, 1960), Table 10, p xii.
- ¹⁷ See M D Chaudhry, *op cit*, Table 2.4, which is computed from data published by the "Census of India, 1951".
- ¹⁸ See "NIC Final Report", Table 18, p 71.
- ¹⁹ "Orissa Report", p 19.
- ²⁰ Government of Assam, Department of Economics and Statistics, "Estimate of State National Income of Assam, 1948-49 to 1952-53", Shillong, 1955, p 22. Hereafter cited as "Assam Report".
- ²¹ Government of Andhra Pradesh, Bureau of Economics and Statistics, "Revised Estimates of State Income of Andhra Pradesh from 1952-53 to 1958-59", (Hyderabad, November, 1960), p 29. Hereafter cited as "Andhra Pradesh Report".
- ²² Government of West Bengal, State Statistical Bureau, "State Income of West Bengal 1955-56", (Calcutta, no date), p 14. Hereafter cited as "West Bengal Report".
- ²³ Government of Punjab, Economic and Statistical Organization, "State Income of the Punjab 1952-53 to 1954-55", (Chandigarh, 1959), p 54. Hereafter cited as "Punjab Report".
- ²⁴ Madhya Pradesh, Directorate of Economics and Statistics, "State Income of Reorganized Madhya Pradesh, 1950-51 to 1956-57", (Bhopal, 1960), p 101. Hereafter cited as "Madhya Pradesh Report".
- ²⁵ "West Bengal Report", Table 12.1, p 113.
- ²⁶ Government of India, Ministry of Home Affairs, "Census of India, 1951", Vol 1, (Delhi, Manager of Publications, 1954), Table B-III, pp 290-99. This comprises Census groups 5.0 to 5.4 inclusive.

- ²⁷ See "C S O National Income Statistics", *op cit*, Table 8.2, p 114, Table 8.4, p 116, and Table 9.2, p 120.
- ²⁸ "NIC Final Report", p 97.
- ²⁹ See "West Bengal Report", p 15.
- ³⁰ Government of Bombay, Bureau of Economics and Statistics, "Report on State Income of Reorganized Bombay State 1954-55," Quarterly Bulletin of Economics and Statistics, (July, 1959), III, No 2, p 41, Hereafter cited as "Bombay Report"; "Punjab Report", p 73.
- ³¹ See "Mysore Report", p 6; and Andhra Pradesh Report, p 55.
- ³² "West Bengal Report", Table 11.3, p 112.
- ³³ "Census of India, 1951", Vol I, Table B-III, p 336.
- ³⁴ It may be that the employees of the Chittaranjan Locomotive Works may have been included in the 1951 census totals of railway workers. But, even if this was the case, it does not account for a differential of some 40,000 or more persons.
- ³⁵ "Census of India, 1951", Vol I, Table B-III, p 336.
- ³⁶ See "West Bengal Report", Table 12.1, p. 113; and Government of Kerala, Directorate of Statistics, "Regional Income of Kerala, 1955-56 to 1957-58", (Provisional), (Trivandrum, 1960), Table 15, p 20. Hereafter cited as "Kerala Report".
- ³⁷ See "Andhra Pradesh Report", p 36.
- ³⁸ See "Madhya Pradesh Report", p 121.
- ³⁹ Government of Bihar, Directorate of Statistics, "State Income of Bihar", 1959-60, (Patna, 1963), p 123, Hereafter cited as "Bihar Report".
- ⁴⁰ See "Mysore Report", p 6.
- ⁴¹ "Bombay Report", p 46.
- ⁴² "West Bengal Report", Table 12.1, p 113, and "Census of India, 1951", Vol I, Table B-III, p 326. The census data for transport other than railways includes occupational census subdivisions 7.0, 7.1, 7.2, 7.3, and 7.5.
- ⁴³ "West Bengal Report", Table 13.1, p 115.

⁴⁴ "Census of India, 1951", Vol I, Table B-III, p 365 unnumbered footnote.

⁴⁵ "West Bengal Report", p 17.

⁴⁶ "Punjab Report", p 67.

⁴⁷ *Ibid*, p 76.

⁴⁸ "NIC Final Report", p 100.

⁴⁹ *Ibid*, p 103.

⁵⁰ *Ibid*, p 102.

⁵¹ *Ibid*, p 100.

⁵² "Bombay Report", p 53.

⁵³ According to a recent survey of India, the following is the index of the residential-property-rental per person in the different size groups of the urban population:

Towns having population	Index
Fewer than 20,000	100
20,000 to 49,999	121
50,000 to 99,999	123
More than 100,000	227

Source: Computed from "National Income Statistics", Table 14.1, p 164.

⁵⁴ "Assam Report", p 28.

⁵⁵ *Ibid*, Table 28, p 29.

⁵⁶ "NIC Final Report", Table 27, p 101.

⁵⁷ "Assam Report", p 28.

⁵⁸ "Kerala Report", p 23.

⁵⁹ "Andhra Pradesh Report", p 58, and "Madhya Pradesh Report", p 135.

⁶⁰ "National Estimates", Table 2, p 2.

⁶¹ "Madhya Pradesh Report", Table 29, pp 149-50.

⁶² "Orissa Report", p 23, (italics not in original).

⁶³ *Ibid*, Table A-14, pp 56-57.

⁶⁴ "National Estimates", Table 2, p 2.

⁶⁵ "Orissa Report", p 23.

⁶⁶ *Ibid*, Table A-14, pp 56-57.

⁶⁷ "Madhya Pradesh Report", Table 24, pp 149-50.

⁶⁸ "Punjab Report", Table 21, p 79.

⁶⁹ "NIC Final Report", Table 27, p 101.

⁷⁰ "Punjab Report", p 79.

⁷¹ "NIC Final Report", p 102.

⁷² See Table 3.

⁷³ "National Income Statistics", *op cit*, p 200

⁷⁴ Simon A Goldberg, "The Development of National Accounts in Canada," *The Canadian Journal of Economics and Political Science* XV (February, 1949), 37.

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FROM THE CHAIR

The Bombay Gas Company Limited

Speech by the Chairman, Shri NK Jalan

Present Pricing Policy Deters Economic Growth—Opines Shri Jalan

FOLLOWING is the Chairman's Address by Shri N K Jalan at the Annual General Meeting of The Bombay Gas Company Limited, delivered on Thursday, the 30th September, 1965, at Bombay:—

Gentlemen,

It gives me much pleasure to welcome you to the Annual General Meeting and to present to you the Balance Sheet and the Annual Accounts, together with the Directors' Report, for the year ended 31st December, 1964. These have been in your hands for some time now and, with your permission, we may take them as read.

We have just passed through the gravest Emergency in the history of our young Republic because of a massive attack on its territorial integrity by an over-ambitious and unscrupulous neighbour. We, the business community, rose to the occasion as one man and solemnly pledged our all-out support to the Government's defence efforts. We wish to take this opportunity to express our heartfelt gratitude to our brave jawans who gave an excellent account of themselves by throwing back the aggressors and we are proud of them.

One More Year of Heavy Loss

We may now proceed with the business of this meeting. You would have found that the Accounts for the year 1964 reveal, once again, and for the fifth consecutive year, an extremely poor and disappointing financial result of the working of the Company, entailing an abnormal and unprecedented loss of Rs 16.53 lakhs as compared with the loss of Rs 10.31 lakhs for 1963, from its main operation, namely, the production and distribution of gas. This large increase of Rs 6.22 lakhs in the Company's loss resulted from a substantial increase in the costs on the one hand and a significant decrease in the total receipts from the sale of gas and by-products on the other. The increase in cost was largely on account of an increase in the cost and freight of coal and a substantial increase in the total payments to the workers and staff and higher contribution to the provident fund, apart from all-round increases in

the other costs. The average rate of dearness allowance for 26 working days jumped to Rs 115 in 1964, being an increase of Rs 19 per worker, in comparison with 1963. Incidentally, in July this year, it was as high as Rs 126. The decrease in the receipts from sale was largely due to a substantial reduction in the realisation from the sale of coke and other by-products, the amount of reduction being Rs 4.63 lakhs, as compared with a corresponding reduction of Rs 3.08 lakhs in 1963.

Findings of Government Auditors: Mounting Deficits

According to the findings of the Office of the Deputy Director of Government Commercial Audit, which carries out independent audit of the accounts of the Company every year, the Company had incurred recurring deficits in the reasonable return for all the consecutive years, from 1959 to 1964, the deficit for 1964 being as high as 978%, as against 619% for 1963, and the amount of deficit being Rs 19.38 lakhs for 1964 as compared with Rs 13.43 lakhs for the previous year. In this connection, it may be pointed out that, for purposes of calculating reasonable return from 1961 onwards, the Deputy Director of Government Commercial Audit, under instructions from the Government, arbitrarily and drastically reduced the capital base of the Company from that used for the previous 14 years, from 1947 to 1960. Thus, for instance, whereas the capital base used for 1959 was £875,396 (Rs 1.17 crores), the capital base for 1964 was taken at only £198,123 (Rs 25.76 lakhs), which meant an unjustifiable reduction in the capital employed by 78%. Again, whereas, in the years 1959 and 1960, the rate of return on capital was taken at 8.9%, the rate taken for the recent years, including 1964, was 7.5%. On this account, whereas the amount of reasonable return for 1959 was estimated at £77,910 (ie, Rs 10.30 lakhs), the corresponding figure of reasonable return for 1964 was taken at only £14,850 (ie, Rs 1.98 lakhs), the reduction arbitrarily made in the reasonable return being no less than 80%. Had the capital base and the rate of return

thereon for 1964 been calculated under the same principles and methods as had been applied for the earlier years upto 1960, the figure of deficit for 1964 would have become Rs 44.29 lakhs.

No Dividend Payment for Third Consecutive Year

Your Directors regret that, owing to this exceedingly unsatisfactory result of the operation of the Company, no dividend can be paid to the stockholders for the year under review, this being the third consecutive year for which the Company has been unable to declare a dividend. This must be a matter of very serious disappointment to the stockholders, but it is the unfortunate result of an ill-conceived and inequitable price regulation policy imposed by the Government over the years and about which I commented in my annual addresses over the past several years.

Substantial Cost Increases in the Current Year

As regards the current year, there have been already increases in costs on account of substantial increases in the cost of coal and freight and demurrage thereon, the total payment to the employees and cost of stores and all other charges. In view of the continuation of inflationary trends in most cost items, including heavy interest charges on loans and overdrafts, it may be assumed that there would be further cost increases over the remaining part of the year.

The Revised Price of Gas and Its Inadequacy

We are grateful to the Government of Maharashtra for sanctioning, in accordance with the recommendations of the Gas Advisory Committee, an increase in the price of gas from Rs 3.94 to Rs 5.00 per '000 cubic feet. The revised price was effective from 1st February, 1965. The Gas Advisory Committee based its findings and recommendations on the cost data as in the Company's Accounts for the year ended December 1962, together with certain further cost increases in the first half of 1963. The Committee, however, allocated the total costs bet-

ween gas and by-products, thereby reducing the cost of production and distribution of gas by a substantial amount. Moreover, the Committee did not provide for normal increases in the cost of wages and salaries based on incremental scales. Furthermore, although the Company had placed before the Committee the demand of the workers for increase in salary scales and other benefits, the Committee, unfortunately, did not see its way to provide for the same. The Committee, also, made no provision for payment of bonus. Most important of all, the Committee denied the Company the benefit of automatic adjustment of price to significant changes in costs, which is, in practice, enjoyed by the electricity companies and other public utility concerns and which is so important in a period of fast-rising inflationary costs. In this connection, it may be mentioned that although the Advisory Committee's recommendations had been submitted to the Government by 31st October, 1963, the Government sanctioned the recommended price fifteen months later (January 1965) without taking into account the cost increases which had taken place in the interval and about which submissions were duly made to the Government. Consequently, the revised price had already become inadequate by the date when the Government sanctioned it. In the intervening period of two years and three months that have elapsed after the examination of the cost of production and distribution of gas by the Committee, there have been further substantial increases in costs due to inflationary factors. On the other hand, there has been a sizable reduction in the realisations from the sale of coke and by-products. In consequence, the revised price of gas has proved to be inadequate to absorb the post-inquiry cost increases and eliminate the Company's losses, not to speak of providing for a minimum return on the capital invested, which must be considered also as an essential component of fair price.

It is, however, only fair and proper to acknowledge that the Gas Advisory Committee, in assessing the requirements of fixing a fair price for gas, had been guided largely by certain traditional ideas and principles of fixing a fair price. In that context and within the limitations imposed thereby, the Committee had tried its very best to be fair to the Company and to the consumers. In offering our comments on certain aspects of the determination of the new gas price, we only want to

say that some of the current practices on the subject of fixing fair price for purposes of control are outmoded and have increasingly proved to be inadequate and unsuitable for economic price formation, particularly in the context of an expanding national economy and in the setting of a highly dynamic world economy. Many independent thinkers in our country and abroad have commented rather strongly on the inadequacy and unsuitability of the current principles and procedures for the determination of control prices for the basic industries and services. Thus, for instance, the Raj Committee has drawn pointed attention to the inadequacy of the return provided for capital invested in the steel industry by relating such return to the original block. It has strongly urged that, from the economic point of view and in the interest of an expanding economy, the return on capital should be related to the replacement value of the fixed assets. For a similar reason, the National Council of Applied Economic Research has urged that it should be made legally obligatory to allow depreciation on the basis of the replacement cost of the fixed assets. In view of such authoritative criticism, in many quarters, of the current principles of price formation, it is suggested that the policy of control prices should be fully reviewed and re-oriented so as to bring it nearer to the principles of price formation in a free economy and thereby make it more suitable for the requirements of an expanding and dynamic economy.

Urgent Necessity of an Increase in Gas Prices

The Company's cumulative losses at the close of 1964 Accounts amounted

to Rs 24.78 lakhs, being nearly one-half of the paid-up capital of Rs 40 lakhs and free reserves of Rs 12.61 lakhs, taken together. As explained before, the revised price has already proved inadequate to absorb the cost increases, eliminate the Company's losses and provide for a reasonable return on the capital invested. In this situation, the Company cannot provide adequately for normal repairs and replacements, maintain the high quality of its service and carry out its legitimate and much-needed expansion programme. The Company, therefore, proposes to submit a Memorandum to the Government with an earnest request for an early and adequate increase in the price of gas.

Recent Increases in Some Control Prices at Short Intervals

As mentioned earlier, a period of over two years has already elapsed since the Gas Advisory Committee formulated its findings and recommendations regarding the revised price of gas. In a markedly inflationary situation, a period of two years is certainly a sufficiently long interval for a revision of a control price like that of gas. Indeed, there are many recent precedents where the prices of basic commodities and services have been revised at short intervals. This would be seen from the table below. It may also be noted that the price of coking coal was increased in 1961, 1962, 1963 and 1964. In 1965, its price has been already raised thrice—in January, May and June, respectively. In all these cases of frequent price revisions, increases were sanctioned to meet significant cost increases. Thus, for instance, the latest increase (dated

Recent Increase in the Rate of Certain Basic Services

Items	Date	Amount of increase Rs P	Date	Amount of increase Rs P	T O T A L			%
					Amount of increase Rs P	Interval (months)	of increase	
Bus fare in Calcutta (lowest stage — 7 paise)	29.4.64	0.01	1.2.65	0.02	0.03	9	43%	
Tram fare in Calcutta (lowest stage — 6 paise)	29.4.64	0.01	26.7.65	0.01	0.02	15	33%	
Bus fare in Delhi (lowest stage — 5 paise)	1.4.63	0.02	7.4.64	0.03	0.05	12	100%	
Tata Hydro-Electric charges	1.7.62	11%	1.5.63	26%	—	10	37%	

26.7.65) in the fare of the Calcutta Tramways Company was specifically sanctioned to meet increased costs of (a) Rs 14.5 lakhs annually on account of increase in dearness allowance, (b) Rs 6 lakhs annually on account of the increase in the cost of electric power, and (c) Rs 3.50 lakhs on account of increased costs of renewals and replacement. It may, also, be pointed out that the important electric companies, such as the Tata Hydro Electric Companies in Bombay and the Calcutta Electric Supply Corporation, frequently and almost automatically raised their rates for electricity on account of increases in the pit-head price of coal and freight thereon. It may also be mentioned that the West Bengal State Electricity Board has recently increased the rates for electricity for many categories of consumers, with effect from 31st August, 1965. This proposed enhancement of rates is intended to cover increases in its costs and eliminate its huge losses. The different rates for the several categories of domestic, industrial and bulk consumers were adjusted variously. Thus, for instance, the lowest rate for domestic power was raised by 44 per cent, the lowest rate for industrial power by 70 per cent, and the lowest rate for bulk consumption by 57 per cent. It is only fair that such frequent and semi-automatic adjustment of control price for gas should also be made by the Government to cover significant cost increases and eliminate the heavy cumulative losses sustained by the Bombay Gas Co.

Payment of Bonus Act

The Bonus Commission of 1964, which has taken an exceedingly generous attitude on the question of bonus payment, basically relates bonus payment to the earning of extra-normal profits. The Commission states:

"It is difficult to define in rigid terms the concept of bonus, but it is possible to urge that once profits exceed a certain base, labour should legitimately have a share in them. In other words, we construe the concept of bonus as sharing by the workers in the prosperity of the concern in which they are employed."

This definition accords, by and large, with the practices and conventions of the business world. In the widely accepted sense of the term, a bonus is an extra-normal or above-average reward to workers, in the event of abnormal or above-average or surplus profits being earned by the business

unit concerned. It is most inequitable and realistic that the Payment of Bonus Ordinance, as also the Act which is to replace it, makes it obligatory for an industrial unit to pay a minimum bonus to its employees, even though it may have sustained a loss in the related accounting year, instead of making any profit, not to speak of a surplus profit. And, what is even more unrealistic, the obligation to pay the minimum bonus would remain intact even though the unit concerned may have sustained losses over a number of consecutive years. This provision of the Bonus Law becomes all the more inequitable and unrealistic in the case of a public utility company, such as the Bombay Gas Co, because the price of its product or service is so rigidly controlled by the Government that it is allowed to earn only a minimum rate of return on its employed capital and that, for over a number of consecutive years, it may actually sustain heavy losses. It is obvious that the effect of the provision for minimum bonus payment by a loss-sustaining company would be that it would be made to suffer a heavier loss on account of the bonus payment. In other words, the erosion of its capital through ordinary business losses would be aggravated by the imposition of this further loss through the operation of the Bonus Law. In this view of the matter, for the loss-sustaining companies, this particular provision of the Bonus Law becomes confiscatory or expropriatory in character, in as much as it has the effect of taking away a part of the capital of the Company to make extraordinary payment, by way of bonus, to the employees. This provision for the payment of minimum bonus, even by loss-sustaining companies, runs counter to all prevalent ideas and conventions relating to bonus payment, which had been evolved through many pioneering experiments by progressive industrialists and through the learned judgments of the highest Law Courts and the Industrial Tribunals. I am certain that this provision of the Act is wholly irrational and arbitrary and is entirely unworkable. And I suggest that this provision of the Act be suitably amended at an early date.

Serious Deterioration of Discipline Among the Employees

We regret to report that there is a serious deterioration in the state of discipline among the workers and the staff over the past one year. There have been many and frequent cases of breach of discipline, some of them

being of a grave nature involving show of defiance and even threat of violence. This unfortunate trend had originated with the presentation of demands by the Workers' Union and the Staff Association, respectively, in 1963 and 1964, claiming revision of pay-scales, gratuity, dearness and other allowances, leave and certain other fringe benefits. On the Company's expressing its inability to meet the demands, the Government referred the dispute to the Industrial Tribunal constituted by Shri M R Meher. The Tribunal, after duly considering the evidence tendered by the Company and the employees, respectively, gave its decision in April, 1965, rejecting practically all the demands of the employees with some minor exceptions, e.g, those relating to gratuity, retirement age and sick leave. During the pendency of the Tribunal's proceedings, however, and even after the announcement of the Tribunal's Award, the employees indulged in frequent acts of gross breach of discipline, which interfered seriously with the working of the Company smoothly and efficiently. From June last, again, the employees started indulging afresh in gross breaches of discipline over the issue of payment of bonus for 1962, 1963 and 1964, when they attempted to force the management to pay the bonus. The claim for bonus payment for 1962 and 1963 was outside the purview of the Payment of Bonus Ordinance, because there was no pending dispute regarding bonus payment for those years. Hence, that claim had no basis whatsoever. As regards the claim for payment of bonus for 1964, the Company, in view of its having sustained substantial losses for three consecutive years, including the year 1964, and the expected losses in the ensuing years, had applied to the Government under Section 36 of the Bonus Ordinance for exemption from the payment of bonus and submitted a petition to the High Court for the issue of a Writ. At the same time, however, the Company agreed to pay the amount of the minimum bonus of 4 per cent as an advance, in two equal instalments, namely, in the first week of September and on the eve of the ensuing Diwali, respectively, subject to the condition that, in case the High Court decided in favour of the Company's contention, the amount would be refunded. Incidentally, the Hon'ble High Court, in considering the issue of an interim injunction, was pleased to observe that the Company's offer was very fair. The employees, how-

ever, in spite of the Government's appeal to them, ignored the Company's offer, and, without giving any notice, went on an illegal strike from 1st September, leading to a complete shut-down of the plant for a week and consequent cessation of gas supplies for public-lighting and for several thousand domestic and industrial consumers. In view of the Emergency in the country, the Government appealed to the management to restore industrial peace by paying the entire amount of minimum bonus at an early date, strictly as an advance. The Company accepted the Government's suggestion and the strike was called off. The normal supply of gas was fully restored from the morning of 7th September. We regret that, due to the above circumstances over which we had no control, complete cessation of gas supplies caused hardship to our consumers and the general public. In this connection, however, we would

like to observe that, unless the growing trend towards indiscipline is curbed, it would be impossible to conduct the Company's operations with normal efficiency. The Company would, therefore, invite the Government's kind attention to the need of discouraging indiscipline and illegal actions on the part of the workers.

Expansion Programme

As mentioned in the Directors' Report, the Company has already completed a programme of giving 1000 new gas connections. The Company is now actively exploring the ways and means of implementing a further substantial programme of giving 4000 new gas connections which is estimated to entail a capital expenditure of Rs 30 lakhs. The Company proposes to raise the amount through a medium-term Bank loan, for which negotiations are in progress. The servicing of the proposed loan would involve a recurring

expenditure of Rs 4 lakhs to Rs 5 lakhs per year. Consequently, in addition to the substantially increased costs of production and distribution of gas, referred to in earlier paragraphs, the Company would also have to meet this recurring expenditure on account of the service charges including repayment of the proposed loan and the Company's enormous current losses would increase further to that extent. In this situation, for the Company to be able to carry on its operations efficiently and implement its expansion programme, it will be unavoidable to ask for an upward revision of gas price at a very early date.

Plant and Machinery

During the year, the Company added plant, machinery and equipment, worth Rs 1,57,889, including Rs 28,304 for plant and machinery under construction and not completed at the close of the year.

The Fertiliser and Chemicals Travancore Ltd

Shri K Sreenivasa Karayalar, reviews activities

ADDRESSING the Twentyfirst Annual General Meeting held at the Registered Office, Udyogamandal, on 30th September 1965, Shri K Sreenivasa Karayalar said:

Gentlemen,

I am glad to welcome you to this, the 21st Annual General Meeting of the Company and to present to you the accounts of the Company and the Report of the Directors for the year ended 31st March, 1965.

As in the past few years, the company had to face a severe power cut ranging from 32% to 70% in the first three months of the year under review. This cost the Company a loss of production of the order of Rs. 10 million. In November last year an unfortunate explosion occurred in the Ammonia Synthesis Plant due to the failure of a high pressure pipeline. In addition to causing the death of three of the company's loyal workers, the accident also resulted in one of the ammonia stream going out of production for the rest of the year. The high pressure pipe that failed was a special chrome molybdenum alloy. New pipelines were ordered immediately from abroad. They arrived a few weeks ago and the ammonia

stream would be back in production in a few days. The families of the workers who lost their lives were granted liberal assistance. On account of this explosion the company lost Rs. 7.5 million worth of production during the year. In addition to these setbacks, there was also a shortage of imported raw materials in the last quarter of the year on account of the critical foreign exchange situation. Depreciation also went up on account of the need for making an extra allowance for the third shift working. The total depreciation charged for the year amounted to Rs. 6.74 million as against Rs. 5.63 million in the previous year.

Another difficulty arose on account of the arbitrary fixation by the Government of India of the retention price for ammonium sulphate, the major product of your Company. The price fixed for both 1963-64 and the year under review were well below the fair price the Company was entitled to. The matter was represented to the Government of India for reconsideration. Their decision is awaited.

As a result of all these adverse factors, the company incurred a net loss of Rs. 4.88 million. This loss can be

made up as the new plants installed during the third stage of expansion will be going into production shortly.

In these circumstances, it has not been possible to recommend any dividend for the year.

The current year also started badly as the ammonia stream referred to earlier continued to be out of commission awaiting the arrival of the special high pressure pipes. Power shortage also affected production adversely in June/July. Yet the company was hopeful of making up these losses in production as the new plants installed during the third stage of expansion were being got ready for commissioning. It was at this time that the Employees' Association decided to go on a strike.

For some months in the past, the Employees' Association had been taking a belligerent attitude. The Association started interfering with disciplinary proceedings initiated in the normal course. The Association leadership also carried on a systematic campaign advising the employees not to carry out the instructions issued by their superiors. Things came to a head when the new plants installed during the third stage of expansion

had to be commissioned. The necessary personnel for operating and maintaining the plants were posted and commissioning work was about to begin. The commissioning engineers had arrived from abroad. The Association leadership thereupon advised the workers to go on a tools down strike from the 2nd of August 1965. The Association also gave a notice of strike on the 4th of August. As a public utility undertaking, the company was entitled to a clear fourteen days' notice. Yet, the sectional strikes which started on the 2nd of August, even before the notice was served, continued to spread from one section to another during the currency of the notice period and at 1 a.m. on 24th August there was a complete stoppage of work. On the advice of the Association leadership the workers took possession of the plant and shut them down between 1 a.m. and 6.30 a.m. on the 24th. The Superintendents and other Managers could go inside the factory only at 6.30 a.m. under Police escort. The strike went on for thirteen days. A conciliation agreement was arrived on the 5th of September as a result of which the strike was withdrawn from the noon of 6th September. I am glad to say that the terms of the agreement are satisfactory from the company's point of view.

The strike staged by the workers on the advice of the Employees' Association was most untimely and ill-conceived. Whatever disputes were there between the Management and the Association were the subject matter of conciliation proceedings before the Labour Commissioner. For the past six years and more, all disputes that arose between the Management and the Employees' Association were arbitrated by the Labour Commissioner in accordance with the terms of the long term agreement and both parties accepted his decision. The Management was prepared to abide by the Labour Commissioner's decisions in respect of all pending items of dispute. Although the Labour Commissioner held several meetings with the Association leadership, no agreement could be arrived at as the Association started raising new issues every time. According to the settlement now arrived at, negotiations on the pending issues commenced on the 20th of September 1965, between the Management and the Association.

Commissioning work of the third stage plants has begun. It is expected

that all the plants will be commissioned by December this year. You will remember that the third stage expansion programme was taken up only in 1962. It is indeed gratifying to state here that the work has been completed with speed, enabling the commissioning of the plants well within the target dates. Once these plants go into full production your company will be producing 200,000 tonnes of ammonium sulphate, 135,000 tonnes of ammonium phosphate (16:20) grade, 25,000 tonnes of ammonium chloride and 44,000 tonnes of superphosphate in addition to being able to make and supply 350,000 tonnes of NPK Mixtures.

Full production however is dependant on two factors — availability of power and raw materials. The additional power required for operating the new plants is of the order of 20,000 KW. The Kerala State Electricity Board has advised us that they would be able to supply that power only in July 1966. Consequently we are forced to make some adjustments until such time full power is available.

The emergency arising out of the armed conflict imposed on us by Pakistan has had its effect on the availability of imported raw materials and spares. A ship carrying large quantities of material for us has been confiscated at Karachi. Every effort is being made to secure raw materials and to keep the plants in operation. It should be remembered that we are almost entirely dependant on imported raw materials like sulphur, and rock phosphate. Naphtha is also produced at present out of imported crude oil. Continued operation of plants to capacity will be therefore dependant on the conditions arising out of the emergency so far as imports are concerned.

Although the immediate future is beset with difficulties on account of the shortage of power and a possible lack of raw materials, the future promises an era of prosperity for your company. Modern technology demands a minimum economic capacity of 600 tonnes a day for single stream ammonia plants. All the new ammonia plants proposed to be set up in the country during the Fourth Plan period are of a daily capacity of 600 tonnes or more. When such plants come into being, units like the 260 tonne one belonging to your company at Udyogamandal will become uneconomic by comparison unless they can

be supported by larger plants of 600 tonnes capacity. Your company therefore has taken the initiative to investigate the possibility of setting up such a large unit at a site adjacent to the Cochin Refinery at Tripunithura in Ernakulam District and has submitted a Project Report to the Government of India. I am glad to say that the Government of India have approved of the project and authorised your company to proceed with its construction. The new unit which will be called the Cochin Fertiliser factory will have an annual capacity of 200,000 tonnes of ammonia as against 87,000 tonnes at Udyogamandal. The products proposed for the Cochin Fertiliser factory are urea, ammonium phosphate 20:20 and NPK complex fertilisers. The plant will also be capable of producing higher analysis compound fertilisers. It is estimated that the capital outlay on the Cochin Fertiliser factory would be of the order of Rs. 400 million. According to present plans, the factory should go into production in 1968-69 if the necessary foreign exchange is made available by the Government of India by October/November this year. The Udyogamandal and the Cochin units will be under the common management of your company. In this connection, I may be permitted to refer to the dynamic initiative and enthusiasm of your Managing Director Shri M. K. K. Nayar, but for which, the above mentioned scheme could not and would not have been conceived. On behalf of the Board I wish to record our sense of appreciation of his tireless efforts in promoting the many sided developments of your Company. To enable the company to take up this challenging task, proposals have been placed before you for raising the authorised capital and borrowing limits of the company. The additional funds required for this purpose are expected to be obtained from the Government of India.

Your company has continued to develop the market in South India according to plan. In Madras State, work has been intensified and from 1964 your company has undertaken the distribution of nitrogen on behalf of the State Government in the three districts of Coimbatore, Tiruchi and Tanjavur. Marketing activity in Mysore State has also been stepped up. A mixing centre has started functioning in Mangalore with effect from 14th January this year. The

company's agronomists have continued to do excellent work in the field rendering useful service to the farmers.

Before I conclude I should make special mention of the distinction conferred on your Company by the Indian Chemical Manufacturers' Association. In the citation made at the time of presentation of the first award of the ICMA by Professor Humayun Kabir, Minister for Petroleum & Chemicals of the Government

of India, the Association has commended the work of your company in maintaining its leadership in the fertiliser field, by being the first to introduce in the country the use of electrolytic hydrogen and naphtha for making synthesis gas and by the production of a compound fertiliser, ammonium phosphate. Another notable contribution made by the company which has come in for commendation is the development of process know-how for using byproduct gypsum from

the wet process phosphoric acid plant for the production of ammonium sulphate. Let me take this opportunity to congratulate the executives, scientists and workers of the company for their well-merited distinction.

I now move that the Directors' Report and the audited statement of accounts for the year 1964-65 be and are hereby adopted.

N.B. This does not purport to be a report of the proceedings of the General Meeting.

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AROUND BOMBAY MARKETS

Equities Drift Lower

Thursday, Morning

DALAL STREET continues to have a difficult time. All the ground gained after the cease-fire agreement has been lost and the market is back again around its year's lowest level. All this has come about despite massive purchases of the leading speculative counters by the Life Insurance Corporation a few weeks ago. Excepting National Rayon which suffered mainly on account of heavy bull unloading, the setback in equity prices last week was due more to lack of support than to any important selling. The turnover continued to be extremely restricted and good corporate news had virtually no effect on the market. Tata Chemicals were unable to forge ahead despite the company's impressive performance and a two per cent rise in the dividend.

The stock market's current mood of despondency cannot be explained merely in terms of the uneasy peace following frequent violation of cease-fire by Pakistani forces. The market is realising that intensified defence effort will call for additional taxation thereby causing further strains on the economy and that larger utilisation of scarce foreign exchange resources by defence-oriented industries will aggravate the shortages of imported raw materials for several industries which are of considerable importance from the stock market's angle. Continuing financial stringency and the prevailing structure of interest rates are the other important factors which will make it very difficult for the stock market to stage a big recovery in the foreseeable future. And even if equity prices did recover appreciably, there seems little hope of any significant improvement in turnover on which depends the prosperity of the stock exchange community.

COTTON

The Dry Spell Tells

EXTREMELY inadequate rains in September and the continuing dry spell in the first week of October in almost all the important cotton growing tracts have led to a drastic change in the outlook for the 1965-66 crop. Very few observers now expect the crop to exceed 60 lakh bales; the general view is that the crop will be around 57/58 lakh bales and even this estimate will need to be revised if the

current dry spell persists for another fortnight or so. Cotton production in the last year of the Third Plan therefore will be far too short of the target of 70 lakh bales. How long the authorities will continue to blame the weather for the shortfall in production is anybody's guess. It might be mentioned here that the production target for cotton for the Second Plan had been originally fixed at 65 lakh bales.

Cotton production has miserably failed to keep pace with increase in spindleage which itself has been running behind the Plan target, thereby perpetuating the imbalance between supply and demand and pushing cotton prices to new high levels year after year. In view of the smaller carryover, poor crop and uncertain prospects about importing sufficient cotton to make good the shortfall in indigenous supply, it is scarcely surprising that cotton futures continue to seek new high levels week after week; on October 5 the hedge contract was bid up to Rs 909.75. The cotton bull is not the least perturbed by the accumulation of huge stocks of cloth and yarn with mills and the continuing slack conditions in the cotton piecegoods market despite the festival season. His argument is simple; mills will have to compete for the limited supplies of cotton. The industry's profit margin might be affected but cotton prices will keep high. Thanks to the upward revision of ceiling prices by Rs 75 to Rs 100 a candy for the new season, the cotton trade might be able to pull on for some time without any serious encroachment on its freedom. But if the weather does not oblige during the next fortnight or so and crop estimates have to be revised down further, the authorities might be compelled to announce various measures with a view to holding prices within the revised ceilings. Of course, nobody takes the control measures very seriously, not even the authorities themselves. It is common knowledge that the cotton control order has always been honoured more in breach than in observance.

Only the futures market presented a somewhat lively appearance. The turnover in the spot section continued to be extremely restricted. Mills are having a rather difficult time because

of the acute financial stringency aggravated by the accumulation of large stocks. The special credit facility provided by the Reserve Bank to relieve the textile mills in distress is too meagre to make much difference to the industry. The current indications about off-take of cloth and yarn do not hold out the hope of any material reduction in stocks, unless, of course, production is curtailed. Consumer off-take seems to have been affected considerably by the continuing political uncertainty. Needless to add that any improvement in the textile news is bound to boost cotton prices still higher.

OILSEEDS

Stiffer Margins

EMBOLDENED by the downward revision of groundnut crop estimates because of the continuing dry spell in all the major producing areas, bulls had little difficulty in pushing up linseed and castor futures to new high levels last week. On October 5, linseed April contract was bid up to Rs 123 (per quintal) and castor April was marked up to Rs 104.75. Cottonseed January contract was quoted around Rs 63. Anticipating that it might be accused of being a silent spectator to the runaway rise in futures, the Forward Markets Commission decided on October 6 to tighten the margin rules by enhancing the rates of margin and reduction in the free limits. The linseed April contract will attract margin at the rate of Rs 60 per quintal when its price exceeds Rs 121.50 per quintal and the free limit allowed to members will stand reduced from 50 tonnes to 20 tonnes. Margin at the rate of Rs 20 per quintal will become payable in respect of castorseed April contract whenever its price exceeds Rs 101.25 per quintal, subject to a free limit of 50 tonnes.

Nobody need have any strong objection to the imposition of rigorous margins which tend to restrain speculative activity. Though rarely effective in deflecting the course of prices, margins, if effectively enforced by the market authorities, do help in safeguarding the solvency of the market. Of course, one can question the very utility of forward trading if the rate

of margin is made equivalent to the rate at which bank credit is available against spot goods.

Corrective profit-taking and the announcement of stiffer margins produced a moderate setback in prices at the week-end, with linseed April receding to Rs 120.50 and castor April to Rs 101.75. In spite of the fact that the steep rise in linseed and castor has been due to a considerable extent to strong bull manipulation, few observers seem inclined to expect any important setback in oilseeds prices because of unsatisfactory reports about the new groundnut crop. The crop is said to have been seriously affected by the prolonged dry spell. September rains have an important bearing on groundnut production and there has been a virtual failure of these rains this year. If groundnut and groundnut oil have been relatively subdued recently it is because of the satisfactory flow of the early maturing crop in Khandesh and Karnatak areas. Apart from the fact that the prevailing prices of groundnut oil are very high—spot oil is quoted around Rs 30 and December delivery is mentioned around Rs 28.80 per 10 kgs—financial stringency and political uncertainty seem to have induced farmers to rush with the marketing of their produce. All estimates point to a smaller groundnut crop than in the previous season. Some of the informed market men place the new crop to be 10 per cent down compared to the 1964-65 crop. If the crop turns out to be really that bad, edible oil prices can be expected to touch much higher levels than in the current year so far. There is no hope of making good the shortfall in domestic production through imports of edible oils from abroad.

Export business in groundnut extractions has been seriously affected by the enforcement of the new policy with effect from October 1. Only manufacturers will henceforth be allowed to export groundnut extractions. But not all the manufacturers are fully conversant with the intricacies of export business; nor do they command the big resources at the disposal of many of the established shippers. Experienced observers are of the view that manufacturer-exporters will not be able to strike good bargains with the overseas buyers and unlike in the past, domestic prices will tend to rule below the world parity. Exports of groundnut extractions which have been establishing new records year after year are likely to show a substantial decline during the current fiscal year.

MONEY AND BANKING

Call Rate Steady

CONDITIONS were more or less unchanged in the Bombay short term money market during the week to October 6. Demand slackened slightly, but supply was also lower than in the previous week due to some withdrawals to meet upcountry demand. Interest rates hovered around 7 per cent with little or no change.

Aggregate deposits of scheduled banks during the week to September

24 increased from Rs 2787.17 crores to Rs 2787.60. A year ago deposits stood at Rs 2521.39 crores. Bank credit rose by Rs 16.17 crores to Rs 2014.81 crores against Rs 1703.03 crores a year ago. Cash in hand with the scheduled banks was slightly lower by Rs 2 lakhs at Rs 64.93 crores. Balances held with the Reserve Bank, however, improved by Rs 5.90 crores to Rs 107.62 crores. Borrowings from the Reserve Bank fell from Rs 16.53 crores to Rs 8.68 crores. Money at call and short notice was better by Rs 3.53 crores at Rs 64.64 crores. Investment in government secu-

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rities at Rs 842.07 crores showed a rise of Rs 12.24 crores.

Notes in circulation during the week to October 1 advanced sharply from Rs 2562.71 crores to Rs 2616.24 crores according to the Statement of Affairs of the Reserve Bank. Rupee coins were slightly lower by Rs 69 lakhs at Rs 104.40 crores. Rupee securities improved by Rs 20 crores to Rs 2307.44 crores. Deposits of the Central Government were better by Rs 30.81 crores at Rs 124.24 crores while State Gov-

ernments' deposits declined from Rs 11.06 crores to Rs 6.30 crores. Scheduled banks' deposits improved by Rs 6 crores to Rs 110.24 crores. Foreign securities were unchanged at Rs 70.63 crores but balances held abroad declined by Rs 4.20 crores* to Rs 8.58 crores. Advances to governments were slightly lower by Rs 30 lakhs at Rs 82.21 crores. Advances to scheduled banks increased by Rs 7.10 crores to Rs 16.04 crores. Investments declined substantially from Rs 174.27 crores to Rs 147.74 crores.

BUSINESS NOTES

Tata Hydel Group

THE existing licences of the three companies belonging to the Tata hydro-electric Group, namely, Tata Power, Andhra Valley and Tata Hydro, are due to expire in 1980. Taking a long-term view, the management has thought it prudent to plan well in advance diversification of activities so that shareholders' interests are safeguarded in the event of premature nationalisation or non-renewal of licences. As a first step in this direction, it has been decided to make an investment of Rs 15 lakhs by all three companies in the share capital of Tata-Merlin and Gerin, a company being formed by the Tata Group of companies in collaboration with Merlin and Gerin of France for the manufacture of high-tension switchgear in India. This company will be in the market shortly with an equity capital of Rs 80 lakhs. Besides, possibilities are being investigated for future diversification in other ventures allied to the electric companies' work, such as manufacture and sale of electrical and electronic equipment. Meanwhile, the Tata-Ebasco, consulting engineering enterprise, undertaken by the Tata electric companies in partnership with Ebasco Services of the US, has continued to prosper. There is good scope for securing business in the engineering consultations field both from the public and private sectors.

N H Tata, Chairman of the Group says in his annual statement, circulated to shareholders, that, in spite of the rise in prices, additional cost of spares, increased import duties and larger contributions towards dearness allowance, the companies expect to obviate the need for an increase in rates in the Tata-Koyna area by effecting improvements in their operations. Tata looks to the future with sober optimism for better returns to share-

holders. He adds that the Group has undertaken a detailed study regarding development of load and availability of power, and preliminary investigations have indicated that there is likelihood of considerable shortage during 1967-68 and 1968-69. It is proposed to approach the Maharashtra Government for approval for increasing the Group's generating capacity.

Each of the three companies are paying total dividends of 12 per cent for the year to March 1965, against 10 per cent paid in the preceding year. Among these, both Tata Power and Andhra Valley have recorded further fair rises in revenue earnings from power supply from Rs 7.93 crores to Rs 8.66 crores in the case of former and from Rs 4.53 crores to over Rs five crores in the case of the latter. While Tata Power's equity earnings have looked up slightly from Rs 1.19 crores to Rs 1.21 crores, those of Andhra Valley have slipped from Rs 60.96 lakhs to Rs 58.82 lakhs. Tata Hydro's income from power supply is only a shade better at Rs 3.44 crores (Rs 3.43 crores) and equity earnings slightly lower at Rs 45.86 lakhs (Rs 45.99 lakhs).

The enhanced dividend distribution has lowered the cover in each case but it is still adequately protected by earnings. For the year 1965-66 the permissible reasonable return will be eight per cent of the capital base, against 6.5 per cent for 1964-65, since the Bank Rate at the beginning of this year was six per cent. The increase in the reasonable return provides a measure of stability to the companies' operations. It is expected that by installation of more modern equipment and improvement in the working efficiency, the companies can earn the full reasonable return this year also.

Shipping Corporation

SHIPPING Corporation of India, a Government of India undertaking, has achieved a fast rate of expansion of its fleet during the last few years. As against 20 ships owned some 3½ years ago, it now has 32 ships. In this period, the increase in fleet in terms of gross registered tons has been from 1,45,224 to 2,82,491 and investment from Rs 24.24 crores to Rs 40.29 crores. The expansion of the fleet would be even faster in the next few years, S C I having already placed firm orders for 21 vessels, totalling about 2,26,500 gross registered tons. The Corporation has fully booked the building capacity of Hindustan Shipyard till 1969, and the placing of more shipbuilding orders is under active consideration. Negotiations are now in progress to build two modern air-conditioned passenger-cum-cargo liners either in Japan or the UK to replace the two old vessels. It has also been decided to acquire at least 16 more dry cargo vessels, and the acquisition of more tanker tonnage and trampers is being considered. By the end of 1966, the fleet would be no less than 45 vessels of a GRT of half a million tons, and it is estimated that it would increase in 1969 to as many as 70 vessels of a GRT of over 7,50,000 tons.

The Corporation's Chairman R L Gupta, has pleaded for a fast and balanced development of the Indian merchant fleet which is important not only from the economic point of view but also from the point of view of the country's defence. In his speech at the Corporation's annual meeting, Gupta said that on present indications the foreign trade of India during the Fourth Plan period would be of the order of Rs 13,000 crores, and that Indian shipping has to gear itself up to undertake to carry its rightful share of upto 50 per cent of the total shipments of exports and imports. The country must find the necessary foreign exchange for acquiring suitable mercantile tonnage from foreign countries, because he says, all types of vessels acquired would be able to earn or save foreign exchange sufficient to pay back their purchase price within a period of eight years or less. Gupta has also called for a speedy development of ports and their mechanisation, expansion of shipbuilding and ship-repairing facilities within the country and increasing the training facilities for navigational officers and marine engineers.

During the year to March 1965, SCI carried 15,22,285 tons of cargo, against 13,27,076 tons carried in the preceding year. Its gross earnings were up from Rs 13.34 crores to Rs 17.04 crores, and net profit from Rs 1.40 crores to Rs 1.64 crores. Nearly one-half of the earnings were net foreign exchange earnings for the country. This result looks more satisfactory when viewed against the background of the rise in operating costs of the vessels and enhancement in salaries of and benefits for the employees during the year.

Mysore Paper

HAVING successfully completed the scheme of expansion to step up production to 18,000 tonnes of paper, the management of Mysore Paper is examining the question of expanding the capacity to 30,000 tonnes with a view to making the Mills more economic and diversifying the products to meet the market requirements. In his speech at the company's 30th annual meeting held at Bangalore some time ago, M D Shivananjappa, I A S, Chairman and Managing Director, stated that as a preliminary step in this direction, the management was examining the availability of bamboos and that the Mysore Government had been approached in that behalf.

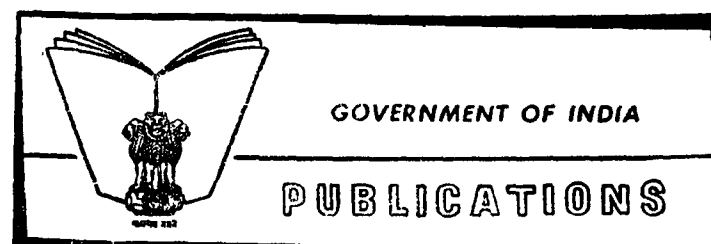
Referring to the uneconomic price structure for the paper industry Shivananjappa has stated that every since the Tariff Commission fixed prices in 1960, the industry has been pleading for a suitable revision as the slight increase given in 1962 was absolutely inadequate and costs have been mounting. Another matter to which he has drawn the attention of the Government of India is the necessity of providing adequately all materials necessary for the paper mills to enable full utilisation of the installed capacity. He has rightly pointed out that without such provision no useful purpose would be served by liberally issuing licences, as in many cases licences would have to be cancelled as they could not be made use of for want of necessary facilities.

Hind Brown Boveri

FAIR improvement has been recorded by Hindustan Brown Boveri, formerly known as Hindustan Electric, during the year to April last, with turnover up from Rs 4.74 crores to Rs 7.56 crores and pre-tax profit from Rs 21.04 lakhs to Rs 34.55 lakhs, after charging depreciation of Rs 10.04 lakhs (Rs 6.33 lakhs). Even

after providing considerably higher amounts for development rebate reserve and the tax liability, disposable profit is about a half better at Rs 15.11 lakhs (Rs 10.39 lakhs). The equity dividend is raised by a point to five per cent, and is also payable proportionately on the capital enlarged by a

one-for-one rights issue. The proposed dividend on equity and preferred capital demands Rs 9.9 lakhs against Rs 6.51 lakhs previously, according to a preliminary statement released by the company. The working of the company in the current year so far said to be satisfactory.



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CURRENT STATISTICS

The World Bank and the IDA

WORLD BANK AND IDA LOANS

Classified by Purpose and Area, Total up to June 1965

(Millions of US Dollars)

Purpose	Total Bank and IDA	Bank Loans by Area						IDA Credits by Area				
		Total	Africa	Asia and Middle East	Australia	Europe	Western Hemisphere	Total	Africa	Asia and Middle East	Europe	Western Hemisphere
Grand Total	9,857.3	8,771.8	1,103.6	3,011.5	457.3	1,991.4	2,207.9	1,085.5	116.7	802.6	65.7	100.5
ELECTRIC POWER	3,127.4	3,030.7	405.6	682.3	161.8	546.6	1,234.4	96.7	...	56.0	25.7	15.0
TRANSPORTATION	3,414.9	2,950.8	443.2	1,345.4	139.4	334.9	687.9	464.1	71.3	313.9	...	78.9
Railroads	1,458.1	1,279.6	274.0	620.4	37.3	172.4	175.5	178.5	...	178.5	...	...
Roads	1,458.8	1,200.6	86.6	483.0	50.9	96.5	483.6	258.2	71.3	108.0	...	78.9
Shipping	12.0	12.0	...	...	...	12.0	...	...	...	...	...	...
Ports and Waterways	350.1	322.7	32.6	207.4	7.1	46.9	28.7	27.4	...	27.4	...	...
Airlines and Airports	56.9	56.9	...	5.6	44.1	7.2	...	...	...	...	...	...
Pipelines	79.0	79.0	50.0	29.0	...	...	...	...	...	...	...	...
TELECOMMUNICATIONS	121.2	46.2	4.4	...	...	0.2	41.6	75.0	...	75.0	...	...
AGRICULTURE, FORESTRY AND FISHING	844.3	624.7	69.9	208.3	103.4	87.8	155.3	219.6	15.8	180.2	20.0	3.6
Farm Mechanisation	150.2	123.2	...	...	89.4	2.0	31.8	27.0	...	27.0	...	...
Irrigation and Flood Control	558.8	374.1	45.5	185.9	6.0	73.3	63.4	184.7	13.0	151.7	20.0	...
Land Clearance, Farm Improvement, etc	55.3	51.0	23.2	13.6	6.0	2.2	6.1	4.3	2.8	1.5	...	...
Crop Processing and Storage	7.4	7.4	0.3	...	...	4.2	2.8	...	...	...	...	...
Livestock Improvement	53.5	49.9	0.9	1.0	...	...	48.0	3.6	...	...	...	3.6
Forestry and Fishing	19.1	19.1	...	7.8	2.0	6.2	3.1	...	...	...	...	...
INDUSTRY	1,500.1	1,378.6	140.5	667.6	52.7	431.2	86.6	121.5	...	101.5	20.0	...
Iron and Steel	380.1	380.1	...	314.0	13.4	22.7	30.0	...	...	...	...	...
Paper and Pulp	132.2	132.2	...	4.2	1.1	106.9	20.0	...	...	...	...	...
Fertiliser and Other Chemicals	82.0	82.0	...	25.0	0.3	56.8	...	...	...	...	...	...
General Industries	331.7	235.2	20.5	5.2	23.8	170.9	14.8	96.5	...	96.5	...	...
Mining	203.5	203.5	101.0	54.5	14.2	11.9	21.8	...	...	...	...	...
Development Finance Companies	370.6	345.6	19.0	264.7	...	61.9	...	25.0	...	5.0	20.0	...
WATER SUPPLY	95.5	33.0	...	27.0	...	3.9	2.1	62.5	...	59.5	...	3.0
EDUCATION PROJECTS	52.1	6.0	...	6.0	...	...	...	46.1	29.6	16.5	...	...
GENERAL DEVELOPMENT	205.0	205.0	40.0	75.0	...	90.0	...	...	...	...	...	...
POST-WAR RECONSTRUCTION	496.8	496.8	...	...	...	496.8	...	...	...	...	...	...

Source: World Bank and IDA Annual Reports, 1964-65.

LOANS BY WORLD BANK

Total up to June 1965

('000 U S Dollars)

	Disbursed	Undisbursed	Total
Algeria	19,950	...	19,950
Argentina	104,391	37,084	141,475
Australia	176,677	17,612	194,289
Austria	58,664	...	58,664
Belgium	39,640	...	39,640
Brazil	177,890	764	178,654
Burma	23,552	1,673	25,225
Ceylon	27,631	4,527	32,158
Chile	62,313	46,550	108,863
China	3,881	36,019	39,900
Colombia	207,249	108,569	315,818
Costa Rica	21,541	18,428	39,969
Cyprus	5,391	13,875	19,266
Denmark	37,805	6,700	44,506
Ecuador	33,874	6,894	40,768
El Salvador	23,650	10,455	34,105
Ethiopia	22,808	20,155	42,963
Finland	87,136	30,745	117,881
France	45,335	...	45,335
Gabon	2,079	9,806	11,885
Ghana	33,640	13,260	46,900
Guatemala	8,027	...	8,027
Haiti	1,374	...	1,374
Honduras	13,905	53	13,958
Iceland	4,522	241	4,763
India	525,566	82,474	608,040
Iran	97,327	16,144	116,471
Israel	47,375	22,752	70,127
Italy	131,481	...	131,481
Jamaica	...	5,218	5,218
Japan	414,385	151,769	566,153
Lebanon	21,281	1,726	23,007
Liberia	183	3,066	3,250
Malaysia	35,332	53,716	89,048
Mexico	295,678	89,328	385,006
Morocco	7,131	24,934	32,065
New Zealand	18,816	14,763	33,579
Nicaragua	19,610	3,413	23,023
Nigeria	17,474	103,786	121,260
Norway	75,017	21,590	96,607
Pakistan	140,409	152,531	292,940
Panama	7,132	3,276	10,408
Paraguay	...	...	...
Peru	73,478	17,811	91,289
Philippines	48,616	49,458	98,074
Portugal	8,367	17,658	26,025
Sierra Leone	2,253	1,307	3,560
South Africa	43,588	...	43,588
Spain	...	95,166	95,166
Sudan	56,104	9,462	65,566
Thailand	91,784	65,512	157,295
Tunisia	...	6,580	6,580
Turkey	32,937	...	32,937
United Arab Republic	45,220	...	45,220
United Kingdom	99,269	25,226	124,494
Uruguay	48,385	17,522	65,907
Venezuela	48,280	116,697	164,977
Yugoslavia	133,707	103,277	236,984
Total	3,829,108	1,662,574	5,492,682

Source: World Bank and I D A Annual Reports, 1964-65.

LOANS BY I D A

Total up to June 1965

('000 U S Dollars)

	Disbursed	Undisbursed	Total
Bolivia	2,149	12,850	15,000
Chile	5,360	13,640	19,000
China	12,413	919	13,333
Colombia	9,282	10,218	19,500
Costa Rica	2,139	3,361	5,500
Ecuador	...	8,000	8,000
El Salvador	2,375	5,625	8,000
Ethiopia	3,839	9,661	13,500
Haiti	350	...	350
Honduras	5,405	3,596	9,000
India	287,924	197,076	485,000
Jordan	2,954	5,546	8,500
Kenya	82	7,218	7,300
Korea	13,940	60	14,000
Mauritania	...	6,700	6,700
Nicaragua	2,365	636	3,000
Pakistan	35,122	207,668	242,790
Paraguay	1,425	8,175	9,600
Sudan	7,681	5,319	13,000
Syrian Arab Republic	...	8,500	8,500
Tanzania	2,275	16,325	18,600
Tunisia	11,699	44,001	55,700
Turkey	2,941	2,059	5,000
Total	414,689	580,584	995,273

Source: World Bank and I D A Annual Reports, 1964-65.

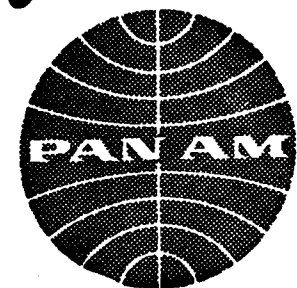
BANKING RETURNS

(Rs crores)

	Oct 1	Sept 24	Sept 3	Oct 2, '64
Reserve Bank				
1 Note Circulation	2616.24	2562.71	2554.12	2370.28
2 Rupee Coins	104.41	105.10	102.42	109.52
3 Deposits				
(a) Central Govt	124.24	93.43	158.25	75.92
(b) Other Govts	6.30	11.06	13.31	14.78
(c) Banks	113.21	107.07	99.86	105.87
(d) Others	192.32	191.18	190.21	136.42
4 Foreign securities	70.63	70.63	68.35	85.46
5 Balance abroad	8.58	12.78	12.86	10.35
6 Rupee securities	2307.44	2287.44	2279.72	2086.33
7 Investments	147.64	174.27	228.78	77.69
8 Loans and advances to Govts	82.21	82.51	51.65	35.22
9 Other Loans and advances	178.54	180.40	185.15	155.00
Scheduled Banks				
1 Aggregate Deposits (net)	2787.60	2787.17	2833.54	2521.39
Demand (net)	1366.64	1363.74	1403.36	1198.59
Time (net)	1549.23	1566.12	1567.41	1420.61
2 Cash in hand	64.91	64.93	66.38	60.90
3 Balances with the Reserve Bank	107.62	101.72	101.01	100.02
4 (2) + (5) as % of (1)	6.19	5.98	5.91	6.38
5 Borrowing from Reserve Bank	8.68	16.53	9.33	0.83
(a) Against usance bills and/or promissory notes	...	...	...	0.20
(b) Others	8.68	16.53	9.33	0.63
6 Advances	1788.03	1798.74	1780.03	1461.19
(a) State Bank	426.82	431.00	428.87	311.69
(b) Others	1361.21	1367.74	1351.16	1149.50
7 Bills discounted				
(a) Inland	138.65	143.11	149.83	173.27
(b) Foreign	71.97	72.96	81.11	68.57
(c) Total	210.62	216.07	230.94	241.84
(i) State Bank	21.14	21.92	22.24	19.47
(ii) Others	189.48	194.15	208.70	222.37
8 (6) + (7) as % of (1)	71.70	72.29	70.97	67.54
9 Investment in Govt Securities	842.07	829.83	859.24	818.93
10 (9) as % of (1)	30.71	29.77	30.32	32.48

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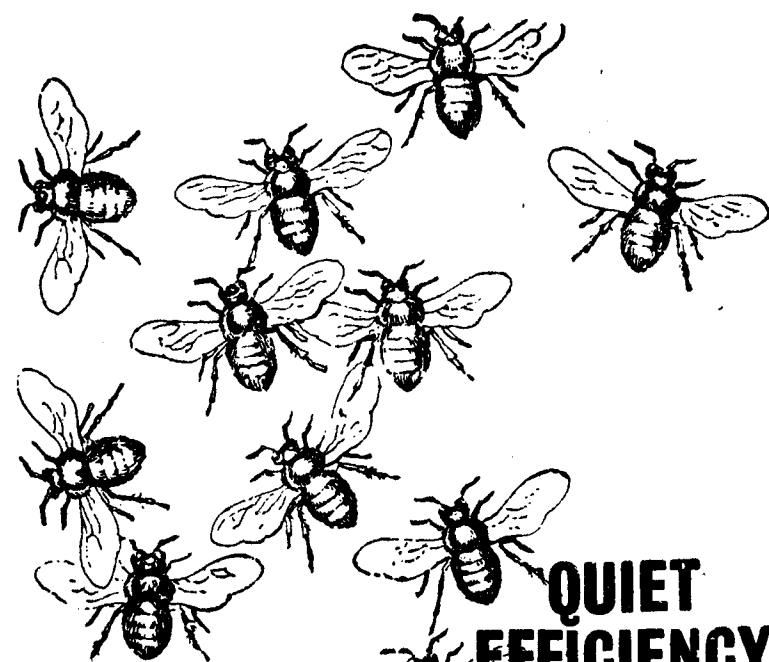
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- 11 We can help you bank your profit sooner.** The sooner your goods are delivered, the sooner you get paid. Our rapid delivery often means you get paid several weeks sooner.
- 12 We can reduce obsolescence losses.** Could a newly introduced model or a change in public taste cut into your sales? Or even destroy your market? Minimize this risk... with our overnight delivery.
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- 14 We can reduce clerical expenses.** For example, one Pan Am airway bill will take your shipment anywhere in the world. Let us rid you of use-

- 15 We can greatly reduce insurance costs.** Did you realize that shipping with us can save you in insurance as much as 90% of your surface shipping insurance costs? We'll be glad to show you the proof.
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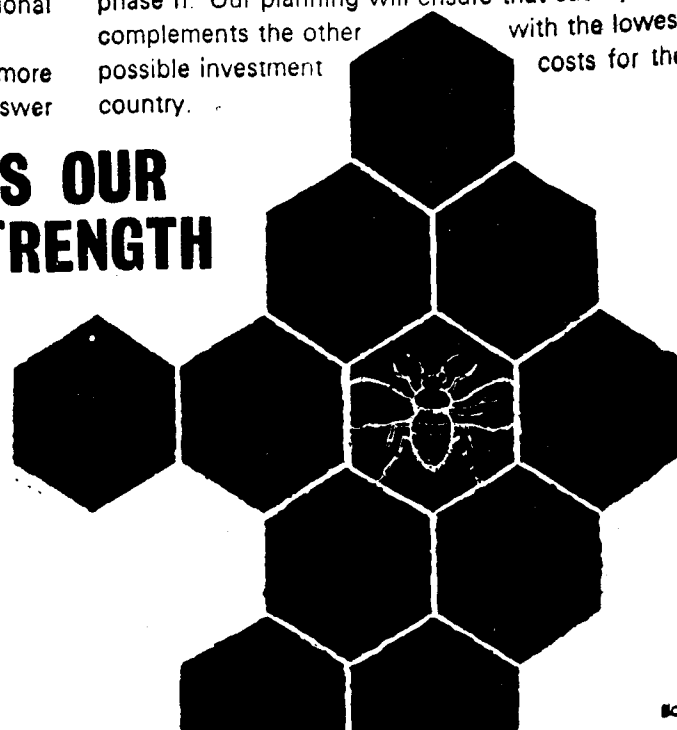
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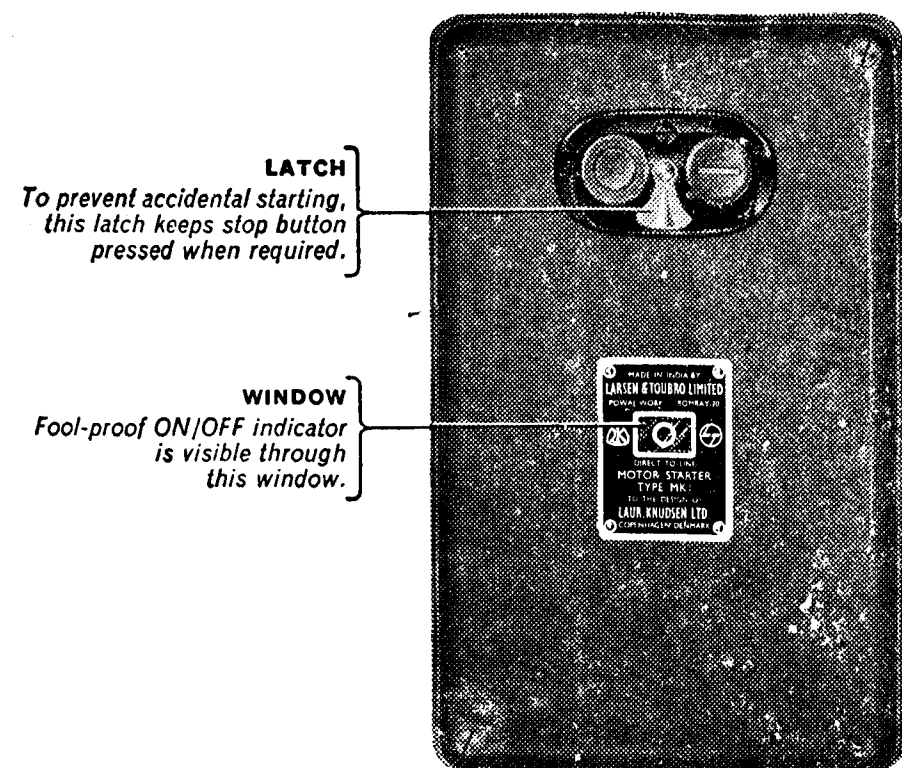
THE INDIAN IRON & STEEL COMPANY LIMITED
ONE OF THE MARTIN BURN GROUP

THE ECONOMIC WEEKLY

A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

A.S.P. Scan

OUR DIPLOMATIC OFFENSIVE
CHEMICAL INDUSTRY AND DEFENCE
ECONOMICS OF STOP-GO WAR
BRITAIN AND THE INDO-PAK CONFLICT



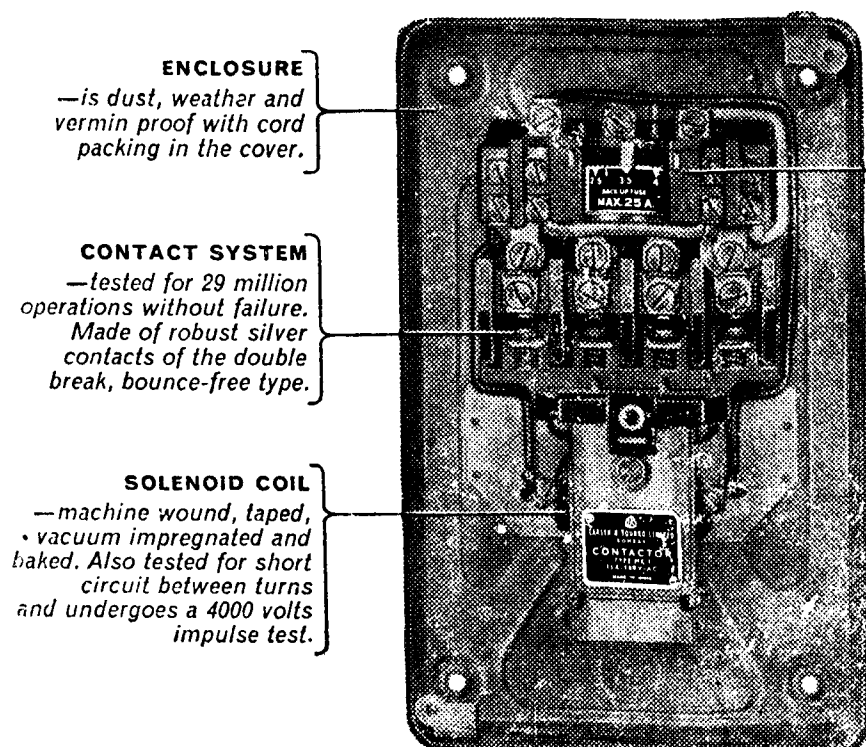
LATCH
To prevent accidental starting,
this latch keeps stop button
pressed when required.

WINDOW
Fool-proof ON/OFF indicator
is visible through
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EDITORIALS

Uneasy Peace 1575
Alternative Plan Drafts 1576

WEEKLY NOTES

Weights: Old and New — De-
Khrushchevisation — UK
and S Rhodesia — Will
Economic Sanctions Do? —
Steel for Defence 1578

LETTERS TO EDITOR

CAPITAL VIEW
Our Diplomatic Offensive
— Romesh Thapar 1577

LETTER FROM AMERICA

The American "New Left"
— Philip G Altbach 1582

LETTER FROM SOUTH

Guarding against Relapse
BOOK REVIEW
Public Debt Management and
Monetary Policy 1583

SPECIAL ARTICLES

India and Pakistan: The Other
Half of Our Task
— Dilip Mukerjee 1587

British Attitude to the Indo-
Pak War
— Stephen Hugh-Jones 1589

Private Institutions of Educa-
tion
— A R Kamat 1591

Economics of Stop-Go War:
A Preliminary Outline
— R K Hazari 1597

Defence-Oriented of the
Chemical Industry: Its Im-
plications
— Ajoy Gupta 1599

AROUND BOMBAY MARKETS
Dull and Hesitant
BUSINESS NOTES
Industrial Finance Corpora-
tion — Alind — Imperial
Tobacco — Jay Engineering
— Mysore Lamp — Assam
Sillimanite — Jaipur Udyog
— M S Co-operative Bank
— Larsen and Toubro —
Hindustan Wire Products —
Jubilee Mills 1603

CURRENT STATISTICS
1605
1608

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Uneasy Peace

THREE weeks after the Indian and Pakistani armies were ordered by their commands to stop the war, the guns continue to boom and men continue to be killed, often in large numbers. Every day brings reports of fresh 'incidents'. The personnel of the UNMOGIP and the UNIPOM have arrived, but for all the difference their presence seems to have made so far they might as well be at their homes in the many countries from where they are drawn. Of course, they—a hundred unarmed, powerless individuals—are not to blame for this; the cease-fire will be effective when India and Pakistan will it and this happy consummation is not yet. In a neat, tabulated statement released last week the Press Information Bureau gave details of no less than 251 cease-fire violations by Pakistan till October 7. Since then there has occurred on Monday what has been described as the biggest breach of the cease-fire in the Tithwal area which allegedly involved an attacking force of 1,500 Pakistani troops.

Reports of this particular incident seem to suggest that the attack was launched with the objective of making some substantial military gain, but what is holding up an effective cease-fire is not the expectation, on either side, of any worthwhile military gains. The way the war was fought rules this out. There were no rapid advances into enemy territory which left a large number of positions weakly or imperfectly secured which the enemy can now hope to reclaim. What we had were relatively immobile actions proof of which is that in some three weeks of battle on a wide front involving very large parts of the armed forces of the two countries all the territory that changed hands was less than a 1,000 square miles.

The motives for keeping the cease-fire fluid are not military, but political. Whether Pakistan's object in first sending armed infiltrators into Kashmir and later attacking in strength with regular troops across the Jammu border was to annex Kashmir or merely to reactivate the Kashmir question, the fact today is that she achieved only the latter. After the hectic activity of the years between 1948 and 1954, the UN's interest in the Kashmir issue waned sharply and quickly with the recognition of its ineffectiveness in view of the ever-present prospect of Soviet veto of any resolution unacceptable to India. Automatically the Kashmir question lost its place in the forefront of international disputes demanding the world's urgent efforts for settlement. As the protagonist of a change in the *status quo*, this was a profound setback for Pakistan. The Security Council's resolution of September 20, calling for a cease-fire and withdrawal of troops and deciding to "consider... what steps can be taken to assist towards a settlement of the political problem underlying the present conflict" was, therefore, a definite, though limited, gain for Pakistan. Obviously, her objective now is to ensure that this advantage is not lost, which she fears it will be if militarily the situation in Kashmir returns to normal and the threat of a resumption of hostilities between the two countries recedes. The seeds of the failure of the cease-fire are thus contained in the Security Council resolution which formally achieved it. Pakistan will not consider an effective cease-fire and withdrawal of forces unless action is simultaneously taken on the part of the resolution referring to steps to settle the underlying political problem. India, on the other hand, rejects that there is any political problem to be settled and so sees the UN's task as limited to ensuring effective cease-fire and subsequent withdrawal of forces, including Pakistani infiltrators from Kashmir.

The unrealism of expecting effective cease-fire and withdrawal of forces by themselves is, therefore, clear as also the unrealism of the Soviet Union's suggestion for direct negotiations between the two countries. Of course, the Soviet Union knows this but she has her reasons. In any joint international move, whether in the UN or outside, she will have to take positions which will inevitably seem hostile to either Pakistan or India or both. Clearly, the hopes of a determined international initiative raised by the Security Council's unanimity of September 20 seem at the moment doomed to the disappointed and the the peace wrought by it to remain an uneasy, if not short-lived, one.

Alternative Plan Drafts

THE Planning Commission seems at last getting somewhere in taking the decision to prepare alternative drafts of the Fourth Plan. Curtailment of Western aid has at last been taken seriously: The Bhoothalingam mission has all but failed. The United States has not relented—did anybody seriously expect it to so early, and without a political price? The suspension of the current year's aid programme is still on, the Indian request for a long-term agreement on PL 480 is being avoided and there is still no question of reopening discussions on the aid programme for the Fourth Plan. Patil's visit has also not yet resulted in anything better. Up till now there has been only brave talks of import substitution and of defence and development not being incompatible. At last, however, some decisions are emerging.

The most important of these is the one about alternative Fourth Plan drafts. Of course, one would wait to see the worked out alternatives. It is not at all important that they probably involve different outlay figures and also different physical targets in the non-crucial sectors. But if they have the same physical targets in most of the crucial sectors, the question could legitimately be asked why one should not prefer the variant involving the lower estimate of foreign aid even if more assistance is forthcoming later on?

News emerging from the Planning Commission is often contradictory—earlier we had been told that the Fourth Plan had been practically shelved and that the Commission was concentrating on specific emergency programmes to meet the requirements of the more vital sectors of the economy during the next one year to eighteen months. The emphasis now is on quick-yielding projects, particularly so in the agriculture sector. The war has thus unexpectedly won the case for those who have been for quite some time asking for postponement of the Fourth Plan, for an interim plan, for programmes promising quick results, etc. Whatever changes the present emergency approach to planning means for the basic strategy of planning and development in relation to industries that has been followed all these years, it will not at all be a bad thing if as a by-product we are able to put together some quick-yielding programmes for agriculture. Declarations that we will not starve even if

PL 480 aid is stopped are not very reassuring when there is official discussion of shelving the entire Fourth Plan in view of the uncertainties regarding foreign assistance in general. But nobody ever doubted the existence of unutilised potential for raising production from domestic sources and if at last the emergency quickens us into efficiency so much the better.

There are, however, some disturbing signs. Even in the annual plan for 1966-67 vagueness is allowed to persist by leaving open the question of finances for the State Plans. The Centre has indicated to the States that it would not be in a position to give assistance to the extent agreed to earlier. In this context the figure of financial outlay announced for the overall plan for next year, covering both the Centre and the States, showing a cut of 10 per cent over the estimates made earlier, means very little. Even then the States could be persuaded to accept the figures laid down by the Centre with great difficulty. Now they are expected to raise unlimited amounts in excess of what were considered feasible by the Centre but resisted by the States. When important Ministers and members of the Planning Commission declare the country's firm resolve to be self-reliant, the implicit premise is that the Government is prepared to take in hand whatever major institutional changes that are called for to enable the country to do without foreign aid. However, when it comes to taking practical decisions, one finds a shyness to face issues and a tendency to pass the burden on to other shoulders. What else does it mean to expect the States to raise resources, allowing the Centre to divert State allocations to defence needs, than that the States are expected to tackle the

problem of taxing agricultural income earners and introducing such changes in agricultural structure as will throw up more investible resources? Administratively the task may indeed fall in the States' sphere, but the institutional changes called for are of such major character as to require the Centre to move. That the Centre is more eager to talk but reticent in taking decisions does not encourage faith in the outcome.

While we welcome that there are alternative drafts to be prepared with different assumptions regarding foreign assistance, should there not be also different alternatives involving different degrees of defence orientation? Short of that, it seems extremely unlikely that there would be any planning at all. Targets are perhaps being set for certain amounts of defence production considered necessary in the particular context of today. The actual defence needs may turn out to be more or less. It is necessary that a certain flexibility is introduced in our industrial planning so as to allow of switching on and off defence production from the same installations of plant and machinery. Otherwise, every turn of our relations with our hostile neighbours would necessitate abandoning projects even when already taken in hand and working upon new ones. What we require is a type of industrial planning which would allow of a whole range of different production patterns with the same investment pattern, so that it should be possible to change production targets at short notice without involving capacities lying idle. As there seems to be a high likelihood of continuing and growing tensions, the only hope of planning lies in evolving an approach incorporating this flexibility.

**Think, Speak, Act as One —
as INDIANS**

DA 65/F 2

CAPITAL VIEW

Our Diplomatic Offensive

Romesh Thapar

WE are at last embarked on the business of winning friends in foreign lands and wooing governments which hold the keys to a ramified international balance of power. This much-belated operation has been launched in a manner with which we are now exasperatingly familiar. No discussions at Cabinet level. No consultations with the experts within the GOI. No briefings by the Foreign Office to the hastily summoned emissaries. And, of course, no attempt at co-ordination. This 'style', more befitting a feudal autocracy, would not be so disturbing if the Prime Minister—or, for that matter, the bureaucrats who surround him—had a clear understanding of what has to be done.

In this way, we are running the risk of being treated like a chameleon, remarkably talented in changing its colours according to the background. V K Krishna Menon is our image in Cairo. Vijayalakshmi Pandit in Paris. S K Patil in Washington. TTK in Moscow. Deputy Foreign Minister Dinesh Singh in South-East Asia. Foreign Minister Swaran Singh at the U.N. Each representative speaks his own language, has his own pet theories as to how our future relations with the nations of the world are to be arranged.

Imagine the confusion. Krishna Menon speaks with Nasser, probably explains the meaning of the collusion between Pakistan and China, emphasises the independent role played by the Soviet Union to halt the escalation of war on the sub-continent. In Paris, a different tune is being sung—for, does not Vijayalakshmi Pandit announce that India is holding back the tide of communism (*sic!*)? S K Patil, en route to the Americas, also sees his country in some such role—and firmly allied to the USA. By the time T T Krishnamachari reaches Moscow he will have plenty of explaining to do about what India really intends!

The Prime Minister, master-minding this operation, has now decided to unleash a host of MPs on a number of countries not yet honoured by VIP visits. Lists have been drawn up in consultation, not with the Foreign Office, but with Parliamentary Affairs Minister, Satyanarain Sinha! Each group of travelling MPs is a minia-

ture Lok Sabha; we are keeping our fingers crossed and hoping that they do not speak in too many voices. If this happens, we might have to dispatch more emissaries to repair the damage.

Wisely, Swaran Singh has taken to the beaten track at the United Nations. He has left the argumentation to the surprisingly able Mir Qasim—'surprisingly', for so many cannot see talent in anyone who is not a member of the Congress top hierarchy. Swaran Singh is due back any day. He has to prepare for the Afro-Asian conference at Algiers due to resume in the first week of November. By then, presumably, our over-publicised diplomatic offensive will have been assessed by the irritated experts in the Foreign Office.

It is doubtful whether we will achieve anything in the course of these junkets. Whatever dividends are chalked up in our favour will come as a result of 'second thoughts' in the West about the grave consequences of an angry India and from the crudeness now discernible in the handling of the Sino-Pak propaganda offensive against us. When the UK High Commissioner begins an elaborate apology for the partisanship of Harold Wilson, when scurrilous foreign news weeklies and newspapers which are notorious for their psychopathic interest in falsehood make the first attempt at balanced comment on developments in the sub-continent, when the anti-India specialists in the local foreign press corps launch on anxious research to locate 'the causes' which have led to the distortion of India's stand, we should not assume that these developments are the result of our diplomatic offensive. Anger, openly expressed at every level, has placed our many tormentors on the defensive.

Many knowledgeable persons in the Capital believe that we need to use a little bit of this anger on the subject of food, particularly so-called free food from the USA for which we now have to beg every month. If the Prime Minister and his colleagues could be persuaded to depart from the clichés about self-reliance and self-sufficiency, and to concentrate on forcing the will of the Centre on States which are still reluctant to undertake

procurement and rationing of the food we grow, we would be in a better position to survive diplomatic blackmail. Anger coupled with internal organisation would not only loosen foreign purse-strings, but also rid our diplomacy of the inhibitions which have enveloped it for so long.

So far as one can judge, our critical weakness is the fear that the Centre has developed about disciplining the Chief Ministers of the States who refuse to view problems in an over-all Indian context. Parochial policy-making has got to be fought, and there could be no better time to do it than the present. We spend too much energy in groaning about the demand for new linguistic States—such as Punjabi Suba, Hariana, etc.—when our effort should be to strengthen the leading role of the Centre even as these States are formed. This is more than possible today, for the people now understand that Chinese and Pakistani aggression is aimed at India's unity and strength.

It is fairly obvious to any observer who wishes to observe that the Prime Minister and his colleagues only react when demands are coherently and energetically projected. If these demands link with the business of formulating an integrated policy for the nation they become tremendously powerful in their impact. To unleash such thinking is the job of the press. It must break with its conformist psychology, uncover the facts, correlate them, puncture bureaucratic self-satisfaction and reflect some of the patriotic anger which has sharpened attitudes during these last few weeks. Will it play this role or remain atomised as the agitprop of this or that leader?

In other words, what we lack is not public relations but a policy. The press, too, needs to understand this when it moans about the lack of friends abroad, about misunderstandings and miscalculations, and about missed opportunities. Our diplomatic offensive is an insupportable part of our internal commitment to a policy of self-reliance and self-sufficiency. To argue that we can function without foreign props is an evasion of responsibility. We must. If foreign aid assists the effort, so much the better.

Weights: Old and New

MOVEMENTS in the index of industrial production have become increasingly unsatisfactory indicators of both overall growth and sectoral achievements. The Third Plan postulated an annual growth rate of 11 per cent in industrial production. Measured by the official index (1956 = 100), actual growth over the period 1961 to 1964 was about 8 per cent. If, however, one substitutes 1961-64 weights in place of 1956 weights (based on value added), the annual growth rate comes to 10 per cent; and if 1956-61 weights are used, it rises to nearly 13 per cent. These differences are attributable to the diminishing importance of textiles and other traditional industries in industrial production and the faster growth of new industries. This play with figures is, of course, neither here nor there for the fact remains that plan targets have not been achieved on schedule, particularly in the basic industries.

While this exercise is useful and offers ample opportunities for some mundane calculations in depth, the moral is that target growth rates have little meaning, if they are based upon historical weights. The use of an official index, two-thirds of the weightage in which is given to traditional industries (textiles more than 40 per cent, food 14 per cent, to mention the leading ones), to indicate aggregate targets and judge their fulfilment leads to highly deceptive results and is, in any event, of no operational value. What one requires for matching performance against plan requirements is growth rates based upon expected and achieved weights, for only then can one find out at a glance the direction in which industry is expected to move and is actually moving.

These comments are prompted by the great concern which is being expressed over the slow rates of growth witnessed in 1964 and also in the current year—which are largely the result of stagnation in textiles and attainment of capacity output in cement and basic metals, though the shortage of maintenance imports is also an important factor in several industries. Sluggishness is particularly noticeable in cotton, silk and jute textiles, paper, soap and matches (in the last two, small scale production is not taken into account) but this need not cause as much concern as the slow growth also of basic metals, chemicals and petroleum which have a total

weightage of 16 per cent. On the other hand, growth in coal, power, general and electrical machinery and transport equipment, which have a total weightage of only 16 per cent (of which coal accounts for one-half) in the official index has been fairly satisfactory in the current year.

De-Khrushchevisation

WHEN Khrushchev was removed from power around this time last year, far-reaching changes were foreseen in the Soviet Union. These have, mostly, failed to materialise. In foreign policy, in particular, the expected 'hard line' has not emerged; nor has the Soviet position in the Sino-Soviet ideological dispute been very different since Kosygin and Brezhnev took over—both to the disappointment of the Chinese. However, in the field of planning and economic policy the recently-concluded plenary meeting of the Central Committee of the Soviet Communist Party saw a very big step towards de-Khrushchevisation, taken on the basis of a report by Kosygin "on improving management of industry, perfecting planning and strengthening economic incentives of industrial production".

In 1957 Khrushchev had basically changed the system of management of industries by ordering the disbandment of the central economic ministries hitherto in charge of different branches of industry and setting up over a hundred regional economic councils, "Sovnarkhozy", each to manage the economy of one of the economic regions into which the country was split up. This was a major act of de-Stalinisation since it dispersed the highly centralised system of control of the economy built up in the Stalin era. Now Kosygin has reversed the process and ordered the disbandment of the regional economic councils and a return to centralised control by central economic ministries which are to be resurrected. According to Kosygin, the result of the transfer of power to the regional economic councils was that "the management of our industry, which presented a single whole as regards production and technical features, was scattered throughout numerous economic regions and proved to be absolutely inadequate. The particular industries found themselves 'dissolved', as it were, in the economy of the economic regions".

The rehabilitation of the central ministries does not, however, mark a

return to stifling control of industry by Moscow's bureaucracy. Kosygin has been at pains to emphasise this. The other, and in some respects the farther-reaching, part of his reform relates to the relations between the central controlling authority and industrial production units. Here all the changes are intended to give the utmost initiative and freedom of action to plant managements. This is accompanied by emphasis on profits earned by an enterprise as the touchstone of its performance. To this end targets of performance will be set in future in terms of goods sold, not just produced. This, along with an overhaul of the structure of prices, to be undertaken by a new Price Fixing Commission, will, it is hoped, induce—indeed, compel—managements to pay attention to the quality of their output.

If it is proposed to give plant managements the head, it is also proposed to judge their performance stringently. Full utilisation of production facilities is to be insisted on. The norm of efficiency is to be fixed in terms of profits earned as a proportion of fixed assets. Similarly, the contribution of each enterprise to the State budget is to be determined in proportion to its fixed assets and working capital. So an enterprise which produces at full capacity and is able to sell all its output will make high aggregate profits and will pay a smaller part of these to the State and will consequently be left with larger resources which it will be able to use at its discretion for expansion and improvement of production facilities and for incentive payments to workers. In fact, earning such surplus profits (after payment to the State budget) will be imperative since it is proposed to sharply reduce State assistance to enterprises.

These are far-reaching changes. It is not known how much criticism there was of them at the Central Committee meeting. However, the decision to put off till next year the Party Congress is indication that Kosygin is taking no chances.

UK and S Rhodesia

Our London Correspondent writes:

AFTER the breakdown of the London talks between Harold Wilson and Ian Smith, the question is how soon and when Smith's Government will make a unilateral declaration of independence, and what action the British Government will actually take should this come about. Wilson has

made it clear that unlike in British Guiana and Aden, Britain does not intend to suspend the Rhodesian constitution which could be one very decisive way of dealing with the situation. In the view of Wilson and his colleagues, because of the special nature of the Rhodesian Government, and the fact that they have their own army it would be unrealistic to assume that British troops could take over in this particular British colony. The possible alternative of holding a special Independence Conference on Rhodesia, to be attended by Wilson, Smith, Nkomo and Sithole (the two rival African nationalist leaders) a representative of the African Chiefs, and the leader of the African Opposition in Parliament, put forward both by Wilson and Bottomley has been turned down by the Rhodesian Prime Minister. It will be recalled that this was the line of approach which was backed at the last Commonwealth Prime Ministers' Conference in July and has been welcomed in Salisbury by African parliamentary leaders, but Ian Smith has always refused to release the nationalist leaders for such a meeting.

Wilson, at the London conference, reminded Smith of the grave consequences of unilateral declaration of independence. "Having cut herself off from the Crown and from Britain, Rhodesia would find herself practically friendless in the face of the almost solid hostility of the world". However, warnings of this nature, combined only with the threat of economic sanctions and the possibility of United Nations' intervention, will not really succeed in deterring Smith from his objective of maintaining white supremacy in Rhodesia and preventing majority rule. Surely something more effective must be done to force Smith to free the detained African leaders and to insist that, in consultation with the African majority, a new constitution is drawn up, based on the principle of "one man one vote". Smith himself has admitted that under the new Rhodesian constitution which he has in mind, it could take up to fifty years before African majority rule is achieved, and it is no wonder that this is not acceptable to the Africans.

The Labour Government is certainly prepared to take strong economic action against Rhodesia should a unilateral declaration of independence be made. Wilson has already said that Rhodesia would forfeit all trade and financial privileges she enjoys in London and would be liable to a complete embargo on trade. The US and most of the

Commonwealth countries have endorsed the British standpoint and would almost certainly withdraw all special privileges from Rhodesia, even if trade were not entirely cut off. Organisations such as the IMF and the World Bank would also withdraw their facilities from Rhodesia.

Will Economic Sanctions Do?

BUT how effective will economic sanctions be? To be effective, Britain must not limit herself to applying sanctions against only tobacco or sugar. All trade with Rhodesia must be blocked and transfer of capital must be frozen, as was done in the case of Egypt's holdings in the Suez Canal Company. The use by the Conservative Shadow Cabinet of the words "gravest consequences" in its warning to the Rhodesian Premier would seem to leave it with little alternative but to support economic sanctions if they are imposed although Lord Salisbury has now entered the ring and will put forward an emergency resolution at the Conservative Conference which will probably plead for minimum sanctions against Rhodesia.

The possible economic sanctions may be summed up as follows: An automatic result of non-recognition of the Ian Smith Government would mean that the Ottawa preference system, as far as Rhodesia is concerned, would end. This would involve the Rhodesian tobacco industry with 1/6½d a lb loss on tobacco imports, and would cost approximately £9 million a year. Half the Rhodesian tobacco crop is sold to Britain. This means that the British tobacco industry will have to look elsewhere for half of its supplies, worth about £25 million to £30 million, but many countries, including India, Canada and the USA, would be only too happy to make up the deficit.

Rhodesia would forfeit her membership of the Commonwealth Sugar Agreement which would mean that the guaranteed price of about £46 a ton in the UK market would be lost, and only the unprofitable "free market" price of about £20 a ton would be open to Rhodesian sugar exports. This would seriously damage Rhodesia's rising sugar industry. A total trade embargo could also have a very serious impact. In 1964, Britain supplied one-third of Rhodesia's total imports of £110 million and took one-quarter of her total exports which were worth £120 million. A trade embargo with Zambia would mean the loss of another £6 million of imports and of no less than

£31 million in export markets, including food, coal and electric power and manufactured goods. Rhodesia's overall trade would probably have to be cut by half in each direction. It is unlikely that South Africa would ever be able to fill the gap left by the British and Zambian markets. In addition, the Rhodesian Government would have no right to float loans in London and British banks would be ordered to refuse exchange for the Rhodesian pound which eventually would weaken this currency, and British companies would be forbidden to deal with the Smith Government. Much of Rhodesia's seasonal export trade depends upon the supply of bank credit, and a cut in this could have damaging results.

The Rhodesians would then impose counter sanctions, and it is difficult to make any exact estimate of Britain's financial stake in Rhodesia, but since these interests are so interlocked with Rhodesian and South African interests, it would really be difficult for the Rhodesians to take action. In many cases, British companies in Rhodesia operate through subsidiaries of their South African subsidiaries, and in other cases, British minority holdings are combined with local Rhodesian capital. Therefore, Rhodesia would find it hard to take any action against a wide range of British interests, without alienating interests in South Africa. Estimates of the total value of British investment in Rhodesia vary between £40 million and £200 million.

The impact of economic sanctions on Zambia could be very difficult for the latter country. Zambia's vital copper industry could be cut off from Kariba Dam power, Wankie coal supplies and railway access to the South. But emergency action could be taken by Zambia. Power could be provided from the mines' own thermal station and the hydro-electric station at Katanga. Katanga and Benguela railways could carry all the copper to Lobito port. Rhodesia itself would suffer more from a complete break. The loss of copper and coal transport would bankrupt Rhodesia's railways, and she would have to find another market for its coal and would be saddled with the costs of Kariba running at half pressure. But the cutting off of general supplies would affect Zambia more. At present, Rhodesia accounts for 35 per cent of Zambia's total imports. In Rhodesia itself, business and commercial interests are certainly not completely sold on UDI. Chambers of Commerce and Industry, the Institute of

Directors and the Rhodesian Tobacco Association are very concerned about the economic consequences of UDI.

But economic sanctions are doubtful weapons and would take months or years to have punitive effect, and the South Africans will certainly have an interest in frustrating economic sanctions. Surely, in these circumstances, the British Government would be wiser to take drastic action now, than be involved later on in a more difficult situation which is bound to arise. The intransigence of the white minority Government in Southern Rhodesia means that, sooner or later, there will be another Algeria in Africa with all the disastrous consequences.

Steel for Defence

IN the pre-occupation with over-all targets of steel production, the urgent necessity of stepping up the output of alloy steels has often been neglected. Some varieties were produced under considerable strain by Tatas during the Second World War and limited production on a job basis has been undertaken by ordnance factories

for many years. In 1961, however, there was no commercial capacity for this purpose. The initial Third Plan target of 2 lakh tonnes was revised to 4.15 lakh tonnes but has been lowered, it is reported, to 3 lakh tonnes. The existing installed capacity is estimated at 62,000 tonnes; further capacity of 278,000 tonnes is covered by foreign exchange allocations. The latter does not include the new projects of Tata and Birla and a few smaller ones, which are still in the preliminary stages. Tata and Birla are reasonably well assured of foreign exchange from private sources and ICICI.

Domestic output of alloy steel in 1964-65 was 35,000 tonnes, and is expected to rise to no more than 50,000 tonnes in the current year. In spite of imports of 60,000 tonnes last year, about one-half of the estimated demand was left unsatisfied. The immediate prospects are not too rosy since both Durgapur and Bhadravati would be fully commissioned only towards the end of 1967. If there are no further delays in these two public sector projects, it can be presumed that the

position would improve substantially by 1970. Durgapur and Bhadravati would then be over the hump. Mahindra Ugin, Tata and Birla should be in full production, and Salem, too, should be ready to deliver, if its preliminaries are speeded up. In fact, the more conservative among the knowledgeable fear the possibility of surplus capacity and production in this specialised field within the next five years, unless the production of different varieties fully matches the pattern of emerging demand.

There are also reports that Government has decided to induce a change in the pattern of steel production in order to meet defence requirements and that the Defence Ministry has given an idea of the supplies required by it over the Fourth Plan period. The latter may be taken with a pinch of salt because if such an estimate could be made so readily, it should have been available earlier; at best, it must be a rough and broad outline of its needs. Steel production has been almost stagnant since 1962, by which year the Second Plan projects were delivering

near-capacity output. Further increases can be expected only towards the end of 1966 when new capacity at Bhilai and Durgapur will go into production. The small increase in production recorded in 1964 over 1963 was confined to black sheets, wires, strips, sleepers, and skelp; output of decontrolled varieties fell and so did that of plates, which are critically short, from 3.5 to 3.3 lakh tonnes. Defence reorientation requires mainly more

plates, sheets and certain billets and blooms, so far as direct idents are concerned. These have to come mainly from Rourkela and Jamshedpur and later from Bokaro also. The magnitude of the demand would be such as to require more attention to the quantity and scheduling of orders than has been the practice in defence procurement and steel plants hitherto; both orders and their fulfilment have often been uneconomical and bunched.

LETTERS TO EDITOR

UK and the Indo-Pak Conflict

THE daily press is in a pitiable state in a war: its clientele loses taste for all news but of war, and makes an insatiable demand for war news which has to be met out of what news or rumours the press officer of the government deigns to ladle out. In the circumstances, it was natural for it to seek and publish an endless series of tendentious psychoanalyses of British "partiality" towards Pakistan. But your readership, I am sure, did not ask for such trash. Your editorials on the war were the only evidence I found that anyone in the press was thinking of the larger implications of the war, and it was astonishing to see you stoop, so late in the day, and play host to anti-British hysteria in your last issue. The knowledge of psychology among our moulders of public opinion is pretty primitive, and their comprehension of political events little less so. But in the entire annals of the Indo-Pak war it is difficult to come across so factless and unthinking a piece as your correspondent's note on "UK and the Indo-Pak Conflict" (p 1544).

All articulate Britons still believe that there is a dispute between India and Pakistan. I say "still" because it is possible that we no longer officially recognise the existence of a dispute. It is so difficult to know, because our initial stand that there had only been an aggression and not a dispute found no acceptance abroad, and we have alternatively recognised this lack of acceptance and refused to recognise it. Even if we have decided that there is no dispute, we might not keep this stance for long; for the conflict is between sovereign nations, and cannot be unilaterally wished away.

Further, they believe that the dispute is one about the territory of Kashmir. We also recognise this *de facto*, for we took military measures in order to "defend the territorial inte-

grity of India, of which Kashmir is a part". When it comes to argument we start talking about theocracy versus secularism, democracy versus dictatorship, war versus peace, love versus hatred, and so on, which sounds somewhat irrelevant to the British; but even we would probably recognise that the territory of Kashmir is one of the issues in the Indo-Pak conflict.

There are certain customary ways of settling territorial disputes; and tossing of coins or making of unilateral declarations are not among them. One can settle a dispute by force, as we did in Goa, Junagadh and Hyderabad or the United States did in the Civil War. This a time-honoured method: the British wouldn't like it, for they do not think Pakistan deserves destruction any more than India; but they do not mind enough to interfere. And given the contiguity of Kashmir to India and Pakistan, the relative strength of their armies and the potential costs of occupation of such huge, hostile countries, they are also sceptical about the feasibility of a military solution. A dispute can also be solved by negotiations and agreement, for instance the dispute between Yugoslavia and Italy over Trieste; the British would be perfectly happy if the Kashmir dispute were settled this way, but the positions of the two parties are just too far apart. Finally, one can adopt some agreed procedure; a plebiscite is the most common one because the inhabitants of the disputed region are the people who would be the most affected by the settlement of the dispute. It seems just unfortunate to the British that the Pakistanis prefer a plebiscite and the Indians dislike it; how much simpler everything would be if both sides liked it.

The British view—and it is the view of a very large number of countries—is naive and uninformed; but to trace it to "malice, self-interest and mis-

guided moral fervour" tells more about the commentator's mental state than about that of Britain. It reminds me strongly of the fulminations of the German press at the time we took Goa—of the hysteric outbursts of people whose wartime sympathies for Portugal broke through the thin veneer of their abhorrence for dictatorships, who could find nothing but dirty words to express their impotent rage at fellow-Europeans being beaten up. And it pains me because it is such a mean, petty, unconstructive response to the splendid challenge this war has brought upon us. For the cessation of food and military aid has brought us great and difficult tasks; it has brought hope to the nationalists among us, those who have borne the galling contempt that Europeans and Americans show for a people who cannot even feed and defend themselves. Maybe we will fail, but let us at least make a better effort.

Bombay,
October 13.

ASHOK DESAI

II

DOESN'T your correspondent, the author of "UK and the Indo-Pak Conflict" in your issue of October 2, ever differ from anyone except out of "malice, self-interest and misguided moral fervour"—the only explanations he finds for the British attitude to the Indo-Pak war over Kashmir? Doesn't he have differences just because he sincerely feels that the other party is in the wrong? Well, a lot of people do.

Why should it be so difficult to believe that the British Government and press have taken the view they have by and large on the merits of the issue—of course, as they, not we, see them? In his carping attempt to establish that this is not the case, your correspondent has chosen to ignore many facts. To take just one instance: he writes with copious sarcasm of Britain's "exaggerated enthusiasm" for a plebiscite in Kashmir. Now, we have the record of eighteen years of discussion of the Kashmir question in the United Nations to show that most members of the Security Council have always taken the position that the dispute ought to be settled through a plebiscite. Really, there seem to be altogether too many governments in the world which are malicious to us, or want to do us out of Kashmir because it serves their self-interest, or are, at the very least, persistently misguided by moral fervour!

R RAMACHANDRAN

Bombay,
October 12.

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The American "New Left"

DURING the past few months there has been a good deal of heated discussion in intellectual and academic circles in the United States concerning the emergence of a "New Left". Last year's ferment on university campuses sparked by the small-scale revolution at the University of California, the mounting protest against American involvement in Vietnam, and a small resurgence of various left-wing political groups has caused this discussion. There is no doubt that the radical movement in the United States has made substantial gains in the past few years. The civil rights struggle, which is both radical and moderate, has involved the Negro masses for the first time in a movement for social change and has roused the rest of the society. The students, not a particularly vocal group in American society, have organized several militant organisations and now constitute an important element in the movement for social change. And for almost the first time substantial numbers of academics have become involved in the various protests against Vietnam policy, from moderate teach-ins to more radical street demonstrations.

Despite this resurgence of social concern, and the creation of organisations to give voice to this concern, it is probably premature to herald the advent of an American "New Left". Yet, the roots for a substantial social movement do exist, and the various radical forces in the country are now trying to provide co-ordination and leadership to the rather diverse groups and movements. The nascent "New Left" is now searching for roots, for ideological tools, and for workable organisational methods. Whether it will achieve the aim of building a mass movement for social change in the United States is unclear. Certainly, historical tradition is against the "New Left" although many of the key issues of the day, both international and domestic, are more pressing than in the past.

American radical and protest movements have traditionally been marked by a pragmatism and a fear of ideological entanglements. One of the key elements of American politics is its pragmatic nature. The present revival on the left is no exception. Most civil rights activists have no clear ideological position, and try various methods to achieve equality within the context of established American soci-

ety. There is a tacit acceptance of the values of the American middle class in much of the civil rights movement. Only the militant students of the Student Non-Violent Co-ordinating Committee (SNICK) have a broader vision, based mostly on their negative experiences with the American "Establishment" at all levels.

The students constitute a key element in the new protest movements and exercise much influence on the entire movement. Students have sparked much of the civil rights movement, in both North and South, particularly in mass demonstrations and civil disobedience. Many of the recent Vietnam protests, including the recent "Assembly of Unrepresented People" in Washington (at which 190 were arrested) and the attempts in California to stop troops from embarking for Vietnam, have been spurred by students. The major student organisation, the Students for a Democratic Society (SDS) is now engaged in a campaign to convince young people to disobey the selective service laws and not to be conscripted into the armed forces.

Although there is a sprinkling of ideologically sophisticated leadership among the students, there is almost no commitment to the "old" ideologies of socialism or communism. The key word of the student movement is "participatory democracy", a rather nebulous concept which would involve individuals at all levels in planning and governing most aspects of society. The attempts of the SDS to apply this concept in various projects in urban slums, "depressed" rural areas, and in Negro ghettos have achieved only limited success, and several of the projects have ended in failure. Despite the expenditure of substantial effort, the attempt to build a "revolutionary movement of the poor" is still only a concept. Yet, the fact that young people are attempting to build a substantial movement and are going into the slums is a significant development.

The "teach-in" movement, which has extended to Japan, England, and Canada, was spurred by academics and intellectuals, a substantial number of whom have not been involved in the various American peace movements. Vietnam has caused more discontent among American intellectuals than any other issue since the economic depression of the 1930s. Like the other movements, opposition to involvement in Vietnam is based on moral convic-

tions and notions of practical politics, not on ideological considerations. The initial surge of protest has achieved no results, and the Johnson Administration has continued its policies. This fact has led many dissenting intellectuals to disillusionment and retreat into the Ivory Towers, while others have moved toward the left in the search for an effective approach. Thus, the future of the "teach-in" movement also remains unclear although there are signs a more radical approach is emerging.

Some key elements are missing from the coalition which may emerge as a "New Left". The American labour movement has been painfully silent on matters of foreign policy or has supported the actions of the Administration. It has also refrained from taking a leading role in the civil rights struggle. The mainstream of American liberalism, represented by men like Vice President Humphrey, the late Adlai Stevenson and others, while showing signs of bad conscience at its continuing support of the Administration, has made no move toward the "New Left." In the last analysis, without support from segments of these two powerful groups within American society, the students and some academics and intellectuals simply cannot build a movement of any significance.

At the present time, there is conflict going on within the ranks of the emerging "New Left" concerning co-operation with other elements in the society. Some spokesmen, notably Bayard Rustin, a key civil rights leader argued that it is necessary to move toward an alliance with less radical elements within American life, even at the expense of sacrificing some elements of "New Left" radicalism. Others have opposed this trend, stating that this would constitute a "sell out" to the Establishment and would render the movement meaningless. The direction of the "New Left" depends, to a substantial degree, on the outcome of this current debate. Many of the students and the civil rights militants tend to distrust any contact with the Establishment, and are resisting "coalitionist" trends within the protest movement.

Thus, the American "New Left" remains more of a promise than a real movement. Its roots are only tentatively established, and it remains almost directionless at a crucial time. Yet, it is the most substantial groundswell of political and social concern in decades, and holds the promise of a substantial movement.

—Philip G Altbach

Guarding Against Relapse

THE cease-fire this time has not yet led to a relapse into the bad old normalcy. Nor has it, however, pushed forward the sense of renaissance. There is a sense of waiting, of determination, but not yet of expectancy. The difference, of course, is that the cease-fire this time appears to be considerably more fragile than the 1962 one. There has been no unilateral withdrawal by anybody. The UN is said to be supervising, but no Colombo powers have emerged who could exert the pressure of goodwill from a sense of friendship for both contenders.

The other big difference is in the nature of the national response, which is partially reflected in Government thinking as well. This is not mainly the difference in reaction to what was a humiliating defeat and what is now a demonstration of the capacity for defence. It is much more a matter of a desire for real independence. In 1962 the clamour was all for alignment with one or another super power, particularly the United States. It required the strength and vision of Nehru not to yield to this clamour and the national mood of demoralisation. Now the overwhelming urge is for standing on one's own feet, of completing the construction of a suitable economic structure that would materialise this urge. It is now widely recognised that the turn accomplished in 1955 and through the new dimensions of the Second Plan has to be carried forward to a qualitatively new stage. And as then so now, the realisation is rapidly growing that in this arduous endeavour a break has to be made from our present international economic moorings and a decisive push accomplished in the direction of an enormously increased economic collaboration with the Soviet Union and other friendly socialist countries.

1962 and 1965: The Difference

One of the most striking manifestations of the radical difference between 1962 and 1965 is the national search for an international ally. The disillusionment with and anger against the UK and the US is extraordinarily widespread. The Chinese ultimatum and outrageous attempt to bully through the threat of a renewed ag-

gression has, it is true, somewhat blunted the edge of anger against the latter. It has induced a sentiment that one should not go too far in alternating the strongest anti-Chinese force in the world today in case of another push from across the Himalayas. But the US is scarcely hailed today as a good and true friend. It is this turn against the imperialist powers as a part of the national desire for self-reliance that augers well for the future and which can be built upon to make India again a real Afro-Asian power rather than a second-rate imitation of the West.

This aspect of the assertion of the Afro-Asian identity of India has not received adequate recognition or analysis. But it is likely to be of increasing importance in the very near future. The US drive to attempt to subjugate Viet Nam and the equally dangerous Chinese drive to establish its hegemony in the "world village" of Asia will necessarily require the alliance of the forces of genuine, autonomous Asian revolution and the Soviet Union. The breakdown in Indonesia only heightens the need for the quick build up of this alliance. The Soviet Union, the UAR and a radicalised India have to come together if the post-Vasco da Gama era Asia and Africa is to be firmly, even irrevocably, established. The groupings in this direction have to be replaced by a determined search for a coherent policy. In a sense, India's need being the greatest and her experience being the sharpest she is particularly well fitted to take the initiative in the matter.

Government Lagging Behind

But this is precisely where the Government is lagging behind seriously. Lagging behind not merely the popular mood but equally behind the imperative compulsions of the situation. The flurried despatch of somebody somewhere depending on the image he or she may have in the country to which they are being despatched, is a sign of relapse to bankruptcy. We need not unnecessarily antagonise anybody but we have to make quite clear that we are trying for a particular kind of alliance, a specific type of alignment. Otherwise we need not be surprised if those who could and should be our

allies remain somewhat ambiguous and neutral.

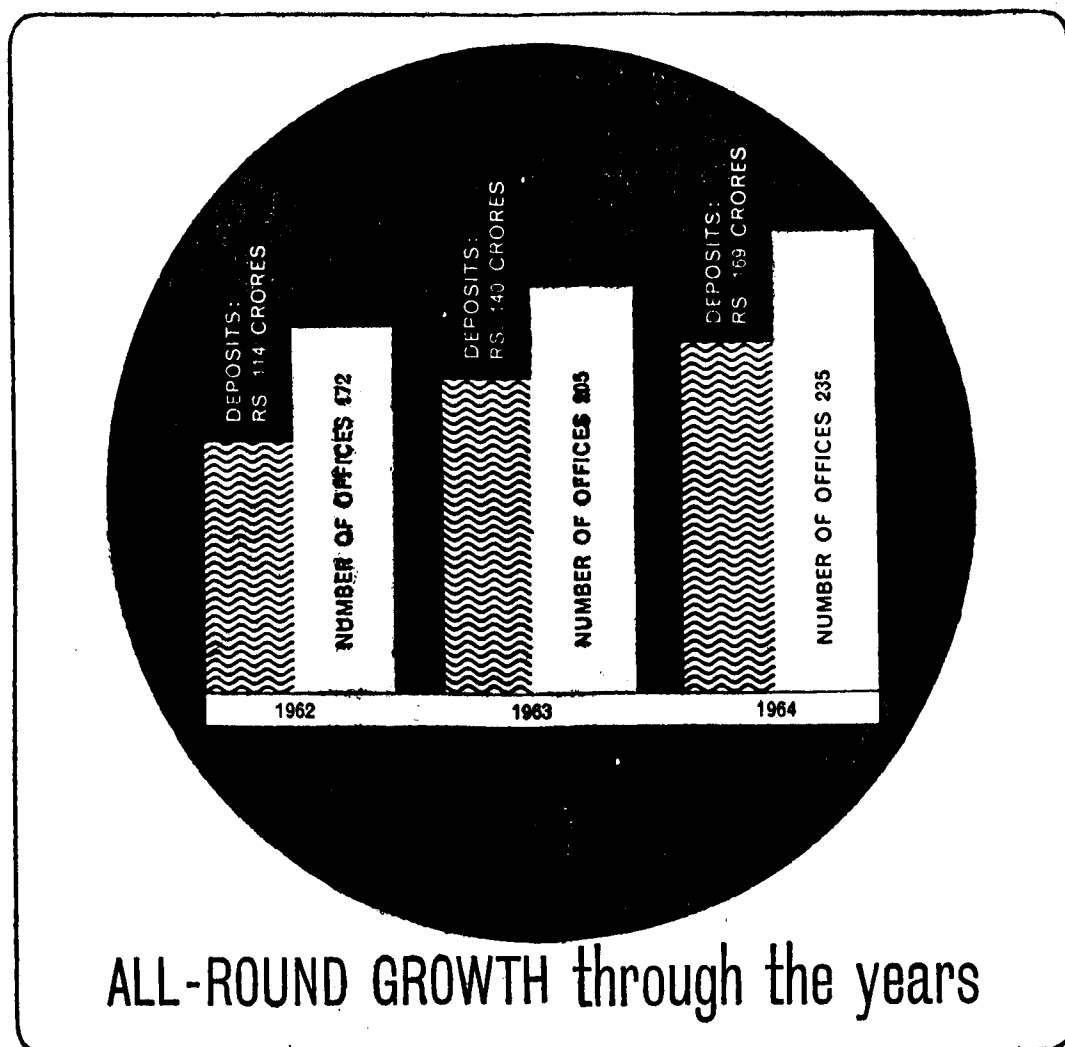
Similarly, in the sphere of internal policy. Old attitudes still persist, unsuitable at any time and quite disastrous today. It looks as if the somewhat brighter personalities in the planning brains trust are looking at the situation only from the angle of pushing through a bigger tax effort. Tax effort is undoubtedly needed but the orientation is a matter of supreme importance. The kind of flat increase in land revenue, with no system of grading and without a proper exemption limit, is not going to help either planning or the politicalisation of the people around the question of national defence.

The position is much worse when we consider the question of institutional changes. Not one of the enormous number of policy statements of the Government has so much as breathed a word about social change or given the least limit about any radical economic measure. The refusal to utter the word "socialism" has also been fairly conspicuous. It looks as if current thinking at the so-called highest level is in the direction of a freeze as far as the question of the pattern of economic development in this crisis period is concerned.

Danger of Communal Revival

While this is bad enough as far as economics and the popular mood is concerned, it is even worse when we consider what type of national appeal this signifies. If the appeal is not to be on the lines of a modernised, radicalised India facing the challenge of different inimical forces in the modern world, then inevitably the drift will be towards some form of revivalism. And revivalism can only mean Hindu communalism in the Indian context. It is quite evident that the Jana Sangh and the RSS, more particularly, are working strenuously towards this end. In the name of national consensus there should be no underestimation of the danger from this quarter.

The only antidote to relapse is renaissance, a fresh birth. The thoughts of India must increasingly turn towards this problem as the central one for us at this time of uneasy cease-fire.



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BOOK REVIEW

Public Debt Management and Monetary Policy

Management of Public Debt in India, a study by the National Council of Applied Economic Research, 1965; pp xi+158; Rs 18.

PUBLIC debt policy in our country has so far been confined to its fiscal aspect, buttressing mainly the government borrowing programme. The monetary aspects of debt policy which concern cost and availability of credit through changes in the prices of securities (and thereby the yields) have largely been left unexploited. This is because the credit policy instruments at the disposal of the Reserve Bank of India are found adequate to influence the cost and availability of credit from the banking system and also because of the limited effect action in the form of changes in the prices of securities would have due to the narrowness of the capital market. Any argument for the use of debt policy with the emphasis on its monetary effects has to demonstrate that it would be superior to any action that can be taken on the basis of existing powers of the Reserve Bank of India. This is because we cannot build an entire institutional complex to increase the volume of transactions in securities and widen their market unless it is shown that this promotes the growth of marketable debt and strengthens the liquidity effect of debt policy.

Need Not Established

The growth of marketable debt or its holding outside the captive market depends on whether any uncovered classes of investors can be brought in. Outside the captive market, which includes government owned or controlled institutions, there are only the corporate sector and the household sector. The corporate sector by its very nature would be interested only in short-term securities. For the household sector, for which liquidity is not an important factor, we have an entire set of instruments under the small savings scheme. Actually it is not clear as to what is meant when the term "widening of the market" is used. Further, a mere increase in the volume of transactions would only increase liquidity and make it more difficult to maintain orderly conditions in the bond market. Finally, the fiscally oriented debt policy we have has been broadly consistent with the prevailing monetary policy. Any plea for a co-ordinated fiscal, debt and monetary policy, whatever its theoretic

validity and practical impact in the UK and the USA, has to establish whether it would increase its effectiveness given the limited use of such instruments in our economy. This the book under review does not attempt.

The book evaluates debt management policy from the standpoint of three objectives: (i) its efficiency in mobilising resources for financing the Plans; (ii) its adequacy in ensuring a desired level of liquidity of the financial institutions; and (iii) its contribution to economic stability. The first objective covers also an examination of the structure of the ownership-distribution of public debt to find out whether the present maturity pattern restricts or promotes the growth of marketable debt. Similarly, the second objective covers an analysis of credit policy and the structure of the investment portfolio of commercial banks to determine whether the liquidity effect of debt policy is reinforced by them or not.

In regard to mobilisation of resources through public borrowing it is concluded that under the given conditions the prospects of even fulfilling the Plan targets are slim. The book enumerates various steps to enlarge the prospects of successfully meeting the Plan targets. Among others, these are (i) the pattern of maturity should be biased towards the long-term; (ii) the entire range of yields should be raised to conform with the long-term upward trend of interest rates in India; (iii) the banking system should be strengthened; and (iv) active steps should be taken to promote trading in Government securities.

As for ensuring a desired level of liquidity of the financial institutions to influence the cost and availability of funds, the book concludes that this objective has not so far been realised fully because of the pre-occupation with the fiscal aspects of debt policy, and the gradual contraction of the securities market. Two measures are suggested to realise the monetary aspects of debt policy: (i) the Reserve Bank should conduct to a greater extent the sale and purchase of securities through the securities market; and (ii) the ownership of securities should be spread more widely.

As mentioned above, the case for a

debt management policy is far from established in our economy. No doubt, the superiority of debt management over monetary policy lies in that it not only affects availability but also the cost of funds. But when direct powers are taken by the monetary authority to affect interest rates on deposits and advances, the superiority of debt policy disappears. Given this broad orientation of monetary policies, open market operations which affect the level of reserves of the banking system have the effect of altering liquidity.

Debt Policy and Inflation

With regard to the role of debt policy in ensuring economic stability the book concludes that it has been a contributory factor to inflation because the Reserve Bank has been adding to its portfolio all unabsorbed new flotations. Apart from recommendations about the use of monetary policy to restrain inflationary forces, the book suggests that the Reserve Bank should not add to its security holdings to accommodate the Government. Although nobody argues about the inflationary impact of Government borrowing from Reserve Bank, the facts which gave rise to this addition are far from clear. First, the increase in Reserve Bank holdings of total funded debt since 1960 may be due to the advance purchase of securities approaching maturity. Actually the book itself suggests such purchases. In such circumstances it is difficult to see how the relative increase in the holdings of the RBI, which may be due to outright purchase of securities approaching maturity, are inflationary. Secondly, the securities are held by RBI on tap because of the absence of a securities market. The inflationary impact in such circumstances would be temporary and would depend upon the time lag between the use of funds by the Government and the sale of securities by the RBI to the public. To the extent that the securities held on tap are sold to public, there would be a contractionary effect, offsetting the initial expansionary effect of the addition of government securities to the RBI holdings. In the light of the foregoing one cannot assert that debt policy has been a factor contributing to the inflation.

India and Pakistan

The Other Half of Our Task

Dilip Mukerjee

Frustrating the aggressive designs of Pakistan's war machine is one-half of our task. The other, and perhaps the more important, half is to carry conviction to people in both wings of Pakistan that India has no quarrel with them, nor any designs upon their national integrity.

ABIDING peace in the Indian sub-continent is just not possible unless the fear of India is erased from the Pakistani mind. It is this fear that enables the rulers of Pakistan to win popular sanction for their adventurist policies. The sooner it is dispelled, the quicker we can move towards genuine and stable co-existence. The fear has, of course, been deliberately fostered and magnified to consolidate Pakistani nationalism. There was not really much else to bind the country when bits and pieces of undivided India were hastily lumped together to constitute the new State. Yet it does not help us at all to dismiss the fear as imaginary. As the bigger and more powerful nation, it remains our responsibility to do all we can to reassure the Pakistani people, so that they can call their own leaders to account. In other words, we have to counter adventurism on the military plane, but must at the same time endeavour to retain the friendship and goodwill of Pakistan's common people.

This is not a plea for psychological warfare, but for helping the two countries to rediscover their common values and their common interests. As the President, Dr Radhakrishnan, said even while bitter fighting was in progress on the battlefronts, we have to avoid any form of hatred of the people of Pakistan. They are, as he reminded us, "our own kith and kin". Some despair too readily of a response from the people of Pakistan. I see no reason to do so, and offer in evidence my experience as a private visitor to that country last February. Admittedly, this was long before the current phase of conflict but this does not necessarily diminish the relevance.

As I stepped out at Karachi's international airport after the short flight from New Delhi, almost the first person I spoke to was a police sub-inspector whose job it was to oversee the form-filling by holders of Indian passports. I was last in the queue, which may explain why the entries on my form registered on his mind. "So you were born in Etawah! I come from Fatehpur myself", he announced. Not knowing what to say in reply, I merely

smiled in polite acknowledgement of his interest. But the inspector was not quite done; he enquired about my people and searched his mind to see if he had ever met or heard of any. And finally, he made some entries on my form to help me short-circuit the red tape that was ahead of me.

Knowing the sub-continent's policemen as I do, I was agreeably surprised by the considerate and helpful manner of this former compatriot. But even before this had time to sink in, I was face to face with a money-changer at a bank counter. Before the small transaction was closed, I had to reassure this former South Indian about the language agitation in Madras. He seemed very worried indeed about his old home-town.

These encounters were typical of countless others with people in all walks of life, testifying to an astonishingly keen interest in India. Which is hardly surprising; at its start in 1947, every sixth person in West Pakistan was an emigré from India. And the interest is by no means hostile, one reason why the regime runs a non-stop anti-India campaign in the press. As a friend in Karachi remarked, Pakistan's comfortable newsprint situation was a terrible liability; it permitted *Dawn* and others of its ilk to go on and on with their venomous outpourings.

I particularly remember the encounter with a Pakistani shopkeeper in the older part of Rawalpindi. I was looking for a type of *chappal* which a kind uncle used to send me from Peshawar before partition. Intrigued by my request, the Pathan shopkeeper got into a long conversation which developed into an argument over India-Pakistan relations. The immediate provocation was provided by a news report from New Delhi suggesting that sacrificial killing of animals by Muslims for Bakr Id might be stopped. I frankly admitted that we had our religious fanatics much the same as they had in Pakistan. The answer turned away his wrath, and I was allowed to leave only after a cup of tea with the shopkeeper's father, specially summoned to meet a visitor from distant Cal-

cutta where the old man once had a shop.

It may be argued that these isolated instances of courtesy and friendliness at a personal level mean nothing at all in political terms. But there is no reason why a genuine India-Pakistan accord can not be built upon this promising foundation.

It is suggested at times that understanding would be easier to reach when a new generation, untroubled by the memories of partition, takes over. Free from the love/hate relationship of today, the successors on either side should be able to handle the problems between them with greater detachment. This is plain nonsense. In the first place, bitterness about the past has faded from most minds—both in India and Pakistan. It need not, therefore, come in the way of a reconciliation here and now if other circumstances were propitious. Secondly, it seems naive to assume that the next generation will find it any less difficult to overcome religious and national prejudices that plague the relationship today. These will be handed down unless effectively dealt with in the present. I am reminded at this point of a twenty-year-old who asked me searching questions about the growing influence of Jan Sangh in the UP, and its implications for the Muslim minority. I was later to discover that his grand parents still live there.

The thought that India and Pakistan must find a *modus vivendi* was voiced to me wherever I went, in differing ways and at different levels of sophistication. At a dinner in a university campus, talk turned to the Kashmir problem. I was anxiously asked whether India had really closed her mind to the possibilities of a settlement. The concern of this group of university teachers was not so much with Kashmir itself, but with the domestic consequences of the continuing India-Pakistan differences.

They argued that there could be no real democratic upsurge until Kashmir was got out of the way. The confrontation over it with India provided a very convenient means of diverting public attention from problems at

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home. But while bitterly critical of the regime's manoeuvrings, every one in the group was convinced that the Indian position in Kashmir was morally untenable. It was, they argued, upto us to make amends, not merely to right the wrong done to Pakistan but also to deprive the regime of its sole justification for belligerent and adventurist policies.

This conviction about the validity of Pakistan's case on Kashmir seemed pretty nearly universal. Every one was equally agreed that a solution in Kashmir would have the effect of dissolving all the accumulation of bitterness and distrust between the two countries. Only one person—a very highly-placed Bengali Muslim—thought otherwise. He too supported the Pakistani position but had his doubts whether Kashmir was the only stumbling block. Quite obviously, the eviction issue loomed larger in his mind.

Misgivings over Kashmir not withstanding, I found widespread awareness of the advantages to be gained from India-Pakistan co-operation in various fields. For example, thoughtful businessmen and administrators readily conceded that Pakistan's plans for regional economic co-operation with Iran and Turkey were a poor substitute for economic collaboration with India. As several said over and over again, there is so much the two could do for each other on a basis of mutual advantage. At the political level enthusiasm for such ideas is taboo, but this is only to be expected.

More surprisingly, an Air Force dignitary expounded to me President Ayub's thesis of a common defence system for the sub-continent but with specific reference to the need for a counterpoise to China's immense might. But the same person also spoke of the alarm caused to Pakistan by India's growing military potential in the context, as he put it, of unresolved differences.

All this points to a dichotomy in the Pakistani mind. An identity of interest with India is recognised as also the many ties of language, culture and history that bind the countries together. These are stronger than the negative strands of fear and suspicion, or otherwise the regime would not be so anxious to limit contacts and exchange between the two countries. A member of President Ayub's secretariat said that he had stopped taking his holidays in India—many of his people still live here—because visits to this country might be misunderstood.

Indeed, as Dr Radhakrishnan said in

his recent broadcast, more things bind us together than keep us apart. Herein lies the longer-term challenge to Indian statesmanship; we have to find some way to reassert the common ties, overcoming the ill-will deliberately engineered for political ends. We have of course to search our own hearts too. The surer our own grasp

of the values of secularism and democracy, the easier it should be to carry conviction across the border. Our task, as we should keep reminding ourselves constantly, is not merely to win the war; much the more important goal is to win the peace. The should not be too difficult for the country of Gandhi and Nehru.



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LPE-Aiyars S. 544

British Attitude to the Indo-Pak War

Stephen Hugh-Jones

London:

I DON'T imagine an American in London in September 1914 would have got much of a hearing if he had attempted to explain why his country had not instantly sprung to Britain's aid against the vandal hordes of the unspeakable Hun. Though I do not expect sympathy, I hope it is not entirely useless, however, to attempt to explain the attitude of the British press and the British government toward the recent war between India and Pakistan; I assume that readers of *The Economic Weekly* recognise the value of understanding the other man's point of view even if he is wrong.

First, what is "the British press"? It certainly is not a united front. Nor, I suggest, can it fairly be condemned for the attitudes of its least responsible members: I myself have been personally attacked for the colour of my skin in a widely circulated Indian weekly, but I should not therefore accuse the Indian press (or indeed the weekly concerned) of racialism. Nor is it guided by the government. Its leader-writers have a great many sources of information on Kashmir—my own views, for instance, were formed almost entirely in India—other than Whitehall, and they have repeatedly proved themselves capable of criticising the British government on issues where it was far more vitally concerned than this one. Lok Sabha backbenchers may like to imagine a gigantic Whitehall-Fleet Street conspiracy to do India down; but they are mistaken.

It might still be true that we are all possessed by dreams of former imperial grandeur, or by a desire to divide-and-rule, or by a political bias in favour of dictatorships, or respect for fierce and martial Muslims, or resentment at Nehru, or plain bloody-minded hostility to India for one obscure reason or another. I cannot swear that none of these is true of anyone—Mr Wilson's "east of Suez" fantasies seem to me to have strong ex-imperial overtones, but then they had nothing to do with his reaction to Kashmir—but I can say that they are not generally true of the people I know who are directly concerned. This is a matter of fact, not opinion, on which I would claim flatly to be better placed to report than anyone in New Delhi. This should not be surprising: Fleet Street just is not peopled with ex-North-West Frontier brigadiers or former ICS men.

In short, though I could name one significant group of papers whose attitude to the Kashmir war I can only explain in terms of bias, by and large it should be accepted that if we have taken mistaken attitudes we have reached them for honest reasons.

What were those attitudes? One can distinguish here between news reports of the fighting; editorial opinion on its immediate cause; and editorial opinion on the underlying causes and what should be done about them.

We are told that there is considerable resentment in India at one-sided British reporting of the battle. There is one simple explanation of this: it was, for most of the time, one side only that allowed foreign correspondents near the battle-front; and it was the same side that imposed the most severe censorship. India's defence ministry appears to have adopted the alternative routine of 'pre-censoring' the news by transmitting it through official spokesmen and letting correspondents transmit more or less what they liked. This was demonstrably less effective. Perhaps the fault was not entirely that of the British press. The same excuse cannot be offered for those reports, and there were some, which suggested that the writer had simply taken leave of his critical faculties and repeated as fact whatever some interested party told him. It is my impression that there were more of these from the Pakistani side. The general attitude, however, was one of considerable scepticism of the vast claims of tanks destroyed and planes shot down. Both sides' claims suffered from this scepticism. I am not sure that that is a proof of anti-Indian prejudice.

As for editorial opinion, most British papers fairly soon came round to accepting the Indian claim that the Kashmir fighting began because Pakistan sent infiltrators across the ceasefire line. But the same papers also blamed India for creating conditions that caused the Pakistanis to take this step, and urged that after a ceasefire there must be a political compromise. They also unanimously argued that the most important thing, whatever the merits of the case, was to stop the fighting. I imagine this is the basic Indian complaint against the British press.

Why did we take this line? Why do we "equate the aggressor and the vic-

tim"? I think the following is a fair summary of what British leader-writers think.

They think there is a genuine dispute about Kashmir, and that it is not closed merely because one side unilaterally claims that it is closed. They do not think "Pakistan should have Kashmir because Kashmiris are Muslims"; they do think there ought to be a plebiscite because a plebiscite was promised. They see that promise as differentiating Kashmir from any other part of India, and therefore do not accept that Kashmir would become a precedent for other claims to self-determination. They blame Nehru that no plebiscite was held years ago. They realise intellectually that there is a danger of communal violence elsewhere in India: they do not feel it as you who have been through partition do. Nor do they have the profound revulsion that Indians have to anything that seems to sanction the two-nation theory. They prefer secularism to theocracy: but, they would argue, Pakistan exists and if you can swallow that camel of two nation theory, why strain at the gnat of Kashmir? They are unmoved by suggestions that India stands for freedom and democracy against dictatorship; they agree that India is generally democratic but do not believe that this is true in Kashmir, where, they believe, most Kashmiris would opt for Pakistan and where the most popular leader is in detention, while all elections have been fraudulent. They think Kashmir is the key to all Indo-Pakistani problems, and that, unsolved, it represents a danger to peace and demands a useless diversion of resources to armaments. Some of them still dream of joint defence of the subcontinent; nearly all fear that the Pakistanis in desperation will turn ever more strongly toward China. Coming to immediate causes, they think the Pakistanis were driven to desperate measures by the growing strength of India's armed forces combined with a unilateral move to merge Kashmir constitutionally into India (several reputable British papers have written as if the extension of Articles 356 and 357 to Kashmir had been the first extension of the Indian constitution thither; and as if what had been done was, in effect, to abolish Article 370. Where they got these notions, heaven knows. The Pakistan High Commission?). In short they do not accept that the merits of the

case are by any means all on India's side.

I am not saying these ideas are correct: simply that they are believed, and honestly believed. Many of them are shared by the British government, though it is undoubtedly particularly moved by the practical fear of Pakistan being driven straight into the arms of China.

Like the papers, the British government was also horrified at the prospect of subcontinental war. This, I think, explains its very foolish decision to pick out the Indian drive toward Lahore from all previous acts of escalation as the occasion for condemnation. In London, war in Kashmir seemed to be one thing; war around Lahore was another, something that could set the entire borders aflame and perhaps bring China in too. And where would that end? Speaking for myself, I at the time thought Wilson's condemnation was unwise; I thought the Indian attack was the natural consequence of the previous Pakistani drive toward Akhnur; but I did not dissent from the judgment of the future that I suppose caused the British government to speak as it did. For the first time it seemed really possible that there would be a major war; and just faintly possible that there would be a world war, a war much more likely to destroy Britain than to destroy India. I think there was an element of simple fear—selfish too, if you like, but hardly unjustifiable in the British reaction to this particular attack.

It was the same horror of war that caused Wilson to suspend military aid to India, and, it appears, to interfere with shipments of commercially bought military supplies. Since for practical purposes Britain does not supply Pakistan, he had the choice of favouring India by sending more arms to the scene of war, or favouring Pakistan by ceasing to do so. Given that his aim was to see the war ended, and that the Americans were putting the corresponding squeeze on Pakistan, it would be surprising if he had decided other than he did.

You may still ask why the British press—granted it does not share your views on Kashmir and was not therefore likely to condemn Pakistan—should still have put such tremendous emphasis on a ceasefire and should now be so strongly urging that you must make concessions to avert the risk of a second round. Is this simply a high-sounding excuse for trying to prise Kashmir from your grasp? Is the British press not merely taking up an

offensive attitude of non-alignment but deliberately seeking to promote Pakistan's cause?

It could be. But there is an alternative explanation which you should at least consider possible: the simple one that those who are not directly involved in war see its dangers more, and its purposes less, than those who are. It was not after all merely the perfidious British who put more emphasis on stopping the shooting than on condemning those who started it. Russians, Americans, Egyptians, Yugoslavs, Nigerians, almost the world's press—China and a few friends dissenting—have taken the same line. The fault of the British press is that, not being government-controlled, it—like those sections of the American press that are not so obsessively anti-communist—suggests that Kashmir must be settled and to suggest that settlements must be made for exactly the same crimes as they

once blasted India for—has gone on are not usually reached without compromise (and the belief that there would have actually been a settlement long ago but for the Anglo-Americans is a comforting myth which will not survive a week spent in Pakistan).

Could it be that the British press is genuinely more concerned with the issue of peace against war than of India against Pakistan? That it genuinely believes peace is more important, even to you, than the *status quo* in Kashmir? You may well reply that even if this is the explanation, deciding what is important is your prerogative. So it is. Why then do we feel entitled to press our advice upon you? Perhaps because we remember not only the euphoria of August 1914, not only the "grim determination", the "up-surge of national unity", but the filth and blood of the four years that followed it. We, unlike you, have twice fought total war.



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Private Institutions of Education

A R Kamat

A large number of institutions of secondary and higher education in India are run by private effort. According to an estimate of 1960-61 about two-thirds of the enrolment at the secondary stage and four-fifths of the enrolment at the college stage takes place in private institutions.

Private enterprise will continue to remain an important factor in these sectors of education for considerable time to come. Serious thought must be given, therefore, to the role they are expected to play in the educational development of the country.

THE private educational institutions may be classified into two broad categories: those which represent or cater for sectional interests and those which serve all sections of population. A large number of the institutions run by private enterprise belong to the second category. Most of these are secondary schools and colleges of liberal education; they do not belong to any specific community or section, religious or linguistic, and are essentially secular in character. Their management may be in the hands of non-profit educational associations like the Deccan Education Society or in the hands of profit-motivated groups or individuals. The first category although much smaller in dimensions is important otherwise. It consists of three main types of institutions: (A) institutions primarily established to provide religious instruction, (B) institutions of the public school type intended to provide education to the children of the well-to-do classes, and (C) institutions established as a privilege of religious or linguistic minorities. In this article it is proposed to consider the private educational institutions of this first category. (The institutions of the second category will be considered separately elsewhere.)

It will perhaps be useful to visualise more clearly each of these types, if necessary, by taking illustrations. Type (A) should properly include institutions which go under the name of Pathashalas and Madrasahs where the main aim is to impart religious instruction and to train for priesthood. Institutions like convent and mission schools or mission colleges which had compulsory religious instruction in earlier periods but where it is now voluntary or non-existent because of the conscience clause are of a different character.

Institutions of Type (B) are the counterpart of Public Schools (in England and elsewhere) and will cover institutions like the Scindia Schools in Gwalior or the Doon School at Dehra Dun or the new English-medium public schools which are being started in many other places. Colleges like the

former Raj Kumar College (where they still exist) will also come under this category.

There is some difficulty of classification in Type (C). Institutions of the proper linguistic minorities in a State such as Gujarati or Bengali schools in Poona or Bombay or Tamil schools in Bombay or Calcutta should be considered along with those in the second category because they are essentially similar to them in all other respects except the medium of instruction or special study of the language of the particular linguistic minority but which is nonetheless one of the regional Indian languages and is not associated or presumed to be associated with any particular religion or religious community. When they are excluded Type (C) will essentially consist of institutions run by the religious minorities such as the Muslim, Parsi or Christian schools and colleges.

Then there is an important and influential class of institutions, the convent schools and the mission schools and colleges. They may or may not strictly fall under Type (C) but it is convenient to consider them in this category as they have a clear sectional or denominational association and a part of their funds as well as the policy at the highest level may have its source and inspiration in foreign countries and/or in the hands of non-secular agencies.

II

The starting premises of this article are that the national system of education will be completely secular in its character, will cultivate a scientific outlook among the educated in order to achieve the country's general advancement and economic and industrial advance in particular, and will further the objective of a socialistic pattern of society. By national system is meant much more than a nationwide system of education; it means education which while keeping its eyes and ears receptive to the advanced thought and knowledge in other countries of the world outside is nonetheless oriented essentially to the conditions and pro-

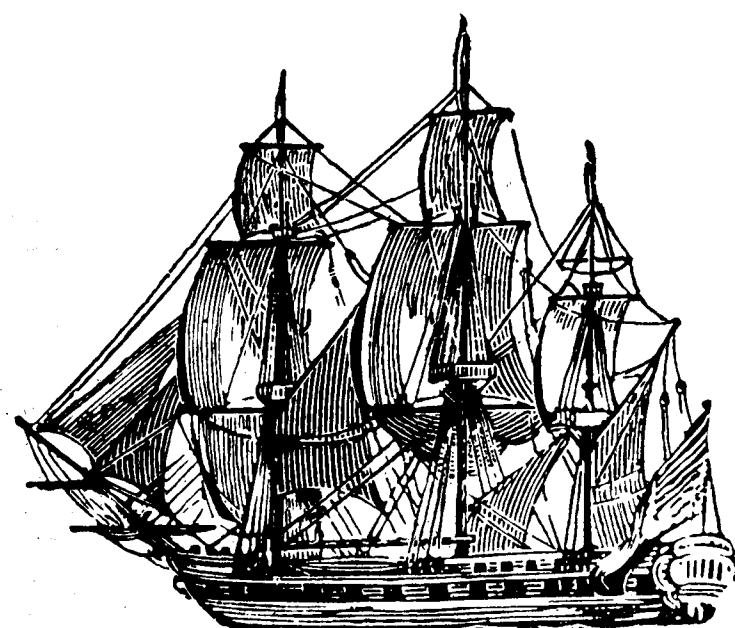
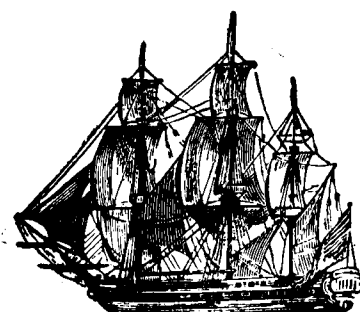
blems of the Indian society and its transformation from its present backward state to a modern industrialised and egalitarian society. Such a system will increasingly provide educational opportunities at various levels to all deserving children without privileges of class, caste or community. By secular we mean that the educational system while respecting all religions of India will not propagate for or associate itself with or against any of them and leave religion as a matter of conscience to be pursued according to one's beliefs outside the educational institutions. Another premise from which we shall proceed is that there is no necessary connection between religion and language and the present linking of a religion with a particular language has to be given up in the secular system of education.

From this point of view institutions included under Type (A) of the type of Pathashalas and Madrasahs do not really come under the purview of the national system of education because the content of modern education in these institutions will be very little. The State may continue to aid them if this is being done at the moment and on grounds other than that of education. It is clear that the State should not undertake any obligation for their expansion (or continuation if they are gradually disappearing) which is clearly the responsibility of the particular religious community if it feels that this is necessary. (There does not seem to be any constitutional obligation in this respect either.) Other institutions falling under Type (A) but which impart substantial contents of modern education will have to be considered along with Type (C).

III

Public Schools of Type (B) and institutions of Type (C) which are run like Public Schools and institutions like the convent and mission schools will be considered together. Public Schools provide a good-quality education, invariably in the English medium, by having well-qualified teachers, smaller classes, good equipment and an

GOLD RUSH

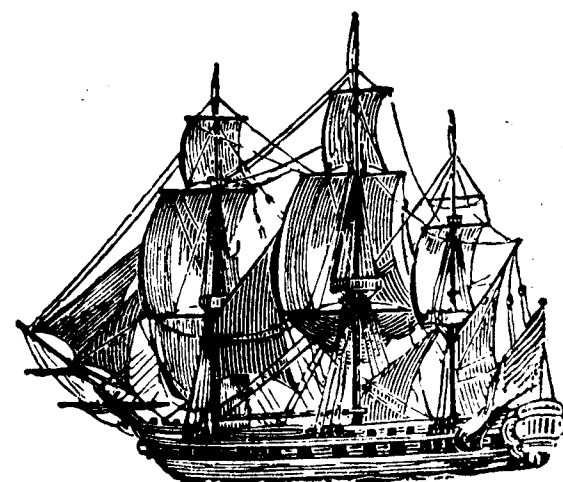


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THE ECONOMIC WEEKLY

efficient school administration. For this they charge high fees and in the process become exclusive institutions of the well-to-do classes. Convent and mission schools have most of these features and therefore to that extent are like Public Schools. There are two additional factors in the case of these latter, the particular denominational bias and the control of funds and high-level policy by a non-secular (and often foreign) agency. It is true that the number of these institutions is small in comparison with the institutions belonging to the second category, but their enrolment has rapidly increased during the last fifteen years. Their prestige and popularity has grown tremendously in the post-independence era and they wield considerable influence in the present educational situation. It is, therefore, necessary to have a closer look at these institutions and their product.

The exclusive atmosphere of these institutions gives them a kind of hot-house character isolating them completely from the common people, their thoughts and their aspirations, their problems and their solution. The adoption of the English medium from early stages of education and the consequent neglect of the Indian languages including the mother-tongue severs their alumni from the Indian thought, literature and culture both past and present and thus moves them further away from the life of the people. The teaching in these schools is frankly oriented towards the West and in particular towards the U K and the U S A. It is not uncommon to come across Convent Schools where the British royal family and leaders of the Western countries are held in far greater esteem and respect than the national leadership, and where anniversaries of national heroes like Shivaji and Tilak often go by default to accommodate minor Christian festivals. These schools do provide good education thanks to their smaller classes, well-qualified teachers, liberal supply of amenities and equipment and personal supervision which are possible mainly due to their affluence. The general emphasis in these institutions is on acquiring a good mastery over the English language and general smartness and the emphasis in classroom is on learning the techniques rather than on thinking or on cultivating a spirit of enquiry. The idea is to turn out a smart young man who can compete successfully for the jobs in the higher echelons of armed forces, civil services, managerial services in industry and

trade or the technological services in industry. It is hardly surprising that very few of their alumni have made any important original contribution to academic thought whether in scientific research or in philosophy or in the humanities or in literature (except perhaps in the 'Anglo-Indian' literature). But there is no doubt that this kind of education has a far greater job-securing potential in the sense mentioned above and that it also facilitates entry into upper social circles. In the prevailing conditions of selection, it is rapidly becoming a counterpart of the "old school tie" in England.

But this situation is far from satisfactory. Members of this new elite manning the important key-places in the country in spite of their acquisition of routine efficiency and technological know-how are thoroughly alienated from the common people and on account of their school environments and atmosphere are completely out of sympathy with them or their aspirations. The well-known British 'gentleman' from the public school had roots at least in the traditional upper class Tory culture in Britain; but the new Indian 'gentleman' vaguely oriented towards the West is just rootless in his own culture. He is only concerned with his skill and his prospects, his smart society and its so-called modern culture. He has no reason to feel any allegiance to the society at large and will have loyalty to no one except himself and perhaps his immediate employer. The concept of a socialistic pattern of society is hardly a part of his mental make-up and he is not likely to be moved by the great challenge of social change in this country except perhaps for the sake of rhetoric. This class is thus a most vulnerable section in the Indian intelligentsia so far as planning for a socialistic society is concerned and in a crisis caused by an attempt for a political shift to the right or the extreme right including a dictatorship he will not hesitate to transfer his loyalty to his new masters provided they keep intact his pay-pocket and relatively privileged social position.

This section of the rising intelligentsia should not be ignored because of its numerical smallness. It is occupying positions of strategic importance in the economic, social and administrative structure. It is closely linked with the emergent industrialists on the one side and with civil and military bureaucracy on the other. Moreover, it is being held as an ideal to the new generation of students.

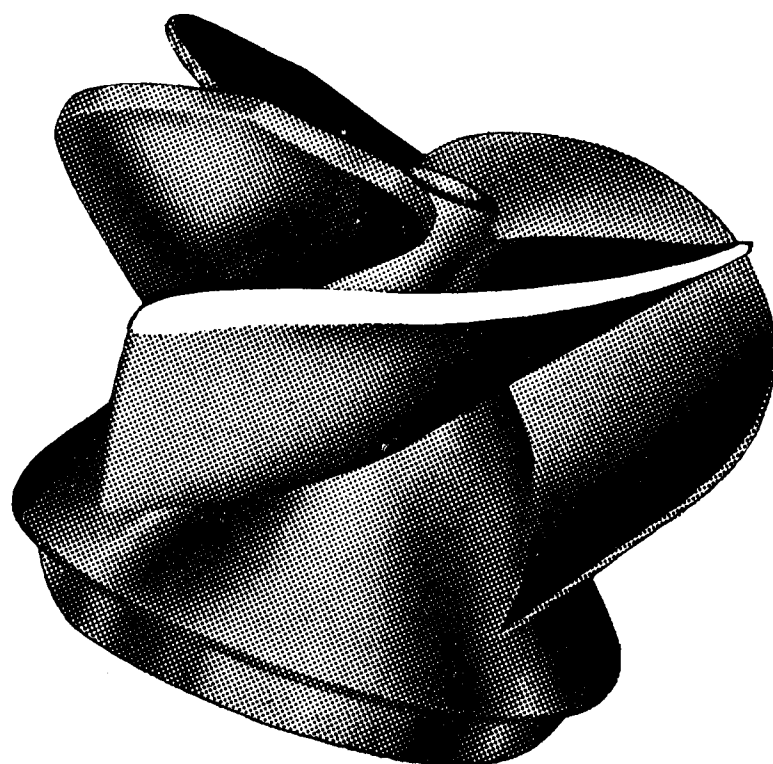
It was inevitable that a new class of administrators and technologists should emerge after independence and as a result of rapid industrialisation. It was also understandable that the children of the Civil Servants and the rising rich should try to monopolise these new jobs and manage to have the necessary type of education. The political leadership which was supposed to curb this process instead of doing so is directly or indirectly lining itself behind it. Indecision on the question of language has helped this process. There is a characteristic double-think about the educational policy in this country in this respect. While public men go on making loud proclamations about the development of regional languages and Hindi little is done to implement them. This has resulted in an even greater stress on the use of English than ever before and a greater premium on English-medium education, and the same leaders who continue to talk about education through the regional languages, socialism and egalitarian society are careful enough to send their own children to English-medium public schools or Convent or mission schools. It is therefore not surprising that even the middle and lower middle class families are trying anyhow to send their children to these expensive schools by tightening the belts if necessary. It is necessary to devise measures which will halt this process and to adopt a policy which will curb at least the most undesirable features of the existing institutions of this category.

IV

It is true that the constitution has given rights to linguistic and religious minorities to establish their educational institutions and it is also true that any section of the people can start the educational institutions which they desire to have (such as the public schools). It is for the constitutional experts to suggest how the policy decisions in education can be devised to carry forward the objectives mentioned above at the beginning of Section II so that they do not conflict with these constitutional provisions. If this is found impossible there is no reason why the constitution should not be suitably amended in this respect. And in any case the policy of grant-in-aid, recognition and general exercise of control on all public institutions can and should always be utilized to the fullest extent to further the educational objectives.

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Let us first consider the schools conducted by religious minorities. While recognizing the right of religious minorities to establish institutions for religious instruction there is no reason why this should be mixed up with educational instruction. Any religious minority (or majority) can arrange for religious instruction by establishing institutions like the Sunday Schools and it is not necessary nor desirable to mix it up with general education. In fact there should be a complete severance of modern secular education from traditional religious beliefs. It is high time that the linking of religion with language is also broken. It is perhaps understandable that purely religious instruction should be associated with languages of the scriptures like Sanskrit, Arabic, Latin or Hebrew. But one fails to see why there should be secular schools with Urdu medium for the Maharashtra Muslims whose mother-tongue is Marathi or have Christian or Convent Schools in English when Christianity as a religion has as such nothing to do with the English language. The situation borders on becoming ridiculous at present when the large majority of children in convent schools in Poona or Bombay speak the regional languages—Marathi or Gujarati—and not English. Along with the separation of religious instruction and secular education, and of religion of a minority and a language, two other important principles should also be laid down to govern the educational institutions of private educational effort. The management of every school or college should be in the hands of a public body (registered under the Public Charitable Trusts Act) and the control of funds and policy should be entirely in the hands of Indian nationals. These principles should be operative in the case of all institutions of education whether they receive government grants or not. Finally institutions like Public Schools catering exclusively to the children of the well-to-do classes and/or which charge fees higher than the limit prescribed by government for other institutions in the region should receive no grant from the government irrespective of whether they provide elementary, secondary or higher education.

The present government policy about Public Schools is another example of double-think. While professing the egalitarian and socialistic objectives the Education Ministry has not hesitated to start Public Schools and extol their so-called virtues. During

the last session of the Parliament the Education Minister is reported to have given a most amazing defence of Public Schools by saying that they cultivate the quality of leadership. So the Indian political leaders continue to accept the old British outlook of the Victoria era when it is no longer seriously professed even in Britain. To meet the obvious criticism that the Public Schools are exclusive schools for the well-to-do classes the Education Ministry came out with a sop that a few children of the not-so-rich parents will be given merit scholarships so as to enable them to have education in the Public Schools and thus allow them graciously to elevate themselves to the class of the old school tie. It is quite clear that government policy of running and/or supporting Public Schools (whether as Sainik Schools or under some other name) goes entirely against their proclaimed aims about the direction of social change.

We may consider at this stage the facilities for talented children. As implied in the preceding paragraph it is not in their best interests to award them merit scholarships and send them to Public Schools which may succeed in transforming them into the 'gentleman' elite but which are hardly the place to develop or channelize their talents into creative activity. The best way in which talent can be fostered is to make adequate special provision for it in some of the common schools and/or by founding special schools for talented children under the direction of National or State Councils of Education. Experience in other countries like the USSR and the USA may provide valuable guidelines in this connection.

The problem of encouraging the children from the underprivileged classes has to be tackled in a different and more comprehensive manner. At present a liberal number of scholarships, free places and other concessions are made available to them. But there is a prevailing feeling that the returns to this expenditure are far from satisfactory. The reasons are not far to seek. The main handicap from which these students suffer is the lack of educational background at home and this cannot be overcome merely by giving them monetary assistance. They must also be provided with close personal guidance both educational and general. A better plan would be to provide the talented children of these classes with all educational expenses (not merely fees),

good hostel facilities including close supervision of their work; and there should also be a method of elimination at definite academic stages of those who are found wanting in spite of all these facilities.

A word about the new schools which the Government is going to establish from this year for the children of the Central Government servants (who are liable to be transferred from place to place) for preparing them for the Indian School Certificate Examination. While some such provision is no doubt necessary it is hoped that they do not become another set of government-run public Schools for the perpetuation of the present upper classes. This is a real possibility because with the present language policy of the government the medium in the schools may be inevitably English for a long time to come and both the political and administrative thinking is heavily biased towards the Public School type of teaching and management. (Incidentally it is possible to introduce an innovation in these schools of charging fees according to the income of the parent instead of at a flat rate at present.)

V

We conclude this article by briefly stating the principles which in our opinion should be the basis of the State policy towards the private educational institutions of this category, that is, those associated with sectional interests. The State can and should influence the educational institutions of private enterprise by means of adopting suitable policies in respect of financial support, recognition and general administrative control. This is desirable not only in order to help them play their rightful role in the national system of education but also to see that their activity is consistent with and in furtherance of the educational objectives described above in Section II. As stated earlier all education should be secular, even in the institutions of the religious minorities like Muslim schools or in mission schools and Convent schools. The right to establish such institutions should never be so interpreted as to create doctrinal exclusiveness for a particular caste, community or religion. The right may be exercised by a minority group which feels that it is necessary for the protection of their (secular) educational interests to establish their own schools and which feels that they would otherwise be swamped or neglected. In these

schools they may reserve a certain percentage of seats for their children and encourage them otherwise by providing other facilities strictly out of non-government funds. Secondly, as mentioned earlier the management of every educational institution (whether minority schools or otherwise) must vest in a non-profit Public Society and must be registered under the Pub-

lic Charitable Trusts Act. (A model constitution giving ample latitude for variation but which does not contravene the principles enumerated above may be prepared for this purpose.) Thirdly, all matters of policy, management and control, must be in the hands of Indian nationals. This is especially applicable in the case of institutions like mission schools and

colleges where a part of funds comes from foreign sources. All financial contributions obtained in India or abroad should be in the form of plain charity with no strings attached (except perhaps the trivial ones such as giving the names of the donor). A comprehensive policy incorporating these principles is urgently needed in the present educational situation.

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Economics of Stop-Go War

A Preliminary Outline

R K Hazari

The more one thinks of the implications of economic planning in the situation we are in today, the clearer it becomes that we have to move towards Soviet-type planning, but with four fundamental adaptations:

- greater reliance on the market mechanism on the pattern recommended by the Raj Committee on steel distribution;*
- greater incentives and supplies of inputs to the farmer;*
- further stepping up of the growth of merchant shipping; and,*
- getting foreign collaboration, on difficult terms, if necessary, for the next five to ten years in those basic industries the setting up and good performance of which would substantially reduce our dependence on foreign assistance.*

THE situation on our borders represents a peculiar and almost unprecedented kind of conflict. It is a stop-go war, which alternates between minor border skirmishes, intense hostilities of major proportions but limited in time and area, and uneasy truces. Increasing preparedness for a full-fledged war and the deterrent effect which this preparedness could have against actual war are the only perennial features. The past provides no guidance to indicate the line of military and economic action which should be adopted. The armaments race between USA and USSR during the active phase of the cold war is some kind of parallel but of very limited relevance since their resources are much larger and the few confrontations between them have taken place far away from their own borders. At the moment of writing, conditions are too fluid to allow firm conjectures about the course of future events. The exchange of angry words across the borders notwithstanding, it can be assumed with some reason that we have to be prepared more for a stop-go war than for a prolonged war to the finish against Pakistan and China. The conflict with Pakistan would, for quite some time, be restrained by Western and USSR interest in the prevention of large scale fighting. China's interest in weakening India would be satisfied by military activities along the upper reaches of the Himalayas and by straining the Indian economy to the point of uncontrollable consumer distress. What are the implications of this conflict for our economy?

The Objectives

Confrontation with Pakistan has practically no economic basis so far as we are concerned. We have no desire to hinder economic progress in

Pakistan, if for no other reason than because the pattern of development chosen by her does not represent any economic or military danger to us. Given our choice of the development pattern as compared with Pakistan, it should not be in Pakistan's interest to push us further in the direction of heavy industry, which would reinforce the potential military danger to her (though not to the same extent as to China). China has a definite interest in disrupting our economy, partly, for ideological reasons (military preparedness against China requires, as compared with Pakistan, much greater diversion of resources to defence and consequent pressure on consumer supplies) and partly, to increase substantially our dependence on foreign aid to a magnitude which would reduce its net economic content, thereby showing the rest of the world that her achievements are far superior to those of India. In dealing with Pakistan and China together, we have, in a word, to assert a decisive superiority of military potential against Pakistan and, at the same time, build up our economic performance to make it comparable with that of China.

How Much Defence?

Unlike Britain during the second world war, we have no massive lease-lend programme and Empire supplies to help us out; and we have much less room for manipulating our standard of living. If one leaves aside such intangibles of overwhelming importance as morale, discipline and technical training, defence and development go together only upto a point; beyond that their demands upon scarce physical resources render them competitive, a proposition which has been amply demonstrated since 1963. That makes it all the more essential to secure the

greatest military preparedness per rupee of expenditure and to mould development effectively to satisfy basic consumer demands and, at the same time, lay a strong base for future growth from internal resources. No information is available to the public on the effectiveness of defence expenditure, in terms of selecting the most economical among the various choices for given military requirements. One hopes that Government is making or will make efforts in this direction since defence absorbs directly about 6 per cent of national income and is no longer a negligible element in total expenditure. Here, attention is confined wholly to the economic implications of what has been forced upon us.

Integrating Defence into the Plan

The economics of a stop-go war differs in several respects from a full-fledged prolonged war. On the positive side, it inflicts less physical damage and does not require the same totality and intensity of mobilisation. Negatively, the objectives are not equally clear. The pace and pattern of requirements, both material and intangible, are uncertain. There is consistent and predictable demand for war goods: only rush orders, unevenly spaced in time, quantity and delivery schedules, more for stockpiling than for feeding a shooting war, can be expected. This has been the experience of industry since late 1962, when development and defence were declared to be complementary but practically no attempts were made to integrate defence and planning. For some time, the Department of Economic and Defence Co-ordination looked after such integration as there was but, later, its activities were confined to allocations of foreign exchange for defence equipment and supervision of defence sup-

plies. One may or may not deplore the keeping out of the Planning Commission from this attempt at co-ordination but the fact remains that no comprehensive studies were made to determine inter-industrial flows for defence purposes. The ordnance factories are self-sufficient in a number of goods and the more sophisticated equipment has to be procured from abroad (for which there is some kind of foreign exchange budgeting) but the ordnance requirements of intermediates, components and machinery from domestic sources will now cease to be marginal. Projections for such procurement have never been worked out in any detail, not because they are inherently more difficult than ordinary economic projections but because they require a firm decision about the kind and extent of preparedness and intermittent shooting that are expected. Once this decision is made (as part of the present mood to take decisions at last) its economic and, more precisely, its inter-industrial flow implications can be worked out within reasonable margins of error.

Prospects of Aid

Let us start with some assumptions on which this integrated programmes might have to be based. Present indications are that economic assistance in the pipeline, i.e. aid which has been sanctioned but is yet to be disbursed fully, from all sources will continue to be made available. Aid which has been pledged but not yet authorised by Consortium members can also be expected to come through. Fresh pledges of aid from this main source, which accounts for about 80 to 85 per cent of all assistance, are doubtful in the near future—though the next Consortium meeting is some months away in any case. P.L. 480 food imports, which are not part of the Consortium arrangements, will continue but the agreements will be such as to provide only for ship-to-mouth supplies. Economic (and military) aid from the Soviet bloc will remain and might even be enlarged; this would take care of a substantial part of our requirements for power and heavy engineering projects. Private foreign collaborations in force and/or in an advanced stage of negotiation should remain unaffected, particularly in such key sectors as fertilisers, petroleum refineries and petro-chemicals. It is also reasonable to presume further that (i) we will not enter into the manufacture of nuclear armaments, unless we are forced into an indepen-

dent prolonged stand against China, (ii) that the conflict with Pakistan would remain within limited proportions, and (iii) that the confrontation with China would remain one of bluff and bluster accompanied by patrolling and skirmishes with fighting, if any, confined to occasional thrusts. Finally, we would continue to honour our external debt obligations.

Given these assumptions and the background of recent events, the immediate impact on the economy can be broadly outlined. The *kharif* crop (which is fortunately not the main crop in that area) in Punjab and Rajasthan would be damaged to some extent by troop movements, security precautions, call up of army reserves, and mobilisation of transport. Imports from Western countries (including Japan and Australia) would be severely restricted: on the extreme assumptions listed above, imports from these sources would be reduced by at least one-fourth to one-third. Imports from the Soviet bloc might go up somewhat. Export performance would provide only marginal relief. It is difficult to assess the over-all impact of all these on investment and output. It is a safe guess that the growth of investment would be affected much more than that of output. The task of reoriented planning, therefore, is to see that these adverse effects are restricted to the relatively dispensable sectors.

Planning Flow of Materials

Reorientation of planning is not an easy task, particularly when the course of conflict and the attitudes of aid-giving countries in the immediate future are still largely unpredictable. A clearer picture of the emerging situation would take at least a couple of months and only then can Government proceed towards a really thorough recasting of the plan. In the meanwhile, it is useful to understand what reorientation implies and involves. Larger production of defence equipment and materials is readily understood but this has little meaning unless one knows the magnitude, pattern and phasing of such production. Once these are known, the next important step is to work out the inter-industrial and inter-firm flows of materials and equipment. It is important in this context to see that cuts in imports do not fall heavily on industrial units which (i) provide the components for defence and (ii) from the primary base of import substitution in capital goods and essential materials. Priority atten-

tion is required for as much self-sufficiency and ingenuity as possible in spare parts; foreign collaboration agreements should be amended if they impose avoidable burdens through continued import of spare parts. Mobilisation of technical manpower and intensive training of both defence and civil personnel in the handling and adaptation of machinery are no less necessary. In aggregative terms, private and public consumption expenditure has to be restricted, in order to attain a higher ratio of investment to national output. This higher ratio has to perform the two old task of filling up the savings gap, i.e. the difference between domestic savings and investment so far made up by import of capital, and the foreign exchange gap also made up from the same source. The rupee gap can, of course, be made up rather more easily than the balance of payments gap.

Soviet-Type Planning

What all this implies, in brief, is that defence orientation requires a plan which takes a much smaller credit for external assistance and places much greater emphasis on the production of food, capital and intermediate goods.

The more one thinks about the implications of such planning, the clearer it becomes that this country would have to move towards Soviet-type planning but with four fundamental adaptations: (i) greater reliance on the market mechanisms on the pattern recommended by the Raj Committee report on steel distribution; (ii) greater incentives and supplies to the farmer; (iii) further stepping up of the growth of merchant shipping; and (iv) getting private foreign collaboration on atrocious terms, if necessary, for the next five to ten years in those basic industries the setting up and good performance of which would substantially reduce our dependence upon foreign aid.

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Defence-Orientation of the Chemical Industry

Its Implications

Ajoy Gupta

The chemical industry has a very important place in defence planning as supplier of two crucial needs: (a) jet fuels for the air force; and (b) chemical explosives for ammunition. An attempt is made here to examine the prospects of self-sufficiency in respect of both of these items, considering the present state of development of the chemical industry.

As for jet fuel, we should be in a position to meet most of the demand for JP 4, the standard fuel for military jet aircraft, from internal production provided civilian consumption of kerosene can be adequately cut.

The three basic chemicals needed for production of explosives—ammonia, toluene and formaldehyde—are very much inter-related and are the products of three basic industries: fertilisers, iron and steel and petrochemicals. A properly integrated complex based on raw materials derived from these industries can achieve self-sufficiency in explosives.

Of the three chemicals, two are being produced or can be produced immediately in fairly large quantities from existing sources. This, however, is not the case with the third, formaldehyde. The raw material for formaldehyde is methanol. The natural source of methanol—wood distillation—has very limited scope. Hence we have to produce methanol synthetically in our projected petrochemical plants.

DEFENCE-ORIENTED planning in a time of emergency has two aspects; first, planning of production of vital defence materials to meet the urgent demands of the armed forces and, second, long-term planning for achieving self-sufficiency in strategic materials. Stock-piling of these materials through imports is a possibility which is not open to us for obvious reasons and so there is no other alternative but to plan ahead for maximum possible self-sufficiency.

The chemical industry has a crucial place in defence-oriented planning; two vital defence needs are: (a) jet fuels for the air force; and, (b) chemical explosives for ammunition. Almost all modern aircraft—fighters, bombers and reconnaissance and transport planes—are fitted with jet engines because of the need for high speed and manoeuvrability. Since jet engines operate at high altitudes in low temperature, sometimes as low as 65°C, fuels like diesel fuel cannot be used since they solidify at low temperatures. Operation at high altitudes where the pressure is much lower than on the ground (almost about 1/10th) also rules out the use of light fraction gasoline by itself because it would evaporate away. Kerosene fraction (the middle fraction) was, therefore, selected as the most suitable fuel in the early jet engines.

The rapid increase in the use of jet engines brought the realisation that sufficient kerosene could not be produced from crude petroleum, particularly during a war when very large quantities would be needed. The problem became even more acute with spe-

cial kerosene (aviation kerosene) with special properties which yielded better jet engine performance. To provide a suitable fuel for military use, therefore, a jet fuel specification was drawn up which permitted the use of motor gasoline (without tetraethyl lead), kerosene and cracked gas oil boiling in the kerosene range. In times of emergency, about 50 per cent of crude petroleum can be converted into this widecut gasoline fuel. The vapour pressure of this gasoline is about 5-7 lbs/sq inch. Under some operating conditions at high altitudes, this relatively high vapour pressure causes excessive fuel loss due to evaporation. Therefore, an ideal fuel with a vapour pressure of 2-3 lbs/sq inch is now commonly used as military jet fuel. About 35 per cent of the crude petroleum can be converted into this widecut gasoline with a lower volatility. In the United States different types of jet fuels have been given the following designations, which are almost universally used: (1) aviation kerosene—JP1; (2) widecut gasoline (5-7 psi) — JP3; and (3) widecut gasoline (2-3 psi) —JP4.

JP4 is the standard fuel for military aircraft. Most commercial airlines use JP1, because under some conditions this has a lesser fire hazard. We now have seven refineries in operation and two are in the process of being erected with two more at the blue-print stage. Refining capacity in 1965-66 will be about 14 million tons which is estimated to go up to about 29 million tons by 1970-71. The table gives the throughput capacity of the different refineries.

The pattern of consumption of the

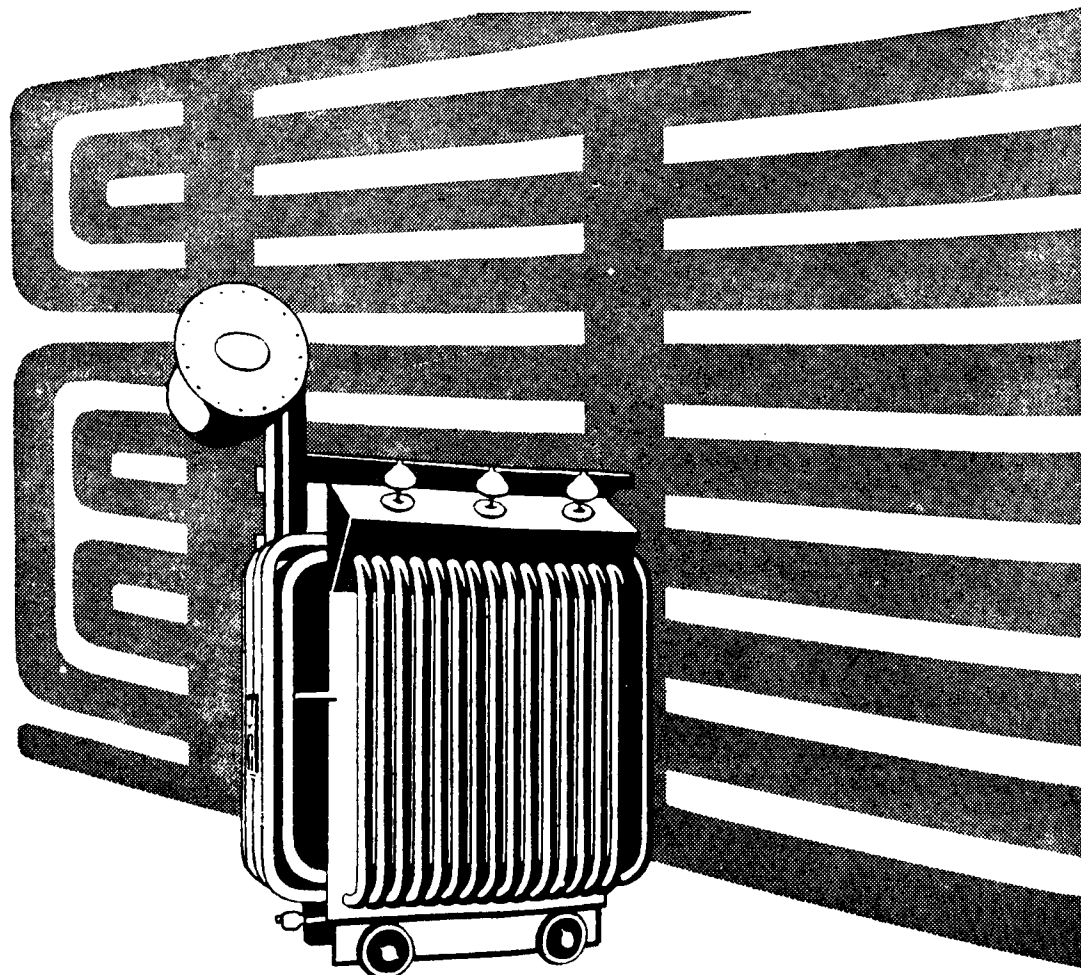
different petroleum products is quite different in India from that in the industrialised countries. In spite of the large deposits of coal available, the main domestic fuel in millions of homes in our villages is kerosene. According to the report of the Energy Survey Committee, the share of kerosene middle distillates in the total demand for petroleum products is as high as 29.3 per cent. However, kerosene middle distillates are only 13 per cent of the total output of all the refineries. Hence, a part of the demand for kerosene has to be met from imports. In the case of gasoline motor spirits, the position is just the opposite demand is only 12.9 per cent of total, but production is 20 per cent of total refinery output. There is thus a surplus of light naphtha fraction which is now used for fertiliser production and in petro-chemical projects.

Table : Throughput of Refineries
('000 tonnes)

	1965-66	1970-71
(1) Bombay (Burmah-Shell)	3750	4750
(2) Bombay (ESSO)	2500	3500
(3) Vizagapatam (Caltex)	1050	1550
(4) Digboi	460	460
(5) Barauni	2000	3000
(6) Koyali	2000	3000
(7) Nunmati	740	1000
(8) Cochin	1500	3500
(9) Madras (projected)	...	2500
(10) Haldia (projected)	...	2500
(11) North West India (projected)	...	3500
(12) Total	14010	29260

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The annual consumption of kerosene in 1960-61 was 20,90,000 tons against a production of only 9,45,000 tons. In 1965-66 the demand is expected to go up to 32,00,000 tons against an expected production of 25,13,000 tons. The deficit of 6,87,000 tons has to be imported from abroad, probably from the rupee payment areas. On the other hand, in 1965-66 the expected production of gasoline will be 23,14,000 tons against a consumption of 16,65,000 tons giving a surplus of 6,49,000 tons. From these figures it is clear that although we have a shortage of kerosene, we can still meet the demand for jet fuels from internal production—only civil consumption of kerosene will have to be reduced. In fact we are already producing some jet fuels. The estimated demand for JP4 in 1965-66 is about 5,00,000 tons and the Fourth Plan expected this to go up to about 5,27,000 tons in 1970-71. It is difficult to say exactly by how much these estimates will have to be revised upwards as a result of the war and heightened defence preparations.

Coming to explosives, three different types of chemical explosives are mainly used in modern conventional warfare.

(1) *Initiator or primary explosives (detonators).* These are sensitive materials which can be made to explode by means of a slight blow. They are dangerous to handle and are used in small quantities to start explosions. A few important detonators are: lead-azide, mercury fulminate, diazodinitrophenol, and lead trinitro-resorcinate.

(2) *Low explosives or propellants.* These are used mainly as propellants for projectiles and have a fairly limited use. Some propellants are: colloidal cellulose nitrate, black power, etc.

(3) *High explosives.* These are the

main explosives used in modern warfare and are needed in large quantities in the manufacture of all types of shells and bombs. A steady supply of these is absolutely necessary in war for munition production. The main types of high explosives are: (a) trinitro Toluene, commonly known as TNT (manufactured by the nitration of toluene); (b) cyclonite, commonly known as RDX (chemical name, trimethylene-trinitramine); and (c) pentaerythritol tetranitrate, commonly known as PETN. No estimate of the requirements of these items is available though as defence preparations are stepped up, or in the eventuality of a full-scale war, demand will no doubt run into a few million tonnes each.

(a) Trinitro Toluene (TNT) is one of the most important military high explosives used. Because of its low melting point (81°C) it is loaded into shells in molten state; the low melting point also makes its use advantageous from the standpoint of safety. It is made by nitration of toluene with mixed acids. Toluene is a product of coal tar distillation and is available from the coke oven plants of the iron and steel factories as a by-product.

(b) Cyclonite (RDX) is a very effective booster and high explosive and is 50 per cent more powerful than TNT. It is manufactured by destructive nitration of hexamethylene tetramine (hexamine) with concentrated nitric acid. Hexamine in turn is manufactured by the inter-action of ammonia with formaldehyde.

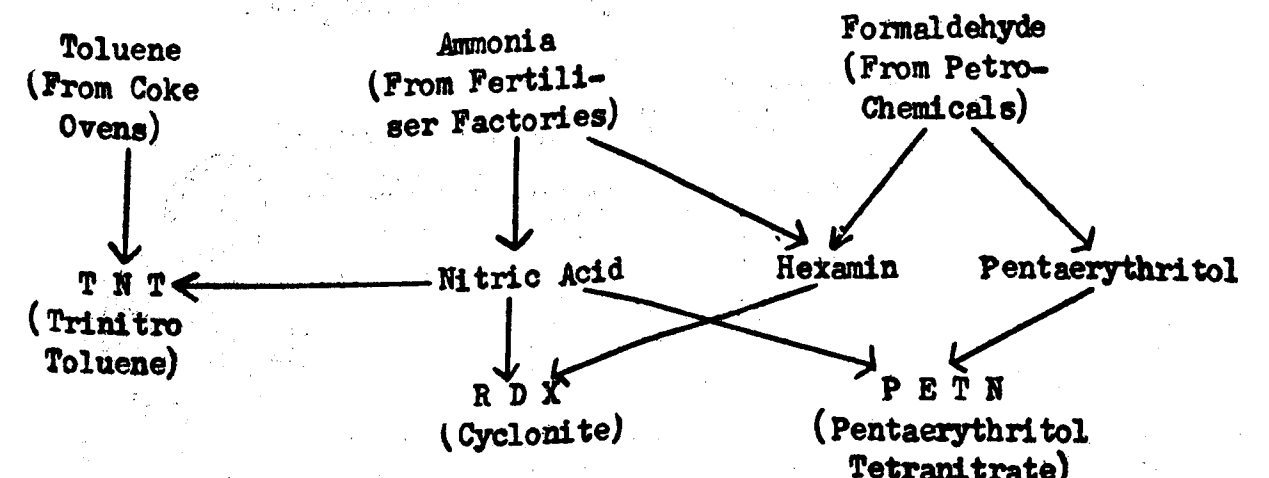
(c) Pentaerythritol tetranitrate (PETN) is an extremely powerful, sensitive explosive which was used in World War II in place of nitroglycerine. It is made by nitration of the four hydroxy groups of pentaerythritol

with concentrated nitric acid. Pentaerythritol is again manufactured from formaldehyde. Contrary to popular belief, nitroglycerine is very little used now as a high explosive for military purposes. It is mainly used in blasting and mining operations.

These three high explosives are chemicals similar to each other as they are all nitro derivatives. Three basic chemicals are necessary for their production. They are ammonia, toluene and formaldehyde. Of these ammonia and toluene are available in plenty; only formaldehyde is in short supply and will continue to be so till our petro-chemical projects come into operation. The technological pattern of production of these high explosives can be understood from the diagram below.

Ammonia: Nitrogen and hydrogen in a 1 to 3 ratio react catalytically at high temperature and pressure to produce ammonia. Nitrogen is derived from the air by means of liquefaction, producer gas reaction or by burning out the oxygen in air with hydrogen. Hydrogen is obtained from many sources, including water gas, coke oven gas, natural gas, naphtha, refinery gas or electrolysis of water or brine. Ammonia is converted to nitric acid by catalytic oxidation.

Nitric Acid: Our peace time annual production of nitric acid is rather small. It is estimated to be only 50,000 tons in 1965-66 and 160,000 tons in 1970-71 but we have the potential to produce much more. At least two of the five public sector fertiliser factories, i.e. Nangal and Trombay, can be converted without much difficulty to produce nitric acid from ammonia. Nangal alone produces 300 tons of ammonia per day and it has an installed capacity to convert 50 per cent of this ammonia into nitric acid.



Toluene: The main source of toluene is the coal-tar distillation of the coke oven plants. The present capacity for production of toluene is about 20,000 tons per year which is far greater than requirements which were estimated at about 4,000 tons per annum in 1965-66 and 6,000 tons in 1970-71. These figures will have to be revised in view of the present emergency. But we should be able to meet even much higher demand. On the basis of production of iron ingots our capacity to produce toluene may be estimated at 22,000 tons in 1965-66 and 44,000 tonnes in 1970-71. During the second World War the United States found it difficult to meet its army ordinance requirements of toluene from supplies from the oven plants and had to turn to the petro-chemical industry for additional supplies. However, as we have a surplus of toluene from the coke oven plants, it is unlikely that we will need to depend on toluene from the petroleum refineries at least for the present.

Formaldehyde: This is one of the basic chemicals production of which is mainly dependent on the development of the petro-chemical industry.

At present we have no unit in production. Recently construction of a plant has started at Kandla in Gujarat for the production of 14,000 tons of formaldehyde (37 per cent) per year. The pre-emergency estimate of requirement for the year 1965-66 was 30,000 tons and 70,000 tons for 1970-71.

There are two methods of commercial manufacture of formaldehyde: (1) by the catalytic oxidation of methanol; and, (2) by the oxidation of paraffin hydrocarbons from the petroleum industry. The first method is the most used one and about 75 per cent of world output is produced from methanol. Our present capacity for production of methanol is nil, though the Third Plan did estimate production of 30,000 tonnes per annum by its end; by the end of the Fourth Plan, it is now estimated, production would be 90,000 tonnes. In view of the much larger demand that is now expected to materialise in view of the projected defence build-up much larger capacities for production of both formaldehyde and methanol will have to be created. Formaldehyde has also many peacetime uses, such as in hexamine, synthetic resins and bakelite and in

the synthetic plastic and chemical industry.

From the foregoing paragraphs two points are quite clear:

(a) Out of the three essential raw materials needed for production of explosives—nitric acid, toluene and formaldehyde—two are being produced or can be produced immediately in fairly large quantities from existing sources. The third, formaldehyde, is urgently needed to be produced in India. The raw material for production of formaldehyde is methanol. The natural source of methanol in our country—wood distillation—has very limited scope (only a few tons are produced at the Bhadravati Iron and Steel Works, Mysore). Hence we have to produce it synthetically in the proposed petrochemical projects.

(b) The three basic chemicals needed for production of explosives are very much inter-related and are products of three basic industries—fertilisers, iron and steel and petro-chemicals. A properly integrated complex based on raw materials derived from these industries will achieve self-sufficiency in production of explosives.

Dull and Hesitant

Thursday, Morning

DALAL STREET continues to present a picture of unrelieved gloom. The cessation of hostilities between India and Pakistan has brought no relief to the market where turnover has dwindled to a mere trickle. The outside public seems to have developed a thorough dislike for the stock market and since professional operators live mainly on outside public money, they too are reluctant to extend commitments. The small day-to-day fluctuations seems to be guided mostly by the actions of a few big speculators who are finding it difficult to get away from the market much as they would like to because the market no longer holds the promise the big fortune.

In extremely slow dealings, even the popular speculative counters last week drifted idly in a very narrow range and showed only minor variations over the week. Dalal Street slipped to a new low level on October 11 but thereafter it steadied a little on scarcity of fresh offerings and modest replacement buying. The market's performance might have been worse but for the firmness in Tata Steel noticed near the weekend. Improvement in Tata Steel was due mainly to fresh large buying by the Life Insurance Corporation though sentiment was also aided by reports that the company had obtained a letter of intent for the manufacture of certain new items, namely, cast iron rolls, steel base rolls and cast steel rolls which are currently being imported.

Diwali is only a few days away but the festival spirit is just not there. This is because nobody expects Diwali to usher in a more prosperous year. The stock exchange community's difficulties are, in fact, expected to increase with the intensification of the defence effort. The Fourth Plan is being reshaped to meet the needs of defence and development and the Finance Minister Krishnamachari and Shri Asoka Mehta have been trying to impress on the States the need for mobilising resources to implement their Plans. The stock market can scarcely feel happy over the prospect of a further big draft on the already strained resources of the community.

COTTON

Prices at New High

HAVING prescribed stiffer margins for oilseeds speculators, the Forward Markets Commission could not

possibly have delayed similar action against speculators' in cotton without being accused of partiality, particularly when cotton futures had already risen fairly close to the higher statutory ceiling for the new season. Additional regulatory measures for cotton were announced on October 8—two days after the imposition of stiffer margins on oilseeds futures. These measures include a limit on the rise in price in any week to Rs 5 per 3 quintals whenever the hedge contract rules above Rs 910 and the payment of special margins at the rates of Rs 100 and Rs 150 per bale whenever the contract closes above Rs 910 and Rs 920 respectively. There already exists a special margin of Rs 200 per bale at above Rs 930.

After a small early setback from Rs 908.25 to Rs 905.25 the hedge contract moved up gradually to a new high of Rs 911.25 on October 13. However, in order to avoid the margin, the bulls preferred to keep the closing price just at Rs 910. Unless, of course, the bulls wish to scare their rivals by their show of financial might, there is little to be gained by the payment of such a heavy margin when the contract is standing only Rs 26 below its statutory ceiling so very early in its career. The April contract made its official appearance only about six weeks ago—on August 31 to be very precise.

The rise in the hedge contract fairly close to the ceiling reflects the generally anticipated decline in cotton production in the new season. Because of the continuing dry spell right up to the middle of this month, the 1965-66 crop is stated to have suffered both quantitatively and qualitatively. This is most unfortunate and it is bound to add to the cotton textile industry's difficulties. With the new crop estimated to be no better than the previous season's crop, cotton prices are expected to keep near the revised ceilings. And if the country is unable to secure sufficiently large quantities of cotton from abroad—a good deal will depend on supplies under PL 480—cotton prices could easily record new high levels, the financial stringency notwithstanding.

While the outlook for the new crop is disappointing, the Reserve Bank of India's decision to remove restrictions on bank advances against new crop

cotton will be welcomed as it would assist genuine marketing and trading activities in the current cotton season. The banks have, however, been requested to see that the aggregate levels of advances against cotton and 'kapas' at different stages in the 1965-66 cotton season are phased on the same pattern as in the 1964-65 season. The existing margin restrictions on old crop are being continued for the present. It might be pointed out that new season's crop has still to start moving in a big way. The Punjab cotton, which is the first major crop to move into the market, has not started moving because of the prevailing political situation. Arrivals from the Punjab are expected to pick up shortly. Because the Deshi cotton crop is not expected to exceed 4.5 lakh bales as against the earlier estimates of about 6 lakh bales, Deshi prices have already touched an all-time high. Export business has been restricted, with sales registered up to October 6 totalling 28,368 bales. Turnover in the spot cotton market continues to be restricted by the scarcity of good quality cottons.

OILSEEDS

Prices Soar

ON October 13, groundnut oil December delivery was marked up to Rs 32.50 (per 10 kilograms) and the spot quotation was slightly lower at Rs 32. Never has December delivery been quoted so high about the middle of October. Since new crop supplies become freely available after November, it is rarely that December position commands a premium over the spot quotation in October which is, the fag-end of the season. It is worth noting that the lowest price recorded by groundnut oil December delivery so far has been Rs 26.50 (this was early this month), whereas in October 1964, the December delivery had touched a low of Rs 18. Besides, spot quotation in October 1964 commanded a huge premium on the forward position.

The prevailing high prices of groundnut oil are attributable essentially to expectations of a serious fall in groundnut production in the new season due to the failure of rains during the most crucial period. The continuing dry spell has led to a drastic revision of estimates of the new crop which is cent below the previous season's figure, now generally placed at 20 to 25 per



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MADRAS 1

The crop has suffered almost everywhere but the States where production has suffered seriously are Gujarat, Madhya Pradesh, Uttar Pradesh and Rajasthan. Groundnut Bold and Comandel crops could still benefit from rains in the next few weeks of which there are no indications yet, but this is unlikely to make any big difference to the total production. In view of the substantially lower crop estimates, one could hardly blame speculators for exploiting the facility of trading in non-transferable specific delivery contract for groundnut oil.

While the groundnut crop has already been seriously affected by the prolonged dry spell, the prospects for linseed, rapeseed, kardiseed and gingelly seed—rabi crops—are also beginning to be viewed with considerable anxiety. Rains in coming weeks will have a significant bearing on sowings of rabi crop. In any case, even under ideal weather conditions the shortfall in groundnut production cannot be made good by the rabi harvest.

Not unless the country is able to secure large quantities of edible oils from abroad—a remote possibility indeed—the overall supply of edible oils during the 1965-66 season will show a substantial decline compared to the current season. This is bound to push up oilseeds prices to altogether new high levels, depending on how firmly the authorities are able to deal with the situation.

In view of the anticipated shortfall in groundnut production and the none-too-promising outlook for the rabi crop, it is scarcely surprising that speculators should have rigged up linseed and castor futures to new high levels—well beyond the levels at which stiffer margins become applicable. On October 13, castor April were bid up to Rs 106.50 and linseed April to Rs 124 (per quintal). Cottonseed January also rose to a new high of Rs 67. Margins can at best eliminate the small fry, leaving the more resourceful operators free to exploit a thin market. Speculation in castor and linseed futures is known to have assumed serious proportions. It is really astonishing that the authorities should permit speculation in linseed and castorseed which have a combined output of no more than 6 lakh tons, when similar facilities are denied in the case of the major crops of groundnut and mustard-seed.

Export business continues to be slack, even in groundnut extractions. Because of the elimination of establish-

ed shippers from the line—only manufacturers are allowed to export groundnut extractions with effect from October 1—sales outstanding in groundnut extractions are reported to be disappointing small for this time of the year. In the past, experienced shippers used to negotiate substantial forward business in October. Of course, the failure of the groundnut crop has also affected forward sales this year.

MONEY AND BANKING

Conditions Turn Easy

CREDIT conditions in the Bombay short term money market during the week to October 14 displayed signs of unsteadiness. During the initial part of the week the market ruled tight with demand for funds outstripping supply. As the week advanced supply overtook demand and the market showed signs of easiness. Rates during the later part of the week fell $6\frac{1}{2}$ per cent against 7 per cent during the preceding week.

Aggregate deposits of scheduled banks during the week to October 1 declined again for the second successive week from Rs 2787.60 crores to Rs 2781.71 crores, according to the statement of affairs of scheduled banks. Bank credit on the other hand has increased substantially by Rs 9.22

crores to Rs 2007.86 crores. The increase in credit has been met by borrowings from the Reserve Bank which increased by Rs 5.98 crores to Rs 14.66 crores and a reduction in balances held with the Reserve Bank from Rs 107.62 crores to Rs 104.53 crores. Cash in hand has also declined by Rs 3.12 crores to Rs 61.79 crores. Investments Rs 849.29 crores show an increase of Rs 7.22 crores over the preceding week.

Notes in circulation during the week to October 8 advanced substantially from Rs 2586.64 crores to Rs 2540.66 crores, according to the Statement of Affairs of the Reserve Bank of India. Balances held abroad registered a small increase of Rs 67 lakhs to Rs 9.25 crores but foreign securities were unchanged at Rs 70.63 crores. Central government deposits declined sharply by Rs 61.42 crores to Rs 62.82 crores, state government deposits were lower as well by Rs 3.97 crores at Rs 2.33 crores. Deposits of the scheduled banks at Rs 92.61 crores showed a fall of Rs 27.63 crores. Loans and advances to government were better by Rs 28 crores at Rs 110.21 crores. Advances to scheduled banks declined from Rs 16.04 crores as during the preceding week to Rs 13.09 crores. Investments were lower by Rs 44.58 crores at Rs 103.06 crores.

BUSINESS NOTES

Industrial Finance Corporation

AS an institution providing financial assistance to industry, the Industrial Finance Corporation has to keep a watchful eye on the conditions in which the various industries have to operate, for the prosperity or adversity experienced by the concerns assisted by it has a direct impact on its own operational results. The institution's observations on this point, therefore, deserve attention of the Government authorities as well as entrepreneurs. Its Chairman, A Baksi, in his statement at the annual meeting, has brought into focus the various difficulties and handicaps industry has been facing recently. Baksi has said that shortage of imported raw materials like copper, zinc, lead, alloy and special steels, rubber, sulphur, rayon grade pulp, etc., has tended to inhibit production in a number of the IFC assisted units and to increase their cost of manufacture. Recent additions to the duties on imported equipment and raw materials have necessitated recalculation of the estimates of cost

of several projects which are yet to go into operation. Delays in the construction of factories and erection of plant and machinery owing to various causes ranging from alterations in specifications to shortage of cement have also added to the burden.

Among the other difficulties experienced by industries, Baksi says, several units find that the total capital cost to be incurred before they can go into regular production is much higher than what they had originally estimated. In some instances this has happened due to switchover from imported to indigenous equipment which may cost more and take longer to secure. Then again, some units in fields like paper and caustic soda notice, after going into production, that their size is too small and that their earlier ideas of economic viability have been belied. He has also pointed out that a few units manufacturing refractories, sheet glass, household meters or certain grades of writing or printing paper find that the market prospects

on which they had based their schemes are not likely to materialise in the very near future. Besides, in some instances, some concerns have resorted to heavy unsecured borrowings in the shape of short-term deposits from the public at rates of interest very much higher than they would normally like to pay.

Alind

IN his address to shareholders of Aluminium Industries at their nineteenth annual general meeting held at Kundara some time ago, S Narayanaswamy, Chairman, stated that the company had received an industrial licence for the manufacture of cable making machinery. The plant is to be set up at Lingampalli, Hyderabad, in collaboration with the renowned Japanese firm of Miyazaki. Manufacture of cable-making machines is a logical follow-on of the company's present activities and should make for long-term self-sufficiency in the matter of machines required by new units and replacements by existing units, apart from making available spares and vital components to wire drawing and stranding machines that operate in the country. Referring to the new Properzi continuous rod rolling plant, which is expected to be commissioned before the end of the calendar year, he said that it would substantially enhance the company's ingot converting facilities and obviate the need for importing rods.

The company has also obtained a licence to add to existing bare conductor producing capacity at Kundara as well as Hirakud. It is proposed to establish a unit in Kerala for manufacturing switchgear with foreign financial participation. Negotiations are in progress with a reputed British firm for this purpose. "Solidal," the new low-voltage underground cable produced by the company, has been very well received in the market, and is well on the road to becoming a favourite. Narayanaswamy's optimism about the future prospects for this cable was reflected in his comment that "the spread of its use is likely to be conditioned more by our machine capacity rather than by limits in demand".

Imperial Tobacco

SPEAKING to shareholders at their annual meeting in Calcutta some time ago, the new Chairman of Imperial Tobacco, C A Bone, welcomed the flexibility of the new cigarette excise duty introduced in the 1965 Budget, for, he felt that it would develop the

already intense competition between all manufacturers, and that, with the research and product improvements which are constantly engaging the company's attention together with developments in the fields of marketing and distribution, Imperial Tobacco's brands would continue to give a good account of themselves. Bone pleaded for an extended period of stability in excise rates which, he hoped, would result in a natural increase in volume and generate higher revenue and assist in the government's efforts to resist inflation. He stated that the programme of modernisation of factories had been re-planned and extended and that substantial sums would be required for giving effect to these plans, but he assured shareholders that the company had built up adequate resources.

Jay Engineering

IN his Chairman's speech delivered some time ago at the annual meeting of Jay Engineering Works, Charat Ram has pointed out the need to make doctrinaire considerations subservient to economic considerations and to direct investment strictly through channels which will mean the lowest investment costs per unit of output and lowest costs of production. He has argued that in our country in its present state of development it is not a question of capitalism or socialism, or management or labour or the government. Every single policy, economic or political, says Charat Ram, should be measured only by the simple yardstick of its being either "pro-production" or "anti-production".

Complimenting the rank and file of Jay Engineering workers on their constructive endeavour in the face of the hostility of a band of "self-seeking labour leaders having anti-national attachments and echoing a foreign voice", Charat Ram has said that their dynamism alone enabled the company to record an improved profit position during the year to March last despite the fact that there were no operations in the first two months of the year due to the strike continuing from the previous year.

Mysore Lamp

THE implementation of Mysore Lamp's expansion has been delayed because the company has not received import licence for capital equipment required for the glass plant. The company needs to produce glass shells and tubes in its own glass plant to avoid shortage of these raw mate-

rials due to which it has not been able to achieve higher production of GLS lamps and of the production of fluorescent lamps and other varieties of lamps covered in the licences granted to it. Meanwhile, the company proposes to issue 1,28,677 equity shares of Rs 10 each at a premium of Rs nine per share to existing shareholders to find additional capital for the purchase of equipment required for the glass and fluorescent lamp plants.

As foreshadowed in the directors' report a year ago that the company will have to go with "little or no profits at all" till the expansion programme is implemented, the accounts for the years to March last show a loss of Rs 3.48 lakhs, as against a profit of Rs 0.41 lakh last year, even though the company produced a bigger quantity of lamps, 29.31 lakh pieces against 25.27 lakh pieces and sales were higher at Rs 28.94 lakhs compared to Rs 22.69 lakhs. Obviously, increased prices of raw materials and the increased expenditure involved in the process of implementing the expansion programme have together contributed to this outcome.

Assam Sillimanite

WITH the installation of imported plant and machinery at the Sillimanite's Ramgarh refractory plant, not only the quality of refractories has much improved but the capacity has also been raised. While imported plant and machinery for Sillimanite refractories has been erected and is in operation, the production has had to be limited to the kiln capacity. After some initial delay, the erection of kilns is in progress which, on completion, should result in increased production in the coming year. The company has been able to increase exports to the extent allowed by the Government in spite of severe competition in overseas markets.

During the year to March last, production of Sillimanite at the mine was maintained at the previous year's level, and sales increased by 12 per cent to Rs 55.03 lakhs. Gross profit, however, was slightly lower at Rs 10.48 lakhs, against Rs 11.15 lakhs a year before, reflecting that margins were under considerable pressure. After making necessary provisions, the net profit, however, is a shade better at Rs 3.34 lakhs (Rs 3.18 lakhs), of which dividend raised by a point to five per cent demands Rs 3.45 lakhs (Rs 2.76 lakhs).

Jaipur Udyog

STEPS are being taken by Jaipur Udyog to increase production of cement. The company has been sanctioned for this purpose import of balancing equipment worth Rs 25.84 lakhs from the U S. Improvement and mechanisation of limestone quarries are also being carried out to ensure larger output of limestone for increased cement production. A new compressor house is being erected for supply of adequate air for drilling operations and a high tension electric line is being extended by about 14 miles to connect the new compressor house. Besides, the company has applied for an industrial licence for installation of a fifth kiln of 600 tonnes per day capacity at Sawai Madhopur.

During the year to March 1965, both production and despatches showed a fall. Out of clinker and cement fell from 7,43,861 tonnes and 8,28,900 tonnes to 7,16,234 tonnes and 7,03,651 tonnes, respectively, and despatches were down from 8,40,368 tonnes to 6,98,683 tonnes. The shortfall is attributed to inadequate allocation of foreign exchange for the import of essential spares required for maintenance and operation of plant and machinery both at factory and quarries. Production difficulties were also experienced as additional power supply from Chambal hydel grid was totally stopped for nearly six months. Output as well as despatches, however, have shown a significant improvement in the first five months of the current year, and it is expected that the full year's working will show good results particularly because of the increase of Rs 4 per tonne in the cement retention price from June last.

Meanwhile, the 1964-65 results show cement sales down from Rs 9.57 crores to Rs 8.06 crores and after-tax profit from Rs 53.11 lakhs to Rs 21.84 lakhs. Of this, Rs 2.25 lakhs (Rs 2.90 lakhs) are allocated to development rebate reserve. The unchanged dividends on preference and equity shares together require Rs 27.25 lakhs. A sum of Rs 3.47 lakhs is transferred back from contingency reserve and the rest from general reserve to make up for the shortfall in the divisible profit.

M S Co-operative Bank

CO-OPERATIVE industries committees have been appointed by district central co-operative banks in Maharashtra in their respective districts

to study the possibilities of establishing agro-industries and pass on the primary data to the Co-operative Industries Commission. The object is to promote and run agro-industrial activities simultaneously and evenly throughout the State. The establishment of sugar factories in the co-operative sector and their successful working have created enthusiasm amongst co-operative workers and proposals for setting up industries have been formulated. But efforts have been so far uncoordinated and there has been no proper planning of the use of resources. A high-power committee has, therefore, been appointed to undertake such planning. The committee has under preparation a long-term plan for industrialisation with appropriate priorities. It will also prepare feasibility reports, project reports, etc.

Another notable event in the co-operative sector was the appointment by Maharashtra Government of the Maharashtra State Co-operative Marketing Society as its sole agent for monopoly procurement of jowar for which purpose the Maharashtra State Co-operative Bank made available finance upto Rs 12.67 lakhs to the Society. Thus for the first time the operations from procurement to distribution were undertaken by co-operatives. After procurement, jowar stocks were transported to other consuming centres, with most of the marketing societies working as sub-wholesalers, and passed on to consumer societies and fair price shops for retail sales to consumers.

During the year to June 1965, the Bank's income by way of interest and discount rose from Rs 2.15 crores to Rs 2.80 crores and net profit from Rs 38.30 lakhs to Rs 46.47 lakhs. Of this Rs 12.01 lakhs are carried to reserve fund, Rs 25.35 lakhs provided for payment of dividend at five per cent pro rata, Rs 3 lakhs for building reserve, Rs 0.50 lakh for fluctuation fund, Rs 5 lakhs for bonus to employees and Rs 0.60 lakh for contribution to the education fund of State Co-operative Union. As at the end of the year, deposits increased from Rs 3,529.75 lakhs to Rs 3,914.33 lakhs, and borrowing from Reserve Bank were up from Rs 2,542.48 lakhs to Rs 3,097.43 lakhs but those from 1 D B were down from Rs 144 lakhs to Rs 108 lakhs. Total reserves and other funds amounted to Rs 156.76 lakhs, against the paid-up capital of Rs 530.51 lakhs.

Larsen and Toubro

Larsen and Toubro has increased its sales during the half-year ended September 30, 1965 by 30 per cent over the corresponding period of the previous year, according to a press release issued by the company. Sales during the half-year amounted to Rs 457 lakhs against Rs 353 lakhs in the half-year ending September 30, 1964. The company's workshop at Powai has reported an increase of 28 per cent in its output.

Hindustan Wire Products

ONCE again, Hindustan Wire Products, producer of winding wires, is providing cheer to its members. After paying maiden dividend of 10 per cent for the year to March 1963, the company stepped it up to 15 per cent in the subsequent year, and is now lifting it to 25 per cent for 1964-65. The year's financial results are equally cheerful, with net sales rising by 45 per cent to Rs 99.38 lakhs and gross profit at a more rapid pace, by over 83 per cent to Rs 20.57 lakhs, reflecting considerable increase in margins. What is more, the enhanced distribution is covered 2.2 times, as against a cover of 1.6 times last year. That such good results should have been produced in a year when costs were on the rise and the plant could not run to the rated capacity due to the shortage of electrolytic copper, bears testimony to the improvement in efficiency.

HWP products already enjoy a good market because of their quality and the demand can be expected to considerably increase in the future. The copper supply position, however, continues to be difficult, but the directors hope that more foreign exchange would be allocated to the industry, as enamelled wires are required for winding electric motors.

Jubilee Mills

BBETTER results have been turned out by Jubilee Mills, one of the big processing houses, for the year to June 1965, with processing charges fetching Rs 1.18 crores against Rs 94.30 lakhs previously and gross profit higher at Rs 28.85 lakhs (Rs 27.22 lakhs). After making necessary provisions and providing for preferential dividend, equity earnings are over 38 per cent better at Rs 7.88 lakhs (Rs 5.70 lakhs). Equity dividend stepped up 10 per cent to 60 per cent is cover-against 1.2 times year ago.

CURRENT STATISTICS

External Assistance

Authorised and Utilised up to December 31, 1964

(Rupees Million)

Source of Assistance	Authorisation up to end of Second Plan		Utilisation up to End of Second Plan		Balance available for utilisation in Third Plan		Authorisation from 1.4.61 to 31.3.64		Utilisation from 1.4.61 to 31.3.64		Balance available as on 1.4.64		Authorisation from 1.4.64 to 31.12.64		Total Authorisation from inception to 31.12.64	
	Loans		Grants		Loans		Grants		Loans		Grants		Loans		Grants	
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1																
1 Australia	—	132.8	—	126.4	—	6.4	—	12.6	—	12.0	—	7.0	—	7.0	—	1524.
2 Austria	—	—	—	—	—	—	42.1	—	12.0	—	30.1	—	19.0	—	61.1	—
3 Belgium	—	—	—	—	—	—	95.2	—	—	—	95.2	—	—	—	95.2	—
4 Britain	353.3	—	353.3	—	—	—	293.3	—	34.1	—	259.2	—	—	—	646.6	—
(a) Durgapur Project	—	—	—	—	—	—	—	—	8.1	—	—	—	—	—	—	—
(b) Naharkatiya Oil pipeline	40.0	—	31.9	—	—	—	993.2	—	509.7	—	483.5	—	193.3	—	1566.5	—
(c) Import of Capital Goods	380.0	—	380.0	—	—	—	333.4	—	291.9	—	41.5	—	133.3	—	920.0	—
(d) Balance of Payment Assistance	453.3	—	453.3	—	—	—	46.7	—	31.0	—	15.7	—	—	—	46.7	—
(e) Steel Credit	—	—	—	4.6	—	3.5	—	—	—	2.0	—	7.9	—	—	—	14.5
(f) Grants Under Colombo Plan	—	8.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5 Canada	157.1	894.4	157.1	800.0	—	94.4	73.5	292.9	8.0	241.3	65.5	146.0	245.0	130.0	475.6	1317.3
6 Czechoslovakia	231.0	—	—	—	231.0	—	—	—	7.9	—	223.1	—	400.0	—	631.0	—
7 Denmark	—	—	—	—	—	—	10.3	—	—	—	10.3	—	13.8	—	24.1	—
8 Federal Republic of Germany	777.9	—	635.9	—	142.0	—	559.5	—	54.2	—	647.3	—	315.5	—	1337.4	—
(a) Rourkela Steel Plant	200.0	—	200.0	—	—	—	799.5	—	262.4	—	537.1	—	107.1	—	1315.0	—
(b) Import of Capital Goods	117.1	—	117.1	—	—	—	448.1	—	448.1	—	—	—	—	—	672.3	—
(c) Refinancing Loans	297.8	—	297.8	—	—	—	321.4*	—	321.4	—	—	—	29.6	—	619.2	—
(d) Balance of Payment Assistance	—	—	—	—	—	—	77.3	—	—	8.5	—	—	—	—	106.9	—
(e) For Institution	—	20.9	—	6.1	—	14.8	—	—	—	—	—	6.3	—	—	—	20.9
(f) Okhla & IIT, Madras	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9 France	—	—	—	—	—	—	333.3	—	—	—	333.3	—	95.2	—	428.5	—
(a) Credits for Capital Goods	—	—	—	—	—	—	47.6	—	—	—	47.6	—	—	—	47.6	—
(b) Credits for IFC	—	—	—	—	—	—	470.4	—	24.0	—	446.4	—	171.4	—	641.8	—
10 Italy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	476.1	—
11 Japan	230.0	—	160.1	—	69.9	—	761.8	—	307.9	—	523.8	—	285.7	—	1277.5	—
(a) Import of Capital Equipment	38.1	—	—	—	38.1	—	—	—	20.2	—	17.9	—	—	—	38.1	—
(b) Credit for Orissa Iron Ore Project	—	—	—	—	—	—	47.6	—	—	—	47.6	—	—	—	47.6	—
(c) Ad hoc Credits	—	3.5	—	3.5	—	—	—	—	—	—	—	—	—	—	—	3.5
(d) Grants	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
12 Netherlands	—	—	—	—	—	—	131.5	—	—	—	131.5	—	26.3	—	157.8	—
13 New Zealand	—	34.3	—	32.3	—	2.0	—	2.0	—	2.1	—	1.9	—	5.0	—	41.3
14 Norway	—	25.3	—	25.3	—	—	—	16.5	—	11.7	—	4.8	—	3.3	—	45.1
15 Poland	143.0	—	—	—	143.0	—	155.0	—	24.7	—	273.3	—	9.9	22.1	298.0	—
16 Sweden	—	—	—	—	—	—	—	9.9	—	—	—	—	—	11.0	22.1	20.9
17 Switzerland	66.0	—	—	—	66.0	—	86.5	—	18.4	—	134.1	—	—	—	152.5	—
18 U S S R	647.4	—	645.4	—	2.0	—	—	—	2.0	—	—	—	—	—	647.4	—
(a) Bhilai Steel Plant	595.3	—	80.8	—	514.5	—	—	—	300.4	—	214.1	—	—	—	595.3	—
(b) Industrial Projects	95.2	—	—	—	95.2	—	—	—	62.9	—	32.3	—	—	—	95.2	—
(c) Drugs Project	119.1	—	4.3	—	114.8	—	—	—	100.3	—	14.5	—	—	—	119.1	—
(d) Barauni Oil Refinery	2381.1	—	18.0	—	2363.1	—	—	—	577.3	—	1785.8	—	—	—	2381.1	—
(e) Credits for Third Plan	—	11.5	—	11.5	—	—	—	—	—	—	—	—	—	—	—	11.5
(f) Grants for Machinery	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
19 U S A	903.1	—	903.1	—	—	—	—	—	—	—	—	—	—	—	903.1	—
(a) Wheat Loan	422.2	1302.7	422.2	1181.7	—	121.0	—	116.6	—	195.5	—	42.1	—	14.6	422.2	1433.9
(b) T C A Programme other than PL 665 and PL 480	87.5	—	0.2	—	87.3	—	—	—	71.7	—	15.6	—	—	—	87.5	—
(c) Orissa Iron Ore Project	381.9	—	47.6	—	334.3	—	1499.9	—	603.3	—	1230.9	—	14.8	—	1896.6	—
(d) DLF/AID Loans	547.4	—	292.5	—	254.9	—	280.3	—	419.3	—	115.9	—	34.3	—	862.0	—
(1) Power Projects	401.9	—	222.9	—	179.0	—	—	—	175.2	—	3.8	—	—	—	401.9	—
(2) Railway Development	186.0	—	123.0	—	63.0	—	189.0	—	166.9	—	85.1	—	56.2	—	431.2	—
(3) Procurement of Steel	233.1	—	82.7	—	150.4	—	3261.9	—	1762.7	—	1649.6	—	238.1	—	3733.1	—
(4) Manufacture of Road TPT	142.9	—	—	—	142.9	—	81.0	—	17.0	—	64.0	—	37.1	—	81.0	—
(5) Development of Industries in the Private Sector	47.6	—	—	—	47.6	—	166.6	—	69.1	—	145.1	—	—	—	180.0	—
(6) Coal Washeries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	214.2	—
(7) Manufacture of Fertilisers	—	—	—	—	—	—	—	—	29.4	—	28.2	—	20.5	—	78.1	—
(8) Financial Corporations for lending to Private Sector	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(9) Direct Loans to Private firms other than Road & TPT	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Excim Bank	952.4	—	281.4	—	671.0	—	119.0	—	689.4	—	100.6	—	119.0	—	1190.4	—
(1) General Lines of credit for import of Capital Goods	—	—	—	—	—	—	68.2	—	68.2	—	—	—	—	—	68.2	—
(2) Air India	73.9	—	28.0	—	45.9	—	193.0	—	111.0	—	127.9	—	138.6	—	405.5	—
(3) Loans to Private Sector	—	—	—	—	—	—	90.5	—	—	—	90.5	—	—	—	90.5	—
(4) Railways-Direct Loan	59.0	—	59.0	—	—	—	109.3	—	28.1	—	81.2	—	—	—	168.3	—
(e) U S Banks	190.5	—	—	—	190.5	—	—	—	4.0	—	186.5	—	—	—	190.5	—
20 Yugoslavia	—	40.1	—	—	—	—	40.1	—	26.0	—	10.8	—	55.3	—	9.4	—
21 U N Special Fund	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	75.5
22 (a) I B R D	2150.2	—	1685.3	—	464.9	—	338.1	—	647.0	—	156.0	—	—	—	2488.3	—
(i) Public	1048.0	—	880.8	—	167.2	—	497.7	—	197.4	—	467.5	—	—	—	1545.7	—
(ii) Private	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
23 (b) I D A	—	—	—	—	—	—	1428.6	—	521.9	—	906.7	—	880.9	—	2309.5	—
Ford Foundation	—	160.7	—	116.8	—	43.9	—	12.1	17.6	—	38.4	—	24.3	—	—	197.1
TOTAL	15150.3	2634.3	8563.7	2308.2	6586.6	326.1	14507.9	495.0	9124.8	501.5	11969.7	319.6	3596.8	204.6	33255.0	3333.6

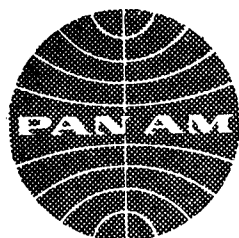
Note: This Statement Excludes: (1) Suppliers credit other than those forming a part of Consortium AID; (2) Rockefeller Foundation; (3) Assistance Under Title II and III of P L 480; (4) Technical assistance in the form of experts, trainees, etc; (5) Ad hoc grants in the form of equipment and supplies where the value is not known; and (6) Third Country Currency Assistance from U S A.

* A sum of Rs 35.7 million has been set apart for institutions.

Source: "External Assistance 1964", Ministry of Finance, Government of India.

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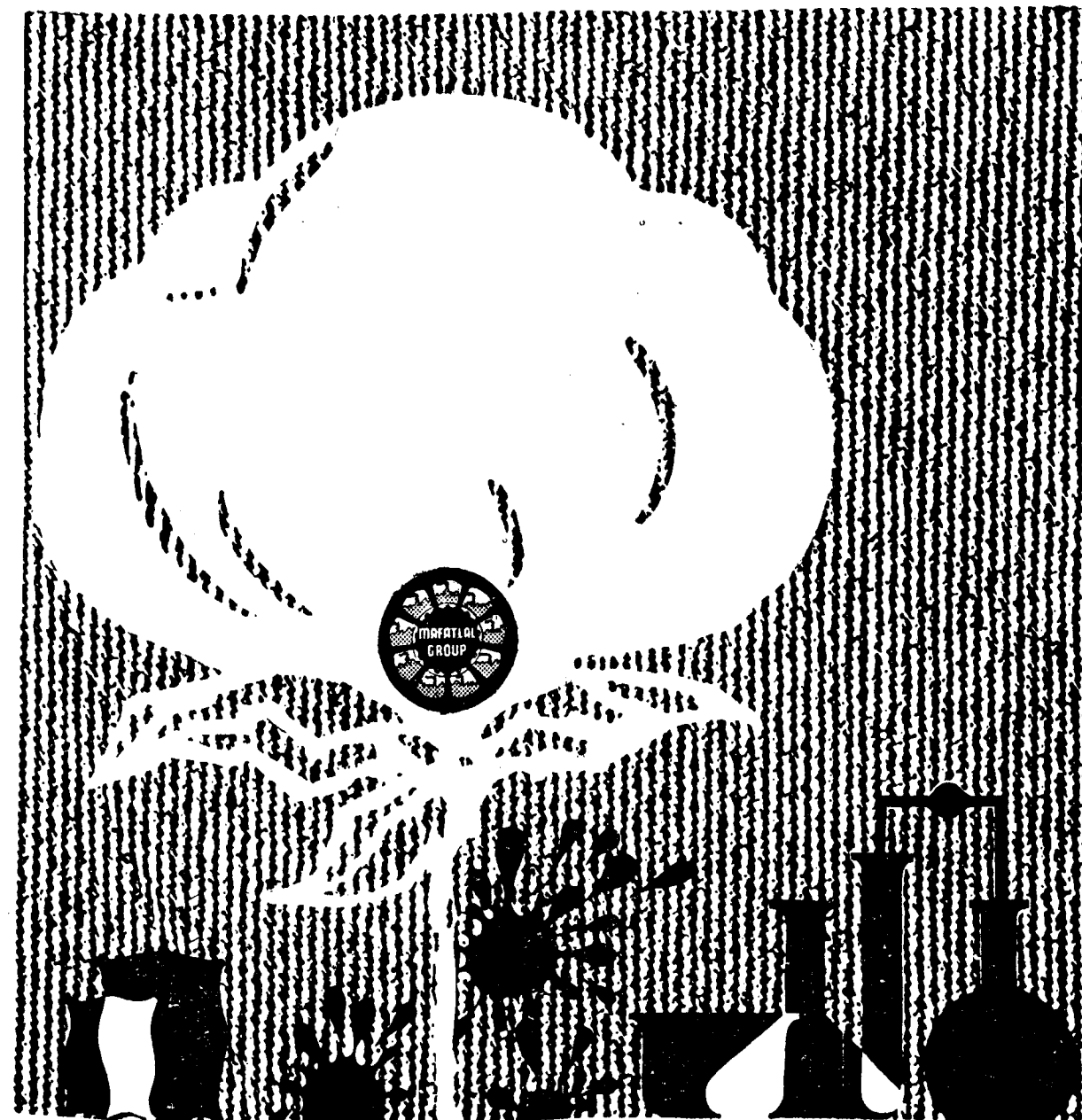
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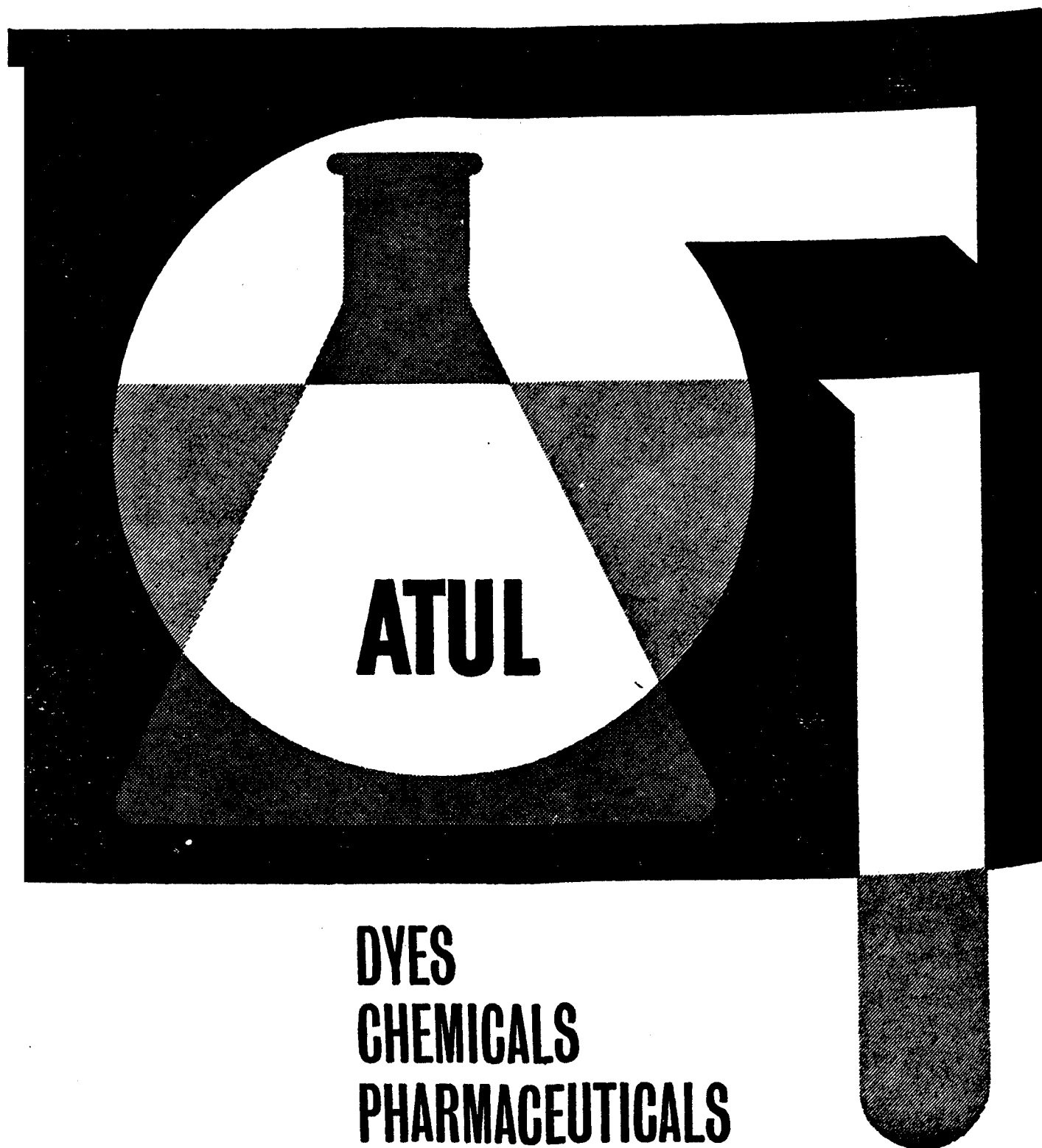


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VOLUME XVII NO 43

OCTOBER 23, 1965

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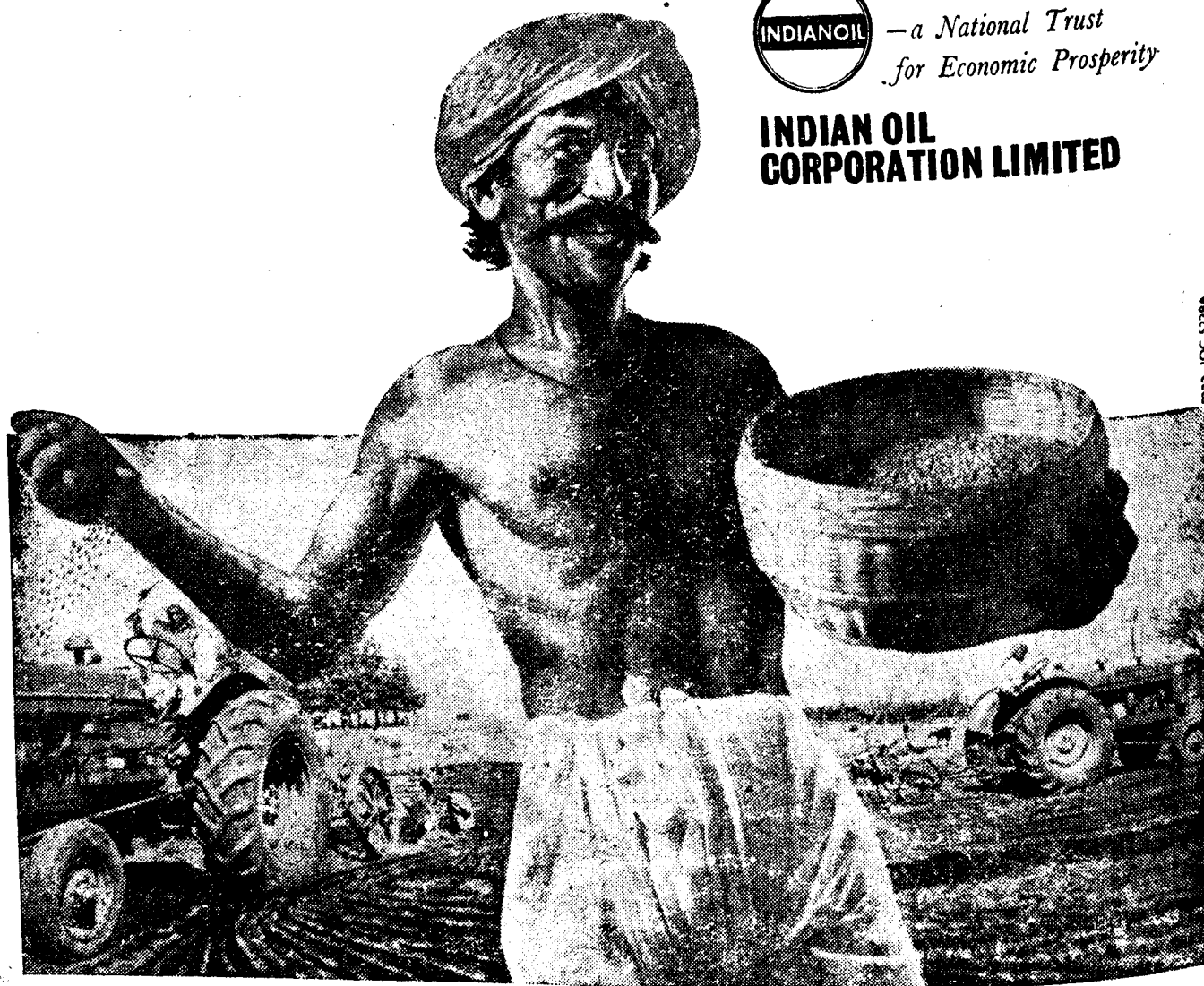
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THE ECONOMIC WEEKLY

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EDITORIALS

- What Are We Defending? 1611
Not Patriotism Alone ... 1612

WEEKLY NOTES

- Giants Turn the Corner — Im-
port Promotion! — Support
Prices for Foodgrains —
— Not a Secular Act —
The Peasant in Debt —
Nanda's Confession 1613

CAPITAL VIEW

- The Return to Politicking
— Romesh Thapar 1617

FROM THE LONDON END

- Towards a Capital-Own-
ing Democracy? 1618

BOOK REVIEW

- Learning to Teach
— Ashok V Desai 1621

SPECIAL ARTICLES

- Emergency Plan for Food
Production: Andhra's Lead
— C V H Rao 1619

- A Foreign Policy to Meet the
Sino-Pak Threat
— Contributed 1625

- Cost-Price Relationship in
Indian Manufacturing In-
dustry
— S Hajra 1629

- Defence and Planning
— Arthagnani 1637

- The Present State of Defence
Production 1639

AROUND BOMBAY MARKETS

- Steadier Near Week-end 1641

BUSINESS NOTES

- Fact — Modi Spinning — Hy-
derabad Allwyn — U P
Electric — Investment Cor-
poration — Dawn Mills —
Burhanpur Tapti Mills 1643

- CURRENT STATISTICS 1645

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What Are We Defending?

IN its issue of June 8, 1963 this journal was constrained to express itself in the following vein:

"There is a state of emergency in the country and a nation-wide preparation of defence.... What is this defence effort for? To defend the country and the freedom and the democratic rights of the people which we hold so dear. It is not only our borders that we are to defend. The borders are merely a physical frame within which the people have inherited and built up something which they want to safeguard and preserve. It is the values they hold dear which people defend with their lives, not the rocks, stones and trees, acres or square miles of land.

"The things we want to safeguard and preserve, for which is this defence effort, form one indivisible whole, the content of which is individual freedom — the right to hold one's head high, the right to think for oneself and pursue the truth unafraid, unhampered by authority, freedom of thought and expression. The limits of freedom of action for an individual are well known; they are obvious and accepted. They begin with the restrictions on where we cross the path in a busy thoroughfare. But how far can they go without destroying the very content of freedom and diminishing man in the process? Constant nibbling of this freedom goes on all the time. The process is unending and will remain unending unless it is checked and checks can come only from protest, and prompt warning from those who are in the special position of custodians of this freedom — the legislators, the judiciary, the legal profession and the press. To repeat, nibbling goes on all the time — there has been a noticeable lack of vigilance and timely action if not inertia and apathy on the part of those who are charged with safeguarding of freedom, protesting and averting encroachments upon it."

This was, let us repeat, in 1963, and the context was provided by the several manifestations of arbitrary State action, under the guise of the Defence of India Rules, in the wake of our reverses against the Chinese. It was to be hoped that we would have learnt a little more poise in the intervening two years. Our performance in the recent clash with Pakistan has not been at all discouraging; we should possess by now a fair amount of self-confidence and should be able to dispense with nervousness at high places. Unfortunately, the indications are otherwise.

Naturally, at present the major target of our wrath is Pakistan, although there is the accompanying theory that the Chinese too are in collusion with the Pakistanis. The general mood — as reflected in the speeches of most political leaders as well as in editorial articles and comments carried by the newspapers — is one of unrelenting opposition to a compromise with Pakistan over Kashmir. Any person or organisation suggesting a different approach will obviously not be very popular in the country at this time.

But that does not mean that such suggestions are treasonable. Political parties of various shades — and their leaders — have on and off discussed alternative solutions to the Kashmir imbroglio over the last eighteen years. They were being discussed when Pandit Nehru died last year, shortly following Sheikh Abdullah's release from prison. They were again discussed later last year when Lal Bahadur Shastri, after being installed in office, met President Ayub Khan. Several proposals, each somewhat at variance with the formal stand that Kashmir is an integral part of India, have since been advanced, and that by personalities as diverse as Jayaprakash Narayan, Minoo Masani and C Rajagopalachari. Even after the recent series of incidents, which finally culminated in open warfare, started in August, quite a number of newspapers and journals have discussed the pros and cons of possible solutions which would be acceptable to both the countries.

Nothing has changed in the juridical sense during the last six or seven weeks. We have not formally declared war on either Pakistan or China, nor have diplomatic relations with them been severed. Also, we have taken scrupulous care to declare to the world that we have offered battle to Pakis-

tan only because it wanted to alter the *status quo* in Kashmir by force. Our stance till very recently has been that, while we abhor the use of force and will always resist any Pakistani attempt to bring about a solution of the Kashmir problem through the deployment of force, we are always prepared to listen to proposals for a peaceful settlement, whether they emanate from U Thant or Harold Wilson or Kosygin, or are directly broached to us by the Government of Pakistan.

That being the case, any citizen of India — C Rajagopalachari, Jayaprakash Narayan, E M S Namboodiripad or one who is much less known — will be perfectly within his rights to differ from the current view of the Government regarding the constitutional-political aspects of the Kashmir problem. In the present temper of the country, it is but natural that such dissident opinions on Kashmir would be rather unpopular, and will invite the opprobrium of the Government. Nonetheless, India is a free country and a democratic country, and it is no Government's business to assert that a particular opinion must not be aired because it is a minority opinion. A democratic regime, in contrast to an authoritarian one, should in fact take particular care that minority opinions are allowed to be expressed and to be heard, if not with respect, at least with tolerance.

It is in this context that it is necessary to take issue with a statement reported to have been made by Prime Minister Shastri last week. A news agency report quotes Shastri's reference at a public meeting at Aurangabad to the position taken by EMS Namboodiripad and other members of the Left Communist Party on Kashmir. The attitude of the Left Communists, according to the Prime Minister, "was totally opposed to the national policy and the united opinion in this country". Shastri is reported to have followed up with the polemical question, "If they (the Left Communists) persist in this attitude of questionable loyalty to the motherland, why should they at all stay in the country?"

What are the facts? Namboodiripad has supported the Government in its war effort against Pakistan in no uncertain terms and has praised the valour of our troops. But having affirmed that it is the duty and the prerogative of our Government and people to resist aggression from Pakistan, he still maintains his Party's position that in no way can the Kashmir issue

be regarded as closed. Now that a formal ceasefire has come into operation, he feels that our Government should explore the possibilities of coming to an understanding with Pakistan. This is a point of view which, one presumes from their statements and writings in the past, has the support of Jayaprakash Narayan, C Rajagopalachari and Acharya Vinoba Bhave, to name a few of our more prominent countrymen. To hold this view is not to go against national policy, but only against the Government's latest policy. By no stretch of reasoning can holding this view be considered as going against "the united opinion of the country".

There is a difference between opinion held by a majority — even an overwhelming majority — of the people and *united* opinion. It is no crime to express an opinion which varies from the opinion of the majority, at least not in a free democracy. It is only when the majority opinion has been enacted into the law of the country that it is not permissible to act contrary to this law. Since no ordinance has been proclaimed making it an offence, under the Defence of India Rules, to discuss proposals for

a negotiated settlement of the Kashmir problem is not *lese majeste*.

The limits to tolerance are obviously getting narrower and narrower with every day. In this context the Prime Minister's runaway conclusion that those who differ from the Government's Kashmir policy are disloyal to the motherland is most unfortunate and distressing. Loyalty to one's motherland can hardly be said to be co-terminous with adherence to the opinion of the Prime Minister or the Government. It is only in an authoritarian climate — such as obtains in Pakistan — that this sort of identification is sought to be enforced. Those who seek to enforce the identification here are, unwittingly, equating India with Pakistan.

The real danger to the country lies in succumbing to the tyranny of emotions. Does the Prime Minister suggest that Jayaprakash Narayan and Acharya Vinoba Bhave are lacking in patriotism and should leave the country because they hold views that are different from those of the Government about the ultimate solution of the Kashmir problem? Where does the apologia of national cohesion end and authoritarianism take over?

Not Patriotism Alone...

THE Prime Minister produced his Solidarity Day-even packet of defence bonds, gold bonds and the defence remittance scheme appropriately with stirring references to the glitter of a new vision he had seen in the eyes of lakhs and lakhs of people coupled with the confidential aside, delivered, as it were, with a palm over his mouth and a not-too-discreet wink that "no action will be taken against subscribers on the ground that the provisions of the Gold Control or the Income-Tax Act have been infringed. The identity of the subscriber will not be disclosed". The patriotic appeal is to the honest citizen who is being asked to buy defence bonds at interest rates of 4.25 and 4.75 per cent per annum for parting with his savings for three and seven years, respectively, when he can do better by just leaving the money with his bank.

But crooks and tax-dodgers have little use for patriotism and so, since the defence remittance scheme and the gold bonds are largely intended for such gentry, the appeal is different. In the black market for foreign exchange the pound sterling and the dollar have recently begun to fetch

nearly twice as many rupees as at the official exchange rate—a marvellous circumstance taken advantage of by an increasing number of those sending money to India, as reflected in the declining official remittance earnings. Now the Government is setting up shop to compete with the black market operator. If the proposed import entitlements of up to 60 per cent of remittances fetch a premium of 150 per cent the remitter will get a price for his pounds or dollars roughly equal to what he can get in the black market today. There are some snags, however. The recipients of remittances from abroad are to be exempted from income tax but will the exemption also apply to the profits made from hawking import entitlements? On the whole, the Government may still not be able to pay the equivalent of the black market rate, but with the defence remittance scheme it is in effect offering an exchange rate handsomely higher than the official one and to that extent some impact should be felt on remittances sent into the country through official channels.

For tax-dodgers and gold smugglers there are the new gold bonds. Of

course, patriotic housewives may subscribe to the bonds with their *man-galasutra*, but the 'no questions asked' provision and the immunity promised from the consequences of violation of tax and customs laws and the Gold Control Act make it clear that the bonds are really intended for a more select clientele. And consider what they are being offered! The honest citizen who has no need to salt away his savings in gold bars is offered 4.75 per cent per annum and the badge of patriotism for use of his money for seven years at the end of which, if prices rise the way they have recently, its worth may have depreciated by a third or so. By contrast the happy possessor of smuggled gold bars bought with tax-evaded income and in breach of Gold Control is to be paid back in gold in 1980, so that the poor fellow hasn't to worry about inflation and such nasty things. In addition, he is offered exemption from almost every conceiv-

able tax — income, capital gains and gift — and estate duty, and paid interest at about 1.5 per cent per annum to boot. This is not to mention that he is being saved from the stiff penalties and possible years in prison which should have been his desert if the Government had better ability and lesser reluctance to enforce its tax and other laws.

Such pampering of crooks can be justified, if at all, only by the results achieved. The figure of Rs 500 crores has been mentioned as a measure of official expectation from the gold bonds, but if not even Rs 50 crores at the least is raised, the Government would have brought its laws into disrepute for nothing.

Some other implications of the gold bonds need to be mentioned. It has now been clarified that the bonds will be negotiable. Now, if the 'no questions asked' clause and the immunities offered to the first subscriber are to be available to every subsequent own-

er, the bonds will be a most wonderful instrument indeed for painlessly converting black money into white through a chain of sales and purchases between now and 1980. The imagination boggles at the thought of what efficient use tax-dodgers will put them to. On the other hand, if the immunities are restricted to the original subscriber, there will be the problem of distinguishing him from subsequent owners without violation of the secrecy clause. In any case, this would severely restrict the negotiability of the bonds. They may still be pawned with the banks, but here another problem arises. In January 1963, in the euphoria over gold control, the Reserve Bank issued a circular advising banks to value gold, including ornaments, offered as security against advances at the international price. At what rate are the banks to value the gold bonds? At the international price? or will the Reserve Bank rescind its earlier advice?

Weekly Notes

Giants Turn the Corner

THE operations of larger Government industrial companies have turned the corner, financially at any rate. The Reserve Bank's annual review of the working of selected Government companies (published in the September issue of its *Bulletin*) now covers 47 companies which account for 97 per cent of the share capital of all fully operating non-financial government companies as in March 1964. These are divided into two categories, one consisting of five giants, Hindustan Steel, Fertiliser Corporation, National Coal Development Corporation, Shipping Corporation and Hindustan Aircraft, and the other of the remaining 42. At the end of 1963-64 the five giants had total assets of Rs 1,134 crores (gross fixed assets Rs. 970 crores) while the other 42 had only Rs 281 crores (gross fixed assets Rs 148 crores).

It is the giants which have improved their results substantially. Their gross fixed assets expanded by 12 per cent in 1963-64, inventories by 21 per cent, while sales rose much more, by 34 per cent. Increase in turnover brought them to the break-even point: gross profits (i.e., profits after depreciation but before interest and tax) of Rs 20 crores sufficed to meet the interest liability, and came to nearly 8 per

cent and 2 per cent of sales and total assets, respectively. Earning on net worth has reached zero from negative figures. Accumulated net loss stands at Rs 43 crores on a total fixed investment (paid up capital and borrowings) of Rs 1,032 crores but there is a depreciation provision (the only source of internal finance) of Rs 185 crores.

As indicated in the table on the next page, there has been some, but not very remarkable, improvement in turnover of capital. Sales as percentage of net fixed assets have gone up from 25 in 1962-63 to 31 in 1963-64 but there has been no change in the turnover of working capital. Inventory, one of

the key factors in profitability, still leaves much to be desired. Stocks of finished goods and work in progress have been reduced from roughly one-fifth to one-seventh of sales but other inventory, mainly tools and spare parts, remains constant at 37 per cent of the value of production. The proportion of raw materials inventory to raw materials consumed went up from 44 to 57 per cent which, too, is not an encouraging indicator. True, there is some justification for this stockpiling in view of various bottlenecks, surely these levels are high even when all possible allowances are made for bottlenecks? The principal hurdle to be crossed for proper inventory control is not shortages, uncertainties and bunched allocations of foreign exchange but the system of budgeting and budgetary control, which is permeated with government departmental practices.

The other 42 companies also have done fairly well, though there has been some falling off from the previous year's performance. Their gross fixed assets expanded in 1963-64 by nearly 27 per cent, and sales by 18 per cent. Gross profit declined in terms of sales from 8.4 to 7.5 per cent and in terms of total assets from 7.7 to 6.7 per cent. They have built up total gross reserves of Rs 77 crores (includ-

Greetings

We wish all our readers and well-wishers a happy Diwali and extend to them the greetings of the season.

There will be no issue of "The Economic Weekly" on October 30, on account of Diwali holidays. The next issue will be on November 6, 1965.

Business Manager

ing accumulated depreciation Rs 42 crores) against paid up capital and borrowings of Rs 169 crores. Borrowings remain their major source of finance for expansion but about one-half of their fresh borrowing of Rs 33 crores in 1963-64 came from banks.

A word in conclusion about the *Bulletin* article itself. The Reserve Bank has been justifiably proud of its studies of company finances but it has perhaps not cared to notice that the format has remained almost unchanged for more than ten years and is indiscriminately used. For instance, what is the significance of "managing agents' remuneration" and "current ratio" in the case of government companies? And who, to mention a point which the high-powered editorial committee of the *Bulletin* may take note of, permitted the article to end with "The ratio fell deeply..."?

Selected Key Financial Ratios of 5 Giant Government Companies

	1963-64	1962-63
Sales as % of net fixed assets	31	25
Sales as % of net working capital	113	113
Finished goods and work-in-progress as % of sales	15	22
'Other' inventory as % of value of production	37	36
Raw materials inventory as % of raw materials consumed	57	44

Import Promotion!

THERE has recently been a lot of talk about 'import substitution' but no practical suggestions have as yet emerged from the Government as to how to go about the matter. It has been left to an association of private industries, the Engineering Association of India, to come out with a number of eminently sensible ideas. From a reading of the memorandum submitted by the Association to the Government, it would appear that while the Government has been talking about import substitution not only since the recent war with Pakistan but from long before as a general planning policy, it has been pursuing a policy in the matter of promoting collaboration between foreign and domestic private capital which has been aggravating our dependence on imports by systematically giving rise to "excess imports" in the sense in which the term was used by Michael Kidron in his article published in this journal in

the issue of April 24, 1965. What a private investigator reported in that article as the multifarious ways in which collaboration has been leading to much unnecessary import of capital and know-how has been largely borne out by the representative organisation of the engineering industries themselves.

Among the important recommendations regarding industrial planning in general made in the memorandum is one for the setting up of design offices to make available designs of plants and machinery to all Indian entrepreneurs, and another to set up about a dozen tool rooms for manufacture of tools, dies, jigs and fixtures through which a saving of Rs 30 crores of foreign exchange could be effected. In the matter of collaboration, the memorandum recommends limitation of the number for any one item of manufacture; it also marks its strong opposition to licences being issued to import complete plants and machinery. The latter practice is one of the several wasteful results of collaboration. The foreign collaborators insist upon such imports, being distrustful of or having an interest against indigenous parts and fabrications. In this respect the Soviet Union has also been not very unselfish, as was seen by its insistence on dispensing with the designs made by Dasturco for the Bokaro Steel Plant.

It is perhaps characteristic of the inefficiency with which the economy is

planned, guided and administered that collaboration with foreign capital has been increasing our dependence on imports (at least in certain aspects) rather than reducing it. There is indeed a case for collaboration and the fact that the number of joint ventures have sharply increased during the last seven years is not at all an unwelcome development. According to a survey conducted by the *Economic Times*, the number of agreements in 1957 was only 81; it reached a peak of about 400 in 1961 which it reached once again in 1964 after a relative decline. The country is short of capital and short of technical know-how and private collaboration should in theory be just as much desirable as foreign assistance on government account. However, given that the declared aim of our planning is to reach the state of self-sufficiency as early as possible, the policy in the matter of collaboration should be to promote such agreements as would result in our acquisition of technical know-how in the shortest possible time so that this particular form of dependence on foreign private capital may be dispensed with ultimately.

Our declaration of intentions with regard to self-sufficiency sound particularly hollow and lacking in purpose when compared with the policies actively pursued. Yet we have got spectacular examples of import substitution before us. The Soviet Union and

Japan have become the mighty industrial powers that they are not through our type of import of know-how; and China's achievements in the field ought to have had even greater effect on our lethargy. Every now and then we declare that we could manufacture the atomic bomb if we wanted to; but it is not only in the matter of the bomb that China has proved its superiority over us in self-reliant development.

Support Prices for Foodgrains

A participant in the seminar on foodgrains prices writes:

ARE discussion papers necessary to seminars? If we are to go by the seminar on the fixation of support prices for foodgrains held last weekend at Vallabh Vidyanagar, they are not. Apparently, the inflow of papers was very slow initially, and though nearly fifteen papers were presented finally, the discussion as it was organised did not refer to the papers at all. Not that it suffered much as a result; in fact, the level of discussion was somewhat better than in the annual economic conferences.

The first two days' deliberations were diffuse and lackadaisical. Economists tended to get messed up in conceptual conundrums; farmers' representatives had little use for the concepts, and were for price support only in so far as it meant higher farm prices. And the problems that worried them had little to do with prices: what they were interested in was income insurance for farmers in the face of annual crop fluctuations. Minimum support prices as insurance against price falls would not meet the problem of crop fluctuations at all. Further, they pointed out that the expansion of foodgrain cultivation required higher relative prices for them. Relative prices have an important effect on crop patterns. An illustration of their importance was given by T A Pai of the Food Corporation who pointed out that the introduction of minimum prices for rice in Andhra led to a shift away from minor grains.

And yet there were no concrete proposals as to how relative prices might be taken into account. Price fixers concerned themselves entirely with justice. Prices had to cover the costs of production of farmers. But costs varied by a factor of seven or more, and prices were always below the costs of some farmers. Prices that would cover the highest costs would be shockingly high; so we should fix

them on the basis of average costs, or bulk-line costs, i.e., marginal costs of 80 or 90 per cent of the output. Why should we? Well, reasons did not matter; what was needed was resolute action.

The concern for farmers' costs and income might seem odd in the context of the steady improvement in agriculture's terms of trade over the last two years and the record agricultural output last year. The problem that worries us is the inadequacy of the marketed surplus for feeding the towns. In fact, this question attracted most of the discussion; and apart from a fragile fringe of free traders, everybody seemed to think that it was serious enough to justify compulsory procurement. The concern for 'fair' farm prices stemmed from fears about the response of the farmer to such procurement. In a way, high farm prices were expected to provide an incentive to farmers to co-operate in compulsory procurement.

There were differences over the extent of compulsory procurement necessary to supply the major cities. The procurement requirements depend on commitments; in the absence of information about the magnitude of commitments if towns of different sizes were to be provided, it remained unclear what proportion of the surplus would have to be procured for any particular scheme of rationing. In the event, the possibility that even procurement of the entire surplus, as it is known, might be insufficient for a comprehensive rationing system remained undiscussed.

Not a Secular Act

SECULARISM is a word with different meanings in different contexts. Though it has never been clarified exactly in what sense of the word we claim our country to be a secular democracy, the importance we attach to this particular description of our polity, especially in all official references, is not to be minimised. Of the image of India which we are struggling to create in the eyes of the world, secularism and democracy are the two aspects which are being quite rightly emphasised. In our dispute with Pakistan especially, we expect the sympathy of the countries of the world for our being a parliamentary democracy whereas Pakistan is a military dictatorship and for our being a secular state whereas Pakistan is an avowedly religious state.

Given all this, could the Prime Minister choose a less suitable moment

to perform "bhoomipuja" of a river valley project and be photographed for newspaper publicity? The interpretation of secularism that most nearly conforms to the theory and practice of the Government is, of course, not of equal indifference towards all religions but of equal tolerance of and support for all religions. But is the Prime Minister not giving the impression of state patronage of Hindu rituals in a partial fashion by participating in rites which he has every right to believe in as a private individual, but not as a Prime Minister and not in connection with a project built with public funds?

Let's face it: there has never been an example nor can we imagine there would be of a public work being inaugurated with a Muslim or Christian ritual. If Pakistani propaganda wants to describe India's claim to secularism as so much hypocrisy could it be supplied with more useful material?

The Peasant in Debt

THE Reserve Bank's survey of rural debt and investment in 1961-62 cannot be criticised for not having produced information; the results published in the latest *Bulletin* contain 26 tables and 12 statements. But the tabulation and analysis are mechanical. Loans are classified by size, purpose, security and source; households are classified into cultivators and non-cultivators, and figures are given by States. The information, thus organised could be put into one seven-dimensional table. So 38 two-dimensional tables represent only a small sample of all that could be obtained from the primary information, and it is not clear what principles have governed their selection, or what questions they are meant to answer.

Nearly two-thirds of the loans was given to about a third of cultivators with assets over Rs 5,000. While this is not surprising in itself, it makes one wonder how correct the picture of the Indian farmer sunk in debt due to poverty is. No cross-classification of loans by asset group and purpose is given; but about half the total amount was borrowed for household expenditure and two-fifths for business expenditure. So we have, apparently, two roughly equally important groups of loans — those obtained for profitable investment and those required for consumption. Thirty-eight per cent of the value of cultivators' loans was outstanding for less than a year, and

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47 per cent of it financed household expenditure. So about a third of the value of loans for household expenditure financed consumption from one harvest to the next.

More detailed information on consumption loans, and especially on the two-thirds which was outstanding for more than a year would be welcome. One would expect *a priori* that much of it was borrowed in years of bad harvest. While most people adjust their level of expenditure to their permanent income, they find it difficult to adjust it to sudden falls in income. If consumption loans are due to crop failures, their proper remedy is co-operative crop insurance societies, and not the co-operative credit societies on which there has been much emphasis hitherto.

Interesting conclusions could also have been obtained by meshing in the previous study on agricultural investment, published in the *Bulletin* for June, with the present one. It can be established, for instance, that a quarter of the borrowings for farm capital expenditure went into the purchase of land. Since agriculturist money-lenders provided nearly half of the loans, it is possible that a good part of the loans are direct or indirect hire purchase arrangements on land deals between substantial landholders. Further, a half of the borrowings were for livestock, which thus constituted the main form of rural capital investment.

Nanda's Confession

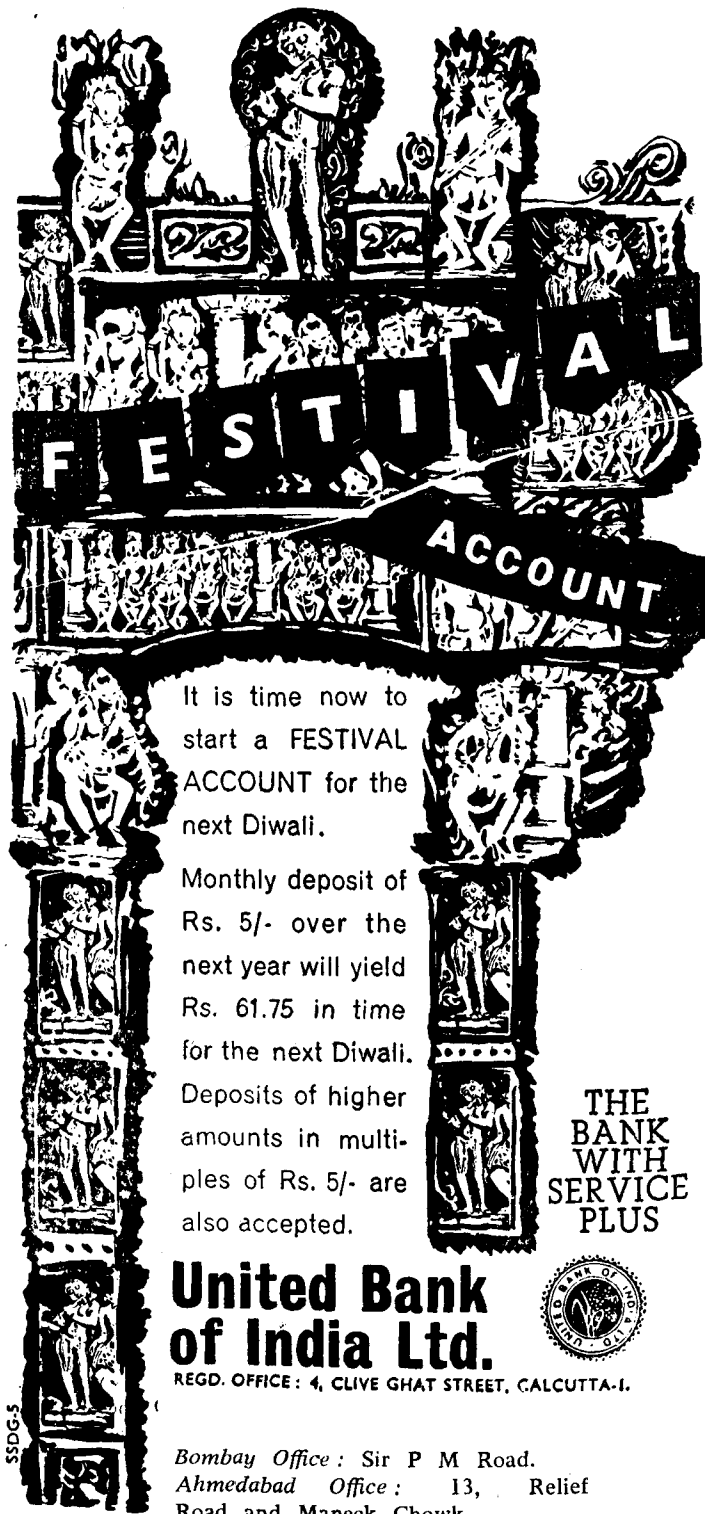
A Correspondent writes:

THE Union Home Minister declared war on corruption two years back. In a defiant mood, he half promised and half threatened to resign if corruption did not disappear within the two years which have just expired. By his own assessment, his efforts have made sufficient impact not to disillusion him. The dividing line between illusion and un-illusion is after all a subjective one and there is only a shift from one illusion to another. "Statistics apart", says Nandaji, "there is an impact from what has been done to root out corruption." The non-statistical image is no doubt a part of experienced reality. One salient factor was overlooked. "I should have been wiser", the Home Minister adds regretfully, and secured the co-operation of "important persons".

Good intentions are useful but not enough. Temptations have to be resisted, especially when they are offered by disguised angels. The more heroic,

like Nandaji, can rush in and emerge unscathed. Witness his dash to Calcutta some months back to soothe the ruffled feelings of leading industrialists who had seen visions of heads rolling. Witness, also, his efforts to put out the minor fires lighted by the Vivian Bose Report. Ordinary men and women with less courage and less self-righteousness might have hesitated, but not Nandaji. The mistake of not

securing the co-operation of important persons, it is gathered, is being undone. The Sadachar movement has disassociated itself from income tax and foreign exchange enforcement raids. The Government itself will handle the task in future without asking any questions or seeking the help of unimportant persons. On this front peace talks started before the cease-fire!



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CAPITAL VIEW

The Return to Politicking

Romesh Thapar

BACK from a land now forbidden to us — for that is what Pakistan has become—members of the foreign press corps cannot but be amused by the bewilderment of Indians when they are told that the Pakistanis believe most firmly that they won the war. This conviction is backed up by contemptuous references to Indian claims, even with regard to the extra acreage occupied by us in the course of the battle. Politically, too, they appear to be as united as can be behind the Ayub-Bhutto combination — although ideologies and alignments are in a state of flux.

One significant fact, however, is emerging. The 'staying power' of the Pakistani army and air force was severely limited by the stocks of ammunition and fuel. If the war of attrition had continued, somewhat more energetically than during the last few days of the conflict, it is possible that Pakistan would have found itself in a desperate position in course of the next fortnight. Ayub played the moderate because he was aware of this grave weakness. Now, it is Rawalpindi's main aim to replenish the stocks which have been expended.

While Turkey is playing the role of major supplier of munitions, and Iran is anxious to assist, the USA is fearful of the political and diplomatic consequences of any resumption of direct military aid to her bruised ally. This explains Bhutto's attempt openly and crudely to blackmail the USA into permitting more generous support from various CENTO and NATO members. The prospect of Soviet mediation in the problems of the sub-continent is held out as a threat. Pakistan is in a fix; the equipment possessed — and it is still considerable — has to be serviced either by the USA or by the members of CENTO and NATO.

Sitting in Delhi, listening to these reports, one is reminded of the suspicion expressed in certain quarters in the Capital that the Prime Minister and the Defence Minister were not fully aware of the plight of Pakistan's satellite army. The stalemate, political and military, which now disturbs us could have been avoided by a more purposeful handling of diplomacy in the UN and in various capitals. A more decisive military result would have had a profound effect on the future of the sub-continent.

However, there's little point in stressing these rather obvious failings. What needs to be assessed are the sources of Pakistan's present weaknesses, diplomatic and military, so that our actions and counter-actions during the critical months ahead are calculated and precise. In other words the efforts being made by Rawalpindi to alter the cease fire line must be thwarted, if necessary, by fresh punishment — that is, if the UN observers continue to look on apathetically. To play it soft now would be to place ourselves at a serious disadvantage later when Pakistan might attempt bigger adventures.

We don't seem to be on the mark, as it were. Apart from the mess that has been made of our so-called diplomatic offensive by the Prime Minister's office — highlighted by S K Patil's 'special mission' to the Americas when our Foreign Minister is already available in the area for such activity and by the sudden postponement of the tours planned for groups of MPs because the foreign ministers of the countries to be visited are already at the UN — various Congress Party chieftains have been kite-flying on the question of holding a quick 'khaki' election. Report has it that Kamraj launched the kite, but only after encouragement from the Prime Minister. The report is, of course, denied!

Apparently, the 'khaki' election proposal was justified in higher political circles as one method by which the present political leadership would be able to establish its control over the ruling party, particularly in the States. Such control, it is argued, is necessary if we are to face the problems now taking shape. Lal Bahadur knows that, victorious tours notwithstanding, he is still unable to discipline the States and compel them to follow the directives of the Centre. In this context, a snap general election would have had meaning. But, clearly, the fear is widespread, both within the Congress hierarchy and among leading opposition elements, that the mechanics of organising such an election might place too much power into the hands of a junta which would exploit somewhat opportunistically the patriotic sentiments of the people.

One does not have to research very deeply to see what is happening. The crude attempt to present Lal Bahadur as 'the leader' in the course of his

tour in Maharashtra could not have gone unnoticed. Various descriptions as 'the hero of our finest hour', as 'a gift of God', and as 'the little Gnat', Lal Bahadur took it all in his stride, participated in non-secular ceremonies and more or less blessed this new style of politicking. This is unfortunate because the opposition will be compelled to counter the tall claims being made, and the broad national cohesion, so vital in the coming months of stress and strain, will be endangered.

Another disturbing development is the manner in which the Defence of India Regulations are being used to stamp out dissent on the plea that it is subversive. Home Minister Nanda cannot possibly take all the decisions on his own. He has enough experience of punitive legislation to realise that it can be grossly misused. Yet, from the evidence available he is reluctant to set up machinery speedily to review DIR actions. It is a failure which encourages the belief that the unlimited powers assumed by the Centre will be used against determined political opponents and that certificates of political health will only be given to those who conform to the new order.

In fact, only the other day much heat was expended among a group of publicists on the question of 'the state of war' declared by Nanda on TTK, a conflict which now threatens to involve the ministries of Home and Finance. Power vesting in these departments of the GOI has been used, it is said, in a political tussle between two Cabinet colleagues — a strange and deplorable affair which underlines the lack of checks on unlimited, specialised, executive powers enjoyed by certain ministries. If the Prime Minister is content to permit these battles for reasons of his own, this does not detract from the demand that a genuinely independent control commission should be constituted to review these and other aberrations.

This return to familiar Congress politicking, even before the Pakistani threat has been properly dealt with, cannot but disrupt the chance we have of mobilising the people to meet the crisis of food. The moment the opposition parties come to the conclusion that their support to the GOI is

being exploited for the ends of the ruling party, there will be a splintering of the unity behind the moves to make this country self-reliant and self-sufficient. The enlightened in the Congress leadership will have to find the means by which national cohesion can be sustained and made the weapon of social and economic transformation.

That this is the most dominant sentiment in the country no one at the Centre denies. The problems, it is argued, are too many and too ramified to permit the old kind of poli-

ticking. Indeed, even those who know that the Prime Minister is not the master strategist he is being made out to be feel that he now enjoys enough popular prestige to lift our national effort to a new and challenging level. Not without significance is the theorising in the Capital, still unexpressed in public, concerned with the need for a government of national unity. Image building is hopelessly barren when divorced from dynamic purposeful perspectives. This is a fact which will have to be repeatedly emphasised during the months ahead.

FROM THE LONDON END

Towards a Capital-Owning Democracy?

THE Conference season of Britain's political parties, now drawn to a close, has proved beyond doubt that the "personality cult" on the American model is rapidly penetrating the British political scene. Grimmond dominated the Liberal conference at Scarborough, the Blackpool Conference was very much the slave of Wilson and the Heath era of Tory leadership was launched enthusiastically (*albeit* after a somewhat doubtful start) at Brighton. Perhaps the most significant feature of the Conservative Party conference at Brighton last week, whose opening was dominated by Wilson's dramatic dash to see the Queen (with chilly portents of the possibility of a General Election now that Labour has an 11 per cent lead in the National Polls) and the fear of a split in the party over the Rhodesian issue, was the Party's new propaganda planks which emerged.

In recent years there has been the greatest similarity between the policies of the two parties. The differences which have now begun to emerge have an ironic quality about them. For instance, while the labour government is determined to hold on to Britain's bases in Asia, Enoch Powell in his much applauded speech at Brighton made it clear that as shadow defence minister, he has no belief in the necessity of Britain's role East of Suez. In general, however, there are many areas of agreement between the two parties. Both are in favour of modernizing Britain and making the country more efficient. Both seem at one in pressing the need for some sort of incomes policy. Even on the basic issue of Europe, Labour now seems in favour of some sort of rapprochement, though naturally not with the single-minded devotion that Edward Heath brings to this policy. What did,

however, emerge from the Brighton conference was the Conservative Party's new ideas on taxation and investment. It is likely that these will be the main issues of political debate between the two parties, particularly in view of the fact that Wilson has now made it clear that there is no possibility of introducing steel nationalization in the next session of parliament since there are many other important Bills which have to be introduced.

In these circumstances, it is worth while examining the new catch-phrase "a capital-owning democracy" which is to be the stirring successor of the earlier Tory slogan coined by Anthony Eden of a "property-owning democracy". The basic ideas were outlined in a brilliant speech by Iain Macleod who has now resigned his editorship of the *Spectator* in order to devote more time to his political activities. He received an ovation fit to mark the return of a prodigal son!

There is now a fundamental difference on the principles and purposes of taxation as seen by the Labour and Conservative parties. While, if only for electoral popularity, both parties would like to see the present rates of taxation reduced, the Conservatives would like to encourage the accumulation of capital in private hands. According to them, company profit "should be used for the provision of new plant and machinery, and if it is not required for this purpose, it should not be allowed to remain idle. It should be redistributed to institutions and to shareholders so that it can flow into the growth industries of our country". It should be the aim of taxation to see that corporate profit is in fact so deployed.

Private enterprise occupies the central place in the economic reform which

THE ECONOMIC WEEKLY

Heath wants to bring about. Competition and incentives are to be the motive forces and success is to be the reward. In order to be an effective Opposition, the alternative the Tories are putting forward is that of individualism and private responsibility. The taxation system should encourage small business to expand and large business to distribute their profits. Again, the Tories would not leave too much to the Welfare State; instead employers themselves would be expected to make bigger contributions to their employees' insurance etc.

In his first speech as shadow Chancellor, Macleod emphasised that the Conservatives would bring down taxation. "There is a limit, and we are already beyond it ... to the burdens that one can put on personal taxation without a dramatic drop in efficiency and enterprise". He also undertook to repeal the parts of the 1965 Finance Act which discouraged overseas investment.

The new Tory Policy Statement is, however, ominously silent on how the Conservatives will tackle the central task of managing the economy. Would they use deflation, devaluation, import controls, export subsidies, an incomes policy, or what? As Wilson has pointed out, while the words and clichés in stating objectives are unexceptionable, no specific statement of policies have yet been made. The only hints are threats to Britain's social services. How the Tories will combine great increases in expenditure with reductions in taxation is still unknown. Scrapping the present system of farming subsidies and pensions may relieve the Exchequer, but if they are replaced by higher food prices and insurance premiums, the community will still have to find the money.

Whatever the methods, one factor is becoming increasingly clear. One of the chief means by which the Tories will try to capture the votes of the white-coated workers to whom Wilson appealed last year — the group so pithily described by Macleod as the "new and politically unattached salariat" — is a campaign for wider share ownership and lower taxation. The Conservatives are making a great point of the fact that it is now exceedingly difficult for salary earners, however successful they may be, to build up a worthwhile capital out of income. They are, therefore, busy studying schemes for wider share ownership, and in this context two subjects to which they are devoting particular attention are contractual savings

THE ECONOMIC WEEKLY

schemes and schemes for tax option. The party Conference was informed that a detailed examination was being made of the various methods of stimulating share ownership, and a study is being made of methods used in the United States and Western Germany. Discussions have already taken place with officials in Bonn and Washington, and the investigation is soon to be extended to other Common Market countries and to Japan.

Emergency Plan for Food Production

Andhra's Lead

C V H Rao

IN two seminars held in Andhra Pradesh almost at the same time, in Hyderabad and in Vijayawada, one organised by the Pradesh Congress Committee and the other by the State Agricultural Department, problems of augmenting food production in the State came under close scrutiny. This is, first, an indication of the current awareness among official and non-official agencies in the State of the great urgency of increasing food production, and, second, an intimation to the country as a whole about the prominent role that Andhra Pradesh can play in fulfilling this most urgent need as an integral part of the nation's advance towards self-sufficiency in food. Andhra Pradesh has established its surplus status in regard to rice by exporting 5 lakh tons of the cereal to deficit States this year. It is proposed to collect 8 lakh tons of rice in the next harvest season through the grain levy to operate the rationing system.

If the awareness of the State's role seeps down to the vast number of agriculturists and if it can be effectively harnessed for national purposes by the combined efforts of Government and non-official agencies like the Pradesh Congress Committee and other political organisations, Andhra Pradesh will be entitled to the gratitude of the rest of the country. As a prominent agricultural State and with an agricultural community which has the tradition of invariably displaying a forward outlook in agriculture, the State will most likely pass the test to which it is willing to submit itself and help the nation as a whole to face the challenge that the emergency has posed on the food front.

But this predicates the fulfilment of some essential pre-conditions. No

The Conservatives now realize that an immediate General Election would certainly not be of benefit to them, and one of the keynotes of the Conference was Heath's caution about the need for patience and hard work. "There is no easy way. Let us face this fact realistically. The Government to-day is still on trial by the people of this country." This means that Heath is now gearing his policy to remaining the leader of the Opposition for some

time to come, with the main purpose of fighting Harold Wilson and attempting to discredit both him and his Government's policies. On the positive side, with the security provided by the welfare services and a steady rise in standards of living but with capital still out of the reach of most people who do not inherit it, the slogan of a "capital-owning democracy" could prove to be a powerful bait in the next election.

worker, however skilled and competent, can produce the goods he is expected to without the necessary tools and instruments. No agriculturist and no section of agriculturists can produce the additional food or other essential agricultural commodities they can without being assured of the requisite 'tools'. The nature of the 'tools' in this case does not call for elaborate description. They are timely and adequate credit through co-operatives or other sources; ample irrigation facilities ensuring adequate supply of water; good seeds which will bring in a correspondingly good crop; adequate supplies of manure to strengthen and renovate exhausted soils and provide the requisite nutrients to ensure larger crop yields; and continued assistance in combating crop pests and diseases.

The need for these pre-requisites for augmenting the yield of crops is well known but still if their significance has to be repeated time and again, the obvious inference is that the need for them has not been adequately realised in practice and measures to provide them to the farmer have not received the priority they deserve. Efforts are no doubt made to provide them: for example, 87 new strains of paddy have been discovered in the State's research centres and distributed to the farmers and production of improved seeds had reached a total of 2,057 tonnes in 1961-62. Acreage under plant protection schemes increased from 28.77 lakh acres in 1961-62 to 60.40 lakh acres in 1964-65. But, unfortunately, progress has not been sustained or effective in all directions, partly because of the delays in arriving at policy decisions but much more on account of the tendency of the bureaucracy to

function by fits and starts and to lag behind after making a heroic start. Thus the production of improved paddy seeds declined to 1,726 metric tons in 1963-64. Inordinate delays in the completion of major irrigation projects started in the State and difficulties in getting the fertiliser plants sanctioned for the State started are additional factors impeding rapid progress and the attainment of the target production of 98 lakh tons by 1966. It is extremely doubtful if the shortfall in production of nearly 20 lakh tons can be made up in the current year.

It is a tribute to the Andhra farming community that despite these handicaps agricultural production has progressively increased from 54.21 tons in 1956 to 63.19 tons in 1961 and to nearly 75 lakh tons in 1965. Union Food Minister Subramaniam's commendation of the Andhra agriculturists' industry, his willingness to resort to improved and scientific agricultural practices and make practical use of new strains of paddy as, for example, the Taichung Native I variety, at the Seminar held in Vijayawada was, therefore, appropriate.

Among the seminar's principal recommendations were measures for the elimination of long-standing defects in the distribution of scarce resources like chemical fertiliser by the introduction of a card system, large-scale production of green manure through Central subsidy, adequate supply of unadulterated pesticides and fuller utilisation by the ryots of the facilities for soil testing provided in the soil testing laboratories.

It was a different atmosphere that prevailed at the Hyderabad seminar. In a down-to-earth speech, P Thimma Reddi, President of the Pradesh Con-

gress Committees, who presided over the seminar, criticised the implementation of agricultural development schemes in the formulation of which the actual cultivator, the central figure in the process of increasing food production, has practically no say. This drawback even C Subramaniam accepted by implication when he said that schemes in this regard must be (and will be) more and more farmer-oriented hereafter. There is ample justification for Thimma Reddi's complaint, to support which a few instances can be mentioned. For example, it has been a longstanding complaint that apart from the supply of chemical fertilisers being wholly inadequate, there are deplorable lapses in the distribution of available supplies. There is a similar complaint about the supply of pesticides, another essential requirement of the cultivators. Pesticides, it is complained, are badly adulterated. Nothing is more important than to evolve a foolproof machinery for sale and distribution of these essential requirements of the cultivators. Official policy is similarly in a state of confusion with regard to the agency for executing minor irrigation schemes and for the provision of agricultural credit.

One of the resolutions adopted by the Hyderabad seminar called for the institution of a Rs 200 crores revolving fund by the Centre for financing the execution of food production programmes in Andhra Pradesh and in particular minor and medium irrigation and lift irrigation schemes, all of which get held up in execution. The resolution may be regarded as asking for too much for a single State, but when along with it goes the assurance that the provision of the facilities to the cultivators which the fund is designed to create would help the additional production of 10 lakh tons of rice, it acquires legitimacy.

Among other recommendations of the non-official seminar, one which deserves careful consideration relates to foodgrains price policy. After some careful calculation of the per acre cost of cultivation in the delta and non-delta areas, the proposal was made that in deciding the maximum procurement prices of paddy for the next season the production costs incurred by the farmer should constitute an important consideration. The prices should give an 'incentive' to the cultivator and not merely be remunerative. The maintenance of a balance between the sacrifices demanded of the producers and of the consumers is obviously

essentially essential in an economy which is subject to over-all shortages. But apart from that, since larger food production is the paramount need and the targets to be achieved are rather formidable the demand for an incentive element in procurement prices cannot be evaded, provided, however, that at such prices all available surpluses with the producers are made over by them to the procuring agency. This guarantee should be available from the producer agencies.

The calculations of production costs which include expenditure on diverse items beginning with the preparation of the soil for seedlings and ending with the harvesting and threshing of paddy, and water rates and land tax, revealed that per acre cultivation expenses in the delta areas of Andhra Pradesh with assured irrigation facilities come to Rs 572 and in non-delta areas depending on minor irrigation sources, lift irrigation and so on, to Rs 511. With that rate of inputs the average output is estimated at 10-12 quintals and 8-10 quintals of paddy in the delta and non-delta areas, respectively. On that basis, the seminar resolved that procurement prices for paddy should be fixed at Rs 52 and Rs 45 per quintal in the delta areas and at Rs 53 and Rs 49 per quintal in non-delta areas respectively for fine and coarse varieties of rice. With producers' prices for paddy fixed at that level retail price of rice for consumers would have to be correspondingly enhanced. It was suggested that the need for this can be avoided by the State Government subsidising sale prices of rice to the extent necessary to keep them at reasonable levels. The calculations made and the averages arrived at are obviously rough and ready, but in the absence of any more authoritative calculations in recent years of the cost of inputs and other items of investment, the official agencies cannot challenge the figures.

Between the attitudes and outlooks of those participating in the two seminars there are obvious differences. But they are not essentially irreconcilable and unadjustable, especially as the recommendation recorded by both of them are identical in purport though not in detail. It is now the State Government's responsibility, therefore, to examine the two sets of recommendations and to evolve co-ordinated schemes which will induce purposeful and active co-operative action to implement them. Implementation, however, is the basic and fundamental desideratum and to that the administrative ma-

chinery must now be geared.

Apart from implementation at the administrative level, the realisation of the basic objectives which the two seminars had in view is interlinked with two other factors: first, a clear acknowledgment by the Central Government of the cardinal role of Andhra Pradesh in augmenting food production in the short term and in the long run, and, second, the provision of financial assistance to the State Government for completing the big irrigation projects in hand and provision of credit to the agriculturists in substantial amounts if possible through co-operatives and if necessary by bringing in the assistance of commercial banks. The second is a corollary of the first and the *raison d'être* for it is the enthusiasm with which the State Government on the one hand and the farming community on the other are inclined to approach their tasks at this crucial moment.

It is essential that awareness of the vital significance of stepping up agricultural production in the circumstances created by the emergency should become a permanent facet of our economic thinking. Much will depend on the extent to which the average producer is indoctrinated with this kind of thinking and how far the administration becomes attuned to it. As V K R V Rao of the Planning Commission said at another seminar in Poona, agriculture should be treated as an industry and operated on the lines of an organised business and not treated merely as a "way of life" of the rural areas, which the agriculturist can pursue at his own leisurely pace.

If immediate action is taken on the principal recommendations of the two seminars by the Centre, and if simultaneously the construction of the Nagarjunasagar project is speeded up and if facilities are provided for the completion of the fertiliser projects at Kothagudam and Visakhapatnam, an atmosphere favourable to the achievement of higher food production targets will be created in Andhra Pradesh. A beginning can be made with the emergency food production plan under which about 8 lakh acres of land would be brought under food production schemes, a part of them for the first time and a part for growing an additional crop of rice or maize. The additional acreage brought under cultivation under the emergency scheme can become a part of the area available hereafter for food production.

BOOK REVIEW

Learning to Teach

Ashok V. Desai

The Dynamic University by Zakir Husain; Asia Publishing House, 1965; pp xii+119; Rs 10.00.

WHILE reading this book I never ceased to be amazed by the optimism of Dr Zakir Husain in the face of facts. There is no doubt that he has a very concrete idea of the state of our universities, and since he thought it fit to mention all its unsavoury features in convocation addresses, where euphemism would be considered least blameworthy, it is evident how serious a view he takes of them. And yet he says (p 20):

"The great national edifice will not spring forth from India's soil for wishing of a few persons, however great. It would represent the fruit of the sustained and united lifelong effort of those who are young today. Will the young generation strive to generate these moral qualities? Will it, given these qualities, know how to combine and to co-operate, completing and being completed one by the other? One has to be a great optimist to answer these questions in the affirmative. I am such an optimist. First, because I have never felt the necessity nor seen the utility of being a pessimist and, secondly, because something deep down in me seems to furnish me with the belief that Providence has destined India to be the laboratory in which the greatest experiment of cultural synthesis will be undertaken and successfully completed. India's mission in world history seems to me to be the evolution of a distinct type of humanity, combining and harmonizing in itself the virtues of the diverse types which history has produced, all blended together to form a new type that might evolve a characteristic and, perhaps, more satisfactory pattern of civilised existence than those in vogue at present."

One meets some people in India today who manage to remain optimists by carefully doctoring their view of reality; one also meets many pessimists who find facts dark enough to suit their despair. But this combination of realism and optimism is rare. The realism commands respect, the optimism invites envy and admiration.

However, the two together make the

book difficult to review. One can either appraise Zakir Husain's idea of education: in fact, the ideal of the educated man that he puts before us is the most valuable feature of the book, an ideal which will give it a permanent place in educational literature.

Alternatively, one can deal with the shortcomings of our universities that he describes, their origins and ways of tinkering with them. But how are we to bridge the gap between the ideal and the actual? Zakir Husain neither does nor, could in the context, be expected to deal with the question; or rather, being an individualist, he tells his student audiences to think about the problems, to improve themselves and in the process to improve the universities. But the possibility of self-improvement depends, not only on a person's will to improve, but also on the intellectual equipment that he receives from educative institutions right from his family to the university. Nor is the responsibility entirely the educators'; their equipment and the environment in which they work matter. So there is no getting away from questions of organisation; and when one faces actual academic organisations, it is difficult to avoid a sense of defeat at their monolithic immovability, at the dead hand of tradition and fear of change.

The Idea of Education

Zakir Husain's idea of education is very clear (pp 28-29):

"Education is the process of the individual mind getting to its full possible development. This development is possible only by contact with goods of culture which are the products of mental effort of similar mental structures. The mind of the student at the stage of development when he comes to the university has, besides the initial vital physical and psychical functions of the human mind, also developed intellectual and spiritual functions whose satisfaction makes him experience what may be termed the absolute, timeless, objective values of, say, the True, the Beautiful, the Good, and the Holy. When experienced, they bring with them a characteristic

satisfying sense of validity and permanence and absolute worth. One gets committed to them, one strives to realise them. They become a determining factor in a person's scheme of life, its structure of values, its choices and preferences. Education, in the true sense of the word, is helping the individual mind to experience these absolute moral and spiritual values, so that they in turn urge him on to be committed to realise them, as best he may, in his life and in his work. Whatever else the university may or may not do, education, in this sense, should be its first concern."

The language might be somewhat foreign to a younger, anti-idealistic and anti-metaphysical mind, but I think the import is clear. The emphasis of the education must be on the individual; it should broaden the range of his aesthetic experience and enable him to find such experience in learning and in working; and it should make of him a better-behaved, more useful member of the society.

This concept of education indicates the tasks of universities. The chief of them is to mediate between the individual and the culture, to exhibit the attainments of the arts and the sciences to students so that they may pick whatever suits their inclinations. Further, these arts and sciences are themselves the result of human thought and work; so the universities must also show how they are created, how they can be created. In other words, they must teach the students to advance the state of the arts. And as communities they must also educate students in the task of living together.

Our Universities

There are many other ideals scattered in Zakir Husain's lectures (for instance, "science without presuppositions"; "passion for excellence"); we should not, however, go further in our summary. The ideas above are enough food for thought; and any summary would do injustice to the beauty of Zakir Husain's presentation.

From the standpoint of these ideals, the picture of our universities is sin-

gularly depressing. Zakir Husain mentions a number of features. The expansion of school education and a decline in its quality has led to a rapid increase in the demand for places in universities, which have acquiesced to it and debased their standards to meet it. University education limits itself to the conveyance of information and

dogma, and inhibits creative thinking. The students are incapable of independent judgment and an easy prey to mass hysteria.

Some suggestions for improvement are latent in the addresses. Thus, interdisciplinary education might be made easier: university lectures might be made open to students of all facul-

ties. This would require smaller, more compact universities which could hold all lectures roughly in the same place and at the same time. This is the system of German universities. But if it were to be effective, students would have to be chosen who are interested in and capable of learning a number of subjects at the same time. At the



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present time one gets scholars in our universities who know little of the literature of their own subjects, let alone other literature. Unless the selection of students becomes more rigorous and its principles change, interdisciplinary teaching will be ineffective and wasteful.

If the objective of teaching is individual development, Indian universities are ill-organised to serve it, for no effort is made to adjust the quantity and quality of teaching to individual receptivity. Given the large classes, the lecturer cannot easily judge the pace required and adjust it; and owing to the great differences in rapidity of comprehension, lectures are wasted on most students who find them either too fast or too slow. This vast majority has no interest in lectures unless they give fairly accurately what is to be written in examinations. Thus lectures become an integral part of the miseducation of the Indian student and the more precocious find no substitute or supplement.

German seminars and British tutorials have entered some Indian universities, but their point has been forgotten. Seminars are the best medium for a fairly bright student to put his skills to the test of criticism of his peers while a teacher supervises the proceedings. In India, however, the attendance of seminars is indiscriminately free and criticism cannot develop in the presence of the dogma that is imparted in lectures. And utter travesty is made of tutorials, which are a labour-intensive and potentially most fruitful way of teaching. They are also given indiscriminately to all students; as a result, they are spread too thinly, and they are given to groups whose average degree of interest and participation is very low. They are given by the juniormost, least skilled staff whose level of knowledge and thinking is little higher than of their students. No wonder both find it a tiresome chore.

Question of Organisation

But the major difficulties are organisational—they reside in the interrelations between individuals and between institutions.

Take the question of creative thinking and research. Every year we get back hundred of students who have done fruitful research abroad; they are absorbed in our academic organisations, and yet their research output thereafter is negligible. Does our climate affect them? Or our food? Or

are they frauds? No; it is the organisation of research that is at fault. In all our universities, teaching takes primacy. The status hierarchy runs through teaching; pure research jobs, if any, are subordinate or outside the pale. Professional teachers guide research without any comprehension of how research is done. A good guide of research would throw up questions, criticise ideas, suggest new hypotheses and sources. He would ensure that there is no break in the flow of resources into research, that workers can devote long, continuous chunks of time to research. Professional teachers are incapable of doing these things; their view is that the output of research should be maximised and the input into it minimised. Their efforts achieve just the opposite.

On the other hand, the input-output approach is not applied in the vast fields where it would be useful. Thousands of man-hours are wasted every year on keeping doubtful roll records and calculating whether students have attended a minimum number of lectures; many more thousands are wasted in lectures which students who have been forced to attend render impossible. Labouring hands sift letters to see if they contain unofficial matter, write out details of destination and postage on letters in bound volumes, keep records of library books issued and salaries and wages paid in long hand; the use of index cards, the printing of repetitive features is quite unknown. Bills of expenses pass through the hands of innumerable clerks, each more lethargic than the other; invitations are sent out after the event. Requests for leave are made in triplicate; eight copies of applications must be enclosed. One university saves money by recovering from every employee 10 paise for the revenue stamp on which he signs receipt of his salary, another by using semi-brown rough paper for stationary, a third by declaring articles sent out for publication personal letters, a fourth by keeping a record of pencils issued and recovering a stub for every new pencil. The money so saved is squandered on the labour of clerks, peons and heads of departments.

This inefficiency could be excused if the job of teaching students were done competently. But "democratic" pressures dictate expansion of college admissions, and university limitations on fees ensure that colleges that wish to make profits should employ the minimum number of teachers per student. So college lecturers carry im-

possible lecture loads, and they have no alternative but to teach by rote. Democratic pressures also demand a high proportion of passes; so examination standards are debased

Pockets of Excellence

Democracy is here to stay, and so are low standards. The best we can hope to do is to create pockets of excellence. Hence it is necessary to decentralise control—to reduce the power of universities and to set up more research institutes with some autonomy. Such institutes may teach and guide research as an auxiliary activity. But they must not shelter teachers who are nothing but teachers; and they must be small enough to dispense with red tape and hierarchy.

Research workers would be useless without research facilities. Libraries, laboratories and equipment should be an integral part of institutes; but there is, besides, a powerful need for good libraries in our cities. Every city of 100,000 people should have a good library. Library science is highly developed, and if our libraries are badly run, it is entirely due to their poverty and the ignorance of book selection committees. The most painful instance is that of the Asiatic Society Library in Bombay: while it has been made a copyright library it has not been given the resources even to catalogue the books it receives. Libraries should have unlimited resources, and they should have outfits for automatic ordering of books.

Even if competent research organisations are created, their impact on the rest of the educational structure will be very limited in the present circumstances. Besides, if undergraduate teaching remains substandard, research organisations will find recruitment difficult, and will be dependent on imports in the way many existing ones are.

The first step in the reform of the educational structure would be to equalise the salaries and working conditions throughout from schools to post-graduate organisations, and to make them comparable to those in non-educational occupations. Education ought to attract the best talent in the country, and the competence required in teaching children is, if anything, greater than what is required further down the ladder.

The (logically, not chronologically) next step would be to dispense with professional school-teachers. Most school subjects—modern languages, mathematics and science—are of use

in professional practice, and people in employment of various sorts can teach them quite competently, and perhaps more imaginatively than school-teachers. If they are paid for school lectures at rates comparable to their own salaries they are hardly likely to grudge part-time teaching. Besides, high teaching standards can be ensured because their number is large and there is scope for selection. The less practical subjects

like Sanskrit, if they must be taught, can be left to housewives who would thereby acquire some non-domestic interests and financial independence.

Will these reforms bring us nearer to Zakir Husain's ideal university? I think so. For Zakir Husain's aim is to create a student who delights in learning, who is unhappy in stagnation; and it is schools that can serve this aim. If a student's curiosity is killed

by the age of seventeen or eighteen, he is unlikely to develop precocity later; if, on the other hand, he has experienced the adventure of learning by then, no amount of university mis-education will curb him. In fact, he will force the university to mend its ways, for there is nothing more frightening to a bad teacher and more delightful to a good one than a student who excels him.

A Foreign Policy to Meet the Sino-Pak Threat

Contributed

Both the USA and the Soviet Union are likely, under propitious circumstances, to help India become militarily and economically strong without asking for the price of a military alliance. What they would expect is a much greater measure of collaboration than hitherto in those spheres of world affairs where between them there are no acute conflicts. This India should be able to give.

A policy of carefully cultivating US and Soviet friendship in certain exclusive spheres will not only benefit this country but may also be a contribution to world peace.

THE Indo-Pakistani war has been described by some pressmen abroad to have ground itself to a stalemate. This one fears is a superficial view. The battle has been decisive. It has decided that Pakistan cannot annex Kashmir by force. It has further decided that India has the potentiality in a longer war of destroying Pakistan, that is if the two countries are left alone to slog it out. But they have not been and will not be left alone, and therefore the significant consequences of this battle are a number of political issues which, however, remain undecided. The armed truce has in fact introduced a situation in which Indian leadership is likely to be more severely tried than it was in war which was comparatively a simple business; the possibility of losing the peace in the near future is a real one. Political adroitness is required; so is statesmanship, certainly in a greater degree.

We have first to realise clearly what our national objectives are, or ought to be. First, of course, is not to give up Kashmir, not so much because we call it a part of India as for other reasons which will be more acceptable to the majority of the nations. This writer believes that if India lost Kashmir it may not immediately lead to the dissolution of the Union though there is no doubt that another amputation of India after 18 years may have serious repercussions on communal stability and may strengthen the centrifugal forces inside the country. This may indeed eventually break up the Union. Kashmir has united what was thought to be a loosely knit federation yet unable to accept one national language; loss of Kashmir may well encourage fissiparous trends. But the positive aspect of having Kashmir in India is more significant from the world point of view as well as ours. By keeping Kashmir India can save her multi-community state. And its example may eventually set in motion healthy federating forces in many parts of the world, where the ancient regime is crumbling into many

not-so-visible states, baffling cartographers and the accommodation department at the United Nations.

Our second national objective obviously is to oppose and stop Chinese expansion in South Asia. China is historically expansionist; the trend is reinforced by communism which Mao considers exportable. India happens to be the only country in South Asia with potential capacity to stop her, and create with the help of smaller nations an effective bulwark against China. Between the two objectives keeping Kashmir as a part of India must have priority. That is essential for integrating the country and a disintegrated India cannot stop the Chinese drive southwards.

II

Unfortunately for India, the two problems at the moment have to be faced simultaneously. In other words we have to contend with the classic disadvantage of having enemies on two fronts. It is not avoidable. It is arguable that granted an opportunity of ceaseless toil for five years, India can be on its own militarily and economically strong for a two front defence. But contemporary history has not granted the opportunity. It does not seem possible to buy off China for that length of time by conceding her demands. If it were, the wastes of Aksai Chin, which in any case is now in Chinese occupation, are not to be equated with Kashmir Valley. But since a clash of interests with India in South Asia is inevitable, why should China let up pressure on account of India giving away what she has already got? Therefore, India is obviously forced to look for support from other quarters, for in the last analysis without support it will be extremely hard for us to retain Kashmir as well as restrain China at the present moment.

The obvious quarters are Soviet Russia and USA. Unfortunately, however, it is not a simple matter of helping India against Pakistan or against

China, but a more complex problem of helping her against both. How far at any rate is USSR prepared to back India against Pakistan? Pakistan is under the Ceto alliance a potential enemy of Russia. And Russia herself is a multi-nation state, having on her south-eastern fringe a people ethnically close to Iran and Afghanistan, some of whom are still Islamic in faith. Therefore, she is unlikely to support the principle of self-determination on religious or ethnic grounds. It is true that the recent cooling off of Pak-American friendship might tempt Russia to try to wean away Pakistan from her formal American alliance. Yet the political brinkmanship Pakistan has recently demonstrated cannot enhance her value as a potential ally. It is at the same time true that Soviet Russia would not like to see India crack up under Chinese pressure and see Chinese hegemony established in South Asia, which will gravely upset the present balance of power within the Marxist world. Yet it is unlikely that she will accept any formal military understanding with India against Pakistan, for a pact against Pakistan may eventually be a pact against China — Pakistan is likely to ask China for formal military support against India (if she has not already done so) and China is likely to give this to her. After all Soviet Russia may be travelling towards affluence but she is still communist. Khrushchev's fall showed that Russians do not think that the ideological quarrel has gone beyond the point of no return — and in the last analysis, China's enemy India is avowedly non-communist. Nor will India be safe in accepting such an understanding, for a bridging of the Soviet Union's rift with China and a lessening of tension between her and the USA both historically possible, will reduce in Soviet calculations the value of an alliance with India.

Should then India turn to USA for a military alliance? And would she get one? When we in this country criticise USA for supporting Pakistan we forget that the latter is still a for-

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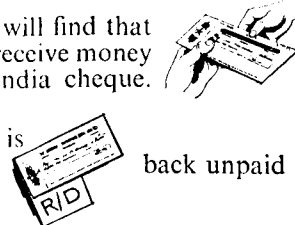
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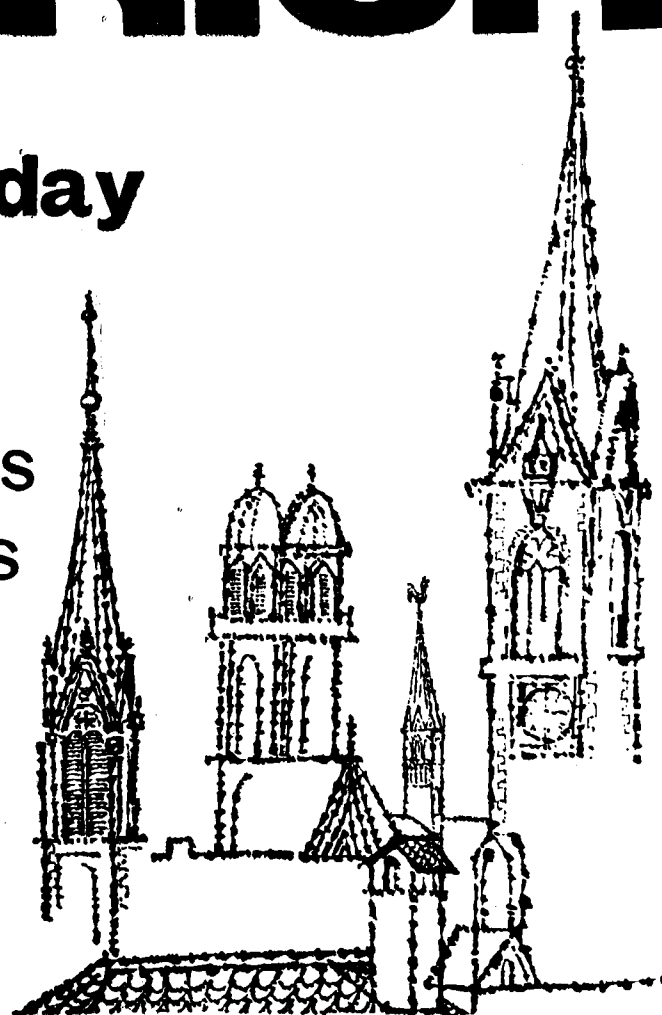
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mal ally of USA with clear cut mutual commitments. For dropping an ally, what price can India offer the US? It is true in an all out nuclear war, the Pakistani bases are of little value to USA. Yet in a conventional war, Pakistan can be useful to the Cento alliance. Further, while Bhutto's brinkmanship has weakened American confidence in Pakistan, yet USA is unlikely to consider that Pakistan is lost forever to the opposite camp. To the American mind chastisement may not appear to be the only method of mending Pakistan's teen-age political behaviour. On the other hand USA would be more interested in India being an affective sea wall against the Chinese tidal wave. In the matter of Kashmir also USA may now sympathise more readily with India's minority problem, she herself having on her hand an increasingly complex one. Yet it is not easy for India to openly accept an American military alliance even if one is offered. It is true by offering bases in Assam we may demonstrate that our military objectives are not against Asiatic Russia. On the other hand by openly siding with USA, we may jeopardise the collaboration with USSR in military and economic matters. It would, therefore, seem that the position of USA in regard to the Indo-Sino-Pak conflict is similar to that of USSR; the difference is that while USA would less readily support India against Pakistan, Russia may not be too enthusiastic in having with us a formal military pact against China.

III

A safe conclusion is that both USA and USSR are likely, under propitious circumstances, to help India become both militarily and economically strong, without asking for the price of a military alliance. Nor does it pay India to accept such an alliance — perhaps by such tie-ups we shall render ourselves less useful to these great powers in the large uncommitted tracts of the globe. On the other hand they would expect something in return — perhaps a much greater measure of collaboration in those spheres of world affairs where between the two giants there is no head-on clash. Even where there is, India can be as she has been in the past a kind of less direct yet effective "hot line". Much will be achieved in this direction if India publicly acknowledges the useful work done by USA in South Asia against the Chinese influence. USSR

will not necessarily take that amiss if elsewhere, say in Afro-Asian gatherings, India's solid backing is available. Nor would India's potentiality of assisting both powers from gracefully withdrawing from the strife in Vietnam be underestimated by Russia. In fact India can go a little further with USA. Military talks for defence of North-East India will be no direct threat to USSR, but may appear to Pentagon a substantial compensation for the loss of Pakistan as a military ally.

So rather than political brinkmanship or opportunism what we require is careful cultivation of Russian and American friendship in certain exclusive spheres, a policy which will not merely benefit this country but may be of some use to the whole world. Such realistic diplomacy will help achieve national objectives only if the

economic and military assistance so gathered is utilised to the full in equipping the country for a conventional two front war and at the same time in making it self-sufficient in food. The perfectly legitimate impression abroad that a poverty-stricken country like India should not indulge in the luxury of a shooting war mars the image of India even when she takes up arms under compulsion. For building up on the home front the careful chess moves in South Asian power politics are far less important than unity, purposefulness determination and indignation. Emotion must play a large part in the integration of the country and in the national effort. But the most exacting problem for the Indian leadership will be to ensure that emotional forces, otherwise essential, do not dominate the cold-blooded rationality required at least for the

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next few years in shaping our foreign policy. Our foreign policy must be the means to the end of acquiring economic and military strength which in its turn will give a new significance to our foreign relations. Our Foreign Service is probably far from an able organisation, but let us not forget that they do have the back-breaking task of having to sell a country which is very nearly broke and was about three years ago soundly beaten by China. After all, what help

can the small South Asian nations, quivering under the evergrowing Chinese threat, expect from a country lacking the sinews of industry and war? Strength at home will inevitably change the attitude of the smaller powers around us, with whom our friendship is only natural. And after the first national objective, the one in regard to Kashmir is achieved, our mature leadership should hold out friendship to Pakistan — if by then its politicians have not already com-

mitted national suicide by selling out to China. For having a Pakistan capable of defending herself but without the capacity of committing mischief, fits in with our second national objective — that of stopping China. Pakistan also will do well to seek our friendship, for every passing year will weaken the Central Government's hold over East Pakistan, and Rawalpindi's securities offered to the West against the loan of weapons and gold may soon be without worth.

Cost Price Relationship in Indian Manufacturing Industry

S Hajra

In examining the cost-price relationship in industry this paper challenges the view that rise in prices of industrial products has anything to do with rise in wage costs.

The evidence for the industries studied here suggests no relationship between unit wage and material costs and prices. Nor does it suggest that growth of labour productivity has lagged behind rise in wages. On the contrary, in most of the industries productivity has risen faster than wages.

THIS paper has been divided into three sections. The first section reviews Sidney Weintraub's theory of inflation in India contained in his book, "Growth without Inflation" (National Council of Applied Economic Research, February 1965). The second examines the variations in unit material cost, unit wage cost and wage and labour productivity in relation to variations in prices for selected industries. The third section is a statistical study of the cost-profit relationship in manufacturing industries.

I

In "Growth without Inflation" Sidney Weintraub has offered an analysis of inflation in India. He has used a simple model to explain his theory which he has tested with Indian data. For the convenience of readers the model is reproduced here. Weintraub's is a single equation model, formulated on the assumption that "sales proceeds are some multiple of wage payments" (p 55). In equation form:

$$PQ = kW_N \dots (1)$$

where P = average price per unit of goods sold;

Q = physical volume of real output;

N = number of employees;

and w = average wage per employee. Following equation (1)

$$P = k \frac{wN}{Q} = k \frac{w}{A} \dots (2)$$

where A = real productivity of labour, (N)

In another form

$$P = K.U \dots (3)$$

where $U = \left(\frac{wN}{Q}\right)$, i.e., labour cost expressed in current money wage per unit of real output.

From the model Weintraub concludes: "So long as k is constant or

nearly so and A, average productivity of labour, changes slowly or not at all then it must follow that every change in w, the average money wage per employee, must lead to a direct and proportional change in the level of prices" (p 56). Weintraub defines k in his equations as the mark-up factor, which is the "reciprocal of wage-share" (p 56), and calls his theory as the wage-cost mark-up theory (WCM). His results from Indian data are summarised in Table 1. The empirical evidence has led Weintraub to argue:

"The definite rise in w, the slow steady rise in A, the mild trend in k, and the somewhat undue rise in unit labour costs represented by w/A are very apparent. The rise in labour cost of some 13 per cent over the full period and some 23 per cent since 1955 can be alleged with little fear of contradiction as responsible for inflation" (p 62).

His conclusion is that: "the inflationary problem in India has

involved a wage and salary inflation ... income payments have been growing at an undue, if not alarming, pace relative to the movement in labour productivity ... this has been the growing stream of individual income payment rampaging over the dam of productivity" (p 67).

What is required, then, is that: "India will have to face up to this question of holding individual income payments in check and instituting a wage-income policy, if it is serious about its endeavours at economic stability and inflation control" (p 67).

P S Lokanathan, Director General of NACAER, in his introduction to the book mentions a few limitations of Weintraub's policy recommendation for India. He points out that in the agricultural sector whatever be the labour productivity a living wage must be paid and, second, that as a result of market imperfections profits and rents may not be stabilised simultaneously with an income policy. He also

Table 1: Summary of Weintraub's Results

(Percentages)

	Increase in Labour Productivity (1948-55)	Increase in Money Wage (1948-55)	Increase in the Value of Mark-up Factor (1948-55)	Increase in Unit Labour Cost (1948-55)
(1) Agriculture allied activities	22.16	34.12	5.7	9
(2) Mining, Manufacturing and factory establishments	128.53	131.85	13.5	1.5
(3) Government enterprises	62.98	50.25	25	-0.08
All sectors	28.9	45.84	2	13

Source: Summarised from Weintraub's Table 7 (p 59), Table 8 (p 62), Table 9 (p 63), Table 11 (p 64) and Table 12 (p 65).

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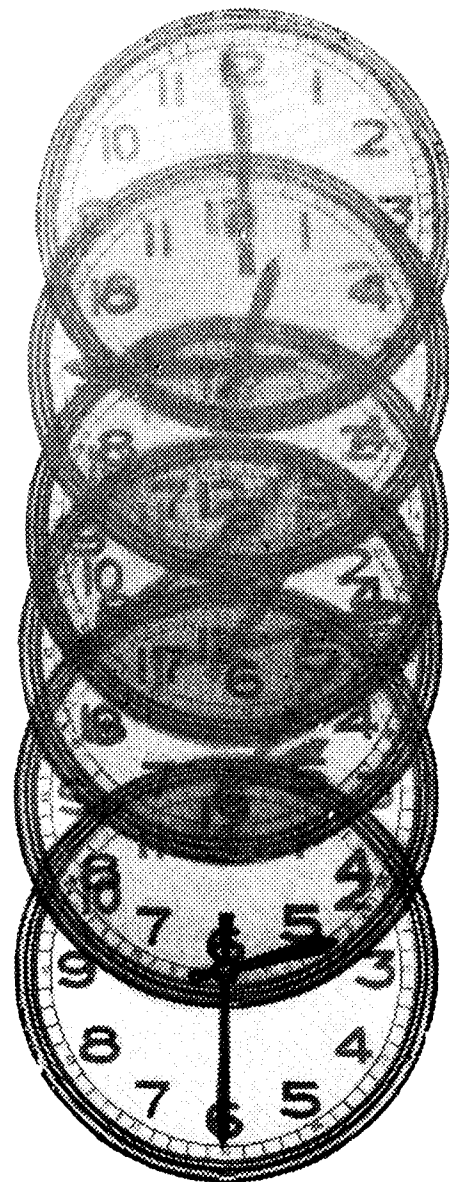
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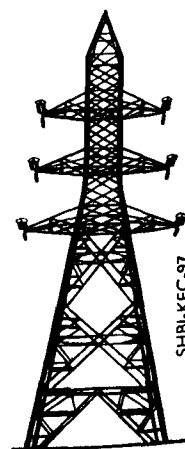


Table 2: Labour and Material Cost

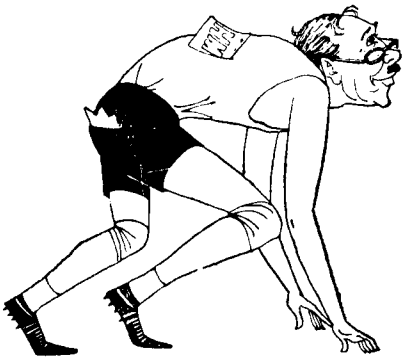
Industries	Unit Labour Cost				Unit Material Cost			
	1947	1952	1955	1958	1947	1952	1955	1958
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Wheat flour	0.91	0.55	0.33	0.30	15.8153	15.5839	11.4553	11.2831
(2) Rice-milling	0.93	0.68	0.40	0.57	20.6228	18.9627	10.7359	17.4366
(3) Biscuit making	0.34	0.52	0.41	0.35	1.6219	4.2420	3.3675	2.3333
(4) Vegetable oil	0.41	0.68	0.55	0.39	11.3555	22.5793	17.5418	15.0979
(5) Sugar	0.21	0.39	0.38	0.37	2.0668	2.4919	2.9259	2.6761
(6) Distilleries and breweries	0.41	0.46	0.35	0.37	1.4999	1.3718	1.2714	1.4198
(7) Paints and varnishes	0.25	0.32	0.31	0.26	1.8581	1.8043	1.9172	1.5973
(8) Soap	0.24	0.15	0.24	0.20	3.0752	1.8564	2.2736	2.1181
(9) Cement	0.66	0.33	0.29	0.41	2.1245	1.8332	1.3204	2.1144
(10) Glass and glassware	0.72	...	0.72	0.58	0.9312	1.8796	1.3942	1.3501
(11) Ceramics	0.77	0.80	0.70	0.62	0.7610	0.7404	0.6393	0.6985
(12) Plywood and teachefts	0.50	0.39	0.40	0.43	1.3061	1.9106	1.8025	1.6702
(13) Paper and paperboard	0.57	0.42	0.35	0.34	1.5726	1.5909	1.2455	1.4978
(14) Matches	0.42	0.54	0.60	0.45	0.9008	1.1770	1.1900	0.8064
(15) Cotton textiles	0.65	0.79	0.64	0.77	1.3426	2.4385	1.7116	2.0321
(16) Woollen textiles	0.32	0.71	0.60	0.47	0.8680	2.9884	3.0376	2.6392
(17) Jute textiles	0.63	0.66	0.81	0.67	2.4470	2.7127	2.5976	2.0506
(18) Chemicals	0.36	0.42	0.39	0.31	1.1158	1.7639	1.7600	1.4974
(19) Aluminium, copper and brass	0.50	0.57	0.33	0.37	2.6329	3.7382	3.4526	2.8290
(20) Iron and steel	0.52	0.55	0.43	0.47	1.0110	1.2261	0.9975	1.3997
(21) Bicycles	0.62	0.58	0.39	0.41	0.8363	1.7139	1.4770	1.7476
(22) General eng and elect eng	0.71	0.68	0.58	0.51	1.1934	1.4643	1.5556	1.7234
(23) Tanning	0.48	0.66	0.66	0.59	3.1279	5.8462	7.7378	5.7038
All Manufacturing		0.64	0.55	0.55	2.0035	2.4830	2.1202	2.3470

Table 3: Relative Movement of Wage Cost and Material Cost (Percentages)

Industry	Total Wage Bill as Propotion of Total Material Costs				Rates of Return			
	1947	1952	1955	1958	1947	1952	1955	1958
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Wheat flour	5.75	3.51	2.92	2.70	2.08	12.14	29.88	32.53
(2) Rice-milling	4.51	3.60	3.77	3.31	1.13	5.78	20.30	9.53
(3) Biscuit making	20.80	12.29	12.12	15.11	48.61	14.84	23.93	36.73
(4) Vegetable oil	3.60	3.02	3.12	2.55	12.76	6.96	14.14	16.39
(5) Sugar	10.07	15.49	12.65	13.88	45.32	19.69	20.75	19.08
(6) Distilleries and breweries	27.43	33.56	27.68	25.86	22.76	15.97	28.58	31.12
(7) Paints and varnishes	13.72	17.42	16.40	16.58	47.03	36.40	43.74	55.71
(8) Soap	7.82	8.14	10.64	9.32	37.16	73.64	43.15	58.30
(9) Cement	30.94	46.40	21.77	19.38	6.81	26.78	23.81	10.48
(10) Glass and glassware	77.21	55.15	51.76	42.59	18.03	-1.02	10.50	22.31
(11) Ceramics	101.61	108.56	109.00	89.29	11.15	8.43	14.20	19.47
(12) Plywood and teachefts	38.66	20.95	22.26	25.39	16.11	29.14	30.51	25.77
(13) Paper and paper board	36.21	26.33	27.71	22.93	19.19	23.02	30.76	24.84
(14) Matches	46.91	46.13	50.81	54.60	71.18	42.87	31.19	65.70
(15) Cotton textiles	48.77	32.32	37.54	37.92	26.88	10.37	23.58	10.63
(16) Woollen textiles	37.42	23.72	19.67	17.71	77.02	9.01	13.09	20.79
(17) Jute textiles	25.60	24.24	31.28	32.59	26.27	25.52	9.70	18.81
(18) Chemicals	32.70	23.99	21.93	20.81	32.31	13.72	18.22	27.32
(19) Aluminium, copper, brass	19.07	15.29	12.14	13.02	18.37	10.64	22.95	28.89
(20) Iron and steel	51.12	45.11	42.95	33.44	26.26	24.96	32.69	14.16
(21) Bicycles	74.05	33.57	26.49	25.15	17.10	13.74	31.18	26.68
(22) General eng and elect eng	59.45	46.13	37.44	29.80	16.07	14.32	19.37	24.97
(23) Tanning	15.45	11.30	8.53	10.39	26.71	10.61	9.77	14.00
All Manufacturing	27.78	23.68	24.12	22.84	26.43	15.63	21.85	—

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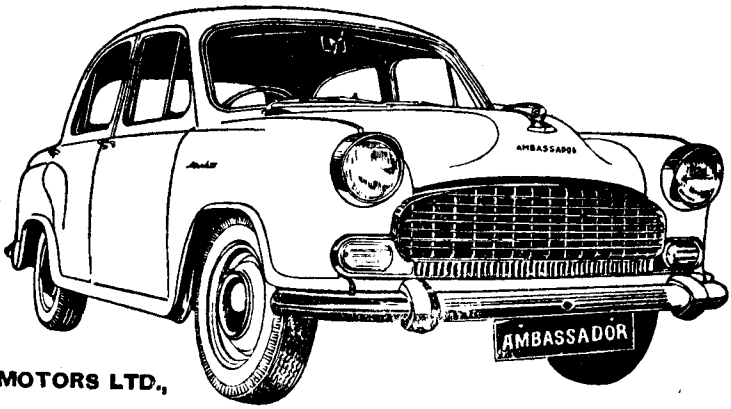
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mentions that government deficit and increases in money supply are also responsible for aggravating the situation so that it is difficult to label any one factor as the culprit (p vii).

To the present writer it seems that Weintraub's conclusions are not adequately supported by his evidence. Unit wage cost has increased in manufacturing by 1.5 per cent and has declined by 8 per cent in Government enterprises, whereas money income in these two sectors have increased by 131.5 and 50.25 per cent, respectively. In the manufacturing sector productivity has increased by 128.5 per cent. The wage-productivity disparity is nowhere as large as Weintraub's expression "growing stream of income payment ... rampaging over the dam of productivity" suggests. What is this "growing stream of income payment"? Does it refer to (i) rise in wage rates of the existing employed or (ii) additional employment?

Obviously (i) and (ii) cannot have the same effect on P (prices). If the increase in income payments is due to (ii) and the larger part of the additional employment created falls in the (non-productive) tertiary sector (that is, increase in employment and income payments are not accompanied by an increase in Q) then it will definitely be inflationary. But the cure for this type of situation is not res-

traint of all money wage.

Weintraub suggests "an alternative formulation of the WCM truism that is more apt for the studies of economic growth that give weight and a stress to the capital-output ratio and to the amount of capital per employee" (p 66). This formulation he presents as

$$P = \frac{kw}{A} = \frac{NQ}{KQ} = kw \frac{K}{K/N}$$

where K=capital; K/Q=capital output ratio and K/N = capital labour ratio. Weintraub argues that "Data could be fitted to this equation, but in view of the truistic nature this is superfluous at this stage ... neglecting the changes in wage share as relatively unimportant and as the capital-output ratios do not vary greatly in short periods, the money wage will rule the price level roost" (p 67).

However, in India during the Five-Year Plans the capital-output ratio has shown changes and the assumption of secular constancy of the ratio is also contrary to the evidence of other countries. As regards the short-period movement, of the capital-output ratio, we may quote here Kaldor: "It is of the essence of the acceleration principle that it regards the ratio output capital determined by technical factors, which cannot undergo any significant alternation even in the short period; while it is the

essential feature of the cyclical movements that this relation is subject to continuous changes in the course of it".¹ Hicks suggests a series of partial coefficients instead of a single one, each applicable to a different period.

Weintraub's model of inflation is a single equation one, which includes (a) a real part with Q and N and (b) a monetary part with P and w. His equation, further, is an identity which deals with *ex post* quantities. Single equation regression models which consider data as stochastic to the extent that an error term and its random distribution are assumed have been neglected by Weintraub. And the specification of the money wage rate has helped him to draw all his conclusions. A conclusion that the rise in price has led to the rise in money wage is equally possible from his equation if the price is identified rather than the money wage. One further limitation of Weintraub's analysis is that he has used his productivity index in constant prices and wage index in current prices. What does such a comparison mean? The appropriate comparison should take either both in current prices where marginal revenue productivity is compared with wage, or both in constant prices where 'real' productivity is compared with 'real' wage.

Table 4: Changes in Money Wage and Unit Labour Requirement, Labour Cost and Labour Productivity (Percentages)

Industry	Increase in Money Wage				1952-58 Variation in Unit Labour Require- ment	1952-58 Variation in Unit Labour Cost	1952-58 Variation in Labour Productivity
	1947-52	1952-55	1955-58	1952-58			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Wheat flour	50.67	2.74	14.22	15.31	-52.09	-44.74	108.7
(2) Rice-milling	22.15	22.66	-1.15	21.23	-30.04	-15.42	43.5
(3) Biscuit making	40.99	13.76	26.16	43.61	-52.48	-32.28	112.5
(4) Vegetable oil	-0.38	21.73	6.79	-30.06	-35.84	-43.65	110.6
(5) Sugar	37.96	19.58	9.73	31.22	-33.33	-4.80	37.8
(6) Distilleries and breweries	66.63	8.53	15.56	25.23	-37.50	-20.10	63.0
(7) Paints and varnishes	62.15	2.43	25.35	28.41	-35.00	-16.46	53.8
(8) Soap	89.40	19.22	2.83	5.82	...	+73.50	-14.5
(9) Cement	89.43	17.69	8.22	27.36	...	+33.30	-5.0
(10) Glass and glassware	22.50	11.26	3.16	44.88	-16.60	-36.15	169.1
(11) Ceramics	81.40	11.42	15.47	28.10	-39.24	-21.82	64.6
(12) Plywood and tea chests	25.92	7.67	23.28	32.48	-18.00	+8.60	21.9
(13) Paper and paperboard	92.72	-7.04	12.56	...	...	+21.00	...
(14) Matches	55.40	-25.30	43.26	6.31	-23.58	-18.5	31.1
(15) Cotton textiles	42.60	3.21	12.38	16.00	-15.85	-2.00	18.4
(16) Woollen textile	50.00	8.47	5.40	14.33	-42.90	34.46	75.0
(17) Jute textile	46.62	8.73	5.87	14.23	-10.90	+2.00	14.9
(18) Chemicals	57.40	46.14	-8.96	34.64	-46.67	-28.26	87.5
(19) Aluminium, copper and brass	27.88	15.53	23.32	42.48	-54.33	-34.97	119.0
(20) Iron and steel	75.61	0.79	4.81	13.26	-26.92	-16.20	36.8
(21) Bicycles	34.71	3.07	20.77	24.48	-39.01	-24.42	64.0
(22) General engineering and electrical-engineering	43.77	7.79	14.97	23.95	-38.91	-24.24	69.3
(23) Tanning	45.53	-3.12	19.14	15.41	-23.38	-11.56	30.5

II

We now proceed to examine how far price movements in manufacturing industries can be explained by movements not only in money wage and unit wage cost but also by variations in unit material costs since raw material prices have increased during the period and raw material cost forms a large proportion of total operating cost. Twenty three manufacturing industries are covered here. This section examines the movement of unit material cost, unit labour cost, wage and labour productivity for individual industries. The data are given in Table 2.

Total cost of production has been classified as: (1) wage cost; (2) material and other input costs; and (3) capital cost. Prices has been defined as equal to the cost of production plus entrepreneurial profit. With this definition of price there are two sources of price variation: variation in cost and variation in entrepreneurs' profit expectation. In this paper we will consider the first, taking only wage cost and material cost, since data on capital cost are not available.

The data used are from the Census of Manufacturing Industries and the period, 1947-58. The relevant data, as compiled from the Census, are given in Table 2 to 4. The concepts used are similar to those used by the Census and are briefly discussed below:

(a) Value-added is the measure of output used here; it is equal to ex-factory sales value of output less cost of material, fuel, electricity, etc, consumed and depreciation.

(b) Unit wage-cost is wage-cost per unit of value added where wage cost includes wages, salaries and other benefits paid to workers.

(c) Unit material cost is total input cost per unit of value added, where input cost includes cost of raw material, fuel, electricity, lubricants, etc, consumed and payments to other concerns for work done by them.

Table 3 gives wage cost as a proportion of material cost as defined above. Table 4 gives percentage increase in money wage, percentage decline in unit-labour requirement (1952-58), percentage increase in labour productivity (1952-58), percentage decline in unit labour cost (1952-58) and percentage increase in money wage (1952-58). Table 5.1 gives the price-index (base 1947) and Table 5.2 the price index (base 1952). A small comment is called for here about the price indices. Both the price indices are published

by the Ministry of Commerce. One cannot be sure that the industry classification in the Census and that in the price indices are the same, but in the absence of any other price indices these have been used. The first index covers 14 industries and the second one 18 industries. Cost-price relationship study has been, therefore, limited to these industries for which data are available.

It can be seen from Table 4 that during 1947-58 wages have gone up in all industries. Percentage increases in wage between 1947-52, 1952-55 and 1955-58 are given in the Table. With rising wage, unit labour cost (see Table 2) also increased during 1947-52 in 18 out of the 23 industries, but since 1952 the trend of unit labour cost has been almost reversed. Although wages continued to rise, unit labour cost declined during 1952-55 in 19 out of 23 industries and in one it remained constant. The trend was similar in 1955-58. In 1952-58 unit

labour cost declined in 20 industries; in 1947-58 it declined in 17 industries. The evidence for most of the industries for the period as a whole points to a consistent rise in money wage and decline in unit labour cost.

Table 2 shows that unit material cost increased in 16 industries during 1947-52, but since 1952 the trend has been almost reversed. During 1952-55 unit material cost declined in 14 industries and during 1952-58 unit material cost declined in 17 industries.

Comparing unit material cost and unit labour cost, it can be seen that during 1952-58 the trend of the two is very similar. During this period both unit labour cost and unit material cost have declined for 17 industries. Table 3 gives the relative movement of wage cost and material cost, where wage cost has been expressed as proportion of material cost. It can be seen that during 1947-58 wage cost as proportion of material cost declined in 21 industries, jute

Table 5.1: Wholesale Price Index

		(1947=100)			
		1947	1952	1955	1958
		(1)	(2)	(3)	(4)
(1)	Wheat flour	100	142.1	115.5	148.8
(2)	Rice	100	157.8	132.3	186.2
(3)	Sugar	100	136.7	124.1	152.8
(4)	Vegetable oils	100	87.3	71.1	104.5
(5)	Soap	100	113.9	108.8	119.9
(6)	Paints	100	151.9	122.7	133.2
(7)	Glass	100	61.8	58.4	61.1
(8)	Paper	100	141.7	153.7	174.8
(9)	Cement	100	146.2	141.7	184.4
(10)	Cotton textiles	100	156.9	158.8	159.6
(11)	Woollen Textiles	100	164.5	156.9	155.4
(12)	Jute Textiles	100	106.8	90.7	81.7
(13)	Matches	100	121.9	124.0	163.1
(14)	Chemicals	100	148.0	130.3	139.2
(15)	Machinery	100	136.4	139.5	160.5
All manufacturing		100	136.4	135.0	139.7

Table 5.2: Wholesale Price Index

		(1952=100)			
		1952	1955	1958	1961
		(1)	(2)	(3)	(4)
(1)	Wheat	100	69.8	96.3	89.3
(2)	Rice	100	76.1	107.5	104.5
(3)	Paints	100	89.4	98.0	102.7
(4)	Soap	100	97.0	109.0	123.9
(5)	Matches	100	100	131.6	138.8
(6)	Tanning	100	96.1	87.7	110.6
(7)	Cement	100	98.8	129.2	138.6
(8)	Paper and paper board	100	95.3	114.9	108.1
(9)	Plywood	100	93.0	94.5	94.6
(10)	Glass	100	90.7	93.5	104.8
(11)	Sugar	100	95.3	119.8	126.5
(12)	Cotton textiles	100	105.2	113.0	127.5
(13)	Woollen textiles	100	103.3	104.9	119.0
(14)	Jute textiles	100	99.1	87.7	133.9
(15)	Chemicals	100	98.0	103.8	108.7
(16)	Tools and implements	100	109.4	135.0	140.5
(17)	Bicycles	100	92.8	102.7	116.0
(18)	Aluminium, Copper and brass	100	105.7	109.3	128.7
(19)	All manufacturing	100	99.4	108.2	127.2

and matches being the exceptions. During 1952-58 the proportion declined for 17 industries with biscuit-making, soap, cement, plywood and tea-chests, cotton textile and jute textile as the exceptions. For most industries, therefore, the evidence is that wage cost has declined faster than material cost so as to depress the ratio.

From Table 3 it can also be seen that wage cost forms a quarter of material cost or in other words wage cost is less than a quarter of the total cost in the manufacturing sector as a whole. Inter-industry variations in the proportion of wage cost to material cost are wide: it is much below 10 per cent in industries like wheat flour, rice-milling, vegetable oil and soap, and as high as 90 to 100 per cent in ceramics. The coefficients of variation of the proportion of wage costs to material costs are 73.29 per cent, 82.63 per cent, 84.78 per cent and 76.48 per cent, in 1947, 1952, 1955 and 1958 respectively.

Rising wages accompanied by declining unit wage cost is not very difficult to explain. Unit labour cost is the product of unit labour requirement and wage rates. If, therefore, unit labour requirement declines rapidly because capital is being substituted for labour due to a change in the relative prices of capital and labour then the product of unit labour requirement and the higher wage rate in alternative situations may decline even in the absence of technical progress. In the language of economic theory, when wages rise capital is substituted for labour and when the elasticity of substitution is greater than unity labour cost declines.²

The decline in unit material cost (in the face of constant or rising raw material prices) cannot be explained unless a further assumption is made. The assumption is one of technical progress, i.e. rising technical efficiency which makes possible efficient use of raw materials and hence decline in unit material cost. The declining trend of unit labour cost and unit material cost in Indian manufacturing industries may be, therefore, attributed to:

(a) elasticity of substitution of capital for labour being greater than unity; and

(b) technical progress, i.e. rising technical efficiency.

Unit Material Cost and Price: The 1952-53 based price-index (Table 5.2) shows movement very similar to that of

unit material cost. It shows decline over 1952-55 for 14 out of 18 industries. The exceptions are cotton textile, woollen textile, aluminium, copper and brass and general and electrical engineering for which the unit material cost increased during 1952-55. Comparing the movement of unit material cost and price during 1952-58 it can be seen that the movement of material cost and prices are not similar for rice-milling, soap, matches, cement, paper, sugar, cotton textile, woollen textile, chemicals, bicycles, aluminium and general and electrical engineering (tools and implements in Table 5.2). If the 1947-based price index (Table 5.1) is compared with movement in unit material cost it can be seen that prices increased for all the industries during 1952-58, except glass and jute, whereas unit material cost declined for all industries. The evidence, therefore, does not support similar movement of unit material cost and prices.

Unit Wage Cost and Prices: With the 1952-53 based price index (Table 5.2) it can be seen that prices are higher in 1958 for 13 out of 18 industries. However, of these 13 industries unit labour cost increased during 1952-58 in soap and cement only. With the 1947-based price index (Table 5.1) it can be seen that prices in 1958 are higher for 13 out of 15 industries. In most of these 13 industries unit labour cost declined during 1947-58. The evidence, therefore, is that move-

ment of unit wage cost and prices are also not similar.

Labour Productivity, Wage and Unit Labour Requirement: Table 4 gives the variations in labour productivity and wage (both in current prices) and unit labour requirement during 1952-58. From the table it can be seen that unit labour requirement has declined in almost all industries. The extent of variation is not uniform. Labour productivity has increased in all industries except soap and cement and in most cases the increase in productivity is higher than that in wages. The exceptions are soap, cement and plywood. It is, therefore, also not true that wage-productivity disparity is a general phenomenon.

III

The movement of costs (wage and material cost) in the different industries has been examined above. Movements of costs and prices have also been compared. The comparison do not suggest any unique relationship between cost and price for every industry. In this section the findings are summarised by a simple statistical technique.

The data used in this section are: (a) index of wage and material costs combined with 1952 as base; (b) wholesale price indices with 1952-53 as base; and (c) index of rate of return with 1952 as base — we call this

Table 6: Indices of Prices, Costs and Rate Return

	Price Index 1958 (1952-53=100)	Cost Index 1958 (1952=100)	Rate of Return Index 1958 (1952=100)
(1) Wheat flour	96.3	71.80	267.95
(2) Ricemilling	107.5	91.71	164.87
(3) Sugar	119.8	105.90	96.91
(4) Paints	98.0	87.74	153.05
(5) Soap	109.2	115.12	79.17
(6) Cement	129.2	116.67	39.13
(7) Glass	102.8	91.47	212.13
(8) Plywood	94.5	91.31	88.44
(9) Paper	114.9	91.54	107.91
(10) Matches	131.6	97.33	153.25
(11) Cotton textiles	113.0	86.69	102.51
(12) Woollen textile	104.9	84.06	230.74
(13) Jute textile	87.7	80.71	71.43
(14) Chemicals	103.8	83.03	199.13
(15)*Aluminium, copper and brass	109.3	74.41	271.52
(16) Bicycle	102.7	94.33	195.63
(17) General engineering and electrical engineering *	135.0	104.21	174.37
(18) Tanning	87.7	96.62	131.95

* This is the same as tools and implements in Table 5.2.

the profit index (this profit, however, is profit before taxes, i.e., gross profit). Table 6 gives (a), (b) and (c).

Inter-industry variations in cost-price-profit relationships are examined with the following alternative hypotheses:

- (a) price varies directly with cost;
- (b) variation in prices are cost elastic;
- (c) variation in prices are profit elastic; and,
- (d) variation in prices are both cost and profit elastic.

Hypothesis (a) is tested by examining the significance of the regression of the price index on cost index with the following regression:

$$P = a + bc + t \dots (i)$$

Hypothesis (b) is tested by examining the significance of the regression of price index on cost index with the following regression:

$$\log P = \log A + B \log C + t \dots (ii)$$

Hypothesis (c) is tested by examining the significance of the regression of index of price on index of profit with the following regression:

$$\log P = \log a + d \log S + E \dots (iii)$$

Hypothesis (d) is tested by examining the significance of the regression of cost index and price index on profit index with the following regression:

$$\log P = \log m + n \log C + r \log S + E \dots (iv)$$

P here is price index, C is cost index and S is profit index. Functional relationships assumed in regressions are:

$$P = Ac^B; P = AS^\alpha;$$

and $P = mc^n s^r$ respectively;

Results of the regressions:

$$(i) P = 49.2 + 0.6315C \quad (R^2 = 0.32) \quad (0.6928)$$

$$(ii) \log P = 1.9107 + 0.0612C \quad (R^2 = 0.36) \quad (0.0831)$$

$$(iii) \log P = 2.0013 + 0.0139 \log S \quad (R^2 = 0.0025) \quad (0.0025)$$

$$(iv) \log P = 1.5854 + 0.1952 \log C + 0.0289 \log S \quad (R^2 = 0.3374) \quad (0.0600)$$

Both the regressions (i) and (ii) of price on cost are not significant since the standard errors of the coefficients are as high as the regression coefficients. First regression suggests that only 32 per cent of variation in price can be explained by variation in cost; the second regression suggests that only 36 per cent can be explained by cost; the third regression of profit on price suggests that variation in price is not at all significantly related with variation in profit; and the fourth regres-

sion suggests that 34 per cent of the variation in price can be explained by cost and profit together.

None of the four functional relationships of cost and profit with price is statistically significant. The cost-profit-price relationship, therefore, remains largely unidentified for the cross-section of 18 industries discussed here. The cost-push theory of inflation and the profit theory of inflation do not seem to hold good for these industries. Since price is not significantly related with cost and profit, some factor which is not included in

the present model and which does not influence either cost or profit but influences price seems relevant. One such possible factor is 'taxes'. Taxes imposed on industries which are shifted on to prices may be the factor influencing movement in prices. Further research is necessary to examine this possibility and assess its significance.

Notes:

¹ "Economic Stability and Growth", N Kaldor, P 199.

² "Productivity and Technical Change", W E G Salter, Cambridge University Press, 1960.

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Defence and Planning

Arthagnani

THE second aggression on India's borders has come at a time when India is in the midst of the process of formulating her Fourth Plan. It has led to considerable discussion on giving a "defence-orientation" to the Plan, and the National Defence Council, at its last meeting, has given a free-hand to the Prime Minister to make such changes as might be required to strengthen the country's defence preparedness.

It would be facile to deduce from this that all that is required is to set up a few factories to make armaments and defence equipment (including fighters and bombers), and accordingly to provide for a larger allocation for this purpose. Calculations are even being bandied about showing the re-arrangement in plan allocations that can be made to achieve this aim.

However, as I have stated above, this is a facile view. First of all, even though the first three plans were not overtly defence-oriented, they had made for defence-preparedness (in the field of providing equipment), as the recent fighting showed. Secondly, as the events after the Chinese aggression showed, an attempt to increase defence-preparedness, if not backed up by well thought-out economic policies, might even cripple normal economic growth. Thirdly, as the defence budget increases, it is difficult to keep up the fiction that defence and development are complementary or that we can have one without paying the cost in the other.

While the first three plans were not essentially defence-oriented, they did involve a bias in favour of heavy industries, particularly in the engineering field. The amount of investment in industry, in the second and third plans alone, amounted to Rs 4,000 crores out of a total investment outlay of Rs 17,000 crores under these plans. This has helped, among other things, to increase our steel production capacity from 1.7 million tons in 1955-56 to 7.5 million tons (estimated) in 1965-66. What is more important to note is that there has been corresponding rise in steel-fabricating and machine-tool manufacturing capacity. If defence-preparedness in the narrow sense were the goal, it need not imply any great shift from the investment pattern followed so far.

Greater defence-preparedness has to be differentiated from carrying on, and meeting the cost of, a long war.

In a long war, long-term economic considerations take a second place to the requirements of mobilising and using available resources to arrive at a conclusive war decision at the least immediate cost to the exchequer. For defence-preparedness, the strategy of a long haul is required, and necessarily the considerations relate to the raising of smaller resources each year (than in a war) over a continued period with the least adverse impact on the economy. Proper economic policy is, therefore, essential to a strategy of longhaul in defence.

What does this long haul consist of? I present here some strictly money calculations of its cost. In the first ten years of planning, that is, from 1951-52 to 1960-61, India spent on defence Rs 2,074 crores and invested a sum of Rs 10,100 crores out of a national income of Rs 112,200 crores over the period. The Chinese aggression almost doubled the defence, expenditure from Rs 343.37 crores for 1962-63 to Rs 708.51 crores in 1963-64. In fact, the defence budgets for the five years 1961-62 to 1965-66 have already amounted to Rs 2,884 crores against an investment during the same period of Rs 10,400 crores and national income of Rs 82,850 crores (both approximate). On a rough calculation, the recent Pakistani aggression is likely to raise the defence budget from Rs 717.8 crores in 1965-66 to about Rs 1,000-1,050 crores from 1966-67 onwards.

Such a defence budget raises clearly the dilemma between defence and development. In fact, this is already evident in the fact that development outlay for 1966-67 (the first year of the Fourth Plan) in the public sector has been reduced by about Rs 200 crores to a figure below the current year's.

Plan Implications

It is necessary, therefore, to examine the long-term implications of an annual defence budget of Rs 1,000-1,050 crores. The previous rise in defence budget in 1963-64 had an adverse impact on the economy, partly because the Finance Minister treated it "purely as a problem in raising resources and partly because he failed to support it with complementary economic measures — particularly, an appropriate monetary policy. T T Krishnamachari has shown much greater resourcefulness in meeting the econo-

mic problems, and, despite the pressures from various quarters, he should continue his measures in the field of greater use of the price mechanism and monetary policy.

It is necessary to recognise that while a sudden and large war effort over, say, four or five years can stimulate industrialisation (though at the same time, pre-empting a substantial part of the national production for war purposes), a large defence budget, in an economy which is already stretched, would, while pre-empting a smaller proportion of the national output, reduce the resources available for investment and, therefore, retard the development effort. While in the peaceful 1950-60 decade a small defence budget enabled us to increase investment, the militant 1960's are likely to have an adverse effect on development.

Some of the resources required for the additional expenditure on defence would have to be found through taxation. The measures taken to do this would reduce the resources available in the private sector for its programmes; moreover, if these measures are not properly thought out, they would have a disincentive effect on investment and production which would reduce investment further. This was clearly what happened after the Chinese aggression, and the Finance Minister would need to avoid this in determining his tax proposals for the next year.

There is an evident reluctance to recognise the fact that the demands of defence and development have become competitive with, and not complementary to, each other, as is obvious from the fact that the cut in development outlay for 1966-67 is sought to be dressed up as a temporary phenomenon — in fact, one which is promised to be made good in subsequent years to bring the total outlay to Rs 21,600 crores over the five years of the Fourth Plan.

Secondly, even while the Fourth Plan was being formulated, a gap of Rs 3,000 crores was estimated in the resources needed for the Plan, which was proposed to be made up by additional taxation, better collection under taxes and public sector profits. To this must now be added a sum of Rs 1,500-1,750 crores, being the amount that would need to be devoted additionally to defence.

It has, therefore, to be recognised

that the first implication of defence orientation is a reduction in the plan size — an implication which has been ignored so far. However, there has been considerable play with a second concept — namely, "defence-orientation" of the plan pattern.

This is, however, hardly a relevant concept in the context of modern defence effort. For, today, defence in technology-based. Except in the very short run, an armament industry by itself is not sufficient; what it needs is to be backed by sufficient industrial capacity to feed it.

As the recent fighting has shown, we have over the first three plans built considerable industrial capacity. If so required, this capacity can be diverted to the task of being a complement to the armament industry. For defence-orientation does not imply so much a change in the investment pattern as the output pattern in the economy. Changes in investment pattern can only influence marginally the output pattern, and larger results must be sought from moulding the existing investment to the requirements of a defence-oriented economy. Perhaps the only industry requiring special development would be the alloy steel industry. Alloy steels were produced by Tata Steel and by ordnance factories during the Second War and, since then, have been neglected till recently. The demand for them will rise as our armament needs increase. It is, therefore, unfortunate that recently decisions have been taken to cut alloy steel targets in the process of pruning the plan outlays. If a cut had to be imposed, it could more appropriately have been in mild steel targets.

But there is a deeper sense in which there is need for change in the investment pattern of the Fourth Plan. It is not towards a greater emphasis on industry but on transport — particularly road transport — and communications. For while we have built up a strong industrial base over the first three plans we have neglected relatively the transport factor. The value of an industrial base in a war situation is only to the extent it can be mobilised to serve the defence needs.

The Indian army is numerically a large army, and would have to fight on an extensive and difficult land border. Adequate support to it over a period would require good communication lines for supplying it food, arms and materials. These again in their turn would have to be obtained from all over the country. At present

the Indian economy is relatively immobile in its supply routes. While in normal times a delay in supplies might not be important, in an emergency delays can have serious consequences. Unless we build up a sound transport and communication system for all parts of the country, the industrial base, so painstakingly built up over the last fifteen years, would have little value.

"The Memorandum on the Fourth Plan" had provided for an outlay of Rs 7,750 crores on agriculture, irrigation, transport and communications out of a total outlay of Rs 22,600 crores on the Fourth Plan. Even if the outlay on the Fourth Plan is reduced by a minimum of 10 per cent, there is a case for not reducing in any way the outlay (Rs 4,100 crores) on agriculture and irrigation and increasing the outlay (Rs 3,650 crores) on transport and communications by a half (to Rs 5,500 crores). Almost the whole of the additional outlay should go to roads, road transport and communications.

This would imply, in concrete terms, a considerable build-up in road-building and supporting activity. The opportunity should be used to build up truck-manufacturing and self-sufficiency in the communication equipment industry. The real aim should be to ensure that by the quickest means of available transport and communication, no place should be

more than 24 hours distant from another. Such a policy would incidentally have the advantage of increasing central control over the economy and unifying the country physically. It would, therefore, act as a base for greater common effort towards increased investment and production in future.

The tyranny of old ideas and theories, as Keynes said, is pernicious. Planners in India have clung too long to big plans and to a bias in favour of heavy industry. In the process, they have neglected to take into account the mechanism for implementing the plans (*vide*, for example, "The Content of Planning", by Arthagnani, *The Economic Times*, May 27-28-30, 1965).

The temptation for the planners to revert to the investment pattern followed in the past will, under the present emergency, be too great to resist. It would be easy to put up the same ideas, dressed up in a lot of defence jargon. It would be easy to adopt this path of least resistance.

However, the essence of planning is to foresee the problems of an economy and be prepared to meet them. While some lacunae in production capacity might be visible today, there are much larger gaps in our system of mobilising the existing resources and making them available when and where needed. Planners should seek to mould the Fourth Plan to fill these gaps.

The Present State of Defence Production

DEFENCE production in the context of this article cannot refer to all the different supplies required by the defence forces, but only to supplies of a distinctly military nature — arms and ammunition, transport and communication equipment, etc. An attempt will be made below to catalogue the facilities that have been built up for production of defence requirements. While ideally such an attempt should lead to some judgment about the extent of self-sufficiency we have reached, it must be admitted at the outset that with the available information about what we produce and what the army needs no such judgment is possible.

Self-sufficiency has a qualitative and a quantitative aspect. It goes without saying that we do not produce a very wide range of arms and other defence equipment for which we have to depend entirely on imports. That is the qualitative aspect. The quantitative aspect refers to the adequacy of the production capacities which have been established. The requirements of the defence forces for stores and equipment during active hostilities are several times those during peace-time. The ratio of war-time consumption to consumption in peace-time may be sometimes as high as 100:1. Whether, even in the items we do produce we can meet the full war-time demand of our entire armed forces, and for how long, is a question which has to be answered before we can talk of being self-sufficient in these items. Finally, the fact that we make certain types of finished equipment does not necessarily mean that we are not dependent on imports in respect of them — they may have varying import-contents. To take an instance, one-tonne trucks and patrol jeeps are now produced in our ordnance factories but each truck and jeep is made up with about two-third imported components so that even if we did manufacture enough finished jeeps and trucks it would be misleading to talk of being self-sufficient.

The bulk of defence production takes place in the ordnance factories and in the industrial undertakings of the Defence Ministry. The latter are Hindustan Aeronautics, Bharat Electronics, Mazagon Docks, Garden Reach Workshops, Praga Tools and Bharat Earth Movers. There are at present 24 ordnance factories, four of them set up after 1962. Their output has expanded impressively

in the last few years, from Rs 42 crores in 1961-62 to Rs 111 crores in 1963-64 which is the latest year for which information is available. Besides arms and ammunition, the ordnance factories produce trucks, jeep and tractors. Among the relatively modern arms and ammunition produced are semi-automatic rifles and ammunition, an improved version of carbines, a tank gun, a heavy mortar, 30 mm aircraft gun ammunition, a new mountain gun and an improved variety of anti-tank ammunition. Ammunition for the new heavy mortar is now under development. Production of solventless cordite for rockets has been started at the new plant commissioned at Aruvankadu in March 1964. A new ordnance factory was commissioned in October 1964 at Varangaoon. It will manufacture small arms and ammunition. Another factory is being set up with US assistance at Ambajhari and is expected to go into production, towards the end of next year. Work is also in progress on a new filling factory at Chandrapur; it is expected to go into production about the same time as the Ambajhari factory. A small arms factory is also being established at Tiruchirappalli without foreign assistance, its planning being done exclusively by the Ordnance Factories Organisation. Two important projects, one at Burla for manufacture of high explosives and the other at Panvel for the production of propellants, which were expected to cost Rs 62 crores, had been shelved on the ground that it would be cheaper to stockpile imported high explosives and propellants. It is to be seen whether this decision will be reviewed in view of the war with Pakistan and the changed outlook for defence imports from the western countries.

The manufacture of a medium tank has been taken up at the heavy vehicles factory at Avadi. The first tank 'Vijayanta' assembled at the factory has been successfully tried. The first batch of imported and indigenously assembled tanks is expected to come out of the factory soon.

Ordnance factories now produce trucks, jeeps and tractors. Two types of trucks are in production — the three-ton Shaktiman and the one-tonne Nissan. According to the latest figures available, 5,900 Shaktiman trucks and 11,200 Nissan trucks have been so far manufactured. Annual production of Shaktiman trucks is

currently running at just over 1,100 and that of Nissan at about 4,000. The Shaktimans have an import content of about 30 per cent and the Nissans about 65 per cent. The ordnance factories manufacture patrol jeeps, also named Nissan. About 4,500 of these jeeps have so far been delivered to the army and the Border Roads Organisation. Annual production of Nissan jeeps is now running at about 1,200. Production of tractors suffered a setback last year and it is now proposed to transfer their manufacture from the ordnance factories to the heavy earth-moving equipment plant of Bharat Earth Movers, a public sector undertaking of the Defence Ministry. Bharat Earth Movers started with the rail-coach division of Hindustan Aeronautics which was transferred to it. The division assembled some 55 motorised scrapers from imported equipment in 1964-65. The heavy earth-moving equipment is to be manufactured under licence from Messrs Ie-Tourneau-Westinghouse. The plant will be located at Kolar Gold Fields.

Field cables are manufactured at the ordnance factory at Chandigarh. The capacity for production of field cables is to be expanded, and manufacture of other advanced types of cables is proposed to be undertaken. The ordnance factories also expect to shortly commence bulk production of a new type of a man-dropping parachute. Production has been started of a special type of pack plaster for paratrooping jeeps.

Any account of the work of the ordnance factories must mention the fact that the equipment at the majority of them is utterly old and obsolete. The oldest ordnance factory is 164 years old; eight were established before the first war and another eight during the second war. A five-year plan for modernising the ordnance factories at a total cost of Rs 33 crores with a foreign exchange component of Rs 15 crores was drawn up last year. The plan covers especially metal-making and shaping, filling and explosives, apart from certain special equipment for armaments production.

Among public sector undertakings engaged in defence production Hindustan Aeronautics has a pre-eminent position. Aircraft manufacturing facilities were first established in India in 1940 when Hindustan Aircraft Limited was set up in Bangalore. HAL's original programme was the assembly of Harlow trainers, Curtiss

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Hawk fighters and Vultee bombers. During the second war, however, its manufacturing programmes were suspended and it was transformed into a large repair/overhaul base. In 1948 HAL undertook the design and development of a basic jet trainer HT-2 and this was completed in 1953. Among the other manufacturing projects carried out by HAL were the assembly and manufacture under license of the Prentice trainer and the Vampire jet fighter. It was in 1957 that it was decided to manufacture under license the Gnat fighter which played such a prominent role in the recent war and the Orpheus jet engine. In 1959 when the manufacture of the Avro-748 was undertaken in the Aircraft Manufacturing Depot at Kanpur, the production of the Dart engine for the Avro-748 was assigned to Hindustan Aircraft. In 1962 HAL undertook manufacture of the Alouette helicopter and its engine under license. On its own the company designed and developed light aircrafts like Pushpak and Krishak in addition to the HT-2 developed earlier. The Basic jet trainer named Kiran designed by the company had its inaugural flight in December 1964. The value of HAL's production in 1962-63 was Rs 14.68 crores and in 1963-64 Rs 15.22 crores. In 1964-65, the value of production up to the end of December 1964 was Rs 10.46 crores.

The Soviet Union agreed in 1963 to help set up facilities for manufacture in India, under license, of the MIG-21, a single engine supersonic fighter. The aircraft is to be manufactured at two factories to be set up at Koraput and Nasik while allied electronic equipment for it will be manufactured at a factory proposed to be set up at Hyderabad.

In August 1963 a new public sector company designated Aeronautics India Limited was formed; it was to be responsible for the establishment and management of the three MIG-21 factories. In March 1964 it was decided that a single public sector organisation should be formed to undertake production of aircraft and allied equipment in order to ensure the maximum utilisation of our limited resources in manpower and management. As a result Hindustan Aircraft Limited was merged with Aeronautics India in October last year and the new company designated Hindustan Aeronautics. The Aircraft Manufacturing Depot, Kanpur, was also transferred to Hindustan Aeronautics.

Apart from the MIG-21 and the

Gnat fighter, production of which may now be sought to be stepped up after its very satisfactory performance in the recent war, the major task engaging Hindustan Aeronautics is the design and development of a supersonic jet fighter, HF-24.

Mazagon Dock and Garden Reach Workshops constitute the Defence Ministry facilities for building and repairing ships for the Navy. Mazagon Dock was taken over by Government in 1960. It has two separate ship repair yards on adjacent sites and there are two large dry docks — 495' and 426' long — and a small dry dock 152' in length. There are also four building berths for the construction of vessels. The biggest ship so far built at the Mazagon Dock is a 1,500-ton passenger-cum-cargo boat. Vessels now under construction include two mine-sweepers, two 150-men ferries and a dredger for the Navy.

A programme to expand the facilities at Mazagon Dock is under way. It envisages the construction of additional slipways and the impounding of the Kasara Basin to provide better berthing facilities both for fitting out and repair of ships. The completion of the programme will result in considerably increased ship construction and repairing capacity and will make possible building of frigates for the navy. Under an agreement concluded in 1964 the UK has agreed to extend aid to meet the foreign exchange costs of the construction of Leander class frigates for the Navy. An agreement with Vickers-Armstrongs and Yarrow for the construction of these frigates was concluded towards the end of last year. According to the present programme, the first frigate will be completed by the end of 1971.

Like Mazagon Dock, Garden Reach Workshops was taken over by the Government in 1960. The Company has five jetties equipped with electric cranes, five slipways and two dry docks designed mainly for inland watercraft up to 2,000 tons and building berths for shallow draft vessels up to 1,200 tons launching weight. Vessels up to 320' in length can be accommodated on the slipways and the two dry docks are 510' and 386'.

The company has collaboration agreements with shipbuilders in the UK, West Germany, Holland and Japan and has specialised in the design and construction of shallow draft vessels including tugs, light naval craft, river steamers, etc. New construction work has increased from Rs 14 lakhs

in 1962-63 to Rs 78 lakhs in 1963-64. In 1964-65 out-turn on this account was Rs 79 lakhs up to the end of December 1964. The value of repair work undertaken has also increased from Rs 92 lakhs in 1962-63 to Rs 145 lakhs in 1963-64. In the first nine months of 1964-65 the value of repair work done amounted to Rs 88 lakhs. The company is considering undertaking new lines of production including high altitude air compressors, road rollers and marine diesel engines.

Bharat Electronics was set up with French collaboration in 1954 for manufacture of electronic equipment including vacuum tubes, components and radar. Subsequently, it has entered into agreements with British, Dutch, American, Swiss, German and Japanese firms. At present Bharat Electronics manufactures over 70 different types of equipment ranging from tiny transmitters for upper air observation to high power transmitters and sophisticated radars and also various components like valves, transistors, capacitors and crystals. The value of output was Rs 6.21 crores in 1963-64 and about Rs 7.5 crores in 1964-65, including defence equipment of the value of Rs 5.1 crores. The import content of the total output is roughly estimated at about 15 per cent.

Praga Tools makes practically no finished defence equipment itself, but produces a wide range of dies and tools for use in defence production. It manufactures dies and tools for 7.62 mm ammunition and gauges for naval armament. It will also assist in increasing the manufacture of some important components of carbines and 25-pounder guns developed by the ordnance factories. These apart, the company specialises in the manufacture of small tools and precision instruments like lathe chucks, machine vices, drill chucks, drilling machines and tool and cutter grinders. The turnover increased from Rs 75 lakhs in 1962-63 to Rs 106 lakhs in 1963-64 and further to Rs 125 lakhs in 1964-65.

The above makes impressive reading and in fact does represent impressive performance in the last five years or so. But compared to the needs of equipping an 8,25,000 strong army, a 45-squadron air force and a navy adequate to the task of defending the country's long coastline, the defence production capacity achieved so far is really marginal. A beginning has been made, but talk of self-sufficiency is years too soon.

Steadier Near Week-End

Thursday, Morning

DALAL STREET will hold its special session for 'moorat' trading for the New Samvat Year 2022 from 2-30 to 3 pm on Sunday, October 24. Never perhaps, not in living memory any way, has 'moorat' trading fallen on a Sunday. Nor has the session ever been so short as this time — just 30 minutes — and rarely has 'moorat' trading been conducted so early in the day which looks quite contrary to the spirit of the festival of lights. That Diwali should have come on a Sunday is of course a pure chance. But the decision of the stock exchange authorities to restrict 'moorat' trading to just half an hour clearly suggests that the market is being kept open to exchange formal greetings — "Saal Mubarak" — rather than to transact business. The few ceremonial orders that might flow on the occasion can be easily put through in a few minutes time. Turnover on the stock exchange now-a-days has shrunk to such negligible proportions that a week's entire business could be easily put through in a single two-hour session without causing even mild excitement in the market. This is what is worrying most the stock exchange community.

Conditions obtaining on the stock market last week were not much different from those prevailing earlier, though the general tone appeared to be a little steadier due more to scarcity offering than to any revival of fresh bull support. It was only near the week-end that the market developed a distinctly steadier sentiment on the argument that the new schemes announced by the Prime Minister Lal Bahadur Shastri to mobilise rupee and foreign exchange resources were so attractive that they were bound to evoke response. And if the Government is able to obtain fairly substantial quantities of gold under the Gold Bond Scheme and there is a good response to the National Defence Remittance Scheme. These could go a long way in relieving the pressure on the tight foreign exchange position and considerably improve the supply of scarce raw materials, spare parts and components and capital goods.

The stock market's optimism may not prove ill-founded. The highly attractive terms offered under the new schemes to encourage the hope that the Government may succeed in raising substantial additional resources to

finance defence and development and it may not therefore have to make as big a tax effort as would have seemed imperative otherwise. The stock market dreads taxation more than anything else.

COTTON

Self-Restraint

THOUGH there have been reports of some rains in certain cotton growing areas, there are no indications of an improvement in the overall position of the crop. In fact, crop estimates continue to be revised downward. While most observers place the crop around 57 lakh bales, there are quite a few who do not expect the crop to exceed 55 lakh bales. In any case, it is quite clear that in view of the expected shortfall in indigenous crop and uncertainty about imports, both the trade and industry are likely to have a difficult time during the current 1965-66 season.

The other day, the President of the East India Cotton Association, Madanmohan R Ruia, called upon the trade to exercise self-restraint in the marketing of the new crop within the limits imposed by the control measures. That is about the only way to ensure that there is no occasion either for the banking authorities to withdraw the concessions recently granted and for the Government to impose additional restrictions. Leading cotton merchants who recently met under the auspices of the Bombay Merchants and Muccadams' Association also agreed that it was necessary for the trade to take initiative in introducing measures which would help marketing of the crop within the ceiling prices. A sub-committee of 11 members has been set up to formulate a scheme designed to achieve the objective in view. Traders have been urged to give a solemn undertaking not to do business at above the basic ceilings. All this sound very pleasing. But how could one seriously believe that traders will suddenly begin to behave better when the new crop begins to move into the market. Are not current prices of old cotton quoted well above their statutory ceilings? Neither the Textile Commissioner's office, nor the trade and industry seem much bothered about the control order. Could it be that the pre-

sent emergency has brought about a transformation of character?

Current indications of demand and supply point to a difficult period ahead. And it might not be too long before the authorities decide on reintroducing the quota system for allocation of indigenous cotton for mills in order to stagger purchases over a period of time and also to ensure equitable distribution of quality cotton to all the mills in the country. These measures will need to be supplemented with other steps if prices are to be kept within the revised ceiling prices.

Turnover in the spot cotton market continues to be restricted by the availability of good quality cottons. Trading in futures also was a dull affair last week. After a further early rise to Rs 913.50 and keeping above the marginal line for two days or so, the March contract drifted lower to Rs 908.75 (per 3 quintals). While the outlook for cotton is known to be distinctly bullish, speculators do not see much fun in accumulating big positions in view of the graded margin above Rs 910.

OILSEEDS

Technical Correction

OILSEEDS prices made new highs right in the beginning of the week. But prices soon reacted on profit-taking induced mainly by technical considerations though some selling was also provoked by fears of margin on non-transferable delivery contract in groundnut oil. Reports of rains in some of the oilseeds producing areas, more particularly in Rajasthan and Uttar Pradesh, also induced caution among bulls. Castor April which had been bid up to Rs 107 in kerb dealings declined sharply to Rs 102.25 but it rallied again to around Rs 105 at the week-end. Linseed April moved down from Rs 126.50 to Rs 121 before winding up the week around Rs 123. Groundnut oil December delivery declined from Rs 33 to 30.25 but it firmed up latter to around Rs 31. Cottonseed January contract was neglected around Rs 65. Linseed oil moved between Rs 28.25 and Rs 27.50 and castor oil firmed up to Rs 20 on sector shipper buying.

Latest reports indicate that the new groundnut crop might well turn out to be as much as 30 to 35 per cent

less than in the previous season. New crop arrivals are picking up at the main terminal markets in Khandesh and Karnatak but these are being readily absorbed at rising prices because of substantially smaller crop this season. Last week's rains have improved prospects for linseed sowings in Rajasthan and Uttar Pradesh. Of course, more rains are needed and at far too many more places to encourage hopes of a normal linseed crop. The outlook for the rabi crop depends mainly on the weather in coming weeks. The new castorseed crop is expected to be below the average because of the unsatisfactory weather conditions.

Export activity remains virtually at a standstill. Cottonseed cake is moving in a small way and business in groundnut extractions is expected to pick up only after the factories commence production after a fortnight or so following the improved supply of groundnut expellers with the increased tempo of groundnut arrivals.

MONEY AND BANKING

Comfortable Week

THE short-term money market in Bombay had a comfortable week to October 20. The inter-bank call money rate remained more or less unchanged at 5 per cent. Demand for funds was firm at around the previous week's level while supply gathered a little strength. In Calcutta conditions were easy as demand moved down slightly while supply showed a slight increase. The rate was placed at 6 per cent though stray lots were done at lower rates.

Bank credit during the week to October 8 increased by Rs 21.17 crores to Rs 2,029.03 crores according to statement of affairs of scheduled banks. Deposits with banks increased by Rs 4.47 crores to Rs 2,786.18 crores. With increased deposits banks were able to reduce their borrowings from the Reserve Bank from Rs 14.66 crores to Rs 12.77 crores. Balances held with the Reserve Bank were better as well by Rs 2.32 crores at Rs 168.64 crores. Investment in government securities swelled by Rs 13.96 crores to Rs 853.25 crores. This compares favourably with the previous week's increase of Rs 7.22 crores. The credit-deposit ratio during

week was better at 72.83 per cent against 72.18 in the preceding week. The ninety-one day Government of India Treasury Bills on tap evoked better support. Bills sold between October 11 and 16 amounted to Rs 32.24 crores compared to Rs 25.69 crores during the previous week.

The statement of affairs of the Reserve Bank for the week ended Octo-

ber 15 reveals a fall in note in circulation by Rs 16 crores to Rs 2,624.66 crores. The week's contraction plus a slight increase in total notes issued have been absorbed by the banking department. Rupee coins have risen slightly by Rs 87 lakhs to Rs 103.11 crores. Foreign securities remain unchanged at Rs 70.63 crores. Balances held abroad are better by Rs 1.17



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THE ECONOMIC WEEKLY

crores at Rs 10.42 crores. Deposits of the Central Government fell by Rs 8.67 crores to Rs 53.15 crores. This follows the fall of Rs 61.42 crores during the previous week. State Government deposits, however, were better by Rs 5.66 crores at Rs 8.09

BUSINESS NOTES

Fact

ADDRESSING the twentyfirst annual meeting of Fertilisers and Chemicals Travancore at Udyogamandal on September 30, K Sreenivasa Karayalar told shareholders that Government of India had approved of the company's project of setting up a new unit with an annual capacity of two lakh tonnes of ammonia as against 87,000 tonnes at the existing unit at Udyogamandal. To be called Cochin Fertiliser Factory, it will be located at a site adjacent to the Cochin Refinery at Tripunithura in Ernakulam District. The factory will produce urea, ammonium phosphate (20:20 grade) and N P K and complex fertilisers. The plant will also be capable of producing higher analysis compound fertiliser. The capital outlay is estimated at around Rs 400 million, and the factory should go into production in 1968-69 if necessary foreign exchange is soon made available to the company. The additional funds required for this purpose are to be obtained from the Government. The need for establishing a bigger unit has arisen because all the new ammonia plants proposed to be set up in the country during the Fourth Plan period are of a daily capacity of 600 tonnes or more. When these plants come into being, units like the 260-tonne one belonging to the company will become uneconomic.

Meanwhile, the commissioning work of the third stage plants has begun and it is expected that all the plants will be commissioned by December this year. Started in 1962, the third stage expansion programme has been completed with fair speed, enabling commissioning of the plants well within the target dates. When in full production, the company will be producing two lakh tonnes of ammonium sulphate, 1.35 lakh tonnes of ammonium phosphate (16:20), 25,000 tonnes of ammonium chloride and 44,000 tonnes of superphosphate in addition to being able to make and supply 3.5 lakh tonnes of N P K mixtures.

Loans to governments declined from Rs 110.21 crores to Rs 107.77 crores. Scheduled bank deposits have increased by Rs 9.07 crores to Rs 101.68 crores. Bank borrowings have declined by nearly the same amount, Rs 8.75 crores, to be exact.

Hyderabad Allwyn

MAKERS of diverse product, ranging from refrigerators to furniture and bus bodies and from hydraulic hoists to tipping gears and trailers, Hyderabad Allwyn is adding another new line to its manufacturing activity. A letter of intent has been received by the company for manufacture of power tillers, and for this purpose collaboration of some foreign firms is being sought. Meanwhile, production of hydraulic hoists, tipping gears, heavy duty trailers and semi trailers is expected to be in full swing before April next.

The working results for the year to April 1965 show that production of both bus bodies and defence requirements could not reach the previous year's level, and though that of refrigerators well exceeded if there was no appreciable increase in their sale, with the result that total turnover shrank by some 13 per cent to Rs 4.52 crores. But this was more than offset by a sizable improvement in margins as reflected in expansion of gross earnings from Rs 63.95 lakhs to Rs 72.75 lakhs. Even though necessary provisions have together taken a bigger slice of profits, equity earnings are higher at Rs 18.22 lakhs (Rs 16.45 lakhs). The cover for the dividend raised by a point to 11 per cent is a shade better at 1.38 times.

U P Electric

THE management of U P Electric Supply Company intends to put before shareholders proposals concerning the future of the company after arriving at a settlement with the U P State Electricity Board as to the price finally payable to the company for the acquisition of its Allahabad and Lucknow undertakings and after suitably assessing the company's contingent liabilities. It may be recalled that these undertakings were taken over by the State Electricity Board from September 16 last year. The company has received an on-account payment of Rs 1.04 crores, but no details have been furnished as to the breakdown of the amount paid. The company is getting the market value of the fixed

Of the profits, depreciation and taxation have chopped off much bigger slices but with a useful saving in prior charges equity earnings stand at Rs 21.64 lakhs (Rs 15.58 lakhs), with the result that the unchanged divi-

assets computed, and the Board has been asked to give details of its own valuation. If a satisfactory agreement on the market value of assets is not reached, the matter may be referred to arbitration.

The accounts for the year ended March last show a fall in revenue from light and power loads from Rs 1.79 crores to Rs 99.30 lakhs. After charging depreciation of Rs 7.05 lakhs (11.42 lakhs) there is a profit of Rs 9.18 lakhs against Rs 7.79 lakhs. To the year's profit is added the net sum of Rs 24.65 lakhs transferred debenture redemption reserve, and Rs 25.80 lakhs (2.25 lakhs) are allocated to general reserve. The maintained rate of dividend of 10 per cent takes Rs 5.60 lakhs (same), and 2.41 lakhs are provided for bonus for previous years.

Investment Corporation

DESPITE a slightly higher income by way of dividends on shares and interest on securities, Investment Corporation of India has reported a lower pre-tax profit of Rs 28.16 lakhs or th year to June last compared to Rs 30.33 lakhs a year before, according to a preliminary statement. After providing for the tax liability Rs 8.25 lakhs (nine lakhs), a sum of Rs 2.36 lakhs (2.69 lakhs), being the amount of foreign dividends, is allocated to general reserve 'A' and Rs 17.65 lakhs (17.50 lakhs) to dividend reserve out of which are to be paid the unchanged dividends on preference and ordinary shares together absorbing, as before, Rs 17.62 lakhs. The rate of dividend on the latter class of shares is Rs 8.50 a share.

Dawn Mills

RISE costs and increasing tax burden with no corresponding increase in realisation have diminished Dawn Mills margins during the year to March last as is reflected in a sharp decline in gross profits — over a third lower at Rs 24.33 lakhs against Rs 37.27 lakhs previously, despite a small increase in sales of yarn, hosiery and waste from Rs 2.48 crores to Rs 2.56 crores. Even though the necessary provisions have taken away considerably less than in the previous year, disposable profit is markedly lower at Rs 5.86 lakhs compared to the preceding year's Rs 9.90 lakhs, and the unchanged dividend of Rs 15 a share, requiring Rs 8.40 lakhs, is short earned by a wide margin.

An extensive scheme of modernisa-

tion and expansion of the Mill has been undertaken by the company as per recommendation of Gherzi Eastern Ltd, well-known textile consultants.

Burhanpur Tapti Mills

DESPITE various adverse factors Burhanpur Tapti Mill has fared very well during the year ended March 1965, with sales improving a little from Rs 2.42 crores to Rs 2.53 crores and gross earnings rising sharply from Rs 5.72 lakhs to Rs. 9.60 lakhs reflecting impressive increase in margins. As a result, the unchanged

dividend of seven per cent, which was short earned last year, is now covered 2.26 times. With costs continuing to rise in all directions, however, profitability in the current year may be affected. Efforts continue to be made to enhance earnings potential through modernisation and expansion. The amended modernisation scheme as approved by N I D C is expected to be implemented soon, and a licence is expected for adding 5,000 spindles and 100 looms. In order to find additional finance, it is proposed to issue preference shares worth Rs ten lakhs carrying interest at 9.3 per cent.



n towards progress...

India Steamship Co., Ltd., has a steady record of progress... Since Independence, its tonnage has increased from about 85,000 D.W. tons to over 200,000 D.W. tons—more tonnage being still on order.

Its services are also extending to various trade routes. After initial consolidation in the India-U.K.-Continent trade—the Company entered the Indo-Soviet service to the Russian Black Sea ports in

1956 and later to Rumanian ports. In 1959 the Company forged still another link in the overseas with South America, and in 1960 it extended its service to Poland.

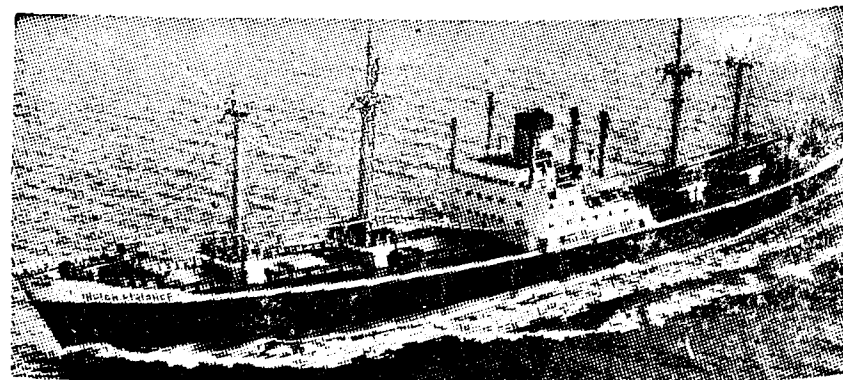
Their experience and reputation for fast, efficient and dependable service built on the personal care given by their experienced officers and crew to the cargo entrusted to them, have earned them the goodwill of their customers.

SHIP

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"INDIA STEAMSHIP HOUSE"

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Managing Agents:

LIONEL EDWARDS (PRIVATE) LIMITED

CURRENT STATISTICS

SCHEDULED BANK'S ADVANCES

(Classified according to Security)

(Rs. crores)

Nature of Security	Advances outstanding as on			
	June 25, 1965	May 28, 1965 (Revised)	June 26, 1964	June 28, 1963
Number of reporting offices	5,552	5,517	5,063	4,684
I Food Articles*	168.51	172.22	123.33	121.77
1 Paddy and Rice	18.50	20.01	16.72	13.49
(a) To rice mills	5.04	5.23	7.14	6.69
(b) To others	13.46	14.78	9.58	6.80
2 Wheat	7.45	3.13	7.82	13.39
(a) To flour mills	1.19	1.24	1.99	2.80
(b) To others	6.26	1.89	5.83	10.59
3 Other Cereals and Pulses (including jowar, bajra, gram and maize)	19.26	17.26	15.00	16.02
4 Sugar (including khandsari)	101.14	107.73	63.14	61.54
(a) To sugar factories	87.26	98.62	51.85	48.41
(b) To others	13.88	14.11	11.29	13.13
5 Gur	4.53	4.85	4.46	2.14
6 Vegetable Oils (including vanaspati)	17.63	19.24	16.19	15.19
II Industrial Raw Materials	194.17	211.51	177.57	165.71
7 Groundnuts	9.68	12.26	6.03	7.88
(a) To manufacturing units	3.47	4.79	2.23	2.89
(b) To others	6.21	7.47	3.80	4.96
8 Other Oilseeds	21.09	20.92	19.37	22.68
9 Cotton and Kapas	134.77	146.52	120.09	108.60
(a) To cotton textile mills	72.89	71.50	73.20	65.03
(b) To ginning factories	12.02	15.53	8.58	7.05
(c) To others	49.86	59.49	38.31	36.52
10 Raw Jute	28.63	31.81	32.08	26.55
(a) To millers and balers	24.09	26.49	29.86	25.16
(b) To others	4.54	5.32	2.22	1.39
III Plantation Products	71.86	70.23	66.83	59.20
11 Tea	47.84	45.84	44.87	41.21
12 Cashewnuts	11.14	10.76	8.86	5.63
13 Coffee	7.02	6.02	7.15	7.55
14 Other Plantation Products	5.86	7.61	5.95	4.81
IV Manufacturers and Minerals	756.69	75.78	640.58	532.055
15 Cotton textiles (including yarn)	166.91	171.11	133.38	119.68
(a) To mills	113.28	113.16	85.50	80.10
(b) To others	53.63	57.95	47.88	39.58
16 Jute Textiles	35.37	37.77	33.36	24.04
(a) To mills	19.45	19.87	16.48	10.47
(b) To others	16.42	17.90	18.55	16.88
17 Other Textiles	39.05	39.52	41.65	37.53
18 Iron, Steel and Engineering products	270.11	267.53	219.71	180.60
19 Other Metals and Metal Products	35.63	35.43	32.76	30.80
20 Coal	16.80	15.17	7.29	5.80
21 Manganese, Mica and other Mineral and Mineral oils	29.85	30.07	23.87	13.95
22 Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	58.82	58.29	54.62	45.48
23 Electrical Goods	36.64	38.22	27.89	26.45
24 Other Manufactured Goods	67.01	61.67	66.05	47.72
V Other Securities	577.69	584.46	503.75	443.25
25 Real Estate	42.03	42.18	41.26	34.10
26 Gold and Silver Bullion and Ornaments	20.07	20.06	18.10	16.39
(a) Gold and Silver Bullion	0.96	0.99	0.47	0.24
(b) Gold and Silver Ornaments	19.11	19.07	17.63	16.69

(1)	(2)	(3)	(4)	(5)
27 Fixed Deposits	35.93	35.20	29.46	24.07
28 Government and Other Trustee Securities	25.34	25.64	24.27	26.92
29 Shares of Joint Stock Companies	91.90	91.31	95.94	93.47
(a) To stock and share brokers and dealers	10.27	9.87	10.66	10.76
(b) To others	81.63	81.44	85.28	82.71
30 Debentures of Joint Stock Companies	24.44	23.04	23.84	27.12
31 Assets of Industrial *Concerns—fixed or floating (other than those specified under above categories)	141.51	143.40	106.68	81.44
32 Other secured advances not mentioned	157.56	167.82	126.76	111.13
33 Composite Advances	38.91	35.81	37.44	28.07
TOTAL SECURED ADVANCES (I to V)	1768.92	1794.20	1512.06	1321.98
VI Unsecured (Clean) Advances	301.76	299.40	267.02	210.09
(a) To Multani Shroffs	7.41	7.63	—	—
(b) To others	294.35	291.77	—	—
TOTAL BANK CREDIT (I to VI)	2070.68	2093.63	1779.08	1532.07

* Advances against foodgrains include those made to State Governments for financing procurement operations

Source Reserve Bank of India,

BANKING RETURNS

Reserve Bank	Oct 15	Oct 8	Sept 17	Oct 16
1 Note Circulation	2624.67	2640.66	2591.95	2437.93
2 Rupee Coins	103.11	102.24	101.43	105.69
3 Deposits				
(a) Central Govt	53.15	62.82	109.55	54.13
(b) Other Govts	8.09	2.33	11.16	15.66
(c) Banks	104.16	95.18	100.24	112.10
(d) Others	191.07	191.41	190.28	141.88
4 Foreign securities	70.63	70.63	68.35	85.46
5 Balance abroad	10.42	9.24	16.14	9.13
6 Rupee securities	2347.44	2347.44	2304.72	2136.16
7 Investments	102.21	103.06	153.54	107.30
8 Loans and advances to Govts	107.77	110.21	67.08	39.29
9 Other Loans and advances	168.24	176.18	181.82	167.87
Scheduled Banks	Oct 8	Oct 1	Sept 10	Oct 9
1 Aggregate Deposits (net)	2786.18	2781.71	2781.37	2506.25
Demand (net)	1367.39	1358.20	1350.57	1229.37
Time (net)	1546.23	1550.45	1562.11	1370.58
2 Cash in hand	69.78	61.79	65.51	62.90
3 Balances with the Reserve Bank	98.85	104.53	97.89	92.52
4 (2) + (3) as % of (1)	6.05	5.98	5.87	6.20
5 Borrowing from Reserve Bank	12.77	14.66	19.36	1.96
(a) Against usance bills and/or promissory notes	—	—	—	0.50
(b) Others	12.77	14.66	19.36	1.46
6 Advances	1801.28	1793.30	1798.89	1459.60
(a) State Bank	432.24	436.54	429.01	310.26
(b) Others	1369.04	1356.76	1369.88	1149.34
7 Bills discounted	153.53	141.09	149.06	182.24
(a) Inland	74.23	73.48	76.15	72.78
(b) Foreign	227.76	214.57	225.21	255.02
(c) Total	23.35	21.33	22.17	17.32
(i) State Bank	204.41	193.24	203.04	237.70
(ii) Others	72.83	72.18	72.77	68.41
8 (6) + (7) as % of (1)	853.25	849.29	830.61	818.50
9 Investment in Govt Securities	30.62	30.53	29.86	32.66
10 (9) as % of (1)				

MONEY SUPPLY WITH THE PUBLIC

(Rs crores)

	Total Money Supply	Currency with the Public	Deposit Money with the Public	Variations in Money Supply
Last Friday				
August 1965	4,094.24*	2,696.17*	1,398.17*	- 18.00*
July "	4,112.24*	2,733.07*	1,379.17*	- 59.51*
June "	4,171.75*	2,820.11*	1,351.64	- 19.48*
May "	4,191.23*	2,860.49*	1,330.74	+ 15.65*
April "	4,175.58*	2,869.77*	1,305.81	+ 95.52*
March "	4,080.06*	2,769.07*	1,311.00	+ 55.96*
August 1964	3,765.55*	2,541.33*	1,224.22	- 1.19*
1964-65	4,080.06*	2,769.07*	1,311.00	+ 327.94*
1963-64	3,752.12	2,605.56	1,146.56	+ 442.15
1962-63	3,309.97	2,379.47	930.51	+ 264.15
1961-62	3,045.82	2,201.16	844.66	+ 177.21
1960-61	2,868.61	2,098.05	770.56	+ 199.16**
1956-57	2,341.89	1,622.73	719.16	+ 124.94

*Provisional. **Derived from comparable estimates
Source: Reserve Bank of India.

FOREIGN EXCHANGE RESERVES

End of	Amount ¹	Variations over Previous Year/Month
August † 1965	235.26	+ 3.76
July "	231.50	- 15.77
June "	247.27	+ 3.81
May "	243.46	- 6.64
April "	250.10	+ 0.42
March "	249.68	+ 11.54
August 1964	245.32	- 0.57
1964-65	249.68	- 56.13
1963-64	305.81	+ 10.71
1962-63*	295.10	- 2.21
1961-62*	297.31	- 6.50
1960-61	303.61	- 59.25
1956-57	681.10	- 143.51

¹ Include (a) 7.1 million ounces of gold till January 7, 1965, 7.4 million ounces till January 21, 1965, 7.7 million ounces till February 18, 1965 and 8.0 million ounces thereafter. Gold was valued till October 5, 1956 at Rs 21.24 per tola and at Rs 62.50 per tola thereafter as provided under section 33 of the Reserve Bank of India (Amendment) Act, 1956; (b) Foreign Assets of the Reserve Bank; and (c) Government balances held abroad.

² Movement in reserves: increase (+); decrease (-).
* Include net borrowing from IMF of \$122.5 million (Rs 58.3 crores) during 1961-62 and borrowing of \$25 million (Rs 11.9 crores) from the IMF against the stand-by credit of \$100 million in 1962-63.

† Provisional.
Source: Reserve Bank of India.

RAILWAY WAGONS LOADED

(In terms of 4-Wheelers)

(in terms of 4-wheelers)							
	1964-65	1965-66	Increase or Decrease (-) in 1965- 66 over 1964-65	1964-65	1965-66	Increase (+) or Decrease (-) in 1965- 66 over 1964-65	
	Broad Gauge			Metre Gauge			
A— Revenue Earning Traffic							
1	Coal and Coke for public (including Non-Government Railways)	556,837	643,256	+15.5	94,847	99,157	+4.54
2	Grains and Pulses	160,481	167,035	+4.08	146,523	147,219	+0.48
3	Oilseeds	20,294	18,757	-7.57	22,437	20,776	-9.29
4	(a) Cotton Raw	7,009	8,972	+28.0	6,242	9,093	+45.7
	(b) Cotton Manufactured	3,089	1,612	-47.8	558	464	-16.6
5	(a) Jute Raw	11,981	16,989	+41.8	10,931	13,249	+21.2
	(b) Jute Manufactured	2,229	2,389	+7.18	1,549	1,886	+21.8
6	(a) Sugar	19,687	20,847	+5.89	20,415	21,882	+7.19
	(b) Sugarcane	240	2,354	+880.8	13,491	47,091	+294.1
7	Cement	76,349	87,342	+14.4	64,040	71,844	+13.2
8	Iron and Steel						
	(a) Pig Iron	16,260	15,855	-9.75	2,713	3,312	+22.4
	(b) Others	138,106	128,906	-9.34	22,668	21,674	-4.39
9	Tea	2,276	2,770	+21.7	3,820	3,139	-7.83
10	Metallic Ores						
	(a) Manganese Ore	19,241	22,104	+14.9	5,879	5,176	-12.5
	(b) Iron Ore	211,776	215,376	+1.70	32,193	38,162	+18.2
	(c) Others	11,395	10,943	-3.97	3,622	4,173	+15.1
11	Lime Stone and Dolomite	80,082	95,850	+19.7	27,179	28,567	+5.10
12	Miscellaneous Full Wagons	652,319	664,799	+1.91	495,111	466,811	-5.72
13	Miscellaneous Smalls	114,851	132,153	+15.1	92,559	102,122	+10.3
B— Non-Revenue Traffic							
14	Railway Coal and Materials						
	(a) Coal for homeline	91,533	91,853	+0.35	84,624	90,196	+6.58
	(b) Coal for other Government Railways and Manufacturing Units	165,294	174,810	+5.76	16,033	16,684	+4.06
	(c) Other stores	89,509	88,372	-1.27	69,762	80,832	+15.9
Total		2,450,838	2,663,344	+8.63	1,237,196	1,293,518	+4.55

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

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.

Thus Kulti continues in a career of planned growth. Serving Burnpur, serving other steel plants—and India's railways, chemical and sugar industries with complicated castings. Spinning out pipes as well by full train loads for the projects and utilities as no other unit does. And Kulti today is confident of adding on to its achievements.

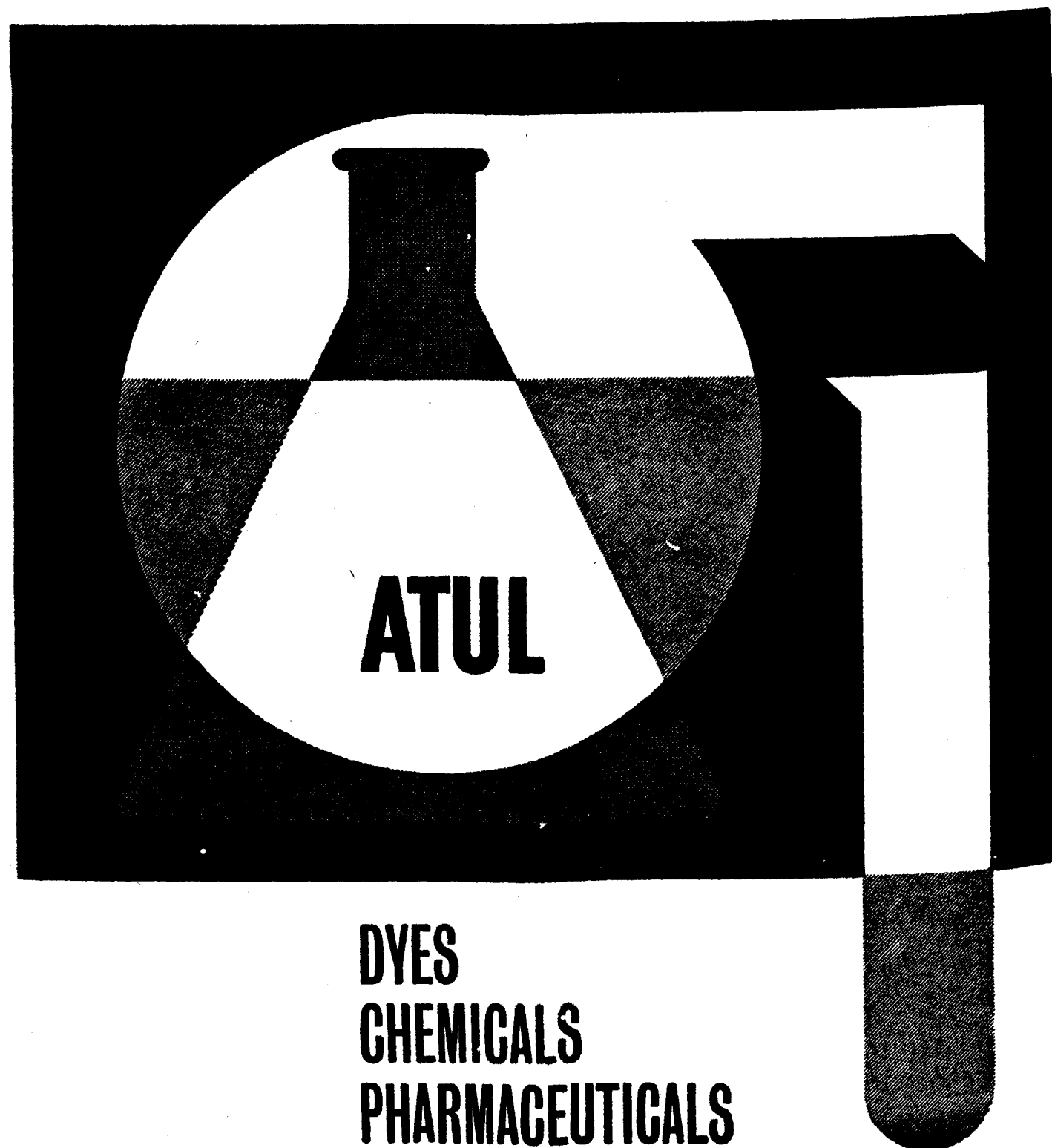
FACE OF KULTI



IISCO
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**DYES
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VOLUME XVII NOS. 44 - 45

NOVEMBER 6, 1965

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EDITORIALS

Which End of the Plough? 1647

All Semantics and No Facts? 1648

WEEKLY NOTES

Code of Trading Practices—Premium on Inefficiency—

Kerala: Search for a Leader—

Students for National Service

—Textile Imports by UK 1649

LETTER TO EDITOR

What Are We Defending? 1652

CAPITAL VIEW

Case for a Kashmiri Speaking State

— Romesh Thapar 1653

FROM THE LONDON END

EFTA and European Integration 1655

BOOK REVIEW

The Road to Partition

— M V Pylee 1657

SPECIAL ARTICLES

Export Promotion through Tax Incentives

— I S Gulati 1659

The Marketable Surplus Function for a Subsistence Crop

Reply to Comments

— Raj Krishna 1665

Oscar Lange's Contribution to Economics: A Brief Survey

— Krishna R Bharadwaj 1669

A Normative Index of Industrial Production

— Ashok V Desai 1671

FROM THE CHAIR

The Life Insurance Corporation of India 1674

AROUND BOMBAY MARKETS
Improved Sentiment 1677**BUSINESS NOTES**

Tata Chemicals — Fertiliser Corporation — Great Eastern

Shipping — Tomco 1679

CURRENT STATISTICS 1681**THE ECONOMIC WEEKLY**Co-operative Insurance Building,
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Which End of the Plough?

WHAT has the emergency or even the difficulty, most probably temporary, over PL 480 imports of foodgrains to do with the agricultural plan? Very little, really. If one ignores inconsequential gimmicks like exhorting city-dwellers to grow vegetables in flower-pots, the Third Plan had already given the first priority to increasing agricultural production and one of its basic objectives was to achieve self-sufficiency in foodgrains by the end of 1965-66. Yet, when the Food Minister revealed on Tuesday that next year it was proposed to step up the allocation to the States for agricultural programmes by no less than 43 per cent over that in the current year—even though the total Plan outlay next year will be lower—no eyebrows were raised and it was accepted as a natural concomitant of the emergency.

The Food Minister's sketchy account of how the higher allocation to agriculture was to be spent contained no surprises. Expansion of the area under multiple-cropping, improving utilisation of irrigation, preparation of farm manure in compost pits, cultivation of subsidiary crops—these are not new programmes. That, of course, is no criticism of them. Yet, did not the Memorandum on the Fourth Plan state that "the setback in agriculture since the end of the Second Plan is a cause of deep concern and has, in turn, led to fresh consideration of the assumptions, methods and techniques as well as the machinery of planning and plan implementation in the field of agriculture"? What one would like to know is whether the so-called "crash programme" in agriculture is the product of such reconsideration of the assumptions, methods and techniques of agricultural planning which have been the cause of very large investments hitherto yielding very much less than the expected results or whether it is merely based on misconceptions such as that the absorptive capacity of the agricultural sector for fresh investment is virtually unlimited or that in agriculture the results of investment can be expected to emerge almost without any time-lag.

Our past experience is enough evidence that there are definite limits to the pace at which investment can be effectively made in agriculture even though there may be none to the cumulative total. Apart from the limits set by availability of physical inputs, there is the overriding fact that increases in agricultural output have to come about mainly through a very large number of individual farmers being induced to adopt better agricultural practices. On this score the Planning Commission's own assessment of the achievement so far is worth nothing: "there has been a marked lag in the application of the results of scientific research, in the adoption of better implements and more scientific methods of agriculture and, generally, in the extension of improved agricultural practices. The proportion of cultivators who have taken to scientific agriculture is still quite small. No doubt due to the slow implementation of measures of land reform, the structure of the rural economy has not changed to the extent postulated in the earlier Plans".

The fate of the land reform programme is too well known to need repetition. It has been conceded by one official study after another that land reform legislation in most States is riddled with gaps and loopholes, that the administrative arrangements for enforcing even such legislation as exists have been deplorably inadequate, that records of rights of tenants do not exist in many States and, where they do, they are often incomplete and out of date, that as a consequence, there are vast numbers of 'informal' tenants who are not recorded in the papers and enjoy no security of tenure.

Land reform is a basic desideratum if cultivators are to be induced to invest in better agriculture; so are stable and remunerative prices for agricultural produce, an adequate extension service, in terms both of number and quality of personnel, and a co-ordinated organisational set-up to administer the different rural development programmes. A recent official review, made only months ago, concluded that "our agricultural extension services are weak both in quality and numbers and suffer from dispersal over unmanageable areas". Though a decision was taken three years ago that the village level worker should be assigned only one set of tasks, namely, organising extension and supplies for agricultural production programmes and helping

panchayats and co-operatives to draw up and execute village production plans, it has almost nowhere been possible to implement this decision.

If the extension services are inadequate, the higher official administration responsible for agricultural programmes is unco-ordinated and ineffective. Study teams sent out by the Planning Commission to the States have emphasised the harm done by the multiplicity of agencies responsible for agricultural programmes and the lack of co-ordination among them. As the not infrequent recriminations between the Planning Commission, the Ministries of Agriculture and Community Development and the State Governments show, it is impossible under the present set-up to fix responsibility for failure. This is true at all levels of the administrative hierarchy, starting from New Delhi and the State capitals right down to the village. It has been suggested that each village should be collectively committed to its annual farm production target and that all financial assistance should be

channelled through the village body which should be made responsible for achieving the target. But made responsible to whom? And how, when the dispensers of Government assistance are so numerous and so unco-ordinated?

It is in this context that the decision to increase the financial outlay on agriculture has to be judged. A short-term "crash programme" at this stage can make sense only if it is part of a perspective plan covering the above-mentioned basic factors which will to a large extent determine the pace at which agriculture can absorb investment productively. However, the temper of the Government at the moment appears to be inimical to such an approach, being weighted in favour of *ad hoc* measures which seemingly hold out the prospect of immediate returns. But, unless the experience of the three Plans is completely misleading and holds no lessons, to proceed in this manner is to grip the plough at the wrong end.

All Semantics and No Facts?

THE one great achievement of the Monopoly Commission which no critic will dispute is that it has submitted its report within the scheduled time—a feat for any committee or commission in India. What else it has achieved it is too early to say. The report has not yet been placed before Parliament and we have nothing more than vague press reports to go on. There is, however, no indication that the fears that were expressed by several correspondents in the columns of this journal have been belied. Not unexpectedly, the Commission has, it seems, devoted a considerable part of its labour to semantic analysis of the term "monopoly"; and also not unexpectedly has it concluded that there are no monopolies in India "in the accepted meaning of the term".

However, problems cannot be liquidated by such semantic processes: monopolies in the "accepted meaning of the term" probably do not exist anywhere; in any case they constitute a small part of the whole complex of problems given rise to by individual decision-making units in trade reaching a size when they can unilaterally or conjointly with others influence the entire market.

If press reports are correct, the Commission has tried to highlight the fact that since the beginning of planning scores of new entrepreneurs have successfully entered the industrial field. One would wait to see what the Commission exactly means by "new entrepreneurs"; one would also eagerly, if somewhat skeptically, wait to get further details of the Commission's alleged findings about the increasing proportion of share holdings by investors belonging to the lower and middle classes. R K Hazari who has looked rather closely into such matters has found on the contrary that institutional ownership of capital has been

becoming increasingly significant, mainly because subscriptions to share-capital of companies from the controlling interests increasingly comes from companies and trusts, not individuals. This conclusion has been confirmed by the Reserve Bank which has found that new companies are raising the major part of their capital from companies.

It is not at all surprising that the Commission should tend to take a reassuring view and decry that there should be so much alarmist propagandist nonsense and loose talk by politicians about the economy being dominated by monopolists. After all did anybody know what ultimate purpose the Commission was supposed to serve? Such a definite purpose can be based only on a clearly defined political-economic stand. But India is a socialist country when we are replying to a toast at a Kremlin dinner and a capitalist country when negotiating for American aid in Washington. The "socialist pattern" of our planning does not specify either the institutional pattern of ownership or the economic pattern of competition. Nor has it been stated that our brand of socialism involves "free competition". Was the Commission to find ways and means of perfecting imperfect competition or making imperfect competition a little less imperfect? Joan Robinson in an article in the Special Number of this journal of July 1964 squarely termed the whole attempt as absurd. She expected that the only useful purpose it would serve would be to educate the economists working in the Commission. We have to find out whether the report lives up even to this limited expectation. Its glorious predecessor, the Mahalanobis Committee report took very much longer to produce and contained neither any new facts nor any new conclusions.

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Code of Trading Practices

THE Committee on the Code of Trading Practices between Manufacturers and Exporters, it would seem, has interpreted its terms of reference rather narrowly. It was asked to frame a code of trading practices as between manufacturers and exporters in order to ensure regular supplies of stipulated quality exports. What it did was to concentrate on the first part of this task, and, finding that a code had already been formulated by the 1962 Committee on Fair Trading Practices and by the Commerce Ministry, it recommended a procedural remedy in the form of a standard 'written contract' between manufacturers and exporters according to the already formulated code and containing specifications regarding quality, quantity, delivery periods, and packing and, significantly, a penalty clause and a clause for arbitration in case of dispute. Such a contract would certainly help regularise and clarify relations between manufacturers and exporters. But will it help eliminate all the causes of irregularity? It is through its somewhat facile location of these causes that the Committee seems to have limited itself.

In its report it claims that relations between manufacturers and exporters are generally cordial and well-systematised, and it is only because the odd case of irregularity gets 'undue' publicity that a review of mutual practices is at all called for. Evidently the Committee thinks that a significant reason for the mutual complaints of manufacturers and exporters is the unpredictable changes in the Government's export promotion policy, for, the need to stabilise that policy on a long-term basis, not to make changes retrospectively applicable, and to offer Government help to manufacturers to fulfil existing foreign orders should the policy changes effect those orders, is much stressed by the Committee.

But is this the whole story? Of course, a stable export and incentives policy is important for a sustained export promotion drive in competitive world markets, to programme and provide for extensive market research studies or for product promotion measures. It might even happen that merchant exporters occasionally do discover that a particular change in policy or incentives makes exports not worth their while, or that manu-

facturers find they cannot fulfil orders to specification. However, the Committee itself suggests that the majority of manufacturers and exporters are not led to irregularities, whence the cordiality of their relations. Why then, are the marginal few? Could it be that they really are not viable in the foreign markets either competitively or by way of adequacy of resources? At times too, these irregularities might arise because the existing system of incentives can be abused for short-term profit. Hence, possibly, some of the cases of below specification quality or packing. Might it not be also that the present incentives schemes encourage — or at least do not discourage — a not-so-serious, free-lance attitude to exports, so that export commitments and delivery dates are not too scrupulously kept? These are, after all, some of the corollaries of the import entitlement scheme as it has operated in the past and the entitlement's free sale in the market at a premium. The abuse may be marginal. But these are questions it was relevant to answer in explaining cases of breakdown of relations between manufacturers and exporters and the non-fulfilment of contracts to specification.

Perhaps the Committee's methods were responsible for the limitation. Its questionnaire got a response from 31 organisations, and the Committee did not think it necessary, after the easy answers the replies provided, to take subsequent oral evidence. Had it taken verbal evidence it could have gone into these questions rather more closely and possibly with more interesting results.

Premium on Inefficiency

THE Sugar Enquiry Commission toiled for over a year and produced its formidable 350-page report only to have its face resoundingly slapped. Underlying all the ailments of the sugar industry, which led to the appointment of the Commission, is the basic one of almost chronic instability with the alternation of sharp increases and decreases in production. While, as the Commission points out, the Government's method of dealing with each situation, whether of shortage or of surplus, as it arose without a long-term policy has aggravated it, the basic cause of the industry's instability has to be sought in the fluctuating supply of cane from year to year. To bring stability to

the sugar industry regular supply of sugarcane is a *sine qua non*. This may require measures, such as those recommended by the Commission, to prevent diversion of cane from sugar factories to gur and khandsari producers, but what is necessary most of all is a steady increase in cane production. This has to be achieved without diversion to sugarcane of land under foodgrains and other crops, through increase in the per acre yield and improvement in quality in terms of recovery of sugar.

The present system of fixing the minimum price of cane payable by sugar factories, however, gives no incentive to the majority of cane cultivators to improve the quality of cane. The basic minimum price is related to a specified level of sugar recovery and for this, or a lower level, of recovery a uniform price is fixed for the whole country. For every 0.1 per cent increase in recovery above this level, a premium is allowed on the basic price but there is no discount on a recovery rate below it. Up to this level of recovery, therefore, the price is the same irrespective of differences in sugar recovery.

It follows that the higher the basic recovery level the smaller will be the range of recovery rates for which farmers will earn a premium and, therefore, lesser the incentive for improvement in quality. An idea of the extent of incentive provided by the present pricing system can be formed from the fact that the basic minimum price is fixed for a recovery level of 10.4 per cent which is well above the average all-India recovery level and higher than all but the highest recovery rates in any of the States, with the exception of Maharashtra. For the vast majority of cultivators, therefore, it is a matter of indifference what quality of cane they grow. To quote from the Sugar Commission's report: "if the level of recovery for which the basic minimum price of cane is fixed is too high, as it presently is at 10.4 per cent, it destroys the incentive on the part of the growers to take to sugarcane varieties with a higher sucrose content, in regions whose recovery falls short of this level by a wide margin".

In its interim report the Commission had recommended that for the 1964-65 season the minimum price should be linked to a recovery level

of 9.4 per cent. The Government rejected this and fixed the minimum price for 10.4 per cent recovery at Rs 5.38 per quintal. In its final report, presented to the Government in September, the Commission again suggested that the basic recovery level should be reduced to 9.4 per cent in 1965-66 and to 9 per cent in 1966-67. For 1965-66 it recommended a minimum price of Rs 4.96 per quintal for 9.4 per cent recovery with an increase of 4 paise per quintal for every 0.1 per cent recovery above this level, thus bringing the price for 10.4 per cent recovery to the current level of Rs 5.38 per quintal. For 1966-67 it recommended an increase in the premium for higher recovery over the minimum of 9 per cent from 4 paise to 5.36 paise per quintal for every 0.01 per cent.

However, not all the arguments of the Commission for giving greater incentive to cane cultivators to improve the quality of cane seem to have made the slightest impression on the Government. On Wednesday it decided to retain the existing basic recovery level of 10.4 per cent with the minimum price at Rs 5.38 per quintal for 1965-66 — obviously under pressure from States, particularly those where the average recovery rate is lower than 10.4 per cent so that if the basic recovery level had been fixed at 9.4 per cent the minimum price for a majority of cane growers would have been cut.

The difficulty, let it be stated, is not that the growers would not have got a remunerative price. In the Commission's judgment the minimum prices recommended by it would have been high enough to prevent any significant diversion of land from sugarcane. In any case, if the Government felt that the Commission's minimum price for 9.4 per cent recovery was too low, it could have permitted a higher price while maintaining the price differential for cane with higher recovery. However, this would have led to pressure for higher sugar prices to grant which would no doubt appear unpopular. Between protecting the inefficient cultivator and concern for the consumer, there is evidently no room for an incentive-oriented pricing system for sugarcane.

Kerala: Search for a Leader

Our Correspondent in the South writes:

THE war and the extremely uneasy cease-fire have had serious repercussions in Kerala. Political alignments are likely to undergo significant changes and the mass electoral

preference may also mutate in important ways. At the moment everybody has taken President's Rule for granted. True enough, the Left parties have protested and demanded quick fresh elections. But it is quite obvious that this is not one of the demands they are pushing with crusading zeal, not even the Left Communists. At present the situation is still too fluid for anyone

to very confidently state that the result of the elections will not be the same instability as produced by the last one.

The Congress, however, hopes to cash in on the generally increased respect for the Central Government and the still more widespread feeling that as yet only the Congress is in a position to provide that stability which

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the dangerous situation so urgently demands. There continue, of course, anger and indignation that the Congress seems quite incapable of initiating any deep-going social change or taking any radical measures to close the gap of inequality.

The piquancy of the Congress situation in Kerala is, however, that this great advantage of the stability-offer is denied it. The dissident group within Congress is powerful. The State Congress leadership is not only corrupt but has a well-deserved reputation for inefficiency and factionalism. It has no leader of any stature who could become the builder as well as leader of a team. Kamaraj had, at one time, proposed that Krishna Menon should take over the job. But, evidently, the prospects of re-entry into the Central Government and the reassumption of an international role have proved too alluring. In Kerala the task would be far less spectacular and would involve detailed work, suffering fools as well as the possibility of not getting back to power in the immediate future. Such a course would have been good for Kerala and even better for Krishna Menon but it seems it is not to be.

A different plan is now being proposed, i.e., to bring back Pattom Thanu Pillai, the octogenarian Governor of Andhra. This amiable gentleman has had a very long political history, indeed. And of surprising consistency, too. He has hopped from one party to another, changed ideas, policies and friends with gay abandon but the single-minded purpose has been clear — to somehow reach the Chief Minister's post and remain there. Incidentally, it was Lal Bahadur Shastri who performed the conjuror's trick of first kidnapping Pattom from the PSP and making him a Congress Chief Minister and then later whisking him off to Chandigarh as Governor. Barkis is certainly willing this time to change from Governor to Chief Minister.

The Congressmen who have come to Hyderabad on deputation and who publicly beseeched the press at a Raj Bhavan press conference to help "persuade" Pattom to return to save his home State are not as foolish as might appear at first sight. They are banking on Pattom smoothing over the ruffled feelings of another Nair octogenarian, Mannam. The two have been quite close in the past and there is no reason why they should not manage jointly to bring the dissidents back to the Congress. It will be ex-

tremely awkward for Mannam to paint the official Congress as an Ezhava show if such a fiercely communal Nair as Pattom is its father figure. Further, he has the added advantage of being regarded as a very safe anti-Communist which would placate the Catholic bishops. Finally, he has proved quite acceptable to the Muslim League in the past and a section of the SSP will also not be unfriendly. A grand coalition could thus be built which would safely guarantee the Congress its passage back to power. As for Kerala, its development and its future — *park-kalam*, as Kamaraj would say, let us see!

Students for National Service

LAST week at the annual meeting of the Central Advisory Board of Education at Chandigarh the Union Education Minister pleaded for making "education defence-oriented and production-oriented" and for "new priorities". He added: "we must be self-sufficient in food and our students can play a vital role in achieving it". At this meeting the Board enthusiastically approved a proposal to enlist students passing the S S C examinations in the country for a year of "national service" during which they will help in raising agricultural production, eradication of illiteracy and the defence effort.

This move resurrects a proposal that has been discussed several times and has never been tested even on a small scale. The recent estimate of costs involved suggest an annual outlay of Rs 500 per student in a plan that envisages an enrolment of about 100-125 thousand students and a total expenditure of Rs 5 to 6.2 crores. Presumably, the estimate refers only to direct expenditure on students and assumes exemption from the scheme for a certain proportion of eligible students on medical and other grounds.

The wasteful character of the scheme sticks out a mile. Most of the students passing S S C have no training whatsoever to undertake the tasks that are proposed for them. The problem of providing the right training is complex and its financial and real burden would be considerable. Besides, if some two or three months are spent in training, the period over which this investment may bear fruit would be very short and, therefore, the return would be low. Also in countries where the law provides for conscription, the average age of the conscripts tends to be at least three to five years

higher than that of SSC graduates in India. As a result, the receptiveness and maturity of the young conscripts abroad tend to be far superior to what can be expected from the Indian students passing out from high schools, who will not carry any weight with the rural folk amongst whom they will have to work to improve agriculture. And the free labour that they might contribute would hardly help since Indian agriculture surely does not suffer from labour scarcity.

All these considerations make the proposed project of 'national service by SSC students' an unrealistic scheme which holds every promise of proving a fiasco. Even the scheme of compulsory rural service by medical graduates in Maharashtra has failed to make any substantial contribution to meeting the health and medical needs of the people. Because of the lack of proper organisation the doctors find it a waste of time. The much-publicised 'Village Volunteer Force' scheme, initiated after the Chinese attack in 1962, has few real achievements to show except perhaps on paper. True, there is scope and need for tapping public enthusiasm for national service and for channelling it in the right directions, but to do it in a manner that would avoid waste and unnecessary frustration, some hard thinking and proper organisation are required. A 'national youth service' modelled on, for example, the Peace Corps in USA in which relatively mature and trained persons voluntarily contribute their skills for various developmental projects will prove much more useful and effective than the project enthusiastically but thoughtlessly sponsored by the Central Advisory Board on Education.

Textile Imports by UK

Our London Correspondent Writes:

THE recent Cotton Board Conference held at Harrogate celebrated what can be regarded as a major victory for the vested interests in the textile industry of Britain who have been striving to contain imports of textiles from the developing countries. The announcement by Douglas Jay, President of the Board of Trade, that the Labour Government intended to impose a global quota on cotton imports from low-cost producing countries for the next five years is just the sort of protection that Lancashire has been pressing for. Whether this type of feather-bedding is good for the industry as a whole or whether it will serve only to protect and keep the

less efficient textile firms in business, remains to be seen. The whole object of the reorganisation of the industry which started in the 1960s was to provide the basis for a new, smaller, more efficient and more viable textile industry with emphasis on modernization, integration and re-equipment. The type of protection that is now offered is hardly intended to speed up the elimination of the less efficient concerns.

The British cotton textile industry is now a much more viable organisation than it was five years ago. Something like £30 million of public money, and a similar sum from the industry itself, has been spent on reorganisation schemes to scrap old plant and re-equip and modernize the industry which is now operating from a modern vertically integrated framework. A further step to make the industry operate from more modern production units has been taken with the intervention of man-made fibre producers. The many small firms have been largely replaced by four major combines. The industry is now becoming far more capital-intensive than the average run of British industry. Despite a shorter working week output per head has risen by 6 per cent a year since 1963. There are however, still some inefficient firms and, as was pointed out at Harrogate, the traditional sections of the industry are still over-manned and the growth sections under-staffed. The quota system will permit the less efficient units to stay in business.

Full details of the new system of global quotas that are to be introduced have not yet been made clear. The size of the global quota has not been revealed, but Jay has said that it will be lower than the 1964 total which is regarded as exceptional.

No Commonwealth Asian country will be allowed to carry over unused quotas for exports to Britain. There is understandable anger in Hong Kong as the unused cotton textile quota to the U K for 1965 up to October 13 was about 82 million square yards. It is understood that the industry in Hong Kong is now suggesting that the agreement under which Hong Kong limits her cotton textile exports to 185 million square yards a year should be abrogated.

The policy of placating the Lancashire industry is justified by the Labour Government with the much-used argument that Britain is carrying more than her share of imported

low cost textiles among the industrialised country. The solution to the developing countries problem lies not in further relaxations by Britain but in more constructive efforts by other industrialised countries to increase their imports. The British never tire of reminding the world that at present Britain imports about 35 per cent of her home needs, compared with 9 per cent in the case of America and the European average of about 7 per cent.

The most promising solution to the problem is through a revision of the GATT textile pact which is only a half-hearted attempt to liberalize textile markets as it provides for a growth in imports by industrialised countries (excluding Britain) of only 5 per cent a year. The British view is that industrialised countries should take at least 10 per cent of their cotton requirements from the developing countries; this should rise gradually to 25 per cent which, it is pointed out, is still 10 per cent below the current British performance.

The only hope for textile exporting countries in the developing world now seems to lie in the pressure that Britain can bring to bear on other importing countries; the British market is not going to be allowed to expand. At Harrogate, Wyndham White, Director-General of GATT, spoke about the possibility of a "package deal" for cotton textiles in the "Kennedy Round", but refused to give further details of the scheme. The GATT agreement itself is already vitiated by Article III (or the market disruption clause) which has frequently been invoked. The U S A is using the agreement as an umbrella to shelter its own cotton textile industry, while it proceeds with investing large sums to enable the industry to stand up at some future date to low-cost imports. In many ways, under the new global quota system, Britain seems to be following the same policy.

LETTER TO EDITOR

What are we Defending?

I CONGRATULATE you on the courage with which you have restated the social values for which we stand in peace as well as in war, and whole-heartedly agree with your editorial "What Are We Defending?" (October 23). But to be fair, it may not be non-pertinent to point out that E M S

Namboodiripad's views on the Kashmir question cannot be viewed in the same light as Vinoba Bhave's. It is true that Namboodiripad promised to support our Defence efforts (for the purposes of your editorial does it make much difference even if he did not? patriotism is perfectly compatible with non-support of the war) but he always took care to qualify it with the demand for freeing the detenus. For weeks the left-communist daily in Kerala was picturing the situation created by the Pakistani infiltrators in Kashmir as a people's revolt. Throughout the period of active hostilities it was devoting more space to exposing black-marketeers and whipping up popular fury against rising prices than to news from the front.

The existence of Peking-Pindi collusion (since you to choose call a Peking-Pindi 'axis' a theory only) from the start of the war is no longer a theory but a fact which is recognised as such even by British left-wing circles. But Namboodiripad's speeches do not betray any suspicion of this. Events like the burning down of our embassy by Indonesian hooligans and the Chinese ultimatum, which did not increase China's anti-imperialist prestige or reputation for love of peace, were solemnly described by Namboodiripad as 'unfortunate'. He chided the peaceful procession in Delhi before the Chinese embassy as childish.

Again, in his speeches Namboodiripad goes on repeating that his party will not support a war for winning Azad Kashmir or Aksai Chin. One suspects naivette or hypocrisy. Except for a lunatic fringe in the country, no responsible politician has advocated a war to regain these territories. It is really incomprehensible what makes Namboodiripad assume imaginary positions on the part of his opponents and then proceed to demolish them as untenable, when perfectly logical lines of argument can be found against the continuance of war and for the peaceful settlement of the Kashmir issue.

But I entirely concur with you in demanding freedom for unpopular or exceptional views. Democracy will perish if it does not extend its benefits even to persons who wish to destroy it. The point is to make such views appear irrelevant and pointless to the majority. But will we ever grow that mature?

G NARAYANAN

Muvattupuzha, Kerala.
October 27.

Case for a Kashmiri Speaking State

Romesh Thapar

NOW that our vast and sprawling land frontier with Pakistan and China has been turned more or less into a cease-fire line, and the bulk of our army committed to forward positions, we have little reason to be content with government by slogans. 'Jai Jawan — Jai Kisan — Jai Hind', 'Grow two grains where there is One', 'Miss a meal on Monday' and 'Three paise contributed by every Indian gives Rs 500 crores for defence' are about the most inadequate attempts made of late to cope with the challenges which face us. Either the Prime Minister is wrongly-advised or he has made up his mind that the challenges will always be met with foreign assistance, that only an elaborate demonstration of self-reliant postures is required.

'Victory Tours' Not Enough

There are magic words in the vocabulary of the world's languages to help the Prime Minister double food-grain production, to change the fact that nearly 50 per cent of our urban population is living on PL 480 food, to deny the need for a serious tax-gathering effort to meet the cost of defence and to create the basis for the steady growth of industrial capacity. The sooner he realises that image-building is not a matter of 'victory tours' and easily-mouthing slogans the better for him and the country. His agit-prop will have to provide a more solid programmatic diet to sustain the stance he has come to adopt on public platforms.

These sentiments, widely held among those familiar with the true state of affairs within the Cabinet, the government and the ruling party, have to be recorded in cold print because we are in grave danger of destroying the essential preliminary bases of our socialist, secular democracy which we have been able to build during these eighteen years of freedom. The dishonest, tortuous, subtle attack on the stewardship of Jawaharlal Nehru, now being encouraged even by those who owe so much to him, can break the cohesion of the Congress Party. Already, the Jan Sangh is taking advantage of the erosion in the perspectives of the ruling party.

Members of Parliament, now gathered in the Capital, are being urged to take serious note of these trends, comprehend the extent to which the much-

publicised collective responsibility of the Cabinet has become non-existent, demand a full picture of the conduct of the ground and air operations against Pakistan and of what is being done to prevent a repetition of the serious errors made in the political and military conduct of the campaign, consider the steps necessary to forge a relevant framework for our policy-planning and insist on institutional supports to implement the policies agreed upon. These are the normal functions of a Parliament, but in the prevailing atmosphere of moronic conformism legislators could be persuaded to become eager *claqueurs*.

A Kashmiri-Speaking State

While these initiatives are pushed, particularly in the context of formulating an economic and foreign policy which can withstand embarrassing pressures, it is being realised in the Capital that we can no longer procrastinate over the most immediate of all problems — Kashmir. The recent eruptions in certain urban centres of the Valley, and the rather drastic decision to arrest important opposition leaders, is a reflection not so much on the Sadiq government's failure to politically discriminate between the disparate elements allied against it but a pointer to Delhi's inability to act up to its categorical assertion of sovereignty over this strategic territory in the North-West. If UN resolutions are no longer valid, then obviously we are free to organise our affairs in this area as we think fit.

Serious students of the problem are beginning to understand that the present set-up in Jammu and Kashmir inhibits and hamstring healthy political initiatives in the Valley, particularly at the level of the newly-enriched urban middle class. This vocal Kashmiri-speaking section, dominantly Muslim, sees itself for ever at the mercy of complex communal equations with the Dogras of Jammu. Also, not without reason do we see the unmistakable crystallisation of inflexible political attitudes in the two sections of the State, a development which was witnessed in other parts of India prior to the linguistic reorganisation of boundaries.

This, it appears, is the crux of the problem. The State of Jammu and Kashmir was historically an artificial

creation of Dogra hegemony. In today's situation, the State is an anachronism. The independence urge of the Kashmir-speaking people takes on a secessionist flavour because of the despair, widely felt, that the Kashmiri will be denied a State within the Indian Union in which he is master. Earlier, involvement with UN resolutions prevented a proper review of this problem. Now, there should be no blockage to redrawing the boundaries of our States in the North and North-West.

Punjabi Suba and Hariana Prant

Already, the old demand for Punjabi Suba is under active consideration and the betting is that it will be conceded. The effort of the supporters of a Hindustani-speaking Hariana Prant, including areas of Punjab, Rajasthan and Uttar Pradesh, cannot for long be resisted even by the political power based on the Gangetic plains. What then prevents consideration of the proposal that Jammu become a part of Vishal Himachal, that the Kashmiri-speaking areas be constituted into a separate State with Ladakh coming directly under the control of the Centre? There is no logical argument against some such redrawing of the borders of the States of the Indian Union in the North and North West.

Indeed, the decision to carry out this belated linguistic reorganisation would mark a decisive step in the direction of strengthening the secular character of the Indian Union — for, in the process, two minorities, the Sikhs in Punjabi Suba and the Muslims in Kashmir, would achieve a dominant position in two new States. This act of faith, as it were, by the present leadership of the Hindu majority within the all-India context would also help blunt the thrust of militant Hindu revivalism which sees the threat to our frontiers as the opportune moment to sabotage the India of Gandhi and Nehru. This is an aspect of political self-reliance which has yet to be comprehended.

Kashmir Will Not Wait

For some weeks now, at the highest levels, some such proposition has been touched upon. There is little understanding of its connection with the question of consolidating the secular structure of the Indian Union, but the

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PART I

SALIENT FEATURES OF

- * The Arbitration Act, 1940 by **Justice S. D. Singh**
- * The Indian Contract Act, 1872 by **K. Venkoba Rao**
- * The Indian Partnership Act, 1932 by **P. V. Ramanayya**
- * The Companies Act, 1956 by **Dr. M. J. Sethna**
- * The Factories Act, 1948 by **L. V. Jadhao**
- * The Industrial Disputes Act, 1947 by **K. R. Wazkar**
- * The Industrial Employment (Standing Orders) Act, 1946 with Model Standing Orders by **H. M. Ghosh**
- * The Indian Trade Unions Act, 1926 by **H. N. Trivedi**
- * The Minimum Wages Act, 1948 by **Dr. Anand Prakash**
- * The Payment of Wages Act, 1936 by **Dr. B. S. Bhargava**, Advocate, Supreme Court
- * The Payment of Wages Amendment Act, 1947 by **Shri Ram Reddy**, I.A.S.
- * The Employees' State Insurance Act, 1948 by **V. N. Rajan**, I.C.S.
- * The Employers' Liability Act, 1938 by **Pran Nath**, Advocate
- * Employer-Employee Relations by **K. S. Gupta**
 What are Your Responsibilities to Management?

What are Your Responsibilities to the Worker?
 How Can You Maintain Discipline?
 How Can You Develop Team-Work?
 How Can You Make Sure Your Workers Get a Square Deal?
 What Can You Do to Build Morale Among your Workers?
 How Would You Break in a New Worker?

- * Tips for Successful Executives Handling Labour Problems
- * On Bonus by **G. B. Pai**, Advocate, Supreme Court
- * How to Investigate Complaints, Conduct Departmental Inquiry, and Procedure for Fines, Suspensions, Discharges, Dismissals and Retrenchment by **R. G. Gokhale**
- * Glossary of Important Definitions Pertaining to Management and Labour by **G. L. Kothari**, Advocate, High Court

PART II

Statewise Lists of Industries in India employing 50 or more workers daily:
 (a) Andhra (b) Assam (c) Bihar (d) Delhi (e) Gujarat (f) Kerala (g) Madhya Pradesh (h) Madras (i) Maharashtra (j) Mysore (k) Orissa (l) Punjab (m) Rajasthan (n) Uttar Pradesh, & (o) West Bengal.

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compulsion is great to de-link the controversy over Kashmir from an involved past. The proposition does not endanger the security of the North-West, for military investment would continue on the same scale as before. Politically, too, the debate with the world would be conducted at a healthier, clearer and more persuasive level. And, economically, on the basis of a crash programme, a more fundamental impact could be made on the development of the Valley.

It is strange that we are so apathetic about the need for political initiatives on Kashmir when so much time and energy is expended in accommodating the Nagas — or, in fact, Phizo. Or is our apathy based upon our confidence that the Kashmiri will for ever remain docile? It would be most shortsighted to allow angry demonstrations to force the peace of political change. The agitation now confined to a few urban centres could spread to the rural areas. We should certainly not lag behind developments. Given political courage, there is no reason why Kashmir cannot become the real cornerstone of our secular unity — and, possibly, a bridge in the future with an enlightened Pakistan.

Admittedly, many problems are pressing on us. Military observers, studying the details of the conflict just concluded, are now inclined to dismiss the claim that the Pakistani army's teeth have been taken out. Economists, more acutely aware of the consequences of so-called free food and free aid, are disturbed by the tendency in the GOI to accept the inevitability of dependence on US PL 480 supplies despite the talk about self-reliance. Planners, studying the budgetary position and the foreign exchange crisis, have been startled by the reluctance of the Cabinet to impose any fresh tax burdens in what will be an election year. Political pundits, conscious of the existence of a serious political vacuum, cannot but take note of the attempt being made to purge the Congress Party of all ideology. Against this background, it may seem unreal to underline the unfinished business of linguistic reorganisation in the North and North-West. Yet, this business will have to be given high priority — if only in the interests of secular consolidation and security.

The Prime Minister skilfully rationalises his own lack of commitments and perspectives by preaching the need for pragmatism. But pragmatism also demands a proper programme linked to tactical and strategic objectives. It is not something fashioned on stray ad-

vice and hunches, nor does it become purposeful by exhortation through slogans. The millions who flock to listen to the Prime Minister are looking for a policy which makes good sense. They are lost in a political vacuum and hope for a lead. The patriotic upsurge of the last few weeks is a pointer.

FROM THE LONDON END

EFTA and European Integration

HOPES of bridge-building between EFTA and the European Economic Community raised by the British at the Vienna meeting of EFTA have been dimmed by the crisis in the European Common Market. This was made abundantly clear at the recent meeting of EFTA. Although the main aim of EFTA is to keep the door open, no step forward can be taken until the Common Market crisis has been resolved, and it is now becoming increasingly clear that the French are unwilling to make any move until after December 5, the date of the presidential election.

The latest EFTA meeting passed off smoothly enough. The members have come to accept the necessity of the British import surcharge. The statement by the British delegation that no guarantee could be given as to when it would be removed and that there was no intention of reducing the surcharge at present, was taken comparatively calmly by the other members. In any case, the surcharge will have to be removed by the end of 1966.

From Britain's point of view, an important fact was the announcement by Portugal that it would make a 20 per cent reduction in the import tariff on "completely knocked-down" British cars, a step that the UK has been pressing strongly for a long time. Britain has requested an all-round cut in duties on British cars imported into EFTA countries. The urgent need for this is shown by figures of foreign cars sold in one EFTA country, Denmark, where German and Swedish makes are overwhelmingly in the lead, with only one British car listed in the first ten.

The only new move at the meeting was the application by Yugoslavia for possible association with EFTA. A high Yugoslav Government official came specially from Belgrade to make the request. Yugoslavia has already made a request to the Common Market for some form of trading arrangement. She has also applied recently for full mem-

bership of GATT and is already associated with COMECON. Therefore, not too much significance can be attached to this approach.

EFTA itself has now practically reached the end of the road. Founded in 1959 by those countries that could not, or would not, accept the political obligations of the Treaty of Rome, their sole common interest has been the threat to their exports posed by the high external tariffs of the Common Market. This set in process a motion to establish a free trade area among its members. So effectively has this limited organisation worked that by the end of 1966 tariffs will disappear among member-countries and free trade will have been established.

While economic considerations make some form of integration between the two tariff blocs in Europe a necessity, there is little enthusiasm at the moment on the part of the Common Market countries. In EFTA itself, while the British were originally enthusiastic the other members are by no means unanimous in their support. Switzerland, for example, has no desire to be integrated with the Common Market, particularly in view of the political implications of the Rome Treaty. Sweden too, with her own policy of neutrality, is not anxious for any very close ties. On the other hand, Denmark is in favour of full integration between the two blocs. Austria has already made its own approach to the Common Market, having applied for associate membership; and should Britain draw closer to ECM, it is more than likely that Norway would follow suit.

But the basic problem of Common Market tariffs which act as a serious barrier to the development of trade remains. This is the reason why, despite unfavourable conditions, feelers were still put out at the EFTA conference to the Common Market. At the conclusion of the meeting, the Chairman of the EFTA Council of Ministers, handed over to the Ambassadors of the six Common Market countries,

an *aide memoire* whose object was to bring formally to the notice of the Six that EFTA was ready to start some form of discussion on specific problems and that EFTA Governments were convinced that the prospect of achieving their final goal—a wider European market—would be considerably improved if a dialogue were established between the two trading blocs "at all possible levels".

At the meeting of the Western European Union at The Hague on November 4 the British Foreign Secretary is to report to the Common Market countries on EFTA's desire for further contacts with the Six. This is a problem which cannot be shelved too long. Some action will have to be taken by other European countries, whether the Common Market overcomes its current difficulties or not. EFTA's only hope of expanding is to annex the Common Market, without France, in an extended European Free Trade Area. It is understood that the Common Market Five are meeting to work out tentative plans for going it alone without France, if General de Gaulle boycotts EFTA's latest invitation for him and the Six to examine the predicaments of the European communities.

In marked contrast to the British enthusiasm for bridge-building in Vienna, the British delegation at the latest Copenhagen meeting of EFTA was quietly back-peddalling to avoid any open affront to French feelings which might prejudice a number of joint Franco-British projects at this moment of crisis in the Common Market. General de Gaulle has seized on the agricultural issue for a fundamental reappraisal of the Common Market as it now stands. France also is quite unwilling to accept the system of qualified majority voting due to start on January 1, 1966 and it looks as if France will boycott the Common Market until this issue is resolved. De Gaulle is seeking a fundamental revision of the Rome Treaty which will fit in with his own philosophy of Europe which eschews any supranational authority. So, he believes, the EEC must be rescued from becoming a sort of economic European government. His main opponent in this context is Dr Hallstein who is said to have referred to himself as the first European Prime Minister. It remains to be seen whether the crisis will have a positive result in opening up new vistas to the outside world for the ECM. Is Europe ultimately to have a market of 100 million or 280 million people?



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BOOK REVIEW

The Road to Partition

M V Pylee

An Outline of Indian Constitutional History by V P Menon: Bharatiya Vidya Bhavan, 1965; pp 84, Rs 3.50

"AN Outline of Indian Constitutional History" is the book-form of the Birla Endowment Lectures for 1963 delivered by V P Menon under the auspices of Bharatiya Vidya Bhavan. It is a kaleidoscopic account of constitutional developments in India under the British culminating in the transfer of power in August 1947. The first part of the book deals with the British conquest of India, its consolidation and the events leading up to the Montagu-Chelmsford reforms; the second part with the constitutional developments up to the second World War; and the last part with the transfer of power in 1947.

V P Menon was not just an onlooker or a witness of some of the most momentous scenes of the constitutional drama. Nor was he merely an academic interested in the subject. He was indeed one of the actors or, more appropriately, one who had an important job to do in the green-room. Naturally, the account that he renders is not only authoritative but most fascinating. Students of India's Constitutional history are already familiar with Menon's *magnum opus*, "The Transfer of Power in India", and its companion volume, "The Story of the Integration of the Indian States." They are both voluminous. In comparison this is a brief essay. Yet it is a significant contribution to the literature on the subject.

The survey of constitutional developments up to the second World War, a very brief sketch, is full of observations, interesting and valuable. For example, Menon throws much light on the calibre of the early administrators of the East India Company who built up the British empire in India, men like Robert Clive, Warren Hastings and Cornwallis; Metcalfe, Munro and Elphinstone. He has interesting observations on Diarchy under the Act of 1919. Also he has traced the growth of the Muslim League and its demands for partition of the country. According to Menon, the Congress-dominated governments in most of the Provinces between 1937 and 1939 reminded the Muslim Community in a forcible way of its minority status under *swaraj*, which could not now be long delayed, and led to a great change of Muslim feeling in favour of

the League. "We may at this distance of time", he says, "feel that it was irrational, but it is an indubitable fact that this period of Provincial autonomy which in most provinces lasted barely two years, was an important turning-point in communal relations." (P.42) Among the other factors he lists the Nehru (Motilal) Report (1928) which adopted "the straight secular attitude": it virtually ignored the Muslims' fears and proceeded as if the communal question did not exist. Then in the thirties, the growing Congress movement in the Indian States, which were largely Hindu in population, began to suggest that the idea of the 'States as a third force, which would hold the balance between Hindus and Muslims in the federation, would eventually prove to have no validity.

With all its grave defects, the central provisions of the Constitution Act of 1935, the author feels, had the merit that they ensured the unity of India, and would sooner than later have ensured full democracy throughout India. It is regrettable that the all-India federation envisaged under the Act was not brought into being. The unification of India was the greatest achievement of the British regime. If the all-India federation had materialised, it would have been the coping-stone in this achievement, and it would have made partition impossible.

In the fateful years during the second World War and the years immediately following its termination, Menon's role as constitutional adviser to the Governor General gave him the rare opportunity to watch political developments from a position of exceptional vantage. Hence his observations on the happenings of that period merit even greater attention. He is firmly of the view that the Congress committed a "monumental error" in 1939 with the resignation of the Provincial Ministries. It is a supreme example of that unrealistic, negative politics in which we are all too prone to indulge, and the outcome of which is, sometimes, very disconcerting, and even disastrous. The control of eight Provincial Governments, covering half the country, had put the Congress in a position of great strength and bargaining power. The Congress should have

thought many times before voluntarily abandoning such an advantage." One of the more serious consequences of this monumental error was the later partition of the country.

From that time, a conviction grew among the British that the Hindus were their irreconcilable enemies, and this feeling was only intensified by all that happened later — the Individual Civil Disobedience in 1940-41, the rejection of the Cripps Offer in March 1942, the Quit India campaign in August 1942, and the formation of the Indian National Army by Netaji Subhas Chandra Bose.

On the other hand, the Muslims took advantage of the Congress being in the wilderness, supported the war effort, and made the British feel that they were reliable friends. Of course, if Germany had won the war, things would have turned out differently.

In a sense both the Congress and the League were gambling on the outcome of the war, and the League backed the winner. Not that the Congress leadership ever wished for or banked on British defeat and framed its policy accordingly, though no doubt Subhas Chandra Bose did so. The Congress leadership held an exaggerated notion of the efficacy of negative policies, and what it did would have been realistic and justifiable only on the assumption that Britain was going to be defeated.

In a brief but most remarkable manner the author discusses the birth and the growth of the two-nations theory, how Jinnah capitalised on the blunders of the Congress and how the British pampered the Muslim League. The doctrine of the two-nations and the demand for partition were, according to him, mere political slogans advanced for tactical purposes, but they proved to have such fascination that, in the end, they dominated their author, Jinnah, as well as the emotions of the Muslim masses. The Congress was incapable of grasping what was going on in the minds of the Muslims and of the British and this naturally helped the transformation of Jinnah's dream into reality. While the Congress was busy with the Quit-India movement, the League succeeded in gathering under its banner the Governments of Assam, Sind,

Bengal and the North-West Frontier Province. The only Muslim-majority province left was the Punjab. As a result, the League as a political party had suddenly attained great stature. If the Simla Conference of 1944 was a failure from the point of view of constitutional progress it was a tremendous success from that of boosting Jinnah's views and plans. The point of no return on the fatal road to partition was reached at that Conference.

There was perhaps still a chance, however remote and narrow it was, to save the country from partition—in the Cabinet Mission Plan. At first both the Congress and the League accepted it but soon after, Nehru, who had just become Congress President, gave what was, as events have proved, a most unfortunate press interview in which he impulsively stated that the Provinces would be free to refuse to enter the sub-federations or "groups" of provinces. The upshot of this statement was that a few days later the League Council met and withdrew its acceptance of the Plan and decided to launch 'direct action' for achieving the declared aim of partition. It boycotted the Constituent Assembly when the Assembly met for the first time in December 1946. If the League had in the meantime entered the Interim Government, it was not to work it but to wreck it from within. And indeed it succeeded in doing so. The political developments moved inexorably to the partition of the country.

Lord Wavell who was found unequal to the situation was replaced by Mountbatten who had instructions to try and obtain a Unitary Government for British India and the States through the Constituent Assembly. But he soon found that it was an impossible task and as an alternative proposed the immediate transfer of power to the existing Provincial Governments, leaving them to come together to form a Central Government, if and when they chose.

It was at this crucial juncture that V P Menon played his decisive role. He could clearly visualise the disastrous implications of the Mountbatten Plan. It was an invitation to sheer anarchy. He was able to convince Mountbatten that the Congress would be uncompromisingly opposed to it and produced an alternative plan which had the approval of Sardar Patel and which envisaged the partition of the Punjab, Bengal and Assam, creation of two central governments of India and Pakistan, the immediate conferring of the dominion status on

both of them and the complete transfer of power by the British. This was the plan that ultimately became acceptable to all the parties concerned and paved the way for the dawn of Independence.

As one concludes the reading of the last part of Menon's fascinating account one gets the unhappy feeling that freedom could have been won

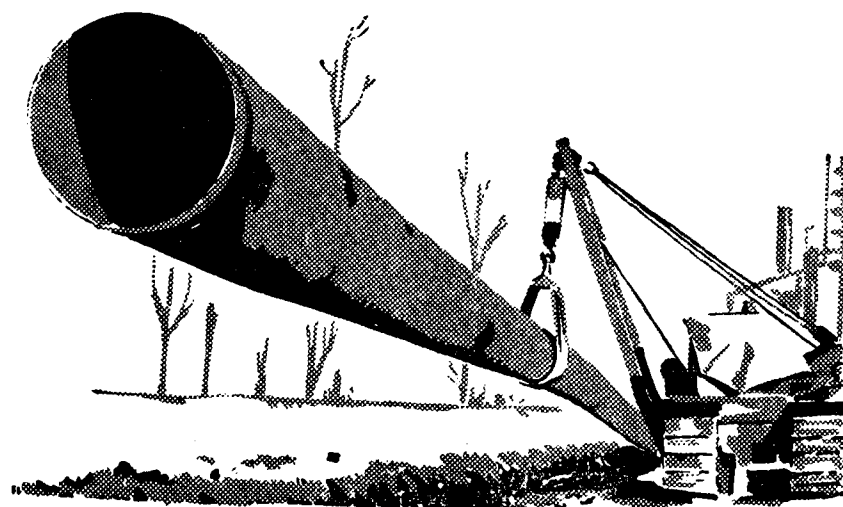
without Partition and the unity of the subcontinent could be preserved if there was greater imagination, tact and a spirit of accommodation on the part of those who led the freedom fight. But this may be mere wishful thinking or an exercise in hind-sight in the context of the most complex political situation that existed in the subcontinent.

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Export Promotion through Tax Incentives

I S Gulati

Of the three tax concessions currently available to exporters, one, i.e., the general rebate on income tax, is linked to profit, and two, i.e., the special rebate and the tax credit, are linked to export turnover.

It is too soon to say to what extent these concessions have contributed to the enlargement of India's export earnings. However, the analysis attempted here leads to certain conclusions:

(a) the outlay on the special rebate and the tax credit should yield higher dividends in the form of higher export earnings than the outlay on the general rebate on income tax;

(b) since the underlying objective is to increase net export earnings, both the special rebate and the tax credit should be so recast as to link the subsidy to the net value added in India; and,

(c) as regards export based on Indian raw materials, the subsidy given should as far as possible be made to increase with the degree of local processing that an export item undergoes after allowing for the differential burden of local taxation that various export items may be carrying.

PROMOTION of exports through suitable incentives is well known. Even advocates of free world trade who would otherwise condemn export promotion as amounting to overt or covert subsidisation are beginning to recognise that underdeveloped countries are justified in giving tax concessions to their exports, especially of manufactured products, to be able to compete in the world market with similar products from industrially advanced countries. The most compelling reason for the underdeveloped countries to expand their exports is that unless their export earnings grow at a rate fast enough to meet the expanding import demands of development their economic progress has got to slow down. And in the short run, at least, import substitution not only offers no solution but even aggravates their problem. It is in this context that the efforts currently being made to promote exports in India through various measures have to be viewed.

I
The average annual exports during the First and Second Plans remained stagnant at around Rs 610 crores in value. Part at least of the reason for this stagnation in export earnings was that the Government and planners took from the very outset a defeatist attitude with respect to the scope for the expansion of export earnings. It is only lately that it has dawned on our Government and planners that in the process not only has India been made more dependent on external assistance but also her rate of economic growth has been possibly retarded. Hence a new awareness now of the need to promote exports.¹

As the 1964-65 Report of the Ministry of Commerce puts it: "Against this virtual stagnation during that period (i.e., 1951-61), the exports in 1964 have ... touched a record figure of Rs 835 crores (revised to Rs 815 crores in subsequent reviews), and the total increase in exports in 1963 and 1964 has been of the order of Rs 150

crores over the total exports in 1962." While this recent expansion in exports has been satisfactory, it will not be possible to sustain this rate of increase in exports unless, in the words of the same Report, "dynamic, dependable and realistic measures" are taken "to tap further increases from the existing stage of the economy".

II

In these past few years a number of measures have been taken to encourage exports. The objectives of most, if not all, of these measures is to make exporting a more remunerative business than it was in the absence of these measures. A business becomes more remunerative when either one is able to cut down one's cost or one is in a position to increase one's revenue or also when one is able to increase one's profits after tax. Any measure that reduces the exporter's cost, as for instance should be the case when an exporter avails himself of the railway freight rebate of between 25 per cent and 50 per cent on export consignments, should make exporting more remunerative than before. In the same category would fall any measure taken to reduce the cost of export credit or to provide insurance against export risks.

Likewise, a measure which serves to increase the exporter's revenue from exporting is bound to make it more attractive than before. In this category fall concessions made in taxation. But here a distinction must be drawn between two types of concessions: (1) the exemption from domestic commodity taxation, be it levied at the point of production or, at the point of sale; and (2) subsidisation and/or reduction in the liability to income tax. The first type of concessions are now generally accepted as the right ones to make because they enable the exporters to compete on the world market without carrying a differential burden of domestic commodity taxation. In fact, measures taken

to exempt exports from or compensate them for, local commodity taxation have ceased to be considered as concessions.² In India, too, there exists a drawback scheme under which the exporters are entitled to refund of customs duty paid on imported materials and excise duty paid on excisable materials produced locally.

It is only with respect to the second type of measures — subsidisation and/or reduction in the liability to income tax — that there goes on considerable argument about their justification and choice and then the extent of concession involved in each of such measures. It is to this second type of measures taken recently in India for the active promotion of exports that it is proposed to devote the rest of this paper.

III

Concessions to exporters in the second category may take the form of a subsidy per unit or unit-value of exports (we shall call this, price subsidy) or of a reduction in the tax on profit from exports (we shall call this income subsidy). No doubt, the same amount given away in either form will increase the profit on total exports equally but the increase will not be the same for various items of exports unless it can be assumed that profit-turnover ratio is the same for all items of exports.

Interestingly, in India the Government is now offering tax concessions of both the price-subsidy type and income-subsidy type to exports, all through income tax. The Finance Act of 1962-63 introduced a rebate of one-tenth of income tax (including super tax which is now merged with income tax) attributable to income from export.³ Thus an Indian company engaged in export business paid income tax on profits from exports at the rate of 45 per cent, if the effective rate of tax payable otherwise on its profits was 50 per cent. This tax concession is clearly of the income-subsidy type, linked not to the quantum of



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export but to the income or profit made on exports.

Under the Finance Act of 1963-64, an additional special rebate of income tax was offered to essential industries, i.e., industries listed in the First Schedule to the Industries (Development and Regulation) Act of 1951, subject to certain exclusions, on their exports. This additional rebate of tax is allowed to a manufacturer who exports himself, or where the first purchaser from him exports, and is calculated on 2 per cent of the value of such exports subject to the limit of the income tax payable by the manufacturer on his total profits.

Let me illustrate how this additional rebate accrues to a manufacturer-exporter belonging to the category of industries eligible for this rebate. Assuming total sales (local as well as export) of Rs 1 crore, let export sales be put at Rs 10 lakhs, and total profit (i.e. on total sales) also at Rs 10 lakhs. Thus profit 'attributable' to export sales works out to Rs 1 lakh. Now, the effective rate of company income tax being 50 per cent for 'non-basic' industries, the tax on export profits will be payable at the rate of 45 per cent under the 1962-63 scheme of general rebate on all export profits. This means a general rebate of Rs 5,000 in this case. As for the special rebate, this is calculated on 2 per cent of export sale, i.e., on Rs 20,000, at the average rate of income tax payable on such income. Since the average rate of tax on export income is 45 per cent the total relief in this case through special rebate should be 45 per cent of Rs 20,000, i.e., Rs 9,000.

The important thing to note is that this additional special rebate, though given in reduction of an exporter's liability to income tax and subject to the constraint that the total income tax liability of the exporter as determined on the basis of his total income, i.e., including profits from non-export operations is calculated not on the basis of the tax-payer's profit but with reference to his turnover. Therefore, this special rebate is in the nature of price subsidy to export.

In the Budget for the current year, the Finance Minister offered a still further tax concession to exports. But this again is not available to all exports. According to this latest measure, exports of specified items are entitled to tax credit at rates ranging from 2 to 15 per cent of the value of exports. The tax credit certificate is to be issued by the Reserve Bank

and the amount of tax credit is adjustable against the existing income tax liability or against liability to income tax arising in the next 12 months. But in case there is no such liability or the amount of the tax credit certificate exceeds such liability, the exporter is entitled to refund payment in cash.

Tax credit resembles the special rebate in that both are linked to export turnover and not to profit. They can, therefore, be clarified as price subsidies to exports. I must hasten to qualify this statement because the Finance Minister justified the introduction of the tax credit scheme as a measure to compensate exporters for "the variety of taxes ... for which relief from taxation on exports is not available at present". In other words, the credit represents a drawback of tax already paid on exports. To the extent this is correct, the tax credit cannot be regarded as a subsidy. But the incentive aspect of tax credit is not reduced thereby. To the extent tax credit does not amount to a subsidy, it can be taken to remove the disincentive that

existed until now. Considered as providing relief against local taxes, it is important to note that the amount of tax credit does not attract income tax. Now the fact that local taxes are deductible for calculating taxable profits means that at 50 per cent income tax half the burden of these local taxes is shared by the Central Government. By the same token, non-taxable tax credit at the rate of 15 per cent turnover is tantamount to an offset against local tax burden of 30 per cent.

But while the special rebate (together with the general rebate of income tax on exports) cannot exceed the total income tax on all profit, in that very year of assessment, the tax credit will accrue to the exporter regardless of whether or not he is liable to income tax to at least that extent whether in the same year of assessment or the year following that or even both the years. This is quite an important difference.

Special rebate can be claimed only when one is making at least as much profit on one's total business operations, whereas tax credit is obtained

Table: Schematic Illustration of Tax Concessions given to Basic Industry Exports

Assumptions: (1) Profit to Turnover Ratio is 20 per cent, 10 per cent and zero per cent respectively to turnover of Rs 500, Rs 1,000 and Rs 1,000
(2) The basic industry is entitled to not only 'the basic industry rebate' on all income but also to the special rebate (as an essential industry) linked to its export turnover. But an 'essential industry' is entitled to only the latter rebate
(3) The firm is an Indian company

	(In rupees)		
	Profit 20%	Turnover 10%	Ratio Zero%
(1) Turnover (export)	500	1000	1000
(2) Profit	100	100	0
(3) Basic tax (without any rebate) @ 50% of	50	50	0
(4) Rebate as basic industry @ 5% of income	5	5	0
(5) General rebate on export profit @ 10% of the rate of tax applicable i.e. @ 10% of 45%	4.5	4.5	0
(6) Special rebate on 2% of export turnover at the average rate of tax, i.e. (50%-5%-4.5%) = 41.5%	4.15	8.3	0
(7) Tax Credit as a percentage of turnover :			
(i) Zero%	0	0	0
(ii) 2%	10	20	20
(iii) 5%	25	50	50
(iv) 10%	50	100	100
(v) 15%	75	150	150
(8) Net tax payable (3-(4+5+6+7))			
(i) at Zero tax credit	36.35	28.05	0
(ii) at 2% tax credit	26.35	8.05	-20
(iii) at 5% tax credit	11.35	-21.95	-50
(iv) at 10% tax credit	-13.65	-71.95	-100
(v) at 15% tax credit	-38.65	-121.95	-150
(9) Total Export Subsidy (5+6+7) :			
(i) at Zero tax credit	8.65	12.8	0
(ii) at 2% tax credit	18.65	32.8	20
(iii) at 5% tax credit	33.65	62.8	50
(iv) at 10% tax credit	58.65	112.8	100
(v) at 15% tax credit	83.65	162.8	150

Special Rebate is taken to be Zero on the assumption that the firm (in this illustration) manufactures only for export. If, however, the firm were to be manufacturing for both domestic sale and export and were making profit on the former, such that it is at least equal to the rebate of income tax on 2% of its export turnover, the figures would be 8.3 for basic industry and 9 for essential industry

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on the strength of one's export business irrespective of the level of one's profit. To new comers, it can make quite a difference whether they are entitled to special rebate or tax credit. They can be sure of obtaining the latter but not the former. Of course, as far as the general rebate is concerned, it is directly linked to profit and is, therefore, available to exporters only if they are making profit (but, not necessarily on export business because no distinction is sought to be made between profit actually made on exports and non-export profit).

Let us demonstrate schematically how these three tax concessions which have evolved since 1962-63 operate in the case of a corporate firm engaged in manufacture and export. The firm in question is supposed to be engaged in what is classified as 'basic industry' (as, for instance, manganese ore mining) and is therefore, entitled to the 'basic industry rebate' of income tax of 5 per cent of income. At the same time, its exports are assumed to attract both the general and the special rebates. A firm engaged in non-basic but essential industry pays income tax at the rate of 50 per cent but is entitled to not only the general rebate on export profits but also the special rebate on 2 per cent of its export turnover. As for tax credit, calculations are made for each of the five possible cases, (i) no tax credit; (ii) 2 per cent tax credit; (iii) 5 per cent tax credit; (iv) 10 per cent tax credit; and (v) 15 per cent tax credit. The results are shown in the table on the previous page.

It can be observed from the table that for concerns entitled to tax credit the reduction in tax liability through tax credit can be quite substantial and exceeds other export rebates (general plus special) put together, even when tax credit is given at the rate of 2 per cent of export turnover. This is true for both a firm engaged in basic industry and one engaged in essential industry. At rates exceeding 2 per cent tax credit would be the most important of the tax concessions available to exporters. Of course, as things stand to-day, while all exporters are entitled to the general rebate of income tax, most items entitled to tax credit are not eligible for special rebate. In most cases, it is either tax credit or special rebate to which an export item is entitled. But items not eligible for tax credit might be entitled to bonus import entitlement because it appears from the list of items declared eligible for tax

credit that items entitled to bonus import licences are excluded.

In the table we have considered cases of 3 types of firms, those with a 20 per cent ratio of profit to turnover, those with a 10 per cent ratio and those with zero per cent profit. The 10 per cent ratio appears to be typical of the organised industries in India on the basis of the Reserve Bank's study of public limited companies,⁴ and it is through this sector that most exports in India can be said to pass, be it tea, jute or engineering goods.

It is interesting to observe that the total export subsidy for the 10 per cent ratio of profit to turnover works out to nearly twice the total subsidy for 20 per cent ratio when tax credit is given at 15 per cent and as one moves upward the gap narrows down until we reach the no-tax-credit position where the subsidy for 10 per cent ratio is higher than that for 20 per cent ratio by 48 per cent. (Even this is accounted for entirely by the special rebate on export turnover). On the other hand, the gap in subsidy between 10 per cent ratio and zero ratio narrows down in relative terms as one goes down from zero tax credit to 15 per cent tax credit. The explanation is simple. Since tax credit is based on turnover, the higher the rate of tax credit the greater is the significance of subsidy through tax credit in the total subsidy.

IV

Of the three tax concessions available to exporters, one, i.e., the general rebate of income tax, is linked to profit and two, i.e., the special rebate and tax credit, are linked to export turnover. Elsewhere, I have argued and attempted to demonstrate that when the objective is to promote exports the same amount of Government revenue given away by way of a price subsidy should yield greater exports than if it were given away in the form of income subsidy.⁵ If the firm is maximising profit, an income subsidy should leave its marginal revenue and cost schedules undisturbed and, therefore, the firm's output (in this case, export) and price will not be affected by income subsidy. The price subsidy will, however, affect the cost schedule and, therefore, output and/or price, assuming no inelasticities. If we drop the profit maximisation assumption, but concede differences in profit-turnover ratios, the subsidy related to turnover favours those with lower profit-turnover (or higher turnover-profit)

ratios and the subsidy related to profit does the opposite with the result that the same amount of revenue given away in the proper subsidy should secure a higher turnover than if it is given away in the latter type of subsidy. Since the objective of export promotion is to secure higher net export earnings (i.e., after meeting the cost of imported inputs of exports), the right thing to do would be to relate the subsidy to the value of export *net of import cost* involved (i.e. to the net value added in the country.) Thus exports of higher import-content will attract a lower subsidy than export of lower import-content.⁶ Of the two price subsidies now being given in India, one i.e., the special rebate on 2 per cent of export turnover is available at the uniform rate of income tax on the gross value of turnover of the items eligible for it. Under the tax credit scheme however, different rates of tax credit are laid down for different items of export. Could it be that the rate-schedule has been so devised as to favour items with lower import-content as against those with higher import-content? The rate-schedule for tax credits has reportedly been drawn up by the Advisory Board on Tax Credits for Exports in the light of the principles enunciated by the Finance Minister in his Budget speech. The Finance Minister, as we have observed above, defended the introduction of tax credits not as a measure to subsidise exports but mainly as a step towards reimbursing the exporters for a variety of local taxes with respect to which relief is not given to exports because of the difficulties involved in making refunds. Now almost all the items chosen for tax credit are either raw materials or simple manufactures based on Indian raw materials and it is difficult to say that manganese ore should get 15 per cent tax credit and iron ore 10 per cent because the former has lower import-content than the latter. But it could possibly be true that loose tea carries a lower tax credit (2 per cent) than tea in consumer packs of 1 kg and less (5 per cent) because the latter might be carrying a bigger burden of local duties. The differentiation in local tax burdens may have been found to arise because while export of loose tea might be escaping sales tax altogether (since actual exports are exempt from sales tax), that of packets of tea might be paying sales tax. In fact, one can almost generalise and say that the higher the degree of processing an export item undergoes lo-

cally, the greater is the chance of its carrying higher local tax burden.⁷ On the whole, it appears that the criterion of import-content has not been taken into account in the fixation of the rate schedule for tax credits.

Of course, there are valid grounds also for relating the rate of tax credit to the degree of processing of local raw material, the rate increasing with the degree of processing both as a counter-measure to the time-worn western practice of imposing higher import tariff on more highly processed imports from primary producing countries and also on balance of payments and infant industry considerations. But none of these considerations, however worthy, were advanced for the introduction of the tax credit scheme probably because it was felt that a measure like this on any of these grounds would be difficult to "sell" to GATT.

V

On the basis of the 1964-65 level of India's exports, the annual cost to the exchequer on account of the three tax concessions to exports would work out as under:

	(Rs Crores)	(Per Cent)
(1) General rebate	4.5 — 5.5	17
(2) Special rebate	2.5 — 3.5	11
(3) Tax credit	22.0 — 23.0	72
Total	29.0 — 32.0	100

It is too soon to say whether or not these concessions have, and if so to what extent, contributed to the enlargement of India's export earnings. But it does follow from our analysis above: (i) that the outlay on special rebate and tax credit should yield higher dividends in the form of higher export earnings than the outlay on general rebate on income tax; (ii) that since the underlying objective is to increase net export earnings of the country, both the special rebate and tax credit should be so re-cast as to link the subsidy to the net value-added in India; and (iii) as regards exports based on Indian raw materials, the subsidy given should, as far as possible, be made to increase with the degree of local processing that an export item undergoes, after allowing for the differential burden of local taxation that various export items might be carrying.

The additional demands imposed lately on the country by defence makes export promotion even more urgent than before and it becomes important that not only should we spare no effort in expanding our exports to the

maximum possible but at the same time we should endeavour to secure maximum results from every rupee of outlay on export promotion. If this is accepted, our export tax incentives must be recast.

Notes

¹ See Manmohan Singh, "India's Export Trends" (1964), pp 337-400.

² As early as in the early twenties J Viner said that the drawback system and allied devices conferred no special advantages on the exports in their competition in outside markets but merely mitigated the handicap the export trade was subject. See his "Dumping: A Problem in International Trade" (1923), pp 13-4.

³ It is important to note, that this is not the same thing as income actually arising from exports. The

term 'attributable' is interpreted as implying the proportional division of total profits among export and non-export business on the basis of respective turnover.

⁴ See Reserve Bank of India Bulletin for July, 1964.

⁵ See my 'Income vs. Price Subsidy to exports' in *Economia Internazionale*, November 1963, Pages 1 to 11.

⁶ See my "Export Promotion through Import Entitlement", in the *Economic Weekly* of May 22nd July 15, 1965.

⁷ One cannot, however, overemphasise the need for detailed studies with respect to local-tax-burdens which exports from India have to carry so that our exports can be fully relieved of the burden.

The Marketable Surplus Function for a Subsistence Crop

Reply to Comments

Raj Krishna

In this paper I discuss some of the issues raised in the comments made by C H H Rao, I N Krishnaji, Manoranjan Majumdar and B Prasad ("The Economic Weekly", April 17 and May 15, 1965) on my paper ("The Economic Weekly", 16th Annual Number, February 1965.)

IT is obvious from the title and contents of my paper that all my "inferences" relate only to a single subsistence crop. The words "a subsistence crop" occur even in the passage quoted by Rao. But he seems to assume that I am generalising my findings into propositions about the marketable surplus of all crops, or all food crops. Since my paper contains no propositions at all about the marketable surplus of all crops, or all food crops, I find many of Rao's comments interesting but not very relevant to my paper.

Market supply relations pertaining to individual crops, all crops, and groups of crops, need to be sharply distinguished, and analyzed and estimated separately, for there is no *a priori* reason to expect that they should be similar. They are often mixed up in the literature and, I am afraid, in the comments on my paper which was explicitly confined to single-crop relations.

As for my conclusion regarding farm size policy, Rao omits the following important sentences in the passage he has quoted:

"There may be important reasons for altering the farm size structure. But in areas of constant sale propensity the necessity of increasing the marketable surplus need not be one of them." (The marketable surplus referred to here is that of a single crop.)

We do want changes in the farm size structure. And it is likely that the output elasticity of the marketable surplus of *all crops* will depend critically on the structure. The point made in the passage is only that *one* of the reasons for changing the structure, viz, an increase in the surplus of *a single food crop* may be weak *if and where* the marketable surplus relation for *this crop* is linear.

Rao says that I have "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." But my elasticities relate to the marketable surplus as I

have explicitly defined it in the beginning of my paper. Pertaining to marketable surplus so defined they are what they are. The statement that they are "overestimated" with reference to this definition is meaningless. What Rao has in mind is that the elasticities of marketable surplus, differently defined, will be different—with which I agree.

Rao says that I "could not hold the family size factor constant." On this point I have to invite his attention to footnote 5 of my paper. In this, I have reported that "experiments revealed that if it (family size) is specified as a variable in addition to output, it turns out to be non-significant in most cases". Rao surely knows that specifying a variable in addition to others in a multiple regression is one way of "holding it constant" for estimating the coefficients of others. Deflation of the market sales as well as output by family size could be another way. The choice between these two specifications depends *inter alia* on the form in which estimated coefficients are more useful. I preferred the former specification because the change in the coefficient of output when family size is specified as an additional variable would be very informative. Now, we have reason to believe that the output (of a single food crop) and family size will be positively correlated. But in any given year family size determines output rather than being determined by output. And since the coefficient of output does not change significantly when family size is also specified as a variable, there is a strong case for inferring that output alone is a sufficient explanatory variable.

Rao insists that any hypothesis about "the 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." This insistence, as indeed his whole comment, boils down to the view that only relations about the marketable surplus of output as a whole are worth study; the study of single-crop relations is useless. This view is under-

standable because in the literature on marketable surplus most writers have been consciously or unconsciously pre-occupied with the marketable surplus of all crops. Rao merely conforms to this orthodoxy. But I suggest that the analytical basis of this exclusive pre-occupation with the surplus of all crops needs to be critically examined.

The relation between the value of sold output and the value of total output (of all crops) is considered important for many reasons. (When many crops are involved we can only talk of aggregate money values—aggregated at market prices.) The ratio between the two can serve, first of all, as an index of the monetisation of the agricultural economy.

Secondly, the total marketable surplus can be linked to the potential for capital formation in a developing economy. But the relation between the two has to be clearly understood. The total marketable surplus is *not* equal to the saving or investment of the agricultural economy. (I am neglecting, in the Indian context, the direct taxation or confiscation in kind of all or most of the marketable surplus for investment.) Only a part of the cash received by the farmers is likely to be saved; the rest is likely to be spent on manufactured goods or paid out in the form of rent, interest and taxes. We do not know much about the proportion of the value of sold output that is finally saved by farmers, landlords, moneylenders and the government. In addition, of course, some saving is directly generated by retained output in the form of farm improvements by extra labour.

When the sold output moves into the urban sector, its gross value, again, is not equal to potential saving. The saving is merely equal to that proportion of the profit from the sale of this output—earned by traders and/or the State—which is, in fact, invested.

Therefore, the total saving in the rural sector and the urban sector, taken together, bears a very tenuous relation to the gross value of sold output. We can only say, generally, that the corre-

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lation between the two is likely to be positive *ceteris paribus*.

A third reason why we may be interested in the value of the total marketable surplus is that it represents the total flow of foodgrains and raw materials from the rural sector to support the growing urban, industrial sector. Insofar as this is the reason for our interest in the total marketable surplus, what we need is not merely a balancing of urban demand and the marketed supply of all agricultural commodities but of each commodity separately. The adequacy of the total agricultural outflow is not enough for smooth growth; the imbalance in the urban market for each commodity must be minimized.

Therefore the behaviour of the market supply of each of the foodgrains is a matter of as much importance from the point of view of growth as the behaviour of the market supply of all agricultural commodities. And it is the farmer's behaviour in respect of the sales of foodgrains which presents difficult problems because in the case of foodgrains the proportion of retained output to the total output usually exceeds 50 per cent, whereas in the case of non-food crops, it is negligible.

Hence the need for studying separately the marketable surplus relations pertaining to individual food crops. Their study cannot be subsumed under, or rendered superfluous by, the study of relations about the total marketable surplus, though the latter is, of course, important. To say that only the study of marketable surplus relations for all crops is important is like saying that after estimating a Keynesian consumption function we need not estimate elasticities of demand for individual commodities.

M Majumdar has spelled out the implications of the linear cross-section marketable surplus function about the consumption behaviour of the farmer. If the output elasticity of marketable surplus falls as output increases, the output elasticity of consumption increases. Majumdar finds this unacceptable because all consumption studies show that the income elasticity of consumption falls as income increases.

His difficulty arises from his assumption that a rising output elasticity of the consumption of a single food crop necessarily implies a rising income elasticity of consumption. He makes his assumption on the ground that "farm income is an increasing function of farm output." But he misses the fact that the total farm output of all commodities does not enter my equations. Only the

output of a single food crop is specified as a variable. Income is, of course, positively related to total farm output but its relation to the output of a single food crop (say, wheat) is not systematic enough to be easily specified. Wheat output can increase without total income increasing; and total income can increase without wheat output increasing. Since wheat income is only a fraction of total income, it is quite possible that the elasticity of wheat consumption with respect to wheat income may increase and at the same time the elasticity of wheat consumption with respect to total income may be falling.

It is easy to see that if non-wheat revenue is independent of wheat output, the income elasticity¹ of wheat consumption equals the output elasticity of wheat consumption divided by the ratio of wheat revenue to gross total revenue.² If the output elasticity increases (say, from .2 to .25) as wheat output increases, the income elasticity can nevertheless decrease (from .6 to .5) if the ratio of wheat revenue to total revenue rises (from .33 to .5).

Thus the apparent contradiction between a linear marketable surplus function for a single crop and the generalisation that income elasticity of consumption falls as income increases is not real in many cases. However, the two elasticities will increase together (1) where agriculture is monoculture (subsistence farming) so that wheat revenue is nearly the gross total revenue; or (2) where farmers are so resourceful that as wheat output increases by a certain proportion, their non-wheat revenue increases by a larger proportion so that the ratio of wheat revenue to total income falls substantially.

Perhaps that is why at the lower and upper extremities the "general marketable surplus function" has curvature. Where the farm size structure is characterised by the dominance of extreme sizes, the function was found to be quadratic.

I do not understand why anyone should insist that it must be linear or quadratic everywhere in a complex dual agriculture. A continuously increasing marginal propensity to sell (after a point) will be a very convenient result. But in the real world we do seem to have situations in which it is constant over some ranges of output. If many different forms fit different parts of the real world the researcher must live with the diversity.

The new form of the marketable surplus function proposed by Shri Majumdar is very interesting. But it needs to

be tested with data. *A priori* it seems likely that this function will be a better specification for the relation between marketable surplus and total income rather than the relation between marketable surplus and the output of a single crop.

As for Majumdar's last point, I do not see why in a cross-section analysis (of data for a single year) we need to specify production functions (of each of the farmers?). We do not specify how the income of every person is determined in estimating the income elasticity of consumption of individual commodities from cross-section data. In time series analysis, however, it will be necessary to write the output function (of the single crop) and other relations to derive a marketed supply function. In any case it is very important to estimate the relation between the marketable surplus and different (given) levels of output.

I agree with Krishnaji that in the case of purposive samples the result of the usual test of linearity is open to doubt. But in column 5 and footnote (b) of Table I, I have explicitly stated the nature of every one of the 23 samples. I noted that 12 samples were census samples—comprising every family growing the subsistence crop in a village; 2 were random samples; and 9 were purposive samples. In the case of the purposive samples, the sources of data inform us that big, medium and small farmers were included in the samples, though strictly stratified sampling was not undertaken. In the case of the 14 census and random samples the tests will apply. In the case of purposive samples, they would not; but since some attempt was made by data collectors to include farms of all size groups (without knowing that someone would use the data for estimating marketable surplus relations) it can be argued that though the results may be biased, the bias would not run in any particular direction because of intentional sampling to produce it.

B Prasad finds errors in my "selection" of samples. I have to remind him that I have not "selected" them at all. My paper is an initial exercise to get some clues about the nature of marketable surplus relations with whatever cross-section data I could lay my hands on. (All the sources are indicated in the Appendix.) My bias or prejudice is irrelevant to my results which were surprising even to me.

Representativeness of the samples for India as a whole has nowhere been claimed by me. My numerical findings

will hold strictly only for areas to which they relate. Even in the passage cited by Prasad I have cautiously said "in the areas covered by these samples..." And, as I reported, linearity was found in the relations for some and non-linearity in the relations for other areas. I set out the empirical and policy implications of both. I have no investment in linearity! I would agree that for firm all-India generalisations more work should be done with data for more regions or representative sample data for the country as a whole.

Prasad demands that "there should be no underlying differences between areas from which data are selected." But the linearity (or, for that matter, the non-linearity) of the M-Q relation will be an interesting general hypothesis only if it is found to exist in many otherwise divergent areas.

He also asks that "conditions must be the same for all items in the sample." I suppose that since every sample includes farmers from the same area, this condition is satisfied in the broad sense in which it is meaningful. But taken literally this condition would imply that only one item would suffice!

Prasad accuses me of ignoring the

price variable. But he surely knows that in a cross-section study the price variable cannot be dealt with. And time series data about marketable surplus are indeed not available. But I have discussed an indirect method of estimating the price elasticity of marketable surplus in an earlier article. (*Indian Journal of Agricultural Economics*, July-September 1962). This elasticity is negative in some but not in all circumstances.

Prasad objects to the inclusion of farms of different sizes in the samples. I do not know what purpose would be served by including only farms of a given size class or only pure subsistence farmers who sell nothing. From a study of this subclass alone we could get no knowledge about the sale behaviour of those millions of "dual" farmers operating farms of various sizes, who consume as well as sell a part of their food output and whose behaviour determines the aggregate marketable surplus. Prasad would certainly agree that we do need this knowledge.

Notes

- ¹ We may neglect for our immediate purpose the distinction between income and gross revenue.

- ² Let wheat consumption C be a function of Y , the gross revenue from all commodities produced by the farmers. The gross revenue from wheat is PQ , at the given price P of wheat. If the non-wheat revenue is called R , then

$$Y = PQ + R$$

Differentiating $C = f(Y)$ we have

$$dC = f'(Y)(PdQ + dR)$$

$$\frac{dC}{dQ} = f'(Y) \left(P + \frac{dR}{dQ} \right)$$

$$f'(Y) = \frac{dC}{dQ} / \left(P + \frac{dR}{dQ} \right)$$

$$e_{CY} = e_{CQ} \cdot Y / Q \left(P + \frac{dR}{dQ} \right)$$

On the simplifying assumption that non-wheat revenue is independent of wheat output ($\frac{dR}{dQ} = 0$)

$$e_{CY} = e_{CQ} / \frac{PQ}{Y}$$

If $\frac{dR}{dQ} \neq 0$, the income elasticity may increase or decrease following an increase in e_{CQ} depending on the magnitude of changes in Q and R .

Oscar Lange's Contribution to Economics

A Brief Survey

Krishna R Bharadwaj

OSCAR Lange enjoys the unique distinction of having been an active and practising socialist who won recognition for theoretical rigour and scientific objectivity even outside the socialist world. As an economist he realised that economic theory was essentially a technique of reasoning with its own objective scientific structure. He was neither apologetic for making use of the analytical techniques developed mostly by the neo-classicists, for he did not deem it heresy to borrow useful scientific techniques, nor did he indulge in aggressive defence of outworn tools under the misconception that clinging to obsolete tools was part of establishing one's socialist convictions. As a socialist, he realised the importance of organisational and institutional factors in determining the course of the evolution of an economy.¹

The administration of scarce resources is influenced by the institutional and organisational structure of society. In the first place, the wants which the resources are directed to satisfy are determined by the standards of civilisation evolved historically. Secondly, the way in which scarce resources are procured, utilised and distributed among different persons is also influenced by prevalent organisations and institutions. Thus, economic laws can be understood and interpreted in the context of a given institutional set up. However, Lange emphasised again and again that this did not rule out the universal applicability of a logical system of analysis. For any given set of social objectives and with specified assumptions regarding empirical conditions, conclusions could be drawn by using the rules of logic and verification which have inter-personal validity.

Without totally rejecting "bourgeois" economics on ideological grounds, Lange assessed dispassionately the relative merits of the Marxian mode of analysis and the "bourgeois" economics systematised by Marshall.² The latter had failed to build up a consistent theory of economic evolution and tended either to deny the existence of historical tendencies (like that towards the creation of oligopolies) or gave only a historical description. Its excellence, however, lay in being able to develop a formal theory of economic equilibrium for an exchange economy

which could describe the day to day operation of a capitalist economy more or less satisfactorily. Marxian Economics, however, had a broader temporal vision in that it developed a theory which purported to investigate the causal mechanism that seemed to guide the evolution of a capitalist economy. Lange clearly recognised that this was due not to any inherent superiority of the concept of labour theory of value but to the exact specification of the institutional datum which demonstrated the "necessity" and the "inevitability" of economic change, and that the theory of exchange and the pricing process based on formal principles of economic equilibrium had a general applicability even though the concrete results of the economic equilibrium process would be modified by the mode of ownership of resources, etc. As a guiding principle of allocation "the law of value" was as much relevant to a socialist economy as to a capitalistic one even though the mode of its operation was bound to be different in the two systems.³ Lange was objective enough to point out that the labour theory of value was not adequate to the task and that, therefore, the methods and techniques of marginal analysis could be profitably used.

From the point of view of methodology, then, Lange's masterly contribution lay in judiciously discriminating the objective elements from the normative, the essentials from the inessentials, the objective rules of logic from the specification of empirical historical conditions. As a scientist, his merit was that he was not carried away by the universality and generality of analytical techniques to reach fallacious conclusions about the universality of the concrete results obtained from applying those techniques to given historical situations; nor was he overwhelmed by the importance of institutional factors to conclude that "bourgeois" economics was completely irrelevant to the management of a socialist economy.

His uncanny knack of sifting and synthesising and his ability to see the inherent similarities of logical structures and to explain differences in results is evident in many of his theoretical contributions which appeared in the forties. His thorough schooling in the Walrasian system proved to be a valuable asset to him. Thus in his well-

known article "Say's Law — A Restatement and Criticism"⁴ he investigated the relationship of Say's Law to the general theory of prices and to the theory of money and showed how the proposition that there could be no excess of total supply of commodities (since the total supply of commodities is identically equal to demand for all commodities) held only under the special assumption regarding the nature of demand for money that money functions only as a medium of exchange and that there is no desire to change the total cash balances in the economy except to adapt them to changes in money supply. With this special assumption, the proposition, he demonstrated, was only a simple corollary of the Walrasian formulation of the theory of prices. Lange exposed the contradiction in the classical treatment of the theory of money: Either Say's Law could be accepted, leaving money prices indeterminate or prices could be made determinate at the cost of discarding the assumption of neutrality of money and hence Say's Law. The analysis of money, he thus showed, had to be built into the general theory of relative prices and not treated independently and later plastered upon it.

In his "The Rate of Interest and the Optimum Propensity to Consume"⁵ he demonstrated more positively how the Walrasian theory could accommodate money and that, so far as monetary statics is concerned, most of the propositions about money and monetary processes are either contained in the Walrasian system or could be derived by making additional assumptions. In this sense, both the traditional and Keynesian analysis were a special case of the more general Walrasian system.

The same integrating vision, bringing together a number of propositions within the framework of a more general analysis, is also evident in his "The Place of Interest in the Theory of Production"⁶ where he restated many of the fundamental propositions in the theory of rate of interest in the context of the general theory of production and pricing. Also his "Complementarity and Interrelations of Shifts in Demand"⁷ made clear the notion of complementarity in demand and showed how the Keynesian and the classical analysis concerning the effects of changes in the desire to hold



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cash could be brought together. The classical theory had thought exclusively of substitution between cash and commodities and the Keynesian analysis mainly of that between cash and securities. However, since the desire to hold cash could lead to a substitution of cash for both commodities and securities, the increase in liquidity preference could affect commodity prices and/or employment, not only indirectly *via* the rate of interest but also directly through a downward shift in the demand for commodities.

Among his more well known theoretical contributions is his book "Price Flexibility and Employment" which appeared as a monograph of the Cowles Commission. There he put to remarkable use the apparatus of the general equilibrium theory. The genesis of this work was the long-drawn controversy regarding wage flexibility and unemployment between the Keynesians and the neo-classicists. Lange examined the problem of price flexibility and employment in the wider context of the processes which upset equilibrium and which prevented its automatic restoration *via* flexible prices, such as the tendencies towards oligopolisation, the growth of technological unemployment, worsening of investment conditions, etc. Even though some of his conclusions were in line with Keynesian thinking on wages, employment and monetary policies, his policy recommendations were strongly anti-monopolistic and more staunchly socialistic in orientation. With the tendencies towards oligopolisation of the economic structure he feared that the anti-crisis policies of Keynes working through the multiplier effect of investment would not be sufficiently strong.

Lange will also be remembered for his contribution to welfare economics. In his much referred to article "Foundations of Welfare Economics"⁸ he lucidly presented two sets of propositions in welfare economics: the one, based on maximization of a vector of utilities, permitting increase in one individual's utility only when it does not diminish another individual's utility without concerning itself with the problem of the optimum income distribution; and the second, based on maximization of a social value function where maximising conditions are specified directly in terms of commodities and incomes allowed to different individuals or in terms of marginal utilities. These propositions did not require that utility be measurable.

Lange was, of course, no mere theo-

rist. He could rise to great heights in theoretical abstraction but he was also intensely aware of one of the essentials of economic theory, namely, its operational validity. His widely acknowledged piece of creative contribution, the essay "On the Economic Theory of Socialism", carried forward the analysis of Taylor in demonstrating the applicability of the trial and error procedure implicit in the competitive market pricing mechanism to decentralized decision-making in a socialist system. The parametric function of prices was fully exploited here in order to evolve a procedure by which efficient decision-making under centralized socialist management could be undertaken in a manageable fashion. The rules of optimization to be followed were similar to those under competitive markets — in fact, the trial and error procedure was to mimic the competitive mechanism in its method of successive approximations. This well-known paper of Lange, together with A P Lerner's excellent work "Economics of Control" opened up a new field in welfare economics and the theory of planning. No doubt, Lange's exposition left many loose ends like the possibility of convergence of successive approximations, the exact magnitude of adjustments required at every step, etc. These problems have since been taken up for more rigorous and exact formulation.

Lange saw in econometrics, linear programming and cybernetics the possibility of evolving efficient planning techniques. Himself a statistician, he had papers in both theoretical statistics and in econometrics to his name. He devised a simpler and a direct method of deriving elasticities of demand and supply.⁹ His paper on "Some Observations on Input-Output Analysis"¹⁰, which he wrote during his stay at the Indian Statistical Institute, Calcutta, in 1955-56 contains an excellent exposition of input-output analysis as a tool for planning. He wrote also a book, "Introduction to Econometrics" to bring out the relevance of econometric techniques to planning. His interest in planning was not just methodological. He himself assisted plan formulation in India (during the Second Plan period), Ceylon, UAR and Iraq where he was specially invited for the purpose. In his home country, Poland, he was continuously associated with planning. What brought freshness to his approach was his constant awareness that the methods of planning and economic management themselves were influenced by the growth of productive forces and new procedures would have to be evolved

to suit the nature and pace of the changes in productive forces.

In 1957, Lange began work on a monumental project—a systematic account of political economy, which he planned in three volumes. The plan was born out of the conviction that "individual economic problems are bound together in a whole and it is difficult to grasp them in isolation. To resolve these problems it is also necessary to bear in mind the current state of scientific literature and contemporary historical experience. It is only in this way that Marxian scientific thought in the field of political economy is possible". The first volume, which has been translated into English, dealt with the more philosophical problems of methodology—the connection between political economy and the materialist interpretation of history, the nature of economic laws, the relation of political economy to sociology, the problems of social conditioning and the social functions of economic knowledge. The second volume dealt with the theory of reproduction and accumulation, market production and price formation. The last was to be devoted to a detailed analysis of the mode of operation of the law of motion of capitalist and socialist formations.

Lange's contribution thus ranged from abstract theory to practical problems of planning, from discourses on methodology to the formation of plans for development. The wide range of his intellectual interest, however, did not mar the excellence of his work; in fact, awareness of reality lent direction and purpose to his theoretical efforts and the theoretician in him restrained him from casual and imprecise generalisations.

Notes

¹ See his "The Scope and Method of Economics", *Review of Economic Studies*, 1945-46.

² "Marxian Economics and Modern Economic Theory", *Review of Economic Studies*, 1934-35.

³ "Marxian Economics in the Soviet Union" *American Economic Review*, 1944-45.

⁴ "Studies in Mathematical Economics and Econometrics".

⁵ *Economica*, 1938.

⁶ *Review of Economic Studies*, 1936.

⁷ *Review of Economic Studies*, 1940.

⁸ *Econometrica*, 1942.

⁹ *Econometrica*, 1942

¹⁰ This together with his other two essays appeared in "Essays on Economic Planning", published by the Indian Statistical Institute, Calcutta.

A Normative Index of Industrial Production

Ashok V Desai

A normative index of industrial production can be constructed with a notional set of weights based on a desired or planned pattern of output. The difference between the planned and the current outputs will then give the increases in the production of different goods that are desired; and given a set of prices, weights in terms of value of output or value added can be derived. The index so calculated will permit the comparison of the actual growth of output with the target rate of growth. The present official index is useless in the context of judging the fulfilment of Plan targets.

An attempt is made here to calculate a normative index of industrial production. As compared with the official index, the normative index gives higher weights to industries for which a higher rate of growth is planned. Almost consistently it shows under-achievement of Plan targets. But the under-achievement is far less than the official index would suggest.

AN index of industrial production reflects the change in industrial production over a period and must, therefore, be a weighted average of changes in the output of particular industry. By taking an average, one expresses information about a number of magnitudes in terms of a single quantity and thereby inevitably loses a lot of information contained in the original figures. The information lost will be insignificant if the output of all industries changes at the same rate; in this case, the general index will accurately portray the output changes in each industry. The more dissimilar the proportional changes in the output of different industries, the greater will be the information lost in the general index.

Hence a general index is an unsatisfactory source of information wherever there are systematic changes in the

structure of industry. This is reflected in the fact that the Laspeyres indices that are calculated officially become "unrepresentative" within a few years and a change in weights is required. However, the unrepresentativeness has nothing to do with particular weights; it would remain whether the index used base-year weights, current-year weights, chain weights or any combination of them.

It might be thought that a chain index would take adequate care of structural change by incorporating a frequent change in weights. But movements in a chain index owe partly to changes in production and partly to changes in structure, and there is no unequivocal way of defining the latter. A forward-looking chain index, i.e., one which uses weights of the preceding year, will give different results from a

backward-looking one; if it uses the average value of output over a period as weights, a change in the length of the period will yield a different index. And where changes in industrial structure are persistent, different chain indices will give different trends. In these circumstances it is difficult to say what exactly a chain index is measuring.

A stable set of weights can in some cases be derived by classifying commodities into groups of substitutes. If rates of substitution can be established between competing commodities on the basis of their relative efficacy in use, a single index of their outputs can be derived by weighting them in proportion to the rates of substitution. If changes in relative outputs are primarily due to substitution, it may turn out that the relative outputs of groups of substitutes are fairly stable and a re-

Table 1: Index of Industrial Production

(1965 output=100)

	Weights		Indices				
	Official	Normative	1961	1962	1963	1964	April 1965 ¹
Mining and quarrying	7.47	9.58	147.3	161.5	175.9	169.1	187.2
Food manufactures	13.99	2.77	129.3	127.4	122.3	135.6	148.1
Tobacco manufactures	1.49	0.20	150.0	156.3	154.9	175.9	235.3
Textiles	32.10	9.22	108.4	113.5	120.9	129.3	131.6
Apparel and footwear	0.28	1.31	166.0	180.4	214.4	212.2	240.2
Manufactures of wood	0.24	1.46	150.2	169.0	194.8	202.6	214.2
Paper and paper products	1.39	1.44	181.9	190.9	226.8	237.8	253.42
Leather and fur products	0.18	0.94	115.6	125.2	149.1	138.4	147.0
Rubber products	3.04	1.82	157.4	169.5	187.0	198.1	224.4
Chemicals	3.56	12.60	175.3	185.9	237.2	226.3	234.2
Petroleum products	3.79	2.92	156.5	169.2	196.6	217.2	183.3
Non-metal mineral products	2.47	2.15	180.8	220.2	204.6	216.0	227.8
Basic metals	9.25	13.59	181.6	225.0	259.1	260.6	253.3
Metal products	0.99	2.58	152.3	179.1	218.5	225.8	237.8
Non-electrical machinery	1.10	12.09	268.7	293.2	364.8	414.1	453.7
Electrical machinery	2.41	7.81	183.2	211.1	237.7	284.4	288.3
Transport equipment	2.86	6.96	130.8	151.4	150.9	192.5	190.7
Electricity generated	3.68	10.56	198.8	223.4	257.9	297.2	320.62
Official Indices:							
Industrial production	...	...	139.2	150.6	163.8	174.8	180.9
Manufacturing	...	...	136.1	146.6	158.9	159.7	174.6
Normative Indices:							
Industrial production	...	...	175.0	196.0	226.7	243.6	254.7
Manufacturing	...	...	177.9	199.6	232.1	251.5	261.9

¹ Not seasonally corrected.

² Figures for March 1965.

presentative set of weights for them can be derived. However, the possibility of determining *technical* rates of substitution is essential here: the supposition that subjective rates of substitution exist and are equal to relative prices is just a part of economists' folklore and does not have a strong enough empirical base to be of any use.

It is possible that this method of grouping substitutes together might enable us sometimes to obtain a satisfactory index of the output or use of consumer goods. When we come to materials and capital goods, however, their division into groups of substitutes is almost impossible. The number of purposes that they can serve simultaneously can be quite large, and patterns of substitution between them correspondingly complex. Even the theoretical problem of establishing rates of substitution in such circumstances is frightfully difficult. If we observe the fact that technical progress entails systematic substitution of goods, it becomes evident that the substitute group approach must be abandoned at least for the present.

The difficulty arises because we look for a set of weights in the actual figures of output or value added, and it can be overcome by giving up the search. In other words, the solution lies in a notional set of weights; and a notional set can be derived if we are given a desired or planned pattern of production. The difference between the planned and the current outputs will then give the increases in the production of different goods that are desired; and given a set of prices, weights in terms of value of output or value added can be derived. The index so calculated will permit the comparison of the actual growth of output with the target rate of growth. Such an index has been calculated here.

Indices of production by industries are given in the *Monthly Statistics of the Production of Selected Industries of India*.¹ Value added by them in 1960-61 and target value added in 1975-76 are given in "Notes on Perspective of Development, India: 1960-61 to 1975-76".² We have used the difference between the two, i.e., the target increase in value added from 1960-61 to 1975-76 as the basis for weights.³ The weights thus derived are given in Table 1, along with the current official weights based on value added in 1956.⁴

Use has been made of the estimates in "Notes on Perspective" because they are the only sufficiently detailed figures

of planned increases in output that are available. Differently weighted indices might become possible if other equally detailed plans become available; their significance will then depend on the quality of the underlying plans. There can be as many indices of this type as there are norms; and each such index would be meaningful only in the context of its norm.

As compared with the official index the normative index gives higher weights to industries for which a higher rate of growth is planned (Table 1). One way of describing the procedure would be that the normative index is a Laspeyres index which uses shadow prices instead of base-year prices: the shadow prices being equal to the base-year price multiplied by the ratio of the projected growth rate of the particular industry to the projected growth rate of all industry. This index, thus, incorporates a simple device to assign higher prices to those industries whose output it is planned to increase rapidly, and gives a better idea of plan achievement.

The relevance of the normative index to plan fulfilment is brought out in Table 2. This table presents annual rates of growth of output in different industries from 1956 to April 1965; besides, it gives the annual changes in

the official and in the normative index, and the exponential rates of growth envisaged in the "Notes on Perspective". Almost consistently, the normative index shows under-achievement of the perspective plan targets. But the under-achievement is far less than the official index would suggest: in fact, the official index is useless in the context of the fulfilment of the perspective or any other plan.

Looking at the detailed growth rates, it is evident that the under-achievement is common to almost all industries. The only industries that grew in 1956-61 at the rates envisaged for 1960-75 are tobacco and electricity generation; this promises to hold in the Third Plan period also. Under-achievement is general and persistent, and in this respect there is no difference between, say, consumer goods and other industries or import-dependent and other industries.

It seems likely, therefore, that either there are some general factors retarding industrial growth in this country or there are mechanisms which spread the influence of bottlenecks widely. Further light on these issues cannot be thrown by output indices; an analysis of industrial investment and capacity utilisation is called for. It is proposed to undertake this in a further study.

Table 2: Annual Growth Rates of Output

(Per cent)

	Normative 1960-61 to 1975-76	1956-61	1961-62	1962-63	1963-64	1964-1 April 1965
Mining and quarrying	10.2	8.1	9.6	8.9	-3.9	-35.6
Food manufactures	5.9	5.2	-1.5	-4.0	10.9	30.2
Tobacco manufactures	4.7	8.5	4.2	-0.9	13.4	140.1
Textiles	9.5	1.6	4.7	6.5	6.9	5.5
Apparel and footwear	14.82	10.7	8.7	18.8	-1.0	45.1
Manufactures of wood	13.2	8.5	12.5	15.3	4.0	18.0
Paper and paper products	13.1	12.7	4.9	18.8	4.9	21.1
Leather and fur products	...2	2.5	8.3	19.1	-7.2	19.7
Rubber products	14.8	9.5	7.7	10.3	5.9	45.5
Chemicals	17.9	10.6	6.0	27.6	-4.6	10.8
Petroleum products	15.1	9.4	8.1	16.2	10.5	-39.5
Non-metal mineral products	11.2	12.6	21.8	-7.1	5.6	17.4
Basic metals	17.7	12.7	23.9	15.2	0.6	-9.3
Metal products	15.5	8.8	17.6	22.0	3.3	16.7
Non-electrical machinery	23.1	21.8	9.1	24.3	12.8	34.6
Electrical machinery	25.2	16.1	15.2	12.6	18.8	6.5
Transport equipment	11.9	8.7	15.7	-0.3	27.6	-2.7
Electricity generated	14.3	17.4	12.4	15.4	15.2	25.6
Official Indices:						
Industrial production	...	6.8	8.2	8.8	6.7	10.8
Manufacturing	...	6.4	7.7	8.4	0.5	8.0
Normative Indices:						
Industrial Production	12.8	11.9	12.0	15.7	10.7	14.5
Manufacturing	13.2	12.2	12.2	16.2	8.4	12.8

¹ Not seasonally adjusted.

² "Apparel and footwear" includes "leather and fur products"

Notes

¹ Published by the Central Statistical Organisation, Calcutta. We have used the May 1965 issue where the figures are given on pp 298-326.

² Published by the Perspective Planning Division of the Planning Commission, April 1964; Tables B-2 and B-3.

³ While the correspondence between

the industries in *Monthly Statistics* and in "Notes on Perspective" is clear in most cases, the following observations are necessary to explain what we have done. Orders 1 to 3 and 5 in the "Notes" are taken to form the food manufactures group. Orders 21 to 23 are put in the textiles group. Order 16 is taken to cover the apparel and footwear group and the leather and fur products group, and its value

added is divided between them in proportion to their weights in the official index. Orders 19 and 24 are taken for manufactures of wood, and order 31 (matches) is put into chemicals. Orders 27 and 28 are put together as petroleum products, and 25, 26 and 29 to 31 as non-metalliferous mineral products. Metal products are taken to comprise orders 89 to 93 and '60. ⁴ See *Monthly Statistics*, pp 280-297.

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The Life Insurance Corporation of India

Statement by the Chairman, Shri B D Pande

THE following is the Statement by Shri B D Pande, Chairman, at the Hundred and Thirteenth Meeting of The Life Insurance Corporation held in Bombay on November 1, 1965:

The draft of the Annual Report and the Statement of Accounts for the period 1st April 1964 to 31st March 1965 have been circulated and are now before us for consideration.

Before I proceed with my observations on our working for the last year, I have, with deep regret, to report the sad and sudden demise of my predecessor, Shri B K Kaul, who was the Chairman of the Corporation from 1st March 1962 to 28th February 1965. Associated with the Corporation from its inception, he rendered valuable services to the institution, both as a member and as a Chairman. A Resolution, placing on record the deep sense of sorrow of all within the corporation, was duly passed and conveyed to his family.

I also regret to report the sad and untimely death of Shri P R Gupta, Zonal Manager, Northern Zone, on 23rd February 1965 after a long period of service in the insurance industry.

The country has recently faced a serious aggression on its frontiers and has emerged stronger and more united under the firm leadership of our Prime Minister, Shri Lal Bahadur Shastri. The Government is at the moment vitally engaged in re-appraising the country's resources to ensure that we can face the future with determination and self-reliance. The cease-fire has for the present brought a temporary cessation of actual hostilities but defence preparedness has to continue with redoubled vigour. Problems on the food and economic front also need to be solved with the determination that we must rely on our own resources for so doing. There is, now, more than ever, the need of husbanding and increasing our financial resources and it is here that the Corporation will be called upon to make an even bigger contribution that could normally be expected from it in the face of general shortages and rising prices which have their own impact upon the small margin of savings available at the best of times. Along with the nation as a whole all the workers within the Cor-

poration have pledged themselves to the task. I am happy to report that even when the hostilities were at their height, our men in the offices in the border areas stood at their posts and manfully carried on their duties, at the same time taking all precautions in the matter of Corporation's properties and records. In all parts of the country, there have been voluntary offers from our employees of contributions to the National Defence Fund, of blood donation and assistance in civil defence work.

New Business

During the year under review, our new business amounted to just above Rs 701 crores under 14.44 lakhs policies as against Rs 703 crores under 16.46 lakhs policies in the previous financial year. The deficit observed is nominal from the sum assured point of view, although there has been a noticeable fall in the number of policies issued.

Apart from the possible difficult economic conditions responsible for this, was added the disturbed attitude of Class I and Class II Officers during the latter half of last year concerning their terms and conditions of service. This dissatisfaction unfortunately culminated in a slowing down of activity in the most critical period when business is normally at its highest. Fortunately these differences have since been resolved.

First Insurances

In the year under review 10.42 lakhs policies, being 72.65 per cent of the total number of policies issued in India during the year, were taken by persons insuring for the first time, the corresponding figure for the previous year being 10.54 lakhs policies forming 70.5 per cent of the total policies issued during that year. From the sum assured angle, the amount assured under the first insurances was 63.8 per cent of the total new sums assured in India during the year as against 62.2 per cent in the previous year.

Rural Business

Based on the classification of urban and rural areas as adopted in the 1961 census, 5.20 lakhs policies, being

36.2% of the total number of policies issued in India, assuring over Rs 197 crores were issued to people in rural areas as against 5.85 lakhs policies, being 35.7% of the total number of policies issued in the previous year, assuring Rs 209.40 crores.

I am happy to mention that the scheme for collection of premia through selected Post Offices in rural areas, where bank facilities do not exist, has been found operating successfully wherever it has been applied. The actual collections made during the year under review amounted to Rs 19.63 lakhs under this scheme. In view of its success, the Post and Telegraph Board have now agreed to extend the scheme throughout India. The scheme has been already under operation in the States of Rajasthan, Andhra Pradesh, Kerala, Madras and Mysore. Steps are being taken to further extend it to the other States.

The Corporation has also experimented the scheme of collection of premia through Block Development Offices in the State of Madhya Pradesh and, as mentioned in the report, the amount collected by these Offices during the year was Rs 2.02 lakhs.

Non-Medical Business

During the year 5.90 lakhs policies assuring Rs 144.59 crores, being 21% of the total new sums assured in India, were issued under the Non-Medical Schemes. Of these 1.88 lakhs policies assuring Rs 29.04 crores were under the Non-Medical General Scheme and 4.02 lakhs policies assuring Rs 115.55 crores were under the Non-Medical Special Scheme.

Salary Savings Scheme

Under the Salary Savings Scheme, we issued during the year under review 2.22 lakhs policies assuring Rs 76.86 crores as against 2.71 lakhs policies assuring Rs 81.47 crores during the previous year. Our efforts to popularise this scheme amongst the working classes continue.

Our efforts also have been continued to make arrangements with various State Governments for introduction of the Salary Savings Scheme amongst their employees. The scheme has been operating for the Government

employees in the States of Rajasthan, Punjab, Kerala, Orissa and West Bengal. The Maharashtra State Government also agreed to introduce the scheme for their employees. Due, however, to certain difficulties that the Auditor General of India faces in regard to the maintenance of accounts, the State Government could not start the scheme. The matter has been taken up with the Government of India.

Group Insurance and Group Superannuation Scheme

We have been successfully extending the scope of our business through the Group Insurance and Group Superannuation Schemes. New business amounting to Rs 16.35 crores was written during the year under these Schemes as against Rs 12.30 crores during the previous year. Life Annuities of Rs 72 lakhs per annum were also granted under the Schemes during the year.

Foreign Business

During the year the Corporation issued 8751 policies assuring Rs 11.05 crores in the foreign countries where it has been operating as against 8532 policies assuring Rs 10.21 crores during the previous year. This shows a satisfactory progress in view of the conditions that exist in some of the countries. Apart from the progress of business, it is our endeavour to see that more and more of the local citizens participate in the management of our offices. To achieve this, we are evolving a scheme of recruitment and training of officers from the local citizens. It is hoped that this move will be appreciated by the local people in these countries.

Size of Policy

The average sum assured per policy during the year was Rs 4854/- as against Rs 4269/- for the previous year.

Business in Force

The total business in force as at 31st March 1965 was Rs 3,887 crores under 108.68 lakhs policies as against Rs 3,571 crores under 103.28 lakhs policies as at 31st March 1964. The increase in the total sum assured during the year under review amounted to 8.8%.

Lapse Ratio

The ratio of lapses to mean life assurance business in force was 7.5% during the year as against 8.2%

during the previous year ending 31st March 1964.

Premium and other Income

The premium income for the year under review amounted to Rs 162.25 crores as against Rs 146.73 crores in the previous year.

The total net income for the year under review was Rs 205.09 crores as against Rs 179.60 crores during the previous year.

Life Fund Investments and Total Assets

The Corporation's Life Fund as at 31st March 1965 was Rs 901.61 crores, registering a rise of Rs 93.25 crores over the adjusted Life Fund at the beginning of the year.

Of the total investments in India of Rs 779.98 crores, the Public Sector accounted for 74.5%, the Co-operative Sector 5.2%, the Joint Sector 0.9% and the Private Sector 19.4%.

During the year, the Corporation adopted a scheme for granting loans to State Electricity Boards for Development Schemes and, accordingly, advanced loans aggregating Rs 5 crores.

The Corporation agreed to underwrite during the year 84 new issues to the extent of an aggregate sum of Rs 17.54 crores.

The total assets of the Corporation as at 31st March 1965 amounted to Rs 986.64 crores as against Rs 880.57 crores as at 31st March 1964. The net increase in the assets of the Corporation, since its inception, has amounted to Rs 572 crores.

Rate of Interest

The income from interest, dividends and rents in respect of our Life business before deduction of income-tax was Rs 43.96 crores during the year as against Rs 38.25 crores during the previous year. The gross rate of interest realised on the mean Life Fund was 5.27% per annum as against 5.11% per annum during the previous year.

The net rate realised was 4.90% per annum as against 4.07% per annum during the previous year. The increase in the net rate of interest is mainly due to the refund of income-tax of nearly Rs 3 crores taken into account in the current year, the rate of deduction of income-tax at source reduced to 20% as against 30% in the previous year and the increased proportion of interest on income from which income-tax is not deducted at source, such as interest on loans, etc.

Expense Ratio

The overall expense ratio for the year was 27.55% as against 27.46% in the previous year, while the renewal expense ratio was 14.09% as against 12.46% in the previous year. One of the reasons for the increase in the expense ratio is the revision of the terms and conditions of service of employees at all levels.

Claims

During the year the claims inclusive of bonus additions, amounted to Rs 40.46 crores under matured policies and Rs 12.36 crores under policies becoming claims by death. The total claims for the year amounted to Rs 52.82 crores as compared with Rs 44.66 crores in the previous year. The outstanding claims as at 31st March 1965 amounted to Rs 17.04 crores as against Rs 14.91 crores as at 31st March, 1964.

The percentage outstanding claims as at the end of the year under review to claims intimated during the period has come down further from 33.4% in the previous year to 32.3% for the year under review. All Offices of the Corporation have been constantly reviewing their outstanding claims and, where necessary, direct contacts are established with claimants for early settlement of claims. This service to claimants has been found helpful and bears good results.

General Insurance Business

The financial year 1964-65 was the first year of operation in respect of our General Insurance business. The results of the year's operation have shown a gross direct premium of Rs 46.52 lakhs. The breakdown thereof shows a premium income of Rs 15.74 lakhs under Fire Insurance, Rs 12.47 lakhs under Marine Insurance and Rs 18.31 lakhs under Miscellaneous Insurance class.

The net claims during the period has been Rs 73,000/- under Fire Insurance, Rs 1.53 lakhs under Marine Insurance and Rs 2.88 lakhs under Miscellaneous Insurance.

The claims experience has been quite satisfactory.

This being the first year of our General Insurance working, the expenses were on the high side. With increasing business, however, the expenses are bound to come down.

I may mention here that in order to provide capital for this non-Life section of the business, the Corporation decided to allocate a sum of Rs 1 crore with effect from 1st April 1964

out of the capital of Rs 5 crores provided by the Central Government under the LIC Act.

Profit and Loss Account

As a result of the working in the General Insurance field, a sum of Rs 11.06 lakhs is carried forward as the net adverse balance in the Profit and Loss Appropriation Account of the Balance-sheet. This adverse balance has arisen as a result of the loss of Rs 11.77 lakhs incurred during the year in the general insurance business comprising of the underwriting loss of Rs 8.60 lakhs to which the excess of income-tax payments, transfers to reserves etc. over the interest and other sundry income have been added.

Mortgages

The Own Your Home Scheme continued to operate in the 77 centres mentioned in the last report. It was extended to 12 more centres during the year under review and to 29 further centres from 1st September 1965. The scheme is thus now operating in 118 places thereby covering all the cities and towns in India having a population of one lakh and above and some other centres having a population of less than one lakh. During the year, 939 loans amounting to Rs 246.75 lakhs were sanctioned to the policyholders under this scheme.

The Corporation continued to advance loans to State Governments for

financing various housing schemes and Land Acquisition and Development Scheme. Loans were also granted to Co-operative Housing Finance Societies in various States, to Public Limited Companies for the purpose of providing houses to their employees and to Co-operative Housing Societies of employees of Public Limited Companies and those formed by the employees of the Corporation.

The total assistance given by the Corporation to the Housing development in India under these various schemes upto 31st March 1965 amounted to Rs 76.18 crores.

Offices

As at 31st March 1965, besides the Central Office and five Zonal Offices, the Corporation had in all 750 Offices including Sub Offices and Development Centres. With this set up, we have either a Branch or a Sub Office in 253 out of 318 Districts of various States and in 5 out of 10 Union Territories in India. We have also Development Centres in 31 of the remaining Districts and in one of the remaining Union Territories.

Publicity

Since insurance is not bought but sold, more so in a country like India, where insurance consciousness is still low, vigorous propaganda has to be carried on to spread the message of insurance. The Corporation continued

its publicity efforts with this aim in the urban and rural areas through press publicity as also outdoor publicity with the help of Field Publicity Vans, extensive display of posters, participation in fairs and festivals and production of films and slides on life insurance and their exhibition in about 2500 theatres. The Corporation won an Award from the Ministry of Information and Broadcasting for the lay-out of one of its advertisements entitled "The Clasp".

Before closing I should take this opportunity to record my appreciation and thanks of the sincere co-operation and valuable advice from my colleagues on the Board, on the Investment Committee and various other Committees. I also record my appreciation of the services rendered by the officers and staff at all levels. But for their services, the Corporation would not be able to continue to achieve the progressive results. With their problems relating to their terms and conditions of service having been settled through negotiations, I expect more close co-operation and sincere devotion to duty from them, which should enable the Corporation to mark a further substantial progress by the time we celebrate the tenth anniversary of its formation next year.

I must also thank all the agents spread all over the country who have done such excellent work in spreading the message of insurance to the people.

AROUND BOMBAY MARKETS

Improved Sentiment

Thursday, Evening

FOR the first time in many weeks, Dalal Street presented a somewhat livelier appearance last week. The volume of business was by no means large but there were some indications of a broadening of interest, more particularly in the long-neglected cash section. Equities recorded widespread gains which were quite marked in certain scrips. The performance of cash shares was in some ways more impressive than that of the speculative counters, though the improvement in most cases was due to bear covering and scarcity of offerings rather than to any significant revival of fresh bull support. Dalal Street's recent performance, though by no means decisive, suggests that it is likely to edge its way further up unless there is some unexpected development in the political situation.

There has come about a noticeable change in the mood of the market. The feeling seems to be gradually gaining ground that in order to meet the grim economic challenge posed by Pakistani aggression and the menacing posture assumed by China, New Delhi is now trying to be more practical than before. The stock market is not altogether unjustified in taking such a view. The Deputy Chairman of the Planning Commission has recently spoken about pushing back of social welfare programme in order to rush through with priority plans. The Planning Commission has suggested that no new industrial projects should be taken up in 1966-67 unless they are related to defence production and essential civil supplies; completion of existing projects is to be given priority. The Prime Minister has stated that he is against imposition of new taxes to meet increased defence and development expenditure. Market sentiment has also been aided by the British Government's reported decision to resume full economic aid and restore normal flow of commercial supplies of defence equipment, which, it is hoped, will have a favourable impact on the U S attitude in regard to economic aid to India.

Reports that the stock exchange authorities are trying to make a joint plea to the Government for the removal of margins and other suitable relief in order to revive activity in the market have also had a steadying

effect on sentiment. The belief is also gaining ground that the Government is likely to reduce the Bank Rate with a view to improving business psychology.

Improved sentiment and technical considerations should aid the process of recovery in equity prices that is now underway. But the market cannot be expected to have an easy going. The political situation continues to be uncertain and the power cut in certain States will also adversely affect industrial production. No less disturbing is the continuing pull on prices as a result of poor kharif harvests and the none-too-promising outlook for the rabi crops. The difficult foreign exchange position, restricted supplies of imported raw materials, rising trend in commodity prices, power shortage—all these factors have obscured the economic outlook.

OILSEEDS

Disturbing Trends

ON Wednesday November 3, groundnut oil shot up from Rs 34 to Rs 35 per 10 kilograms and groundnut (Khandesh variety) rose from Rs 162 to Rs 166 per quintal. These prices are a record high not only for this time of the season but they are also all-time highs. While Wednesday's spurt could be attributed to the Gujarat Government's decision to continue the existing ban on the export of groundnut and groundnut oil outside the State, record high prices so very early in the season reflect essentially fears of a serious reduction in the total availability of vegetable oils during the 1965-66 season because of the failure of the groundnut crop and the unpromising outlook for rabi crops, namely rapeseed, mustard-seed, linseed and castorseed. The groundnut crop is estimated to be 30 to 40 per cent smaller than in the previous season. Rabi sowings have been considerably affected by the failure of September rains and the continuing dry spell during October in most of the oilseeds producing areas. Reduced sowings apart, the outturn of the rabi oilseeds crops will depend very largely on the winter rains. It is extremely difficult to say how the weather will oblige the rabi crops.

Since it seems extremely unlikely that the shortfall in groundnut production and a possible decline in the output of other oilseeds will be made good through imports under P L 480, the upward trend in oilseeds prices is likely to get accelerated in course of time as the season progresses. There is a real danger that prices might get out of control unless the authorities take effective measures to deal with the situation. It would be foolish to think that the Forward Markets Commission can keep prices under check through the system of penal margins, which can at best bring about a decline in speculative business. There is little that the Commission can do to ease the situation when prices soar due to serious physical shortages.

Notwithstanding shortages, it should be possible to check the rising trend in prices if the Government really means business. The action to be taken will naturally depend on what view the authorities take of the price situation. Vanaspati industry being the single largest consumer of edible oils, especially groundnut oil, strict control over vanaspati prices is essential in order to keep oil prices under check. Vanaspati prices must be pegged at some reasonable level for a fairly long period of time. That is about the only way of discouraging vanaspati manufacturing from paying almost any price for the raw material. Vanaspati should be packed in suitable containers and its supply should be rationed along with other food-grains. The existing policy which links vanaspati prices with groundnut oil provides no check on manufacturers' paying higher and higher prices for oil. Restrictions on the inter-State movement of goods must be removed in order to ensure a more equitable distribution of the available supplies throughout the country. It is very unfair—to say the least—that the Gujarat Government should be permitted to ban the export of groundnut and groundnut oil when its internal consumption does not exceed 2 lakh tonnes of groundnut seed as against its estimated production of 7 lakh tonnes this season. The disparity of about Rs 1,000 per tonne in groundnut oil prices in Ahmedabad/Rajkot and Bombay looks fantastic. The absence of any restriction on the movement

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of vanaspati outside the State provides a huge windfall gain to the few vanaspati manufacturing units situated in the State. One really wonders whether the policy in regard to the movement of groundnut and groundnut oil is intended primarily to benefit vanaspati manufacturers within the State. Strict action also needs to be taken to discourage holding and hoarding of stocks at all levels — including the co-operative societies and farmers. This is possible only when heavy penalties are imposed on those found guilty of holding stocks in excess of their requirements for more than a specific period of time. Really speaking, it should be possible to control prices almost at any level provided the administration is honest and efficient.

Linseed, castor and cottonseed futures touched new high levels last week. Linseed April were bid up to Rs 127.50, castor April to Rs 107.50 and cottonseed January to Rs 71. The week-end quotations were only a little lower. Bulls continue to dominate the market, margins notwithstanding. The Forward Markets Commission has prescribed very heavy margins in the event of prices rising still higher. The margins are so heavy that only operators with huge financial resources can afford to take a position in the market. Speculative activity has shrunk considerably as a result of the margins but it cannot be said to have had any significant impact on prices, unless, of course, it is argued that prices would have risen still higher but for these margins. It is indeed time that the Government decided to ban forward trading in commodity markets which only helps to aggravate bullish trends

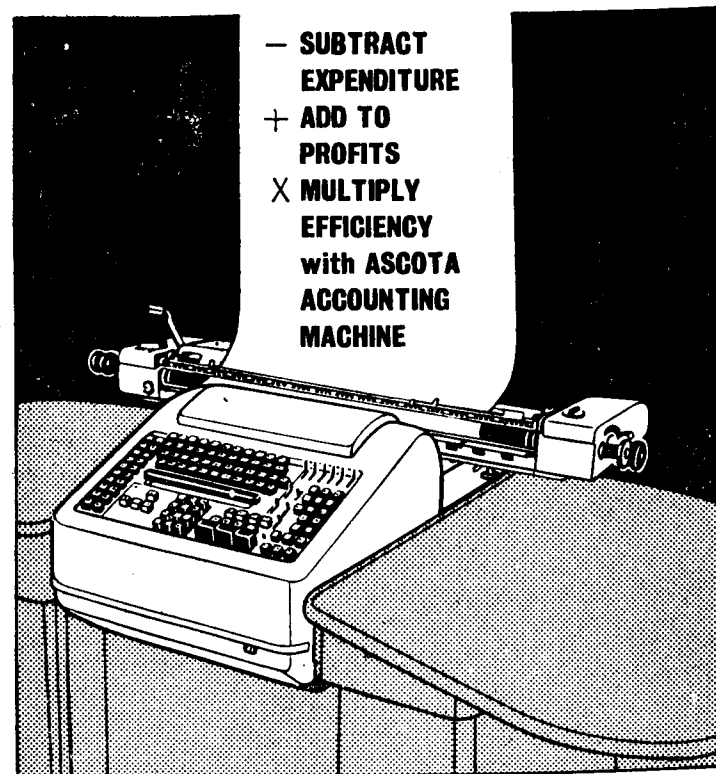
COTTON

Crop Estimates Down

ESTIMATES about the 1965-66 cotton crop have been revised further down. Not many observers now expect the crop to exceed 55/56 lakh bales and there are quite a few who place the crop as low as 50/51 lakh bales. Even on the basis of optimistic estimates, the supply position of cotton will present a very difficult problem for the industry. While there has been quite a considerable expansion in spindleage in recent years, cotton production in 1965-66 will be about the lowest. The gap between the industry's requirements and indigenous supply will be too wide to be made good through imports. With the foreign exchange situation be-

ing what it is, the supply position would become very critical if the country is unable to secure sufficient cotton under P L 480. Anticipated shortage has already pushed cotton prices to the revised ceiling prices for the new season and a few varieties are said to be commanding small premiums. The short-

age of cotton will naturally affect the production of cotton textiles next year. The textile industry might take some comfort from the idea that the likely decline in cloth production will help solve the problem of stock accumulation, but the industry cannot escape the impact of higher cotton prices and reduced capacity working.



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It is encouraging to hear that the trade has expressed its earnest intention to observe self-discipline and refrain from putting through business at above the ceiling prices. One can only hope that the trade's performance this season will be better. The Indian Cotton Mills' Federation too had devised a code of self-discipline last season but it was unable to implement the scheme for long. What amuses one most is that the Government should fail to enforce its price control order every time prices tend to move beyond the ceilings.

Apart from the unfortunate downward revision of crop estimates, there have been no significant market developments to report. Business in ready continues to be extremely restricted and the state of affairs in the futures market is much worse. The daily turnover in futures is very often less than a thousand bales and the hedge contract continues to hold firm fractionally below the margin level of Rs 910. It does not really pay to bull cotton futures around Rs 910 when one has to put up a big deposit of Rs 100 per bale.

MONEY AND BANKING

Comfortable Conditions Prevail

COMFORTABLE conditions prevailed in the Bombay short-term money market during the week to November 4. Demand for funds was more or less the same as in the previous week but supply was strengthened due to the return flow of funds from Calcutta. The previous two weeks had witnessed an increase in the flow of funds to Calcutta to meet the demand arising due to the festive season. This is but a temporary phase as the busy season is to start soon and the rates of interest will more higher. The rate as on Thursday evening was placed at 4½ per cent.

The latest statement of affairs of the scheduled banks indicate a decline in the amount of credit advanced by banks during the week to October 22 from Rs 2,024.70 crores to Rs 2,017.85 crores. Deposits have declined by Rs 8.58 crores to Rs 2,802.86 crores and borrowings from the Reserve Bank have moved down from Rs 5.91 crores to Rs 3.22 crores. Balances with the Reserve Bank at Rs 96.14 crores shows a fall of Rs 5.44 crores. Cash in hand is lower by Rs 3.96 crores at Rs 66.89 crores. Investment in Government securities has risen by Rs 10.88 crores to Rs 864.85 crores. The credit-deposits ratio is lower at 71.99 per cent

against 72.02 per cent during the previous week.

Notes in circulation declined by Rs 8.43 crores to Rs 2,612.40 crores during the week to October 29, according to the Statement of Affairs of the Reserve Bank of India. This contraction plus a small increase in total notes issued has been absorbed by the banking department. Rupee coins have increased slightly by Rs 9 lakhs to Rs 103.87 crores. Foreign securities in-

creased by Rs 2 crores to Rs 72.63 crores but balances held abroad declined by Rs 45 lakhs to Rs 11.37 crores. Central Government deposits moved down by Rs 66.33 crores to Rs 56.85 crores while the State Government deposits increased by 3.45 crores to Rs 6.67 crores. Loans to governments at Rs 129.45 crores shows an increase of Rs 9.57 crores. Scheduled banks increased their borrowings slightly by Rs 18 lakhs to Rs 3.37 crores.

BUSINESS NOTES

Tata Chemicals

J R D TATA has strongly urged the Government to take timely action, through legislation or by other means, to protect the country's limited resources of chemical grade limestone and reserve them exclusively for the chemical industry. In his Chairman's statement circulated with the latest annual report of Tata Chemicals, Tata has pointed out that, as things stand today, the Ranavav deposits in Kathiawar constitute the largest and most important source in the country for the supply of this variety of limestone. The limestone used in the soda ash industry is of chemical grade which is of greater purity than that required for, say, the cement industry and is relatively scarce in comparison with the abundance of ordinary limestone. Limestone is the second main raw material in soda ash manufacture. The company's reserves are adequate for its present rate of production, but it will require larger sources of supply as and when the production of soda ash increases. It is intended to raise the rated capacity of the plant from the present 400 tonnes to 600 tonnes per day and thereafter to 1,000 tonnes per day.

During the year to June 1965, the company increased its production of soda ash by 10 per cent to 1.68 lakhs tonnes and that of dense soda ash by 29 per cent to 40,200 tonnes. The higher production was once again achieved in a year of severe drought when the two lakes, from which the factory draws its fish water requirements, were virtually dry. Sodium bicarbonate output was raised by well over a half to 10,400 tonnes, but the output of electrolytic caustic soda could be only maintained at the previous level of 4,000 tonnes. Benzene hexachloride production increased by over a third to 3,500 tonnes following a sharp rise in demand due to the Government's emphasis on crop protection programmes as also to substantial exports

of formulated B H C to the U S S R. Output of salt at the Mithapur plant scaled a new peak at 3.04 lakh tonnes, but at Okhamadhi the output of salt at 37,000 tonnes showed a setback. The company has been granted an industrial licence to expand production of benzene hexachloride from 3,600 tonnes to 5,100 tonnes per annum. A second application for further expansion to 9,000 tonnes per year is pending with the Government.

The stage of self-sustaining growth reached two years ago gathered further momentum and consequently there was good improvement in the financial results for the year 1964-65. Sales reached a new record level of Rs 8.49 crores, representing an increase of 12 per cent over 1963-64 and 19 per cent over 1962-63. The operating profit registered an increase of Rs 50.58 lakhs over the previous year. This increase was brought about by making the fullest use of existing production facilities in the year, when for almost the whole of the period the pre-decontrolled prices of soda ash and caustic soda were maintained in spite of the inflationary pressures bringing about significant increases in costs of materials and labour. Even though depreciation, taxes and interest charges were Rs 27.75 lakhs more, the disposable profit at Rs 92.21 lakhs was Rs 22.83 lakhs higher than in 1963-64. Equity dividend raised by 20 P to Rs 1.60 per share requires Rs 48.38 lakhs (Rs 42.33 lakhs). Earnings per ordinary share work out at Rs 2.91 and book value at Rs 15.52. The balance sheet as at end-June last shows gross block at Rs 10.86 crores and net block at Rs 6.43 crores.

Fertiliser Corporation

A NET profit of Rs 2.63 crores, the Trombay Fertiliser Factory being brought to the commissioning stage, steady progress in the implementation of other projects and achievement of a

substantial measure of self-reliance in the planning and building from indigenous resources of new fertiliser plants are some of the high-lights of the operating results of the Fertiliser Corporation of India during 1964-65.

The Corporation's Sindri Unit showed a net profit of Rs 1.19 crores and Nangal Unit Rs 1.69 crores, apart from the profit from the Rourkela contract with Hindustan Steel amounting to Rs 65 lakhs. The net operating profit of Sindri and Nangal Units was Rs 66 lakhs higher than in the previous year. Out of the net profit earned, Rs 1.40 crores have been appropriated for Development Rebate Reserve, Rs 50 lakhs for Repairs and Renewals Reserve and the balance of Rs 88 lakhs have been transferred to General Reserve. The Corporation's internal resources arising from the revenue surpluses and the amount allocated for Depreciation Reserve during 1964-65 add up to Rs 6.61 crores against Rs 8.74 crores during the previous year. The higher amount of internal resources available in the previous year was due to retrospective revision upward of fertiliser prices with effect from 1st April 1962. Since the inception of the Corporation's oldest unit at Sindri, the total internal resources generated by way of revenue surpluses and contributions to the Depreciation Reserve amounted to Rs 49.94 crores up to 31st March 1965.

The Trombay factory has now reached the commissioning stage. Ammonia production has already started and it is expected that production of urea will start shortly. Urea is a more concentrated nitrogenous fertiliser with 46 per cent nitrogen content. This will be followed by production of nitro-phosphate, a complex fertiliser containing two major plant nutrients—nitrogen and phosphate—before the end of the calendar year. The Trombay plant, which is estimated to cost nearly Rs 34 crores, will be the third operating unit of the Corporation.

The methanol plant at Trombay, which is part of the Trombay complex, is estimated to cost over Rs 4 crores. The construction of the plant has progressed according to schedule and is expected to go into production by the end of 1965. Methanol, which is a volatile and inflammable liquid is popularly known as "wood alcohol". Methanol and its derivatives have many uses. Its largest use is in the synthesis of formaldehyde which is used for defence and other industrial purposes.

The Namrup factory, the fourth in the chain of the Corporation's projects,

will go into production by the end of 1967 and the Gorakhpur factory, the fifth, by the middle of 1968. The project report and estimates of the Durgapur project have been completed and submitted to Government.

The Planning and Development Division, the central technical organisation of the Corporation, continues to play an important role in research and development of fertiliser technology, particularly connected with the planning and development of new projects. The Division is currently handling the detailed designing, engineering, and procurement of the ammonium sulphate plant for Namrup and is actively associated with the departmental erection of all the main plants in that project. It is also engaged on the designing and engineering of some of the ancillary plants for Gorakhpur project. It has also been decided that this Division will be responsible for designing and engineering of a group of plants for the Durgapur project. The Division is currently functioning as general consultants to Gujarat State Fertiliser Company and the Orissa Industrial Development Corporation. It has also developed and produced on pilot plant scale a number of costly catalysts, which are directly used in the fertiliser factories of the Corporation, and is saving a substantial amount of foreign exchange. It is exploring the possibilities of stepping up production of these catalysts for domestic consumption as well as for export to earn foreign exchange.

Great Eastern Shipping

THE marginal increase in Great Eastern Shipping's dividend from Rs 1.08 to Rs 1.10 a share, being fully payable on the enlarged capital, has enhanced the total distribution by well over a third compared to the previous year's. That the directors should have decided to pay more in a year when gross profits actually fell by 15 per cent, reflects their confidence in the improved outlook for the current year. Two factors have in the main contributed to the expectation of better financial results this year. Firstly, the management hopes that a substantial refund of income-tax will become available as a result of the decision of the Central Board of Direct Taxes on the company's petition in respect of the assessment year 1959-60 whereby relief would be recomputed in the same manner as is done in the case of other newly-established industrial undertakings. Secondly, freight earnings are on the rise. It is estimated that freight earnings, including those carried for-

ward in respect of incomplete voyages from the previous year, would amount to Rs 3.56 crores by the end of November this year, as against Rs 2.82 crores in the corresponding period of the preceding year.

Coastal shipping, however, still continues to be in the doldrums. The recent 10 per cent increase in freight is likely to be mopped up by the increase in excise duty on oil bunkers and the rise in wage bill. But there are hopes that the Government may exempt coastal shipping from the levy of excise duty on oil bunkers. The company's Rs 3-crore expansion programme under which five ships were to be acquired has yet not materialised, as the terms of the loan offered by foreign bankers have not been acceptable to the government. Meanwhile, the gross value of the company's fleet has declined from Rs 11.85 crores to Rs 11.25 crores, as one vessel has been discarded and another sold. The value would, however, go up by about Rs 4.12 crores on delivery of bulk carriers, expected between February and July next year.

The financial results for the year to June 1965 show a decline in gross profits from Rs 1.20 crores to Rs 1.06 crores, of which depreciation has taken away a slightly lower amount of Rs 74.32 lakhs (Rs 75.32 lakhs), but prior charges have claimed more at Rs 41.50 lakhs (Rs 36.30 lakhs). As before, there is no tax charge owing to unabsorbed development rebate. The proposed dividend distribution requiring Rs 16.50 lakhs (Rs 11.92 lakhs) is to be made by withdrawing Rs 26 lakhs from reserves. Operating earnings (turnover) have been maintained at Rs 5.25 crores despite a decline in cargo carried from 11.78 lakh tonnes to 10.62 lakh tonnes.

Tomco

THE value of sales of Tata Oil Mills Company's products and other income for the half-year ended September 1965 was Rs 778 lakhs, the turnover for the corresponding period in the previous year being Rs 696 lakhs (an increase of about 11 per cent). The Company's production in this period increased by approximately 10 per cent over the corresponding period of the previous year.

Correction

The heading of the Company Chairman's statement published on page 1566 of our issue dated October 9, 1965 should read "The Fertilisers and Chemicals Travancore Ltd" and not "The Fertiliser and Chemical Travancore Ltd." The error is regretted.—Ed.

CURRENT STATISTICS

Production and Consumption of Chemical Fertilisers

(Quantities in metric tonnes)

	1964-65*	1963-64	1962-63	1961-62	Percentage increase from			
					1961-62 to 1964-65	1963-64 to 1964-65	1962-63 to 1963-64	1961-62 to 1962-63
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I Production of Nitrogen and Phosphoric Acid								
Nitrogen (N)	248,351 (63.0)	219,072 (67.0)	194,194 (68.7)	154,326 (70.2)	60.9	13.4	12.8	25.8
Phosphoric acid (P ₂ O ₅)	146,080 (37.0)	107,836 (33.0)	88,301 (31.3)	65,360 (29.8)	123.5	35.5	22.1	35.1
All fertilisers (N+P ₂ O ₅)	394,431 (100.0)	326,908 (100.0)	282,495 (100.0)	219,686 (100.0)	79.5	20.6	15.7	28.6
II Consumption of Nitrogen, Phosphoric Acid and Potash								
Nitrogen (N)	517,527 (70.8)	425,872 (71.1)	328,418 (71.5)	307,077 (76.5)	68.5	21.5	29.7	6.9
Phosphoric acid (P ₂ O ₅)	150,343 (20.6)	121,070 (20.2)	91,159 (19.9)	63,580 (15.9)	136.5	24.2	32.8	43.4
Potash (K ₂ O)	62,650 (8.6)	51,886 (8.7)	39,940 (8.6)	30,443 (7.6)	105.8	20.8	29.9	31.2
All fertilisers (N+P ₂ O ₅)+(K ₂ O)	730,520 (100.0)	598,828 (100.0)	459,517 (100.0)	401,100 (100.0)	82.1	22.0	30.3	14.6
III Forms in Which Fertilisers Are Produced								
Ammonium sulphate	441,000 (36.6)	429,156 (40.4)	433,132 (46.0)	402,303 (53.7)	9.6	2.8	-0.9	7.7
Ammonium sulphate nitrate	46,000 (4.8)	47,252 (5.6)	58,304 (7.8)	53,194 (9.0)	-13.5	-2.6	-19.0	9.6
Urea	18,000 (3.2)	18,911 (3.8)	18,698 (4.2)	13,535 (3.9)	33.0	-4.8	1.1	38.2
Calcium ammonium nitrate	605,000 (49.9)	496,349 (46.4)	370,829 (39.1)	228,109 (30.3)	165.2	21.9	33.9	62.6
Ammonium chloride**	16,000 (1.6)	13,720 (1.6)	13,834 (1.8)	11,156 (1.8)	43.4	16.6	-0.8	24.0
Ammonium phosphate sulphate	60,000 (3.9)	30,481 (2.2)	13,156 (1.1)	13,223 (1.3)	353.8	96.8	131.7	-0.5
Total (N)	248,351 (100.0)	219,072 (100.0)	194,194 (100.0)	154,326 (100.0)	60.9	13.4	12.8	25.8
Super phosphate (16% P ₂ O ₅)	829,000 (96.0)	623,929 (97.0)	535,434 (92.6)	391,969 (90.8)	111.5	32.9	16.5	36.6
Super phosphate (18% P ₂ O ₅)	8,000 (1.0)	7,643 (1.3)	—	—	—	4.7	—	—
Super phosphate (19% P ₂ O ₅)	—	2,816 (0.5)	—	—	—	—	—	—
Ammonium phosphate sulphate	60,000 (8.2)	30,481 (5.6)	13,156 (3.0)	13,223 (4.0)	353.8	96.8	131.7	-0.5
Total P ₂ O ₅	146,080 (100.0)	107,836 (100.0)	88,301 (100.0)	65,360 (100.0)	123.5	35.5	22.1	35.1
IV Forms in Which Fertilisers Are Consumed								
Ammonium sulphate	1,025,000 (40.8)	821,444 (39.7)	811,582 (51.0)	792,404 (53.2)	29.4	24.8	1.2	2.4
Calcium ammonium nitrate	620,000 (24.6)	541,246 (26.1)	290,257 (18.1)	238,166 (15.9)	160.2	14.6	86.5	21.9
Urea	215,000 (26.8)	262,461 (27.1)	167,948 (22.5)	155,634 (22.3)	102.4	20.0	56.3	7.9
Ammonium sulphate nitrate	56,500 (2.8)	36,950 (2.3)	59,628 (4.7)	80,063 (6.8)	-29.4	52.9	-38.0	-25.5
Ammonium chloride	17,000 (0.8)	13,411 (0.8)	6,699 (0.5)	8,351 (0.7)	103.6	26.8	100.2	-19.8
Chilean natural } nitrate of soda }	7,400 (0.2)	6,165 (0.2)	12,560 (0.6)	8,402 (0.4)	-11.9	20.0	-50.9	49.5
Ammonium phosphate sulphate (Gr 16-20-0)	41,600 (1.3)	30,756 (1.1)	12,164 (0.6)	10,282 (0.5)	304.6	35.3	152.8	18.3
Ammonium phosphate sulphate (Gr 20-20-0)	48,200 (1.9)	44,483 (2.1)	23,646 (1.4)	—	—	9.8	88.1	—
Nitro phosphate	33,000 (0.8)	19,010 (0.6)	15,246 (0.6)	5,000 (0.2)	560.0	73.6	24.7	204.9
Total (N)	517,527 (100.0)	425,872 (100.0)	328,418 (100.0)	307,077 (100.0)	68.5	12.2	29.7	6.9
Super phosphate (16% P ₂ O ₅)	800,000 (85.2)	464,079 (85.4)	512,691 (90.0)	380,490 (95.8)	110.3	72.4	-9.5	34.7
Super phosphate (18% P ₂ O ₅)	700 (0.1)	903 (0.1)	—	—	—	-22.5	—	—
Super phosphate (19% P ₂ O ₅)	—	185 (0.03)	—	—	—	—	—	—

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Ammonium Phosphate sulphate (Gr 16-20-0)	41,600 (5.5)	30,756 (5.1)	12,164 (2.7)	10,282 (3.2)	304.6	35.3	152.8	18.3
Ammonium phosphate sulphate (Gr 20-20-0)	48,200 (6.4)	44,483 (7.2)	23,646 (5.2)	—	—	9.8	88.1	—
Nitro phosphate	3,3000 (2.8)	19,010 (2.0)	15,246 (2.1)	5,000 (1.0)	560.0	73.6	24.7	204.9
Total (P ₂ O ₅)	150,343 (100.0)	121,070 (100.0)	91,159 (100.0)	63,580 (100.0)	136.5	24.2	32.8	43.4
Mureate of potash	99,000 (94.8)	81,630 (94.4)	63,649 (95.6)	45,616 (89.9)	117.0	21.3	28.3	39.5
Sulphate of potash	6,500 (5.2)	5,816 (5.6)	3,502 (4.4)	6,146 (10.1)	5.8	11.8	66.1	—43.0
Total (K ₂ O)	62,650 (100.0)	51,886 (100.0)	39,940 (100.0)	30,443 (100.0)	105.8	20.7	29.9	31.2

* Estimated.

** For agricultural purposes.

Note: Figures in brackets denote the proportion of each kind of fertiliser to the total expressed in terms of plant food.

Source: Fertiliser Association of India, New Delhi.

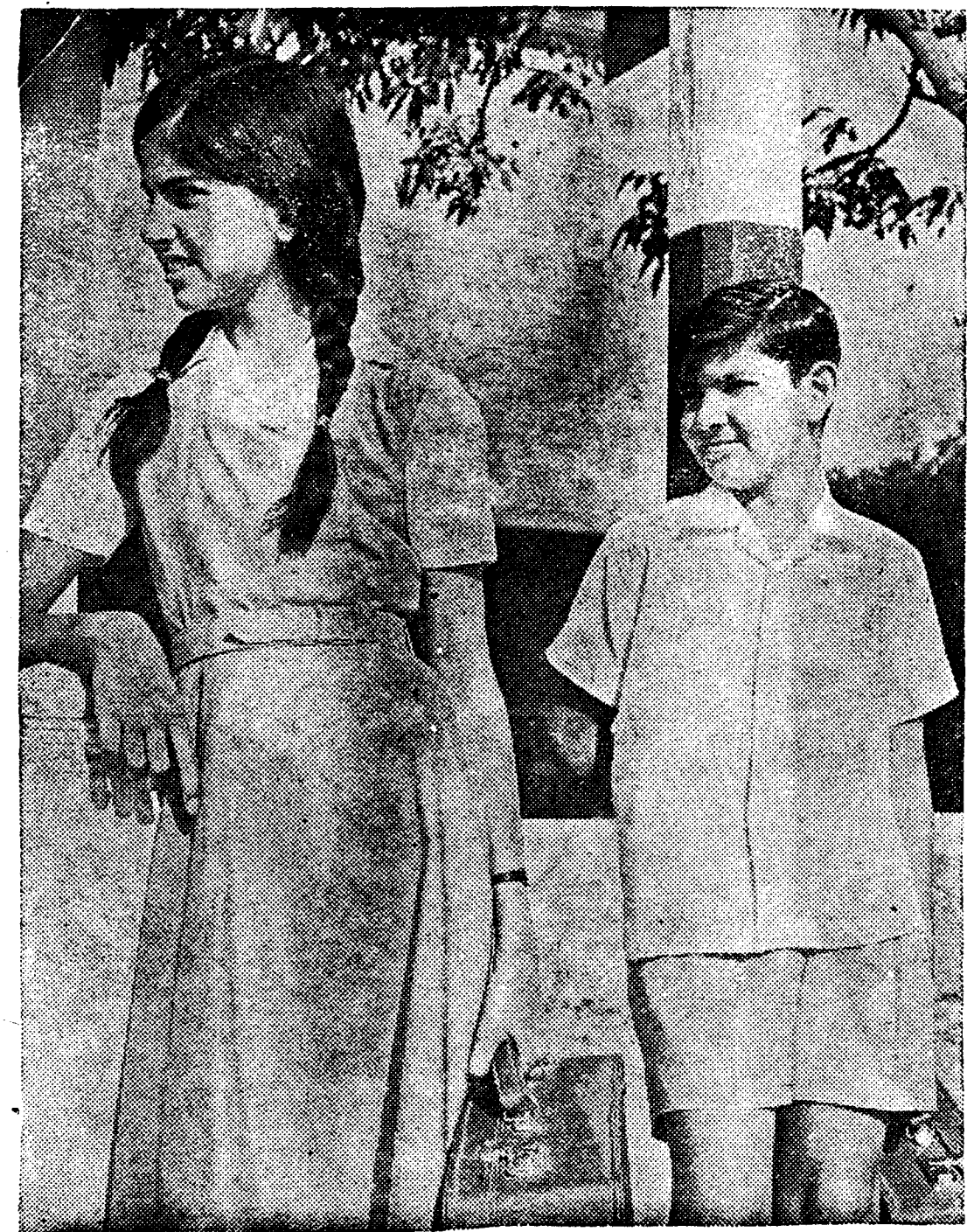
INDEX NUMBERS OF INDUSTRIAL PRODUCTION

(Base: 1956=100)

	July 1965	June 1965	May 1965	July 1964
Seasonally adjusted	186.0	189.1	183.1	175.3
Crude	190.0	184.2	181.0	179.1
Mining and quarrying	182.3	181.2	184.2	166.0
Coal	172.3	172.2	174.6	157.0
Manufacturing	184.7	178.4	174.7	174.9
Food mfg industries	135.5	138.8	129.5	133.2
Wheat flour	237.8	290.1	313.0	326.8
Sugar	12.1	20.8	77.6	4.1
Tea	201.9	170.4	119.7	205.3
Salt	124.3	456.7	353.2	26.7
Beverages and tobacco				
Cigarettes	211.1	199.9	190.7	—
Manufacture of textiles	140.2	134.0	132.0	135.8
Spg, wvg and finishing of cotton textiles	132.4	125.6	125.5	129.3
Cotton spinning	144.7	135.9	139.4	141.7
Weaving of cotton textiles	127.7	121.6	120.1	124.6
Mill sector	101.3	95.0	96.5	101.0
Decentralised sector	199.3	193.5	184.2	188.5
Spg, wvg and finishing of woollen textiles	—	111.9	110.2	129.6
Spg, wvg and finishing of textiles from silk and synthetic fibres	247.0	245.5	221.4	210.5
Spg, wvg and finishing of jute mfg	134.5	128.2	127.2	135.1
Footwear and other wearing apparel and made up textile goods	233.6	282.4	235.0	261.9
Wood and cork except mfg of furniture	237.8	243.1	242.1	218.5
Paper and paper products	266.6	242.4	241.9	251.8
Leather and fur products	143.9	159.5	161.8	129.6
Rubber products	239.2	220.7	224.1	205.2
Chemical and chemical products	239.4	234.5	235.7	243.2
Basic industrial chemicals	392.0	382.2	387.6	371.2
Heavy Organic chemicals	454.3	445.8	429.0	405.7
Heavy inorganic chemicals	432.6	412.4	432.3	408.4
Synthetic resins and plastics	658.0	587.7	512.9	593.7
Dyestuffs	164.9	194.6	170.3	188.1
Fertilisers	250.6	256.5	268.1	247.2
Paints, varnishes and lacquers	189.9	176.8	171.9	183.0
Soaps	141.4	138.2	141.1	161.2
Matches*	152.4	148.2	127.9	196.7
Petroleum Products	242.9	242.1	228.2	196.8
Non-metallic mineral products	237.7	233.0	237.4	227.1
Structural clay products	242.6	249.4	241.4	208.5
Glass and glass products	181.4	175.3	175.3	182.9
Pottery, china and earthenware	302.4	306.3	309.2	373.2
Cement	211.3	203.3	219.1	198.6
Basic metal	278.6	260.1	253.1	259.0
Iron and steel	291.4	268.6	259.4	269.4
Pig iron	370.4	350.8	323.1	328.4
Finished iron	341.4	309.7	312.9	322.2
Copper smelting and rolling mill products	166.6	148.8	141.7	123.6
Aluminium	407.9	428.9	423.4	396.0
Brass	181.2	161.1	188.1	168.2
Metal products	251.5	244.8	252.7	245.6
Bolts, nuts, screws, nails, springs, chains etc	196.5	196.5	196.5	213.2
Hand tools and small tools	675.4	579.5	655.9	573.6
Metal products not classified elsewhere	215.1	216.2	218.2	216.9
Machinery except electrical machines	481.9	475.7	474.0	436.0
Internal combustion engines	535.5	456.5	470.6	443.0
Industrial machinery	498.2	527.9	515.5	474.7
Commercial office and household machinery	386.1	388.2	367.6	357.1
Sewing machines	346.4	350.5	314.3	247.7
Electrical machinery, apparatus, appliances and supplies	327.6	305.1	304.0	302.4
Power transformers	475.3	479.9	425.1	328.6
Electric motors	464.5	464.2	486.0	379.6
Manufacture of electric cables and wires	330.2	279.9	278.5	344.8
Batteries	201.5	205.1	176.1	198.1
Electric lamps	330.3	311.5	293.0	296.8
Electric fans	423.0	398.2	459.9	401.1
Radio receivers	397.4	353.2	300.0	349.8
Manufacture of transports equipment	201.3	207.9	206.9	200.6
Railway wagons	162.4	154.3	156.0	142.8
Motor vehicles	211.6	221.6	221.1	222.7
Motor cycles and scooters	1,031.7	1,008.9	971.6	665.9
Bicycles	239.9	251.6	237.6	232.8
Electricity, gas and steam	333.1	328.3	327.2	305.4

* 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.

Source: Department of Statistics, Central Statistical Organisation, Calcutta



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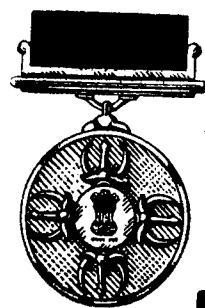


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"ADVANCE!" a dying soldier's last word to his men symbolises our people's sacrifice and selfless devotion to duty in defending India's honour and freedom. Company Quartermaster Havildar Abdul Hamid of the 4 Grenadiers destroyed three enemy tanks single-handed, with only a recoilless gun, on the Kasur front in the Lahore sector, before he was killed. He was posthumously awarded the nation's highest decoration for valour, the Param Vir Chakra.

This 32-year-old youth from Dhamupur village (renamed Hamid Dham in commemoration) in Ghazipur, Uttar Pradesh, is just one of the countless heroes who laid down their lives in the service of their country. The nation rose as one man—all differences of community and creed forgotten—to fight aggression. Today, we are united as never before. Like Abdul Hamid we shall, indeed, advance—to greater strength and all-round self-sufficiency, determined to preserve our ideals of peace and friendship towards all.

PARAM VIR CHAKRA: the highest decoration for valour awarded for 'the most conspicuous bravery or some daring or pre-eminent act of valour or self-sacrifice in the presence of the enemy, whether on land, at sea or in the air'.



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THE ECONOMIC WEEKLY

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EDITORIALS

Credit Policy 1683
UDI and After 1684

WEEKLY NOTES

PL 480 at Any Price!—LIC: 1685
Another Lacklustre Year—
Jute Industry's Problems—
Administrative Reform—In-
dian Publicity Abroad

LETTERS TO EDITOR

Food Stocks with Consumers 1683
—Methanol—Not a Secular
Act

CAPITAL VIEW

Homework Needed on Milit- 1690
ary Affairs
— Romesh Thapar

BOOK REVIEW

Agriculture and Econometrics 1693
— Amiya Bagchi

SPECIAL ARTICLES

Growth of Calcutta's Business 1695
District
— Meera Guha
Indirect Taxes, Profits and 1699
Prices
— V C Shah
Kargali Washery: A Study of 1703
Its Working
— A B Ghosh
Monetary Policy for the Busy 1707
Season
— Arthagnani

AROUND BOMBAY MARKETS

Dalal Street Off-Colour Again 1708

BUSINESS NOTES

Life Insurance Corporation— 1709
Indian Hume Pipe—Oriental
Power Cables—B B
Petrol—Bombay Burmah—
Voltas—Window Glass—
Phoneix Mills

CURRENT STATISTICS

1712

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Credit Policy

ANOTHER busy season has commenced — at least in terms of official statistics even though not as yet in terms of market pressures — and this is the time of the year to assess the prospects in the months ahead. There is considerable apprehension in the minds of bankers regarding the shape of things to come — apprehension born out of the tighter liquidity position in which the banking system finds itself today and the prospect of another large credit expansion in the season ahead. The apprehension has been heightened by the uncertainty regarding monetary policy, for unlike last year when it outlined its busy season policy a full month ahead of the commencement of the season, the Reserve Bank is yet to show its hand this year. If this delay is deliberate one wonders what purpose it serves; if it is not, does it suggest that the central banking authority is itself yet to make up its mind on the policy consistent with its assessment of the situation?

In talking about busy season prospects and the policy appropriate to it, a convenient point to start from is a review of the slack season. At the outset of the slack season the Reserve Bank was reported to have indicated targets of Rs 200 crores each for deposit growth and credit contraction. Deposits have risen by not much less — by Rs 195 crores — but the magnitude of credit contraction has been — at about Rs 95 crores — significantly below the figure set. Even at that time it was the opinion of many bankers that the target figure was on the high side but one did not bargain for credit contraction much lower than even that of the slack season of 1964. The target figure was presumably presaged on a near complete reduction of seasonal commodity advances against which had to be set off an increase in credit against those commodity groups not subject to seasonal variations.

In the absence of statistical data regarding the actual behaviour of advances against the various commodity groups, it is not possible to say whether this shortfall in slack season credit contraction represents a "failure" of policy. If indeed the Reserve Bank felt that the contraction against the seasonal commodities was tardy it could have tightened selective controls further which it did not. On the contrary, there was some loosening of the rigours of the raw cotton control, the withdrawal of the directive on clean credit and a positive attempt at augmenting the flow of credit to the textile mills. One has the impression, therefore, that not merely was the target of credit contraction itself considered flexible but that as the slack season progressed the Reserve Bank did not feel unduly concerned with the slow pace of contraction. This is not to suggest that monetary policy was passive in this period. Perhaps more than in any other comparable period, the central banking authority kept the market taut as many bankers ruefully admit. The Reserve Bank's 'advice' to the banks to invest their surplus funds in treasury bills may not have been carried out to the extent indicated, but the pressure on the market as reflected in money rates was not any the less. Credit has been kept on a tight rein which is the important point to note in considering the shortfall in credit contraction.

The slower rate of contraction has, however, added to the banks' problems of financing the seasonal needs now. The financing requirements will naturally depend on the level of production — more on industrial production (including agriculture-based industries) than directly on agricultural output. Even assuming a moderate credit expansion of 20 per cent over the level now a figure of Rs 465 crores or about the same as last year would be needed. It may well be larger and some bankers put it as high as Rs 450 crores. Even this would be below the rates of expansion of last year and the year before despite a price level 5 per cent higher than last year. To finance this expansion banks would need to turn to the Reserve Bank in greater degree and ultimately the question boils down to how much credit the Reserve Bank will allow to be financed.

In the last busy season the Bank gave commendable evidence of flexibility. Though the panic measures of February suggested a surrender of judgment to the monetary experts of the I M F, the actual conduct of the

busy season policy indicated that the central bank did not shrink from its responsibility of financing the genuine needs of productive activity while keeping credit tight. Similarly in the slack season there has been no blinkered pursuit of a credit contraction target at the cost of hurting production for there is growing indication that the tight policy is beginning to bite. The Bank, one hopes, will continue to be mindful of the economy's interests in promoting finance for production without submitting itself to dictates emanating from the IMF and the World Bank, and based on crude monetary theories.

It is in this light that the remarks of the Governor of the Reserve Bank

made recently at Madras and the Planning Minister's replies to questions in Parliament assume significance. The Governor is reported to have hinted at the possibility of selective liberalisation of credit restrictions and a tightening of other types of credit. The priority sectors at the moment choose themselves and on any reckoning must include food production, export, import substitution and defence production. On the other hand credit for less essential activity calls out for greater control. The exact form in which the element of selectivity is going to be worked out remains to be seen and from the point of view of bankers who have begun to entertain seasonal loan applications, the decisions should come early.

UDI and After

SO two weeks after Prime Minister Harold Wilson left Salisbury claiming that his much-publicised visit might succeed in preventing a declaration of independence by South Rhodesia, 'Prime Minister' Ian Smith has proceeded to do just that. In 1907, by when white settler control over the territory was firmly established, the idea was mooted from London that Rhodesia should become South Africa's fifth province, but the move was defeated in a referendum by white Rhodesians. Now more than half a century later Rhodesia has become, not a province of South Africa, but a second South Africa insofar as the latter term has come to stand for unabashed racialism, white minority rule and suppression of the African majority.

The Prime Minister of Britain may "still find it incredible that this action should have taken place at all", but a very large number of people all over the world, who are no more privy to Ian Smith's thoughts than he, knew all along that this was coming. Starting with the Constitution of 1961 Britain had stood by and watched developments which step by step made it possible for the white government of Rhodesia to do what it has now done. The 1961 Constitution gave the Africans, constituting 95 per cent of the population, less than 25 per cent of the seats in the legislature, reserving the rest for the 5 per cent whites. Of course, the constitution promised eventual majority rule, but the Africans' ability to secure more seats in the legislature was made to depend, *inter alia*, on their acquiring higher educational qualifications. How can they do this when control of the edu-

cational system is in the hands of men who have nothing but contempt for the Africans and who will never countenance making any concession to them, however slight? To hope for progress towards majority rule along constitutional lines is, therefore, senseless. In fact, it would not be surprising at all if in course of time the white government amended the constitution to actually tighten its control over the Africans. This it can do since the white membership of the legislature is comfortably more than the two-thirds majority required for a constitutional amendment to be passed.

Even less can the Africans expect from extra-constitutional political struggle. The white government's repressive laws and well armed and ruthless police will no doubt prove quite capable of taking care of most eventualities of that type. The government has equipped itself with wide powers to arrest and indefinitely detain without trial political opponents. Nor is there reason to believe that these laws will not be used ruthlessly. At the head of the white government today is a man who had considered even the 1961 Constitution as marking a "sell out to the Africans" and had, on that score, resigned from the government and formed his own party to stop the rut. It is this man and this party whom Prime Minister Harold Wilson seriously wanted the world to believe he could talk into accepting independence on terms acceptable "to the people of Rhodesia as a whole".

And what can the African people of Rhodesia expect from the UK? Harold Wilson has talked of the declaration of independence as a "challenge which it would be unworthy of

this government to let go unanswered". Britain has called for a meeting of the UN Security Council to ask for world wide support for economic sanctions against Rhodesia. Yet all these years she has resisted every move by the United Nations to secure a more humane and democratic government in Rhodesia on the ground that it had no right to intervene in the affairs of the white government there. Even after Ian Smith's "high treason" when the General Assembly met on Thursday to pass a resolution asking Britain to implement earlier Assembly and Security Council resolutions on Rhodesia and put an end to the rebellion by the unlawful authorities in Salisbury Britain refused to participate in the voting. Wilson has already gratuitously assured Ian Smith that Britain will never consent to the use of force against the white Rhodesian government *under any circumstances*. A powerful section of opinion in Britain would not even press economic sanctions too far.

The two forums of possible collective action against Rhodesia are the United Nations and the African countries organised in the Organisation of African Unity. But the prospect of resolute action by either is, frankly, dim. The OAU at its recent meeting in Accra passed two resolutions, one of them a secret one adopted at a closed session, envisaging action, including withdrawal from the Commonwealth and economic sanctions against Britain, to meet a negotiated independence agreed to by Britain. About the steps to be taken against Rhodesia itself there was no clear understanding. As for the United Nations, the Security Council is yet to meet at the time of writing, but there are enough parallels in recent history to indicate what steps it might recommend and with what effectiveness.

In all these moves there is, then, little for the Rhodesian African to take heart at. His life promises to continue, as far as one can see, to be one of poverty, illiteracy and humiliation, unequal struggle, suppression, imprisonment and an occasional Sharpeville. The OAU Secretary-General's report to the Accra Conference obviously pointed out that the liberation situation was getting worse instead of better in Mozambique, Angola and South Africa. Rhodesia can now be formally added to the list, though really it has belonged in it through all the years when technically Britain was responsible for the condition of its African population.

Weekly Notes

PL — 480 at Any Price!

ON Monday the Food Minister was telling Parliament in reply to questions that S K Patil did not have "any brief to negotiate for food" in the United States; on Thursday one of the first things Patil told newsmen at Bombay airport was that while in the US he had tried to impress on the Administration the need to conclude a long-term PL-480 agreement with India to replace the present month-to-month arrangement and that he felt he had succeeded in convincing the Administration. The Food Minister will not like this, but there is nothing he can do. He and his Government need PL-480 foodgrains desperately and Patil can, with justification, claim to get a better hearing in Washington even though he may have nothing to do with the food portfolio.

If the Railway Minister's apparently unauthorised efforts in the US have advanced the possibility of a long-term PL-480 agreement, Subramaniam is in no position to look this gift horse in the mouth. Of course, last month he was confidently telling a press conference in Calcutta that his Ministry had prepared two "alternative food plans" for 1966: one assuming that PL-480 imports would continue at the current level and the other that there would be no such imports. The second plan, he claimed, contained the basic mechanism to enable the country to meet its food needs entirely from internal supplies if need be. But at the meeting of the Congress Parliamentary Party's executive committee this week he was far less confident. While every effort had to be made to reduce dependence on food imports, he said, there was *no alternative* to imports of PL-480 food. What happened to the alternative plan which he had flourished only weeks ago at Calcutta? There was no mention at all of it at the Congress Parliamentary Party meeting.

The Food Minister has estimated that foodgrains output this year will be three million tonnes lower than in 1964-65 and that there may be serious shortfalls even in some of the surplus States. Also, it is unlikely that there will be any significant carryover of stocks. How serious the situation is can be judged from the fact that with a harvest of 88 million tonnes in 1964-65 and with wheat imports of 6 million tonnes wholesale food prices have

been barely held at the levels to which they had risen after the crop failures of the first three years of the Plan.

Simultaneously with the food prospects becoming grim, the State Governments begun to wriggle out of their commitments about procurement and rationing. The Maharashtra Chief Minister wants three months stocks of foodgrains in hand before he will consider statutory rationing in Bombay and the bigger cities! No doubt other States are no less cautious since all the Governments are anxious not so much to prevent starvation but to ensure that the responsibility for it should not be pinned on them.

No wonder Subramaniam has made up his mind that no strings are attached by the US Government to PL-480 foodgrains. If this was known all along, why has the Prime Minister been warning us that we would have to do without PL-480 imports and why did Subramaniam himself take the trouble of formulating his two alternative food plans for next year? And what stands in the way of a long-term agreement in place of the present monthly shipments which are obviously giving the Food Minister sleepless nights? Perhaps a more factually correct statement from the Food Minister would have been that, given the food prospects for the coming year, the Government has to have PL-480 imports, strings or no strings. 1967 is election year and further rise in food prices, acute shortages, and possibly famines over extended areas on the eve of the election are a frightening prospect which the Government must avoid at any price. To set the price is for President Johnson.

LIC: Another Lacklustre Year

THE Life Insurance Corporation's sales organisation and operating methods need close looking into. For two consecutive years in which national income has grown steadily, a little more than 4 per cent in 1963-64 and 7 per cent in 1964-65, its new life business in India has remained stagnant at about Rs 690 crores. In the latest year ending March 1965 the number of new policies issued was 14.35 lakhs, which is 2 lakhs less than in the previous year and slightly less than in 1961. The Chairman, B D Pande, attributes the stagnation to

"rising prices which have their impact upon the small margin of savings available at the best of times" and "possible difficult economic conditions" but also admits dissatisfaction of officers with their terms and conditions of service "culminating in a slowing down of activity in the most critical period when business is normally at its highest." These differences have been resolved since the end of the financial year but the impact of this settlement along with the concessions granted earlier to junior staff is clear from the steep rise in renewal-expense ratio from 12.46 per cent to 14.09 per cent. Rising costs are not peculiar to insurance but their impact upon other business is cushioned to a large extent by increasing turnover. This relief has been denied to LIC.

Staff discontent is not a recent phenomenon in this organisation. It erupted soon after nationalisation in 1956 when the personnel and grades of a large number of erstwhile private units were integrated. Since then the emoluments of junior staff have been improved fairly consistently but those of officers were increased only this year. The demoralising effect of officers wearing protest badges and going slow at work has told on new business. It is easy to be wise after the event and deplore the prolonged stiff resistance which LIC management put up against staff demands but in fairness it should also be conceded that the management received no clear guidance from the Government in the matter and when some preliminary decisions were taken, the then head of LIC suffered for them. With 50,000 persons on its payroll and about 140,000 active agents to canvas business, LIC has still to frame a personnel policy and build up an image for itself among its own staff — in what other large and expanding organisation would there have been such thoughtless opposition to the installation of computer systems?

There has been a fractional improvement in the settlement of claims arising from death and maturity. The ratio of outstanding claims to total claims during the year came down from 33.4 to 32.3 per cent. No separate ratio is given for claims arising from death but one can presume it to be higher; there are no data on the average time taken to settle such claims.

LIC's investment of Rs 4 to 5 crores in the last two months to support stock exchange prices without asserting its bargaining position was highly creditable and useful indeed; in the long run, it would be profitable too. But in the final analysis, LIC has to be judged by the expansion of its life business.

Jute Industry's Problems

FULLY eighteen years have passed since Bengal was partitioned, along with the Punjab, when India won independence in 1947. Nevertheless we are still deficit in raw jute which supplies the raw material for India's premier export commodity—jute manufactures. Much progress has been achieved in growing more jute in India but even in 1964-65 we had to import almost three lakh bales to supplement our own crops which had suffered due to bad weather. The balance sheet of the performance of jute goods exports in 1964-65 must include this import to arrive at the net contribution to India's export earnings.

In the early summer of this year there were misgivings about the 1965-66 crop too, because of weather conditions in the sowing season. While these anxieties are now somewhat less, the recent countrywide emphasis on growing food crops must have its impact on jute. Earlier the Government of India had fixed a target of 11 million bales of raw jute for the Fourth Plan—to be achieved by 1970-71. In August last the Government set up a high-powered committee under the chairmanship of B. P. Patel, Chairman, State Trading Corporation, to suggest measures to increase supplies of raw jute. This committee is composed of senior officers of the Government of India and concerned State Governments. It has also been asked to examine the quality of raw jute produced in India.

The problem of productivity will assume very serious proportions in the drive to increase jute production as there is the competing demand for land to grow foodgrains. Obtaining higher per acre yield is a problem which has been examined in detail by several expert panels in the last decade or so. But from the actual progress made it appears that in the implementation of the various schemes formulated and experiments made, much remains to be desired. The total effort needed is of very substantial dimensions, and unless that is put in, no progress can be expected. An illustration of this is the recently report-

ed decision of the Government of West Bengal to multiply at least 5,000 maunds of improved jute seeds in its district farms when the State's requirements are nearly sixteen times as much.

At a recent meeting of the Jute Textile Consultative Board at Calcutta, the Government assured the industry that in order to step up the tempo

of modernisation, expansion and diversification of the jute mills it would be prepared to consider the self-financing scheme of importing such machinery and equipment as are not indigenously manufactured, to the extent of Rs 10 crores. Further the Jute Commissioner has been entrusted with working out a scheme in consultation with the IJMA and jute mill machinery manu-



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LPE-Aiyers S. D

facturers in India for a five-year hire purchase scheme under which banks would advance a five-year hire purchase loan to the industry for purchasing indigenous machinery. Such schemes are already in existence for cotton textile, cement and certain other types of machinery, in the production of which Indian enterprise has made notable advances. Banks too can obtain certain refinancing facilities for such business from the Industrial Development Bank. An extension of this facility to jute mill machinery should not prove too difficult.

Prospect of Administrative Reform

THERE is much for the proposed high-powered commission on administrative reforms to do. The Hoover Commission's labours in the US have had far-reaching impact on the American administration and have attracted considerable attention outside the US. But if it is to produce worthwhile results the commission must proceed with a clear understanding of the key issues to be tackled. The Home Minister has informed Parliament that the commission will make a "deep and comprehensive" inquiry into practically all aspects of administration. It is, however, possible that armed with a wide mandate the commission might plunge into irrelevant details like, for instance, reduction in staff of government departments, a task that legitimately belongs to O and M experts. In fact, there is a good case for farming out detailed studies, whenever these are called for in view of their bearing on larger issues, to academic men and professional consultants on an *ad hoc* basis. This approach will be preferable to entrusting such work to the Administrative Reforms Division of the Home Ministry, which one may expect is what will be done. The A R D lacks the appearance of being objective which is necessary for public confidence in the deliberations of any administrative reforms commission.

Coming to the vital issues on which the commission will do well to concentrate, two aspects of administrative procedure bearing on the citizen's dealings with the administration need emphasis. First, common red tape or administrative delays—in the absence of any statutory safeguards, the citizen now manages to get his work done by payment of what has come to be known as speed money or by resorting to other expedients. In the US the Administrative Procedures Act of 1946 sets down the guidelines for dealing with

the citizen's demands on the administration. For instance, the Act lays down the outer time limit for dealing with a request from the citizen. It puts the responsibility on the administration to explain any delay beyond the prescribed limit. In India there has been much discussion on this subject, one section of opinion favouring a general Act applicable to all Acts and another advocating specific provisions incorporated in each Act. This is clearly an issue which the commission ought to take up in the interests of eliminating one of the breeding points of corruption.

A second issue is that of providing an independent appeal system in the administration. At the moment, except in very few cases, there is no provision for appeal to an independent higher authority against the decisions of the administration. The citizen has, of course, the facility of appealing to a higher authority within the department. This is a procedure which Lord Denning has rightly dubbed as a system of appeal from Caesar to Caesar. It lacks the appearance of impartiality which is necessary if the administration is to have the confidence of the citizen. Too often, the higher authority within the department is more anxious to protect and justify the action of his subordinate than to mete out justice to the aggrieved citizen.

In this context, it is welcome to note Nanda's assurance that the administrative reforms commission will also deal with the question of setting up an ombudsman to hear public grievances against the administration. The ombudsman's role as a grievance-man has rightly attracted wide publicity, but there is another aspect of his working which is not widely known. The ombudsman can act as a standing one-man administrative reforms commission. This he has done in countries where he has been functioning by constantly drawing the attention of the administration to defects brought out in the course of his working. His close study of the working of different agencies of Government has been of much value in improving departmental standards in these countries. This is the sort of function the Comptroller and Auditor General performs with regard to financial administration in India and elsewhere.

Indian Publicity Abroad

A Correspondent writes:

EVERY time the foreign press criticises Indian policies or actions such as on Goa, Kashmir or in the

recent war, we attribute it to the failure of Indian missions abroad to perform well their job of presenting the correct image of the country. Recently, after the Indo-Pak hostilities, an expert committee has been appointed to investigate the working of the Indian missions. The Prime Minister has, however, sought to exonerate the missions of the charge of failure and has attributed the unfavourable reactions abroad to the prejudices of the various countries.

In all this discussion the very important issue of the relations between Indians abroad and our diplomatic personnel is forgotten. The former are frequently eulogised as the "unofficial ambassadors" of India but their dealings with the Indian embassies and consulates are generally marked by a complete absence of cordiality and a good deal of mutual disgust. As a result, the so-called unofficial ambassadors who can potentially be a very effective channel for expounding the Indian point of view are completely isolated from the Indian diplomats, and are denied adequate information on developments at home.

This handicap arises partly from the fact that no Indian daily issues an air mail edition. Some publish weekly air mail editions but they reach Indians abroad days after crucial events take place at home. And, most unfortunately, Indian embassies supply virtually no factual information to Indian nationals. A recent experience during the early stages of the conflict with Pakistan illustrates the point. At least a majority of the non-official Indian delegates who were in Yugoslavia for two international conferences in September found the Indian embassy in Belgrade unable or unwilling to acquaint them with the situation at home. The teletape made available to them was edited to remove all war news. The diplomatic bag was said to arrive only once a week and so no Indian newspaper giving news of the developments since September 1 was available. While the Press Officer was reported to be "on tour", the embassy staff itself was said to be depending on the B B C broadcasts for its information!

On the other hand, the full teletape could be read at the American embassy; and the Pakistani delegates received all available details from their embassy. Perhaps in this contrasting behaviour of the embassies of the two countries is the explanation for a British cor-

respondent's report that at BBC interviews on a special programme Indian students in London performed very poorly compared to their Pakistani counterparts. The information supplied by the Pak embassies may all be mischievous propaganda, including stories of Bombay having been bombed, but rumours thrive most when no facts are made available.

There is thus urgent need for asking Indian embassies to establish close rapport with Indian nationals abroad and to supply the latter with all available information. Such a policy can at least partly offset the harm done by the crimes of omission and commission of the foreign press and their correspondents stationed in India. At least the daily press releases that at present go only to diplomatic colleagues or to unhospitable newspapers

should be made available to Indian nationals.

A measure of equal, if not greater, importance would be to send Indian newspapers, including the leading dailies, to important public and university libraries abroad, gratis and by air. Foreigners interested in our country (as well as Indian nationals abroad) will thereby be able to know our point of view at first hand. (At present, even the reading rooms in Indian chanceries display dailies which are at least a week old, and most libraries get them only after two months.) The expenditure on air postage would hardly exceed a few lakhs of rupees and would prove much more fruitful than that on sending 'delegations' to dozens of countries to do a job for which most of their members are hardly trained or qualified.

LETTERS TO EDITOR

Food Stocks with Consumers

AT the recent meeting of the Congress Working Committee, an interesting statement was made by the Chief Minister of Gujarat. He said that although the output of cereals in the State is expected to be only 13.85 lakh tons against 23.66 lakh tons during the last year, "this shortfall is being offset partly by many people voluntarily surrendering their ration cards and others managing without cereals".

It is possible that the normal tendency of deficit States to exaggerate their deficit and of surplus States to under-estimate their surplus might be operative even now. But it is indeed surprising that the reported movement for voluntary surrender of ration cards in Gujarat has failed to attract attention and emulation elsewhere. The rationale of the movement lies in the fact that many consumers can afford to, and habitually do, stockpile foodgrains for their anticipated needs for a year or so. If all such stocks could be drawn upon the severity of the food crisis now haunting the country can be mitigated a good deal. The crucial issue, of course, is the willingness of consumers to overcome the considerations of uncertainty of food crops next year and to abstain from making any claims on the stocks available with the Government that are distributed through the fair price or ration shops.

It is most unlikely that the habit of stocking up is confined to consumers

in Gujarat only and, therefore, the movement for voluntary surrender of ration cards can usefully spread to other States as well. Such a movement will also help cut down further stockpiling and if a substantial number of urban consumers adopt it there will be fewer opportunities for producers to get higher prices on sale of their crop to non-governmental agencies.

There is also an urgent need for a firm drive to detect bogus cards for foodgrains and sugar. Several of the inspectors appointed for the purpose in Greater Bombay are reported to be avoiding the task of visiting individual households to check on the actual number of family members. In fact, at least one conscientious person I know resigned within a fortnight of his getting a job as an inspector, because he was disgusted with the current practices. The long run solution perhaps lies in issuing identity cards with photographs of members to all households, as is proposed, on a voluntary basis, for Indian citizens in Assam. The scheme can be confined to urban areas to be brought under rationing and can, in the first instance, be tried out on a small scale. The cost would be relatively negligible and the identity cards would have manifold uses. If properly organised, the scheme can lead to population registers such as are maintained in Japan and Sweden and several other countries in Northern Europe. It would also enable the Government to make

a much-needed distinction between the ration quota for sedentary white-collar workers and that for manual labourers whose consumption needs tend to be higher.

Finally, the miss-a-meal movement is unlikely to make any impact on the food situation unless it is accompanied by a cut in the foodgrains quota allotted to each individual. Its psychological value is perhaps exaggerated, although if the movement catches on in the rural areas some impact may be produced on the marketed surplus.

PRAVIN M. VISARIA

Bombay
November 11.

Methanol

IN his excellent article on "Defence-Oriented Orientation of the Chemical Industry" (*The Economic Weekly*, October 16) Ajoy Gupta states that "our present capacity for production of methanol is nil". This is true, but in this context it should be mentioned that a methanol plant is currently under construction as part of the Trombay fertiliser project. This plant will produce refined, technical grade methanol for the first time in India. According to the latest report of the Fertiliser Corporation of India, which is responsible for the Trombay fertiliser project, the methanol plant will go into production in the next two months. When in full production, it is expected to produce about 33,000 tons of methanol annually.

R RAMACHANDRAN

Bombay
November 1.

Not a Secular Act

THE Weekly Note 'Not a Secular Act' in your issue of October 23 doubts the wisdom of the public performance of "bhoomi pooja" by the Prime Minister of a country which places great faith in the concept of a secular state. Towards the end you have also stated that it is hard to imagine the possibility of any public work being inaugurated with a Muslim or Christian ritual. I feel that such a possibility may and perhaps will materialise if one of our future Prime Ministers belongs to the minority community. Surely, if our Vice-President can be from the minority community, then some day in the future our Prime Minister may also be either a Christian, a Parsi or a Muslim since our constitution guarantees equality of opportunity and does not recognise any distinction based on caste, creed or colour.

R K CHARI

Bombay,
October 30.

CAPITAL VIEW

Homework Needed on Military Affairs

Romesh Thapar

PAKISTANI infiltration into the Kashmir Valley, likely to be pushed vigorously during the winter months, is being supplemented by a large-scale grabbing of desert lands along the Rajasthan border. This cynical violation of the cease-fire is made necessary because of Rawalpindi's desperate need to prove that as a result of the recent hostilities Pakistan had occupied more of India's territory than India of Pakistan's. The 'claim' being popularised in diplomatic circles is 1,600 square miles!

That we consider ourselves free to expel the Pakistanis from areas occupied after the cease-fire has been stated in categorical terms, but again we seem to be making the error of withholding detailed information on the infiltrations because some wooden bureaucrat in the Defence Ministry imagines that he knows better and there is no one with the sense to correct him. This inexplicable secrecy over matters which are known to the enemy provides Pakistan with the opportunity to state that its forces were all along in these illegally-occupied areas.

The more perceptive observers in the Capital are beginning to express a certain anxiety about the situation along the so-called cease-fire line. The Pakistanis appear to be determined to remain firmly entrenched on our territory in Chhamb and Khemkaran, the two points which they consider the most vulnerable sectors of our frontier. Unless, our military command is able vigorously to punish the Pakistanis for every cease-fire violation — and punishment must be strictly localised — there is danger that we will become victims of a prolonged and undeclared war of attrition.

The fact that we are in the vicinity of Lahore and Sialkot should not blind us to the advantages Pakistan enjoys in the present diplomatic situation, advantages which permit greater flexibility in military blackmail. Admittedly, Ayub and his colleagues have been startled by the fighting capability of the Indian jawans despite the odds faced in armour and fire power, but they are also convinced that certain rather fortunate and unexpected factors helped Indian com-

manders in the field to turn the tide. The 'hawks' in Rawalpindi might well be persuaded to try again.

What gives the Pakistani 'hawks' the gumption to play with the idea of another foolhardy adventure?

True, the vital Chhamb-Jaurian-Akhnour sector which is ideal 'tank country' and protects our lines of communication to Kashmir and Ladakh was inexplicably denied defence works in depth, and had the Pakistanis used their air force in support of their armour on September 1 they might well have achieved what we set out on September 6 to prevent them from achieving. But it is equally true that our thrust in the Lahore and Sialkot sectors was weakly conceived and organised by Army Headquarters, conducted with inadequate strength and hopelessly short of air support to provide decisive results. After all, the Pakistani 'hawks' know that the advance formations of the Indian army did cross the Ichhogil canal by the evening of September 6 only to be thrown back subsequently — and, what's more, if the 'right hook' had been more boldly launched from Dera Baba Nanak the entanglement with the unmapped defences before Sialkot would not have been all that damaging to a decisive result. The attempted invasion of the Punjab by Pakistan's First Armoured Division via Khemkaran almost succeeded, but the command tactics courageously adopted by our jawans with devastating effect in this sector against the enemy armour did become the 'style' in all the battles which took place later along the front — and these tactics paid handsome dividends. If our intelligence services failed miserably to detail the enemy's armoured strength, fire-power and elaborate defence system — failures which could have compromised us gravely — our army staff is now at least more experienced in handling the kind of situation which might develop if hostilities are resumed following the erosion of the cease-fire. Moreover, in a future flare-up, air support to the ground forces will be solid and sustained. And, next time, two-thirds of the Indian Air Force will certainly not be kept in reserve and uncommitted — a decision which some experts argue probably

robbed us of a more decisive result.

What then encourages the Pakistani 'hawks'? From the information that trickles in, the assumptions in Rawalpindi are as follows:

(1) The Paks hope to infiltrate over enough mileage in Rajasthan to create the impression of a military victory when the UN observers demarcate the so-called cease-fire line. This, it is presumed, will cause demoralisation in India.

(2) Soon it will be made known that the Pak army is fully reorganised and replenished. An attempt will be made to create the semblance of three armoured divisions poised for battle. Proof will be advanced that the Pak army has ensured its supplies despite the ban by the USA, and this will cause further demoralisation in India.

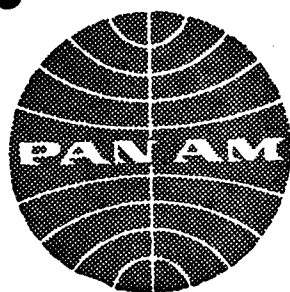
(3) The build-up of the Sino-Pak alliance will see further strengthening, particularly after the setback to Chinese interests in Indonesia. Moreover, the need to restore Peking's prestige after its damaging projection during the recent hostilities will encourage China's leaders to adopt more threatening postures towards India, destroying her confidence to cope with so many fronts.

(4) The hope continues to be expressed that India will not be able to resolve her political problems in Kashmir. These will fester and provide the Pak pockets in the Valley the chance to create disorder — even revolt — in the coming months.

(5) The uncertain cease-fire is expected to strengthen the hands of communal groups within India. These groups are seen as working towards a collision with the Muslim minority, a collision which could further weaken and splinter the resolution of India to resist Pak pressures. The more impatient would even use the exodus of Hindus from East Pakistan to fan the flames of communalism. Significantly, the most impatient are the die-hard Punjabis who see such an exodus as marking the end of the eastern wing's numerical preponderance in Pakistan.

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(6) And, finally, the confidence is widespread in Pak army circles that India will not be able to replenish her stocks of ammunition and spares within the context of the ban imposed by the USA and UK on the delivery of such supplies. It is argued that the equipment being received by India from the USSR can only become effective in the long-run, that during the immediate period India has to rely on western sources which will not respond unless certain geopolitical surrenders to Pakistan are accepted. Then, in the event of Indian reluctance to bend, the stage will be set for another adventure.

It is clear even from this summary of Pakistani attitudes that a crucial error was made in agreeing hastily to a cease-fire which was viewed as a 'breather' by the enemy. It was the duty of political and military leadership to assess the staying power of the enemy. If this assessment had been done, a short prolongation of hostilities would probably have given us the decisive result which the military campaign failed to yield for various reasons. It does not need a genius to appreciate how skilful tactics in the UN could have delayed the cease-fire until such time as our objectives were gained.

It is incredible how our political and military leadership continues to harp on the fact that it was not intended to 'occupy' Lahore and Sialkot. 'Occupation' has many variations. It does not always involve a street-by-street control. Lahore's railway marshalling yards at Moghulpura and the waterworks near the Ravi would give control over the city, particularly if the bridges over the river had been cut. As for Sialkot, the city had been more or less abandoned; its fall, alone, would have psychologically clinched the operation to punish the aggressor. Or were we playing with the notion that the punishment delivered was enough and that Ayub, a moderate, was better to deal with than some Punjabi revanchist like Kalabagh?

Perhaps, it is far-fetched to imagine that any kind of sophisticated reasoning was brought to bear on the timing of the cease-fire. The Cabinet was certainly unaware of the nuances of the situation. If Defence Minister Chavan believed that he understood the ramifications and kept the Prime Minister informed, then it has to be stated that his understanding was off

the mark. Indeed, many knowledgeable persons, while welcoming the Prime Minister's decision to leave, for good or for worse, the conduct of the campaign in totality to the army staff are now of the opinion that in future political control over strategic objectives, both political and military, will have to be strengthened. It is for the Prime Minister to find the mechanism to do this without endangering the control of the army staff over the day-to-day conduct of a campaign.

It is in this context that the irrepressible Dr Lohia has been agitating

for the publication of the still secret (sic!) report on the clash with China in NEFA and for a serious study of the lesson of the recent hostilities with Pakistan. For once, he is right. A democratic State, in which Parliament is sovereign, cannot be content to base its thinking on obviously slanted — and often contradictory — hand-outs from the Defence Ministry upon which newspapers have unfortunately come to depend. A closer involvement with military affairs is demanded. If this involvement is possible in the USA despite all the security risks, surely our Defence Ministry can open up.



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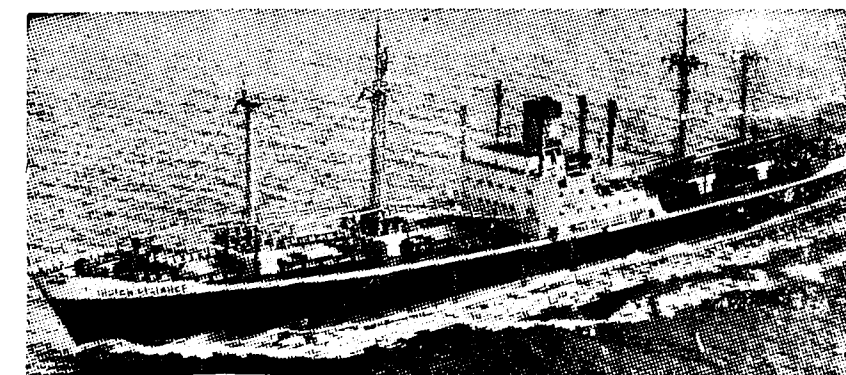
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people's growth to maturity. If we have to live with land frontiers reduced to cease-fire lines, and have to make the sacrifices which such a situation calls for, then it is high time that Parliament be called upon to do its belated homework on military affairs. After all, we are at the

moment in peace spending Rs 3 crores per day on this activity. Yes, Rs 3 crores per day excluding the cost of a clash, a fracas, limited hostilities or a prolonged war! Our members of Parliament have been known to take an obsessive interest in less.

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BOOK REVIEW

Agriculture and Econometrics

Amiya Bagchi

Agricultural Production Functions, Costs and Returns in India by C H Hanumantha Rao; Asia Publishing House, 1965; pp xi+99, Rs 12.

IN the first essay of this book Hanumantha Rao has fitted Cobb-Douglas productive functions with land and labour as the inputs to a set of data, derived from A M Khushro's study "Economic and Social Effects of Jagirdari Abolition in Hyderabad State" (1958). He omits capital from the list of the inputs entering the production functions, "as the estimated elasticities relating to this input when included were found to be non-significant, due to certain gaps in the data relating to this item" (p 4).

Rao derives certain conclusions from this study which are obviously important: (a) "the marginal product of labour is positive and significant" (p 24); (b) "as between different regions and types of farms, wherever the functional significance of labour is greater and the per acre labour inputs relatively lower over a considerable area comprising large-sized farms, the elasticity of output with respect to labour input is higher relatively to that for land" (p 25); (c) "... apart from the regional differences in soil fertilities, the regional disparities in the pattern of land holdings are an important factor in explaining the regional disparities in productivity" (p 25); (d) "... with the labour-intensive technique, productivity of land and total output can be raised best under a more even distribution of the ownership of land which would work for a greater identity between these three factors" (viz, ownership, management and work) (p 26)

Rao also draws contrasts between the elasticities of output with respect to land and capital in irrigated or partially irrigated and unirrigated areas. Briefly, it is contended that the elasticity of output with respect to land is lower in the former and higher in the latter (i.e., unirrigated) areas than the elasticity of output with respect to labour.

Some of these seem to be quite sensible conclusions and the last one is very important and not at all obvious. The trouble is, however, that these conclusions are erroneously arrived at. Rao's analysis suffers from two basic defects: first, he fails to specify in any

detail the set of economic relations and institutions from which the data are generated;¹ secondly, he fails to realise that long-term policy prescriptions cannot be based on a static model mirroring some aspects of the working of a farm economy within a short period of time. The total indifference to technological and agronomic considerations that the book displays is related to this second defect.

What Does a Good Fit Mean?

Even in advanced industrial economies with malleable capital and mobile factors of production, it is not very clear what precisely a good fit of a set of data by the Cobb-Douglas function implies.² Furthermore, there is a dilemma involved in the specification of the competitive conditions under which the Cobb-Douglas production function can be estimated from observed experimental data. On the one hand, it is well-known that a set of data relating to inputs and outputs at a moment of time can represent points on a production function *only if* the firms generating those data can be supposed to be maximizing profit under purely competitive conditions. On the other hand, in long-period equilibrium if all factors and products are bought and sold under conditions of long-period equilibrium, then all the firms will have the same endowments of factors and the data relating to all the different firms will be the same, so that no estimate can be made. In these circumstances, it has been concluded that the only data on the basis of which unbiased estimates of production functions can be made are engineering or experimental data.³

If this is the prospect of estimation of Cobb-Douglas production functions on the basis of data relating to firms in advanced economies, the prospects of estimating production functions of a simple nature in Indian agriculture on the basis of non-experimental data are even more bleak. It is well known that the mobility of land among different cultivators is extremely restricted. Then there is the phenomenon of joint family and the running of the

farm on the basis of family labour. There is the season-bound character of farming operations: the distribution of labour, rainfall and other inputs among the different phases of cultivation can be a critical factor in determining the productivity and profitability of farming operation. Associated with this season-bound nature of cultivation is the high degree of uncertainty surrounding all the calculations of the farmers. And finally the vast differences between the farmers as regards wealth, income and the prospects of employment influence their choice of inputs, can be summarised in the two exponents of labour and land in the Cobb-Douglas production function.

When one tries to interpret these exponents as the elasticities of output with respect to the two inputs, as Rao has tried to do, one gets into even greater trouble. Rao's estimates would imply that independently of the extension of acreage or the increase of capital, an increase in labour alone should increase agricultural output in India by a substantial proportion. Anyone who has studied the history of agriculture in Eastern India during the period 1900-1940, or anyone who pauses to consider the poor level of productivity in the lateritic regions of West Bengal suffering from soil erosion will find it hard to credit this message of hope.

The fact of the matter is that even without any basic innovation in the methods of cultivation a growing pressure of population on the soil will dictate new patterns of land use, new crop rotation systems, different ways of using water and other scarce plant nutrients. When we add the effect of increase in the factor that is missing from Rao's scheme — viz, capital, the effects are even more far-reaching. When the amount of fertilisers applied grows, when dry areas are irrigated, when improved seeds and strains of cattle are introduced, or when fodder is raised on cultivated grasslands instead of natural ones, the changes can rarely be considered as just a change in the quantity of capital; they will involve the introduction of new *types* of capital, new techniques, new crop-

ping patterns, and new alignments between workers, owners and managers. An intensification of cultivation will also necessitate a higher level of education for the farmers.⁴ It is clear, as the Ladejinsky report and other studies show, that in many cases new techniques can be fully exploited only if the system of absentee landlordism in its various forms can be abolished in India. But Rao does scant service to the cause of effective agrarian reforms by badly prescribing a more egalitarian distribution of land on the basis of a study which assumes the techniques of cultivation to remain unchanged.⁵

Wrong Emphasis

In the second essay the author compares farm costs and returns of different states. He takes "net income" per acre which is arrived at "by deducting from the gross value of output the input values of seeds, manures, fertilizers, irrigation charges, feed of bullocks and the depreciation on fixed equipment, e.g. bullocks, implements, machinery and farm constructions", (p 29) as the index of efficiency of farms. It is not clear why the wages of hired labour are not deducted from this measure of net income. Rao arrives at the interesting conclusion from this study that "farms which lease in some area invariably show lower costs on bullocks and implements. Indeed, it is not without significance that regions where area leased is relatively large, e.g. Punjab, Andhra, West Bengal and Madhya Pradesh show relatively lower costs on bullocks and implements" (p 61-62). The data used for this study are derived from Farm Management Studies sponsored by the Research Programmes Committee. Rao does not indicate the tremendous (and often, unknown) margins of error involved in these data. If he had taken account of errors involved in the data, he would probably have paid less attention to a subtle analysis of the differences between 'net incomes' between different size-groups, and more attention to such blatant facts as the differences between the average sizes of farms in Punjab or Bombay and West Bengal, and the differences between the states of water supply and land use between Madhya Pradesh and Madras. That the study would have benefited from such a shift of emphasis is abundantly clear from the many illuminating comments Rao offers as disdainful asides at the end of each of his essays.

The third essay analyses the relative profitabilities of different crops measured by net income per acre in different regions, again on the basis of the Farm Management Data. His conclusion is, in his own words, "the present inquiry reveals a remarkable correspondence between the net income per acre (after deducting variable costs excluding family labour from gross output) from different crops and the area under them" (p 90). What is this "correspondence" supposed to reveal? That the farmers are "rational"? Would the lack of such a correspondence have revealed them as being "irrational"? If farmers were free to choose their crops entirely on the basis of the net income they would derive from them, and soils were homogeneous within regions then only the crops yielding the highest marginal returns per acre would be selected. Even then the figures of average profitability correlated with the figures of distribution of land among the crops would not reveal anything. As it is, farmers are limited by their subsistence needs, by their debt positions, by the cycle of the seasons, and by the nature of the soils in the choice of crops to be cultivated. In such a situation a bald analysis of the data relating to average profitability for different crops will reveal nothing about the rationality or irrationality of farmers, if no other background information is provided to support such an analysis. As it is, the conclusion of the author might mislead the unwary into thinking that, by and large, all is well with our crop pattern and land use in different States, whereas nothing can be further from the truth.

The above comments are by no means a critique of econometric analysis in Indian agriculture in general; nor are they to be interpreted as a criticism of all production function studies. Production function studies based on experimental data or on a proper specification of the institutional and technological background can still serve a valuable purpose in bringing out certain implications which are not obvious from unprocessed data. But if Indian agricultural economists continue to ignore the findings of soil chemists, agronomists and geographers bearing on Indian agriculture, their policy recommendations can only be considered irresponsible or irrelevant. It is sad that with all the detailed knowledge of Indian agriculture that Rao obviously possesses, he should be

tempted to play up to the conventions of a professional coterie which may have little bearing on the problems of the real world.

Notes

- ¹ See in this connection, the review by Zvi Griliches of Heady and Dillon: "Agricultural Production Functions" (Ames, Iowa, 1961), a book to which Rao repeatedly refers for guidance.
- ² E H Phelps Brown: "The Meaning of the Fitted Cobb-Douglas Function", *Quarterly Journal of Economics*, November 1957.
- ³ A A Walters: "Economies of Scale: Some Statistical Evidence: Comment", *Quarterly Journal of Economics*, February 1960.
- ⁴ See Rene Dumont: "Types of Rural Economy" (London, 1957).
- ⁵ There may be a conflict between an immediate increase in productivity per acre through redistribution of land on a more egalitarian basis and the long-term increase in productivity if the richer farmers do tend to save and invest a much greater proportion of their incomes than smaller farmers. But this conflict will in effect vanish if the State provides most of the scarce inputs and the growth of output is limited by the demand for new techniques and new inputs by farmers.

Lakshmiratan Engg Forges Ahead

AN all-round increase was recorded by Lakshmiratan Engineering in production of ring frames, Lister diesel engines, Freedom range engines, sealed compressors, spindles and high drafting equipment in the year ended September 1964. Value of sales and job work done was higher by 20 per cent to Rs 1.95 crores. But the net result was a loss of Rs 10.04 lakhs, as against a profit of Rs 1.09 lakhs earned a year ago. This is attributed by the management to the higher cost of production which, it says, could not be compensated by a corresponding increase in the sale prices of products, as a major part of the production had been sold in advance. Both equity and preferential dividends are, therefore, again skipped.

Growth of Calcutta's Business District

Meera Guha

This article examines briefly the historical developments leading to the displacement of the Bengali population from large commercial enterprise in Calcutta by trading castes from Uttar Pradesh, Rajasthan and Gujarat and the spatial changes which have followed this.

THE chief commercial concentration of Calcutta is located in an area lying along the Hoogly River, covering wards 17, 19, 24 and 26. In the immediate neighbourhood, where commercial functions are also present to a lesser degree, the density of population rises as high as 761 (ward 25) and 586 (ward 20) per acre. The tradition in the region which has always been one of trade and commerce has attracted various communities of differing origins and composition. The geographical character of the area formed one of the bases of this tradition. In a marshy deltaic setting, the high levee banks of the river formed the site of several villages, while the river itself provided an easy means of communication. Some of these villages were religious centres or centres of Brahmanical learning, while some were centres of trade or of manufacture by artisan castes. Upon one portion of this levee, Sutanuti, a reputed cotton yarn market of the 17th century was located. This place became the famous 'mid-

day halt' of Jub Charnock, and later developed into the city of Calcutta. It was around this nucleus that the central commercial functions of the city evolved. In the north lay the old village site of Sutanuti, later known as Hatkhola and Beniatola (ward 17); while to the south were Jorabagan-Pathuriaghata (ward 19 and 24), and Burrabazar (ward 26). At the time of Plassey in 1757, Jorabagan-Pathuriaghata lay between the villages of Sutanuti in the north, and Kalikata to the south. The latter was the site of the English settlement, which lay to the south and west of the Dalhousie square of present times. There was a bazaar north of Kalikata, known as Bura-bazar (Bura is said to be the pet name of Siva). The old name of Pathuriaghata came from a jetty or wharf (ghaut), where building stones and fodder for draught-horses were unloaded. Originally residential in character, these together were known as the 'native quarter' in the 18th century.

la-Beniatola was composed chiefly of the trading and artisan castes of Subarnabanik (banker), Gandhabanik (spice merchant), and Tantubanik (weaver), who followed their traditional hereditary callings. Most of these people had migrated from Hooghly, in the north, to Calcutta, in the 18th century. This was when, because of silting in the river, Saraswati the famous port of Saptagram was on the decline, and the new centre at Sutanuti offered fresh opportunities of trade and commerce under British patronage.

Southwards, in Jorabagan, Pathuriaghata and Burrabazar, the original resident population was defined in separate wards belonging to castes like Kayastha (scribe), Brahman (priest), Suri (distiller), Subarnabanik and Tantubanik. Several of them are said to have been residents of the village of Govindapore, from where they were displaced during the construction of Fort William in 1757, and were given compensatory land by the Company to the north of the English settlement.

Use of Land in the Wards of the Business District of Calcutta (One unit—3,025 sq yds.)

Ward No	Area	Year	Residen- tion	Com- mercial	In- dustry	Re- tail Trade	Re- crea- tional	Reli- gious	Admi- nistra- tive	Edu- cational	Hos- pital	Bus- tee	Park	Tank	Va- cant	Total
26	75	1911	72	50		18		6							3	146
		1961	94	98		20		6								221
		% change +	29%	64%												100%
37	115	1911	56½	193		14		3½	21	1		1			½	290
		1961	65½	237		15		3½		3					2	356
		% change +	70%	42%												58%
39	131	1911	86	100	4	12		4	41	1					3	248
		1961	108	148		22	21	9	38							349
		% change +	7%	24%												77%
23	77	1911	80	10½		5	1½	2		½	2	17			9	127½
		1961	145	16		26	1½	3½	10			3				205
		% change +	85%	6%												100%
24	129	1911	115	6		16		3	23	1		4		3	13	184
		1961	175	14		7		½	27	4		3½	½	1	1	235½
		% change +	46%	6%												38%
25	112	1911	253½	6	2	17	1½	7	½			3		½	1	291½
		1961	303½	13		13	1	2½	2	½		½		½	5½	341½
		% change +	44%	5%												43%
27	92	1911	82	13		10		6½		½		1½			3½	116½
		1961	238	20½		18		1							½	279
		% change +	170%	8½%												178%
19	113	1911	85	12½	3½	8		1½		2		12		3	30½	161
		1961	121½	12		8½		1				12		9	23	190
		% change +	32%													25%
17	80	1911	97½	40		1½		½	6			28			6	179½
		1961	146	31		3	1½	1½	6½			5½			2	197
		% change +	60%	11%												21%

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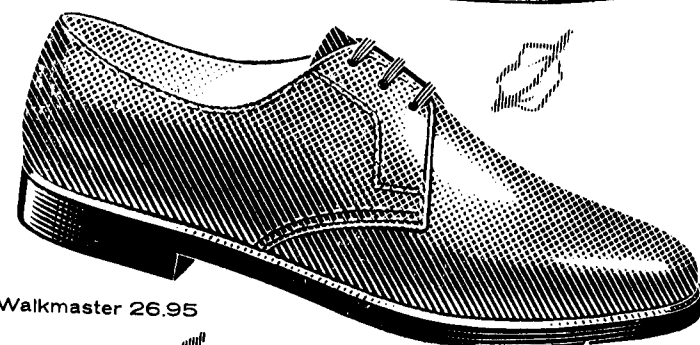
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THE ECONOMIC WEEKLY

Several members of these groups began to participate in commercial activities with the East India Company, as agents or 'banians'.

By the 18th century, fresh historical developments took place which led to a number of significant social changes. Revenue collection in Bengal under the Mughals was made through indigenous zemindars in charge of specified districts. When the East India Company came into power in the 18th century, proprietary rights were given to these zemindars by the Permanent Settlement Act of 1793, and the revenue demands of the landlords' assets were fixed in perpetuity. But in order to ensure immediate payment, the Sunset Law was adopted. By this, the lands of the estates were sold to meet arrears if the revenues were unpaid by sunset on a fixed date, the 30th of Asvina of the Bengali year. Several of the old zemindar families became defaulters through the operation of this law, and the new citizens of Calcutta, already engaged in trade, began to buy up these estates when they were offered for sale. Moreover, at the peace under British rule helped in the extension of agriculture, hitherto neglected in an unsettled atmosphere investment in zemindari became a highly profitable enterprise. Thus the group of absentee landlords resident

in Calcutta emerged as a new class altogether. Such were Butto Kristo Paul (Gandhabanik), Brindaban Chandra Basak (Tantubanik), Baisnav Charan Sett (Tantubanik), Sovaram Basak (Tantubanik), Lakshmikanta Dhar (Subarnabanik), Ramlochan Ghosh (Kayastha), Darpanarayan Tagore (Brahman), who were residents of the area under discussion.

The Bengali landlords, once diverted from trade, began to seek opportunities in other avenues of occupation. They had already taken readily to western education by the beginning of the 19th century, and their familiarity with the English language made it easy for them to move into the services in European mercantile firms as well as under the administration. Many families consequently left the field of commerce to which their grandfathers had been attracted. This change took place more rapidly among the Kayastha and Brahman families. For we find that among the other castes, the Subarnabaniks have till today, maintained their original banking occupation besides making new investments in shipping, textiles, jute and coal industries. Only a very small fraction of these caste groups has moved into the 'bureaucratic and learned professions.

Thus the field of large commercial

enterprise was left open to a new group which gradually moved in. These were the trading castes from Uttar Pradesh, Rajasthan and Gujarat. This transfer received further incentive by the construction of railways, when the north-western provinces of India were brought within the trading range of Calcutta. To-day the non-Bengali population is a dominant group in the economic life of Calcutta.

Spatial changes also have been initiated by this replacement. The new commercial groups who have concentrated in the Burrabazar area are gradually spreading out in a distinct pattern all over the city. Whenever old localities are redeveloped, the rich non-Bengali businessmen purchase land along the new traffic arteries and build many storeyed structures. The original resident Bengali families are moving out to give place to the new settlers; so much so, that, as in the case of the central business district, only a small fraction of the original core remains, maintaining an oyster-like existence. In consequence, to-day, Burrabazar is populated mainly by non-Bengali businessmen from Punjab, Uttar Pradesh and Rajasthan. Jorabagan-Pathuriaghata, lying between this area and the northern Bengali locality of Hatkhola-Beniatola, has a mixed population of both Bengali and non-Bengali popula-

SOME FUNCTIONAL AREAS OF N. CALCUTTA

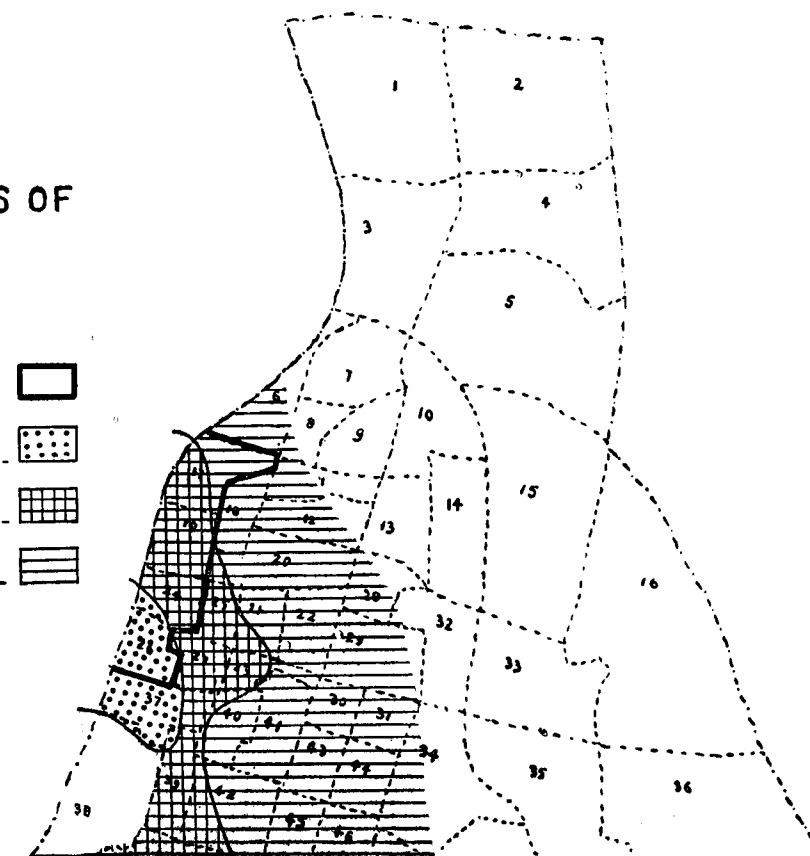
LEGEND

Area under discussion

Predominantly commercial

Mixed residential & commercial

Residential



tion. Thus certain social peculiarities are noticeable in the region described above. Here, in spite of the predominance of commercial activity, the different communities maintain discrete concentrations. They are apparently marked off from one another by differences of language, dress, living habits and occupations.

There has also been an invasion of commercial functions in a once predominantly residential area. Occasionally abandoned palatial residences have been converted into ware-houses. This is greatly in evidence on the northern fringes of Jorabagan and in Beniatola. The market functions of Burrabazar have extended along the Hooghly bank on its inner side, and also eastwards. This is of wholesale trade in non-perishable foodstuffs and other commodities. Consequently, heavy motor traffic has encroached upon the area, giving rise to car-repairing and motor ancillary trades. The wholesale commerce of Burrabazar has also brought in a floating population of coolie labour, which finds refuge on the pavements every night, while a few rooms in bustees are collectively rented by them for storage of personal belongings. The river front is in addition lined with timber depots.

There has been a decline of residences in those localities where the advancing commercial functions make demands upon space. Prosperous residences as a result are being replaced by others of a poorer quality, while land values have arisen tremendously. The table on page 1695 bears out some of these features of change between the years 1911 and 1961.

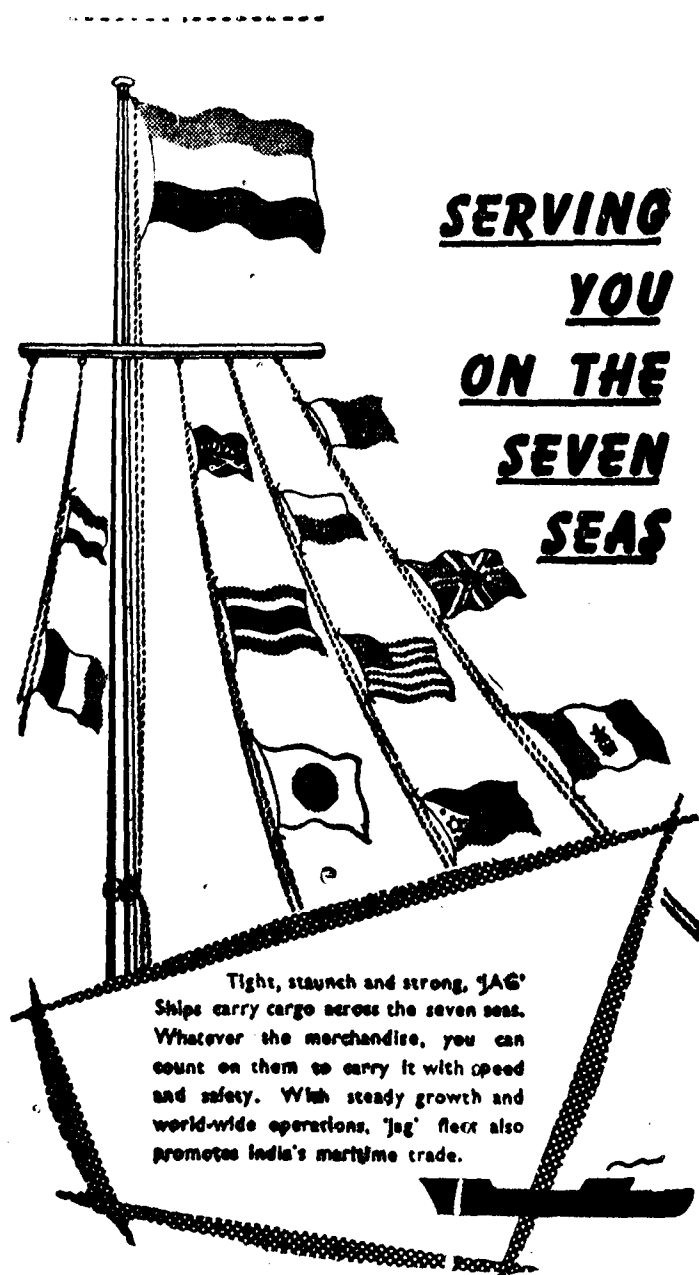
We find that although there has been an increase in total land use, in the nucleus of wards 26, 37 and 39, the increase of commercial functions is considerably larger than that of residential ones. Thus it is possible to define a zonal arrangement of functions lying around the core of Burrabazar. The latter is extending outwards into a zone which now forms the transition between advancing commerce and retreating residence. Still farther away is an area which is still mainly residential in character.

What is more striking is the almost total absence of those functions which are associated with residence, namely educational amenities, clubs and public parks. This is also substantiated by a study of the voluntary communal institutions of the area. Interest in higher education is lacking among the residential commercial population. Except for one or two schools which cater to pupils from outside the region, all the schools are primary, either run by schoolmasters mainly as a means of

livelihood or free schools run by the Calcutta Corporation.

The changing spatial forms have resulted in a state of fluidity, so that social integration is feeble with relaxed social responsibilities. In many cases, where old recreation clubs, run by Bengalis, existed, they are now practically defunct. Similarly, social service organizations do not function properly. The only exceptions in this connection are those non-Bengali community organizations which function for the benefit of their caste groups spread over the whole of Calcutta. Such institutions are well organized and are founded in Trusts. Examples

are: Marwari Relief Society, Maheshwari Sava, Sri Kashi Visvanath Samiti, Svetambar Tarapanthi Sava, Punjabi Seva Samiti, Gujarati Seva Samaj. On the other hand, a different set of organizations cuts through these inter-communal differences. They are a number of trades associations like the Federation of Mercantile Employees Union, Bengal Bank Association, India Bank Employees Association and so on. But these have countrywide affiliations. It seems, therefore, that the social scene is characterized by an un-integrated group of distinctive communities, whose ties are extremely temporary.



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Indirect Taxes, Profits and Prices

V C Shah

Indirect taxation has been increasingly accepted as a powerful instrument for both resource mobilisation and resource allocation in a developing country. It may also contribute to the objective of external balance. Excise duties, for instance, could help export promotion by restricting domestic consumption of exportables. In addition, indirect taxation may be harnessed to serve two other objectives—mopping up of surplus profits and giving relief to consumers—as stated in the budget for 1965-66.

This paper is mainly concerned with these two objectives and the choice of products in respect of which changes were made in indirect taxes in the 1965-66 budget.

IT may be pointed out that although the analysis will be in terms of the indirect taxes introduced by the budget for 1965-66, it has a wider significance and application. For, the underlying characteristics of the Indian economy and their implications for fiscal policy may well be shared by some of the other developing economies also.

One of the objectives of the indirect taxes imposed by the budget for 1965-66 was to mop up a part of surplus profits earned on the sale of scarce commodities whether imported or indigenous. The rise in indirect taxes was also expected to correct the existing distortions in the price structure of the commodities affected by the budget proposals.¹ With this end in view, excise duties on copper and copper alloys in crude form, steel ingots, plates and rails and sleeper bars, rods and structurals, black sheets, hoops, skelp, strips, galvanised plates and sheets, tin plates and tinned sheets were raised. In addition, there was an increase in import duties on stainless steel plates and sheets, steel tin plates, sodium hydro-sulphite, essential oils, perfumery not otherwise specified, and on paper not otherwise specified but excluding newsprint and printing and writing paper.

The second objective was to provide a measure of relief to consumers by lowering excise duties on commodities whose prices are at present high. The choice of products on which excise duties were reduced fell on those commodities whose supply position was such that "one may reasonably expect the relief to be passed on to the consumers".² Excise duties on footwear, cycle parts, cycle tyres and tubes, printing and writing paper used in the publication of registered dailies were removed, and those on price-controlled varieties of grey as well as processed coarse and medium cotton cloth, vegetable product, cheaper type of printing and writing paper were reduced.

The crucial question is whether the choice of commodities for increasing

and reducing excise and import duties is really consistent with the two objectives of the indirect tax measures. This is essentially a problem in the theory of shifting of tax. The partial equilibrium analysis in the following pages is mainly confined to the short-run effects of the indirect taxes with a view to finding out the consistency or lack of it between the choice of products and the objectives of the policy of indirect taxation. Obviously, it is not concerned with the problem of resource allocation through taxation.

The first step in the analysis is to spell out the assumptions and conditions under which economic theory would expect a rise in indirect taxes to mop up a part of the surplus profits and a reduction or abolition of such taxes to provide relief to the consumers. The objective of mopping up surplus profits essentially requires that the tax increase is not shifted wholly or partially to the consumers of the products. Similarly, the objective of providing relief to consumers requires that the tax reduction or removal is either entirely or partially shifted to the consumers. In other words, the conditions and assumptions for one objective would be diametrically opposite to those for the other objective. It would, therefore, be useful to concentrate on the assumptions and conditions necessary for fulfilling only one of the objectives.

Mopping Up Surplus Profits

Theoretically, an increase in the tax rate on a commodity will mop up profits of the producers to the full extent of the rise in indirect tax under two conditions: (a) if the supply is completely inelastic or (b) if the demand for the product is infinitely elastic. Under one of these two conditions, there would not be any shift in indirect tax, given certain assumptions. One of the assumptions is that there is perfect competition in the product and factor markets. The other is that producers follow a policy of profit maximisation.

If there is no perfect competition, several possibilities might arise. Under conditions of perfect monopoly, if the demand function is linear and the marginal and average cost are constant, the increased tax rate would be shifted to a lesser extent than under conditions of perfect competition. In other words, a rise in the indirect tax will mop up to a greater extent the profits of a monopolist under these conditions of demand and supply. If, however, the demand curve is convex to the horizontal axis, a monopolist will be able to shift completely the rise in the indirect tax to consumers. Furthermore, if the demand curve has a constant elasticity, the rise in the price as a result of the imposition of an indirect tax would be greater under conditions of monopoly than those of perfect competition.³

It is well-known that both the models, viz, perfect competition and monopoly are not to be found in reality. Therefore, it is necessary to examine the effects of an imposition of an indirect tax or an increase in the indirect tax on the prices of products under conditions of market imperfections such as monopolistic competition or oligopoly. Here again if oligopolists, for example, do not follow a policy of profit maximisation, the problem of shifting an indirect tax becomes more complex. There are various reasons why oligopolists may not maximise their profits. Their pricing policy may give rise to unliquidated monopoly profits under certain conditions.

Given the inflationary situation, there is a considerable timelag in the process of adaptation to changes in the demand conditions when the market structure for an industry is characterised by oligopolistic conditions. This would give rise to unliquidated short-run monopoly gains for various reasons.⁴ It is well known that any change in price under conditions of interdependence always takes time, since the collusion among the producers will not be perfect. Another reason is that there might be a conflict

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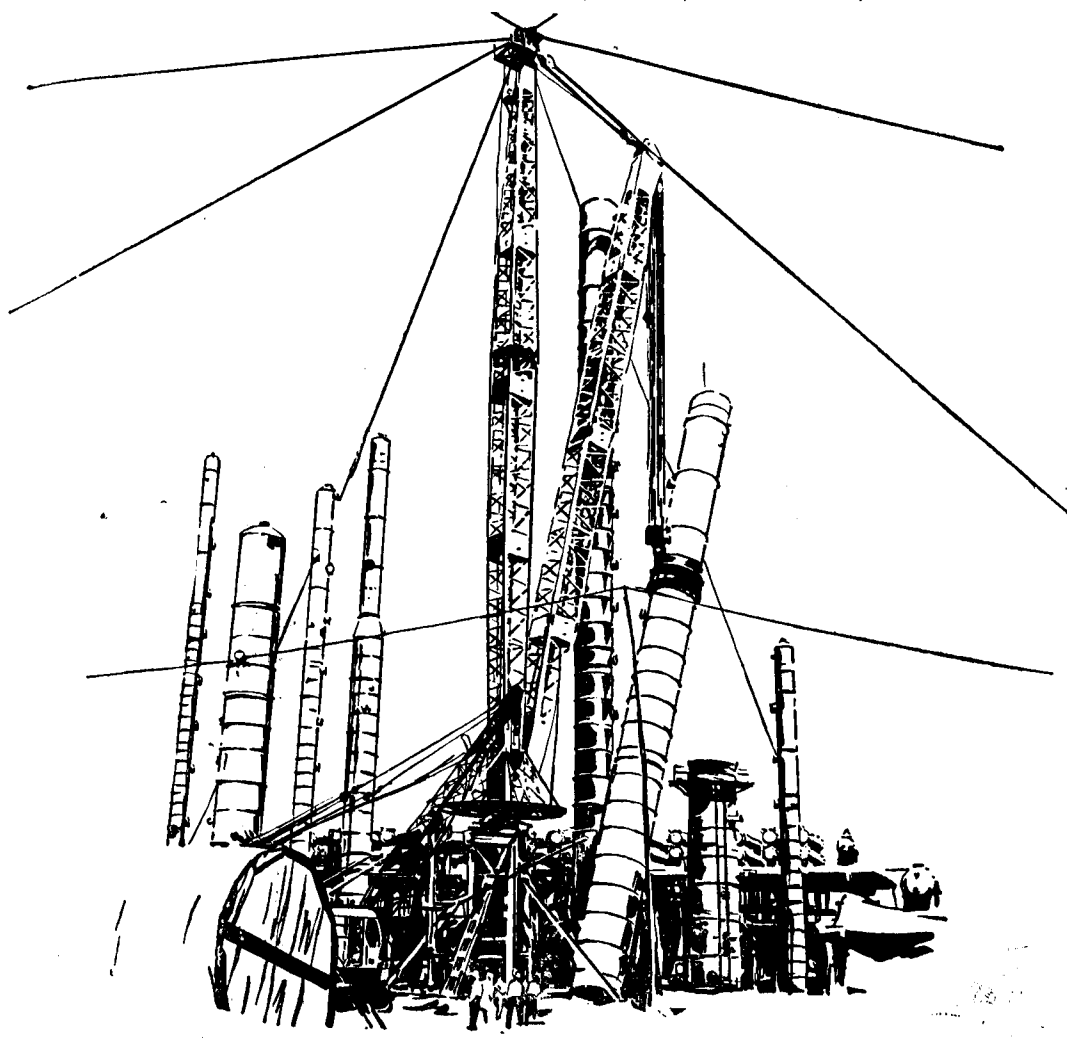
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between short-term and long-term profit maximisation. It is very likely that prices which would maintain profits at a maximum at any point of time might well defeat the goal of maximising profits over a long period of time because consumers might be induced to switch over to substitutes. There is also a danger that abnormal profits in an oligopolistic industry might quickly induce potential competitors to set up new enterprises.

In the case of India, there are other important factors which might support the hypothesis that producers in the 'growth' industries being developed behind the tariff walls and the industrial policy of the Government, might be following an administered pricing policy not designed to maximise profits in the short-run. In India, as in countries like the USA and the UK, manufacturers might be afraid of Government interference if they earn abnormal profits by exercising their monopolistic or oligopolistic power in the market. They would invite Government interference in the form of price controls particularly in a country like India where the Government professes to pursue policies aimed at bringing about a socialistic pattern of society and also at preventing concentration of economic power. Another factor which might discourage producers in India to maximise profits is the level of direct taxation. They might follow a policy of accumulating unliquidated monopoly gains rather than pay a very high rate of marginal tax on increased profits accruing from a profit maximising policy. Moreover, if such industries earn abnormal profits, there is all the likelihood that the trade unions would press for higher wages. And labour cost is irreversible. To avoid such an eventuality, management is likely to be inclined to follow a policy of not maximising profits in the short-run. In view of these considerations prices, in an inflationary situation as characterised by the Indian economy, would tend to be lower than those that would maximise current profits and would give rise to unliquidated profit margins.

The relevant question is whether or not the industries on which additional excise duties have been imposed are oligopolistic ones. It is true that the number of producing units in a given industry is not a necessary and sufficient conditions for considering it as an oligopoly. However, the market structure tends to be oligopolistic when the number of enterprises in a

specific industry is relatively small. So far as iron and steel products are concerned, it is well known that the main producers of finished steel products are 6 units—3 in the public sector and 3 in the private sector. Of course, there are secondary producers, as well as registered and unregistered rollers contributing a small proportion to the total output of finished steel products. Only one manufacturer produced copper in 1964-65. There were 24 firms producing brass copper sheets and circles, and 15 all other copper alloys. Sodium hydro sulphide was manufactured by 3 domestic producers. As regards the phenomenon of backlog of orders, the iron and steel industry has accumulated a large number of orders. Because demand exceeds supply, the Government has continued price controls of certain varieties of steel products. Again as the country depends considerably on import of copper and copper alloys, and as they are not imported in unlimited quantities, it is very likely that dealers in copper and copper alloys would also have piled up a backlog of orders.

This phenomenon of accumulation of orders itself indicates that the producers do not or are not allowed to charge prices that would maximise profits in the short run. In other words, it implies that there is 'unliquidated monopoly profit' in these industries. If this argument is conceded, it follows that the additional excise duties on these products would be passed on to the consumers. This is because the same considerations which induce them to preserve unliquidated monopoly gains in an inflationary situation, would now encourage them to shift the tax burden to consumers without raising their profit margin. Hence the additional indirect taxes would not succeed in mopping up the surplus profits earned by manufacturers and importers of commodities for which the market structure is oligopolistic.

So far, the analysis was confined to the supply conditions in order to assess the impact of additional excise duties on surplus profits. One should not, however, ignore the demand conditions. Even if the demand conditions are assumed to be constant, it would not be difficult to shift the excise duties to the buyers if the given demand curve is inelastic. This might happen in the case of important intermediate products of iron and steel industry as well as non-ferrous metals like copper and copper alloys. The

user industries which cannot substitute other inputs because of the rise in prices of steel products, copper and copper alloys and in which the cost of such inputs is a small proportion of the total cost of output would be prepared to pay higher prices. Thus the nature of demand also tends to indicate that the choice of some of the products does not seem to be consistent with the objective of 'mopping up surplus profits'.

Relief to Consumers

Economic theory tells us that a reduction in excise duties on certain products would give relief to consumers in the form of lower prices if the supply is perfectly elastic or the demand is completely inelastic. It was stated in the budget speech that the supply position in certain commodities might lead one to expect that the relief would be passed on to the consumers. However, by and large, the supply conditions in various industries in India would tend to be inelastic. Excess capacity because of unfavourable demand conditions would be rather unusual in the context of the Indian economy. The industrial licensing policy designed to match 'capacity' with demand targets at any moment of time and the low priority given to consumer goods industries would tend to make the supply of consumer goods rather inelastic. Moreover, existing units in the consumer goods industries, such as, vegetable products, cycle parts, cycle tyres and tubes, footwear and coarse medium cotton cloth might have stretched their production to the point beyond which marginal cost would become infinitely inelastic. If, so, there would be no need for such industry to lower their prices as a result of the removal or reduction of excise duties.

One should also consider the market structure for the products on which excise duty has been reduced or lowered. Except for cotton textile industry,⁵ the market conditions would tend to be oligopolistic. There were 45 producing units in the paper industry in 1964, 12 in Western type of leather foot wear and also 12 in indigenous type of leather foot wear. Bicycle tyres were produced by 11 companies and bicycle tubes also by 11 companies in 1964. Bicycle spare parts were manufactured by 51 units. There were about 45 manufacturers of vegetable products in 1964⁶. It may be emphasised that in the industries in which the number of manufacturers

seems to be large, the market conditions might be far from those of perfect competition. That is because in such industries like paper manufacturing and vegetable products, there are a few large producers who exercise a dominant control over the market and who can act as price leaders.

The oligopolistic market structure in the case of commodities on which excise duty is abolished or lowered would suggest that the relief would be passed on to the consumers because the oligopolists would like to maintain their profit margin by allowing unliqudated monopoly profits to accumulate. Here, however, one has to consider what really happens in the retail market. It is plausible that when the price of a commodity like vegetable products is lowered by the big manufacturers because of the cut in excise duty, their authorised wholesale dealers would likewise make the price reduction; but it may happen that the retail traders may not cut the price for the benefit of consumers because of the overall scarcity of the product. Thus the policy of reducing excise duty on products having an oligopolistic market structure might lead to an increase in the profits of retailers rather than to any real relief to consumers except when the manufacturer himself undertakes retail distribution through a system of chain shops or multiple shops as in the case of Bata Shoe Company.

The analysis thus indicates that on *a priori* grounds, the choice of products may not be consistent with the two objectives of the indirect tax proposals of the budget for 1965-66. By way of generalisation, it may be emphasised that in underdeveloped and overpopulated countries, it is useful to consider the implications of the market structure before determining fiscal or monetary measures. Import restrictions, the industrial licensing policy, the size of the market for growth industries manufacturing important inputs for other industries, all tend to create market conditions which would be far from those of perfect competition. Furthermore, while devising fiscal and monetary policies, one should bear in mind that supply conditions in the case a large number of commodities would be inelastic. In most cases, though not always, manufacturing units are likely to be working at full capacity in the sense that they would have stretched output to the point beyond which marginal cost would become prohibitive. Thus, sup-

ply inelasticity and oligopolistic behaviour of the new industries both in the capital goods and the consumer goods sectors should be regarded as two very important characteristics of some of the developing economies as represented by the Indian economy while determining fiscal or monetary measures.

Notes

¹ Finance Minister's Speech (Part B), Budget 1965-66, Government of India, p 2.

² *Ibid*, p 1. For details of the tax measures, *Ibid*, pp 2-5.

³ A R Prest, "Public Finance in Theory and Practice" Weidenfeld and Nicolson, London, p 55. See also R A Masgrave, "The Theory of Public Finance" McGraw Hill

Book Company, 1959, pp 288-90 and 299-302.

⁴ For a lucid exposition of the concept and implications of 'unliqudated monopoly profits', see J K Galbraith, "Market Structure and Stabilisation Policy", *Review of Economics and Statistics*, May 1957, pp 124-133.

⁵ Incidentally, it may be noted that the reduction in excise duty on certain varieties of cotton cloth may act as a disincentive to export it by making the domestic market more attractive for the manufacturers.

⁶ "Annual Report 1964-65", Ministry of Industry and Supply, Government of India, pp 30-38.

Kargali Washery

A Review of its Working

A B Ghosh

Though the Kargali coal washery made a profit for the first time in 1963-64, the economics of its working still leaves much to be desired.

Some of the reasons for this can be traced to defects in the construction of the washery, which could have been avoided, had greater care been exercised at the time of entering into the contract with the Japanese collaborators.

However, other causes of Kargali's high operating costs can and should be remedied. An attempt is made below to identify these.

THE decision to set up the Kargali washery was taken in 1955 to meet the coking coal requirements of the then proposed Rourkela and Bhilai Steel plants. Located in the (East Bokaro Coalfield) Hazaribagh district of Bihar it has a special advantage in that the use of railway wagons has been eliminated as raw coal feed from Bokaro and Kargali Collieries (containing about 20 per cent ash) is carried by bi-cable aerial ropeway. The yearly input capacity is 2.2 million tonnes based on a washing unit of 463 tonnes per hour working two shifts of about eight hours a day for approximately 300 days in a year. It is a composite type of washery employing both heavy medium separators and Baum Jig. Contract for the supply, installation and commissioning was placed with M/s Eastern Equipment and Sales Ltd in collaboration with M/s Daiichi Bassan Kaisha Ltd, Japan, in March 1956. The scheduled date of commissioning was 1 January, 1958 but the washery actually went into operation¹ in November 1958. Capital cost of the entire project inclusive of ancillary works such as construction of residential buildings, water and electrical installations etc, was Rs 2.5 crores approximately. The destination of clean coal is Rourkela Steel Plant (70 per cent) and Bhilai Steel Plant (30 per cent); middlings are for the Bokaro Thermal Plant and rejects for back-filling the mines.

The rated capacity and output of washed coal of the washery since its inception are given in Table 1. There has been a steady decline in the idle capacity. This is reflected in the financial performance of the washery as shown in the Table 2 which gives a summary of its working⁵ expenses since inception.

In calculating operating cost [item (13)] items (1) and (2) have been excluded for obvious reasons. Items (10) and (11) have been excluded in calculating the operating cost of the relev-

ant individual years as they do not belong there; both have however been taken account of in estimating the average operating cost of washing per tonne [item (16)] for the six year period; this average portrays the picture more faithfully than the yearly data; for a plant has a normal period of development. The operating cost per tonne since 1960-61 is more or less the same if we exclude the cost of railway sidings; the corresponding average for six years is Rs 6.9.

Aggregate loss increased during the first four years, came down in the fifth year to a level lower than that of the second and was transformed in the sixth year into a profit of Rs 14.1 lakhs (Rs 12.1 lakhs if Rs 2 lakhs transport charges of middlings by ropeway to D V C are excluded). The Estimates Committee made the following observations on the growing losses during the first four years:

"In reply to a written enquiry... it was stated that it was not true to state that the washery had been running at a loss. In accordance with the agreement arrived at, the H S L (the only consumer of Kargali washed coal) had been paying the corporation at an ad hoc rate of the notified price for Sel B grade coal plus Rs 5 per ton with the understanding that once the final price was negotiated and settled, the difference, if any, between

the final price so settled and the provisional price would be made good by the HSL." (Para 62)

"A settlement was stated to have been reached with HSL in this regard during 1961. Under this, the HSL would reimburse the Corporation with the actual expenditure incurred upto 30th September 1961. For the subsequent period a standard cost is to be worked out on the basis of principles agreed upon between the two parties. The Committee consider that the standard cost should have been worked out from the very beginning. The system of payment at cost is not conducive to economy and efficiency. They hope that there would not be any further delay in arriving at the standard cost and that such arrangements would be made in similar cases in the future." (Para 63)

Even admitting that there was no loss from the point of view of the Kargali washery it must be pointed out that the possibilities of keeping down expenses were not fully explored. For example, though middlings are sold to the Bokaro thermal power station, situated at a distance of about seven miles, a considerable quantity is simply dumped on the site, there being not enough market for it. The Estimates Committee pointed out (Report Para 65) the desirability of issuing middlings to the employees

Table 1: Idle Capacity of Kargali Washery²

Year	Rated Capacity in washed coal (lakh tons)	Actual output (lakh tons)	Per cent of (3) to (2)
1958-59 (4 months)	1620	1.47	27.2
1959-60	"	8.40	51.8
1960-61	"	8.14	50.2
1961-62	1646	10.85	65.9
1962-63	"	11.02	
1963-64	"	12.73	77.3

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(as is the practice in many developed countries) who during two years 1959-61 were supplied free coal amounting to Rs 53.67 lakhs. This measure would have increased the utilisation of middlings and released substantial coal for industrial and other purposes. Again, it is remarkable that despite a fall in washed coal output in 1960-61 compared to 1959-60, expenditure on depreciation and miscellaneous items was considerably higher. Similarly, the provision for doubtful debts (item 10) to the extent of about Rs 15 lakhs in 1961-62 and Rs 8.7 lakhs in 1963-64 betrays insufficient concern for sound business principles.

Some other features relating to the performance of the washery are mentioned below to emphasise the urgent need for watchful care of its finances. Unsatisfactory performance in its early years led to the appointment in July 1959 a departmental committee which pointed out that:

- "(1) The designed capacity of the washery fell short of the expected input capacity of 2.2 million tons per annum.
- (2) There was excessive size degradation of coal during its transit from the colliery's end upto the washery.
- (3) The capacity of the bi-cable ropeway did not come up to the specific rate of 250 tons per hour for 20 hours a day.
- (4) Inadequate provision had been made for storage purposes at various stages.
- (5) There was excessive coal dust in the washing plant for which adequate arrangements for dust control were not provided."

Also, there were "maintenance and service difficulties due to lack of supply of coal, railway wagons, removal of rejects and middlings, shortage of power and water of spares."... An expert's description of the operation of the washery was that, "The plant stammers. It operates for ten minutes and then there is no coal; it shuts down for an hour and when coal arrives it operates for an hour when there is power failure. It shuts down again for half-an-hour or an hour. When power comes back, there is a failure in water supply. In fact often over 30 per cent of the working time is lost in this manner."

Table 2: Kargalis Working Expenses

	1.11.58 to 31.3.59	1959- 60	1960- 61	1961-62	1962-63	1963-64
(1) Coal consumed in production	40.1	221.5	216.0	302.6	342.4	423.5
(2) Opening stock of washed coal	0.0	0.5	0.8	0.5	1.98	1.36
(3) Consumption of stores, power and water	3.0	11.0	10.4	14.9	16.5	16.6
(4) Repairs and Maintenance	x	0.8	0.4	6.2(a)	5.5(a)	4.2(a)
(5) Salaries, wages allowances, Bonus, and contribution to P. Fund	1.6	8.2	10.1	12.9	14.1	20.4
(6) Administrative charges	x	x	x	3.6	3.6	3.8
(7) Miscellaneous	0.5	0.3	3.3	3.9	5.6	18.0(b)
(8) Depreciation	8.6	11.6	21.1	18.0	12.4	13.4
(9) Interest on Capital outlay	2.6	7.5	7.8	10.3	10.97	12.37
(10) Provision for doubtful debts	x	x	x	14.9	x	8.7
(11) Adjustment pertaining to previous year	x	x	2.1	14.2(c)	x	x
(12) Aggregate Working expenses [(1) to (11)]	56.4	261.4	272.0	402.0	413.0	522.3
(13) Aggregate operating cost [(3) to (9)]	16.3	39.4	53.1	(69.8 (65.6(d))	(68.7 (64.9(d))	(88.8 (85.6(d))
(14) Output of washed coal (lakh tonnes)	1.49	8.53	8.27	10.85	11.02	12.73
(15) Operating cost per tonne of washed coal (Rs.) [(13) ÷ (14)]	10.9	4.7	6.5	(6.4 (6.0(d))	(6.2 (5.9(d))	(6.9 (6.7(d))
(16) Average operating cost (Rs) per tonne of washed coal for 6 years				7.1/6.9(d)		
(17) Washed coal sold	38.4	203.8	203.2	280.0	353.2	494.6
(18) Middlings sold	6.2	24.6	23.8	33.0	37.5	39.9
(19) Closing stock of washed coal	.5	.8	.5	2.0	1.4	1.9
(20) Aggregate of (17) to (19)	45.1	229.2	227.5	315.0	392.1	536.4
(21) Aggregate loss (—) or gain (+) [(20) — (12)]	—11.3	—32.2	—44.5	—87.0	—20.9	+14.1
(22) Loss (—) or gain (+) per tonne of washed coal (Rs.)	—7.5	—3.8	—5.3	—8.0	—1.8	+1.1
(23) Average loss per tonne of washed coal for 6 years (Rs)			3.4			

* Aggregate of (21) for 6 years ÷ Aggregate of (14) for 6 years.

The majority of the Committee were of the view that contractors could not be held responsible for the washery's deficiencies. The Estimates Committee's dissatisfaction with the working of the washery is indicated in their following observations:

"It is thus evident from the foregoing that proper care and caution was not observed at the time of inviting tenders for this project as in the absence of project report complete data was not made available to the tenders. The contract entered into with the Japanese firm was also defective as it did not provide for the performance guarantee of the integrated plant and hence they could not be held responsible for ensuring the rated throughput. Repairs and maintenance costing as much as Rs 1.19 crores during the two years had to be carried out at the cost of the Corporation. It is significant to note that the total cost of the washery itself was Rs 1.72 crores only. In addition a period of over three years was spent in getting the defects and deficiencies removed, resulting in loss of production and earnings. Even after this the annual production is expected to be 3 lakhs tons less than the original rated capacity of 16.20 lakhs tons as admitted by the Managing Director. The Committee cannot help feeling that the acts of commission and omission in this case have proved to be quite costly. They hope that there will be no repetition of such mistakes in future. In this connection they were assured by the Managing Director that they had learnt a good lesson and that they had better facilities for testing the coal characteristics and that their own engineers had also better experience."

The staff of the washery was unnecessarily large. The estimated and actual staff in 1961-62 is given below:

Category	Strength as estimated by Japanese Contractors (revised)	Actual strength 1961-62
Unskilled Workers	32	243
Semi-skilled Workers	60	163
Skilled Workers	139	97
Total	231	503

The Managing Director admitted to the Estimates Committee the fact of

overstaffing and undertook to adopt corrective measures. In spite of this undertaking item (5) of the working expenses (salaries, wages, etc.) given above increased by about 60 per cent between 1961-62 and 1963-64 whereas the input of raw coal and the output of washed coal increased by 26 per cent and 17 per cent respectively during the same period. This is quite discouraging specially because of the urgency of the cost reduction measures underlined by Table 3 which gives the performance of the washery during the last few years exhibiting idle capacity in terms of raw coal input and increasingly difficult conditions of washing indicated by a fall in the proportion of washed coal to raw coal feed [item (5)].

As regards the adoption of a standard cost recommended by the Estimates Committee the annual report of the NCDC for 1962-63⁷ informed that for that year (i) the sale price of washed coal was based on the standard cost, (ii) any difference between the actual cost and standard cost during 1-10-61 to 31-2-63 was shared between the NCDC and HSL in agreed proportions, and (iii) the closing stock of washed coal was priced at standard cost as against the controlled rate for selected "B" grade coal plus an ad hoc rate of Rs 5 per ton in previous years. The 1963-64 Report stated that the sale price of washed coal was based on an agreed rate which was to be reviewed at the end of two-year agreement ending on 31-3-1965. The first

agreement covered the period 1-10-61 to 31-3-63. Standard cost for 1962-63 and 1963-64 can be calculated as in Table 4.

Standard cost for earlier years cannot be estimated from published data. The rise in the actual cost per tonne by about Rs 3 is due to larger salaries and wages, extra expenditure on coal transport and provision for doubtful debts; the need for economy on the first and third items has already been emphasised. If these are attended to and an earnest endeavour is made to run the washery at full capacity it will be able to bear comparison with the private sector washeries¹⁰ thanks to the searching scrutiny of the Estimates Committee, sincere acceptance of healthy criticism by the washery authorities and continuous attempt on their part to meet criticisms.

Notes

- ¹ The delay in commissioning was caused by the dilatory machinery of the State Government for dealing with applications for permission for a ropeway, completion of roads, foundation, drainage etc. Other possible causes are the cumbersome time-consuming procedure for entering into agreements with foreign collaborators and absence of a penalty clause in agreements in respect of timely supply of machinery, equipment etc. (Estimates Committee (1962-63) Thirty-second Report, Third Lok Sabha, Para 51)

Table 3: Kargalis Performance

(lakh tonnes)

	1961-62	1962-63	1963-64
(1) Raw coal input	14.14	15.33	17.87
(2) Clean coal	10.85	11.02	12.73
(3) Middlings	2.03	2.26	2.34
(4) Rejects	1.26	2.05	2.80
(5) Per cent of (2) to (1)	77	72	71

Table 4: Standard Cost at Kargali⁸

	1962-63	1963-64
(1) Despatch of washed coal (lakh tonnes)	10.83	12.75
(2) Sale value of washed coal (Rs lakhs)	353.2	494.6
(3) Sale value or standard cost per tonne of washed coal (Rs)	32.6	38.8
(4) Actual cost per tonne ⁹ of washed coal	Rs 32.6 +Rs 1.8 loss per tonne = Rs 34.4	Rs 38.8 —Rs 1.1 gain per tonne = Rs 37.7

² *Ibid.* and Monthly Review of coal Production and Distribution.
³ Based on the Annual Reports of the NCDC.

(a) Including Rs 4.2 lakhs, Rs 3.8 lakhs and Rs 3.2 lakhs respectively for railway sidings in three consecutive years.

(b) Includes Rs 15.1 lakhs for road transport of coal.

(c) The items are:
 (i) Repairs & maintenance of railway sidings Rs 6.3 lakhs
 (ii) Administrative charges

(iii) Land Rent Rs 5.2 lakhs
 (iv) Consumption of coal etc. Rs 0.8 lakhs
 Rs 1.9 lakhs

(d) Excludes cost of railway sidings and for 1963-64 road transport for coal also.

⁴ Estimates Committee Report, Para 54

⁵ *Ibid* para 56

⁶ *Ibid* para 57

⁷ Report: Pages fifty-two to fifty-seven

⁸ Report: Pages forty-two to forty-

five

⁹ See Table 2 above

¹⁰ TISCO's washeries are at Janadoba and West Bokaro and IISCO's at Lodna. The comparability of Kargali's latest performance with that of the three private sector washeries (for coking coal) has been demonstrated by the present writer (from washeries as direct evidence could not be secured) in his forthcoming publication (in Press) on "Some aspects of the economics of coal washing in India".



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Monetary Policy for the Busy Season

Arthagnani

Before deciding on its policy for the busy season, the Reserve Bank must carefully consider the changing economic situation.

The position on the price and production fronts is critical and could well spiral into a runaway inflation. Industrial and commercial interests, used to operating with swollen inventories and to speculating on price rises, will not like a tight money policy.

It is necessary that the Reserve Bank does not give in to pressure from these quarters and instead meets them with strong measures.

THE start of the busy season must set for the monetary authorities some difficult decisions on monetary policy. The experience of the last busy season and the subsequent "slack" season is not so much a guide as warning.

Scheduled bank advances were about Rs 1706 crores at the end of October 1964, and rose to Rs 2119 crores at the end of April 1965. During the last busy season (roughly November 1964 to March 1965), bank advances expanded by Rs 407 crores and borrowings from the Reserve Bank (maximum) amounted to Rs 164 crores. This, despite the fact that the busy season started with a stronger liquidity requirement (at 28 per cent), and the introduction of a step-system in the interest rate charged on borrowings from the Reserve Bank whereby with each one per cent fall in the net liquidity ratio, the rate was raised by $\frac{1}{2}$ per cent on the whole of the borrowings from the Reserve Bank. The inefficacy of this requirement led to a rise in bank rate in mid-February 1965 (almost at the tail-end of the busy season) and a rise in the liquidity ratio to 30 per cent. The Reserve Bank's Annual Report for 1964-65 sums up the net impact of this policy in the following words:

"Borrowings by the scheduled banks from the Reserve Bank during the recent busy season have been at a much higher level than at any time in the past, the maximum being Rs 164 crores...; they have also had to pay considerably high rates of interest to the Reserve Bank, the maximum ever touched being 13 per cent...."

However, so liquid has been the economy that this tightening had little impact on the price situation, despite a record harvest. The general price index for wholesale prices (1952-53=100) showed only a nominal decline from 155.5 in November 1964 to 153.8 in April 1965.

Following this experience, the Reserve Bank laid down in May 1965 certain guide-lines for the subsequent slack season (April 1965 to October 1965); it was expected that the banks, besides repaying the borrowings from

the Reserve Bank, would reduce advances by Rs 200 crores and add to their deposits Rs 200 crores; the gain in funds should be invested in treasury bills so that the banks would be in a better position to meet the credit requirements of the following busy season (November 1965 to March 1966). According to the Reserve Bank, these adjustments would have provided a suitable starting point for the next busy season (November 1965 to March 1966) which is about to start. Unfortunately, like all exercises in targetology, this one has also gone awry. Net bank deposits have increased by about Rs 172 crores (from Rs 2641 crores at the end of April 1965 to Rs 2813 crores at the end of October 1965). Bank advances have contracted by an even smaller amount — Rs 101 crores (from Rs 2119 crores at April-end 1965 to Rs 2018 crores at October-end 1965). And the price-index (1952-53=100) which was 152 at the beginning of April 1965 has risen to 166 by mid-October 1965 (about 7 per cent higher than a year ago).

The banks, therefore, start the busy season from a weaker position than was envisaged by the Reserve Bank; this is also clear from the fact that the over-all liquidity ratio was about 33 per cent at October-end 1965 (against 37 per cent at October-end 1964), indicating that, under the existing system of access to the central banking authorities the banks have less scope to borrow at bank rate from the Reserve Bank than last year. This situation has arisen mainly because the State Bank which had considerable borrowing margin at bank rate last year used it up then — in fact, it was the major cause of the failure of monetary policy last year. This year, the liquidity ratios of individual banks appear to be more in line.

As at October 29, 1965, banks had total deposits of Rs 2813 crores (last year Rs 2531 crores) and advances of Rs 2018 crores (last year Rs 1706 crores). Given this situation, the pressure on monetary authorities to relax the dear and scarce money policy, always great, has increased. Defence requirements and the need to foster pro-

duction are used as arguments to bring about this relaxation. However, almost all the relevant facts indicate the need for maintaining, if not for further tightening, the monetary screw:

(1) The crop reports indicate a smaller harvest than last year. This would justify a smaller rise in bank credit to finance the crops at the same price level. In fact, these crop reports will encourage speculative hoarding — a tendency which would be strengthened by slow and graduated releases of P L 480 foodgrains. Seasonal rise in bank credit is intended to finance the increased inventory of agricultural crops after harvest; a tight-money policy cannot affect the harvest; it can only curb hoarding and price rise — which would be wholly desirable objectives in today's economic situation.

(2) Hoarding is now attributed to the rich farmer; if so, there is less of the marketable surplus coming to the market immediately after harvest, and the lesser the need for commercial financing.

(3) Defence expenditure is likely to increase the liquidity of the economy, and it is necessary to counter this by monetary measures.

(4) With the uncertainty regarding foreign aid and the stoppage of issue of import licences, the total inventory in the country is getting depleted, thereby releasing liquidity and reducing the need for funds.

It is, therefore, necessary that the Reserve Bank reviews the implications of the changing economic situation; the situation on the price and production front is critical, and it could easily degenerate into a runaway inflation. Monetary policy always takes time to be effective, and with the reduced leeway for bank credit expansion, is likely to have an impact on prices and hoarding this time, if the tight policy is continued. Industrial and commercial interests, used to operating with swollen inventories and speculating on price rises, would not like a tight money policy and the consequent pressure on prices. It is necessary that the Reserve Bank does not give in to this pressure and meets the emerging pressures with strong measures.

AROUND BOMBAY MARKETS

Dalal Street Off-Colour Again

Thursday, Morning

DALAL STREET is off-colour again. And the mood has changed all too quickly. The broadening of interest and the modest revival of inquiry in cash shares had encouraged the hope that the market would continue to edge its way up for some time. But the ground gained over the past few weeks has been lost in a matter of days. Dalal Street made a new low for the year on November 10—the lowest for some years.

Reports suggesting major relaxation in Government control over the private sector in respect of production, distribution, prices and industrial licensing in the near future have failed to impart strength to the market which is becoming increasingly worried over the economic prospect. The kharif crop has failed and the outlook for rabi crop is unencouraging. The serious setback in agricultural production will not merely accentuate inflationary pressures but it will also aggravate shortages of certain essential raw materials. The failure of the cotton crop is bound to add to the difficulties of the cotton textile industry which is already faced with the problem of stock accumulation. There is little hope that raw material shortage can be easily made up through imports because of the critical foreign exchange position. Failure of rains has not only caused serious anxiety about the food situation but it has also compelled several States to effect drastic cut in power supply even for industrial users. In order to conserve canal water for food production the Maharashtra State has decided to reduce the area under sugarcane by 25 per cent instead of 10 per cent as fixed earlier. This has led to marking down of Sugar shares.

With food situation looking grim, the economic prospect rendered obscure by power shortage and restricted supplies of essential raw materials and with the political situation continuing to be fluid, it is hardly surprising that the recovery on the stock market generated by the belief in liberalisation of Government's approach to the private sector and aided by technical considerations should have proved to be an extremely short-lived affair. Market sentiment has been further unsettled by the Prime Minister's warning about a heavy dose of additional taxation if the response to the defence loans, gold bonds and the national defence remit-

tance scheme is not adequate. The response so far has been extremely disappointing, the attractive terms of gold bonds and the remittance scheme notwithstanding. Trading sentiment at the week-end was adversely affected by suggestions of a one per cent levy on urban property.

COTTON

Restricted Turnover

THE cotton market continues to present an extremely dull appearance. Activity in futures has come to a virtual standstill and the average daily turnover is too small to feed even half a dozen cotton brokers. Few need regret the shrinkage in speculative activity because it has hardly any bearing on the marketing of the crop. Time was when facilities had to be provided for the smooth marketing of the crop. But now various restrictions have to be devised in order to market the crop within the statutory ceilings because of the continuing shortage of cotton in relation to the industry's growing needs. Lacking both the will and the ability to administer price control, the Government has been revising ceiling prices from time to time with a view to accommodating the unofficial premiums rather than providing remunerative prices to encourage cotton cultivation.

The 1965-66 cotton crop is varying by estimated between 51 lakh and 54 lakh bales. It is clear that indigenous production will be far short of the industry's requirements. It is extremely doubtful whether the shortfall could be made good through increased imports, particularly when imports have already been running at a very high level over the past many years. Quite a large number of mills would be faced with the problem of idle capacity unless suitable measures are taken to ration the available supplies in an equitable manner.

New crop arrivals are beginning to pick up and this led to some softening of prices during the past week. Prices of Punjab cotton have declined by about Rs 30 to Rs 40 per candy from their highest levels. The decline in prices has merely brought prices just within the statutory ceilings. The supply position being what it is, there is little scope of cotton prices keeping much below the ceilings even when the crop movement is in full swing.

The industry and the trade will have to observe strict self-discipline if they are to avoid official intervention.

Considerable interest centres on the outcome of the forthcoming discussions which the Government of India will be having with the Lint Marketing Board of Uganda for securing cotton supplies under rupee payment arrangements. The Sudan has already agreed to supply cotton to India against rupee payments. It is scarcely necessary to mention that the total availability of foreign cotton will depend very largely on the US supplies under P L 480.

OILSEEDS

Sky is the Limit

OILSEEDS and oil prices continue to seek new high levels week after week. There is no knowing how far the prices might go. Perhaps the sky is the only limit. Groundnut oil has already been marked up to a all-time high of Rs 37.50 per 10 kilograms and it is just the beginning of the season. Linseed oil is quoted around Rs 32 and rarely, if at all, has this price been exceeded before. And only during the Korea war boom has castor oil (Commercial) been known to have fetched a price higher than the present level of Rs 24.25. Coconut oil is commanding a fantastic price of Rs 60 per 10 kgs.

These are famine prices. There is little doubt that the failure of the major groundnut crop and the poor prospects for the rabi crops because of the continued drought conditions in all the important oilseeds growing areas will result in a serious shortage of vegetable oils in the 1965-66 season—the last year of the Third Plan. Since it is extremely unlikely that the total supply of vegetable oils would be augmented through imports, the Government will have to take very strict measures and implement them effectively if consumer discontent is not to be allowed to assume serious proportions.

While one can put up with a natural calamity, the situation becomes intolerable when different States pursue policies designed to benefit their own people without any consideration for the hardships to the people in other States. Widely different prices even for the very essential items of daily life

in different States cannot but undermine national unity. Imagine the prevailing wide difference of nearly Rs 1,000 per tonne in the prices of groundnut oil in Rajkot and Bombay. The difference exists simply because the Gujarat Government has banned the export of groundnut and groundnut oil and vanaspati from the State. Hitherto, the export ban did not apply to vanaspati which had exposed the State Government to the charge of being partial to the vanaspati manufacturers in the State. The Government has therefore done well in extending the ban to vanaspati.

New Delhi will be well-advised to formulate a national policy for the equitable distribution of edible oils which are going to be in acute supply in the 1965-66 season. It bears repetition that despite serious shortages, it is possible to check the rising trend in prices if only the Government means business.

The authorities can take little comfort from the thought that the Forward Markets Commission is taking all possible measures to discourage speculation through penal margins. Even at best, margins can only bring about a decline in the volume of speculative activity. There is little that the Commission can do when prices keep soaring on account of serious physical shortages. That is precisely the situation obtaining at present. And that is why futures have continued to seek new high levels. Last week, despite exorbitant margins, linseed futures were bid up to Rs 130 (per quintal), castor futures to Rs 112 and cottonseed futures to Rs 75. Oilcake prices also rose in sympathy with the remarkable strength in oilseeds. Reports from New Delhi indicate that the Government is thinking of banning the export of oilcakes as far as possible. Considering that oilcakes have been earning huge sums of valuable foreign exchange for the country, the ban on export would seem quite ill-advised under the present circumstances when all possible measures are being devised to boost export earnings.

MONEY AND BANKING

Conditions Unchanged

NO change was evident in the Bombay short-term money market during the week to November 10. Demand for funds continued around the previous week's level with minor fluctuations. Supply was well held at last week's level, keeping the interest rates stationary at 4.5 per cent throughout the week.

Scheduled banks increased their deposits by Rs 9.68 crores to Rs 2,812.54 crores during the week to October 29 according to the statement of affairs of the scheduled banks. Bank credit, however, increased very slightly by Rs 62 lakhs to Rs 2,018.47 crores. A major part of the increase in deposits was passed on to the Reserve Bank as balances and the remainder was held with the banks as reflected by the rise in cash in hand by Rs 3.32 crores to Rs 70.21 crores. Borrowings from the Reserve Bank moved down from Rs 3.22 crores to Rs 3 crores. The credit-deposit ratio was lower at 71.77 per cent against 71.99 per cent the week before. Investments in government securities declined from Rs 864.85 crores to Rs 857.34 crores.

Notes in circulation increased sharply during the week to November 5 from Rs 2,612.40 crores to Rs 2,683.46 crores. This increase of Rs 41.06 crores followed a decline of Rs 3.43 crores during the preceding week. It was

made possible by an increase in total notes issued by Rs 37.70 crores and a small withdrawal of Rs 3.36 crores from banking department. Rupee coins at Rs 101.87 crores were lower by Rs 2.30 crores than in the previous week. Government of India rupee securities, however, advanced from Rs 2,335.44 crores to Rs 2,375.44 crores. While the Central Government's deposits continued to move downwards State Governments further increased their deposits. Central Government's deposits declined from Rs 56.55 crores to Rs 50.61 crores while State Governments' deposits increased by Rs 5.63 crores to Rs 12.30 crores. This was higher than the increase of Rs 3.45 crores recorded during the preceding week. Scheduled bank deposits dropped from Rs 108.24 crores to Rs 103.69 crores. Loans and advances to governments at Rs 139.89 crores were up by Rs 10.41 crores and advances to scheduled banks increased slightly by Rs 32 lakhs to Rs 3.69 crores. Investments increased by Rs 14.88 crores to Rs 128.92 crores.

BUSINESS NOTES

Life Insurance Corporation

THE financial year ended March 1965 has proved fairly satisfactory for the Life Insurance Corporation of India. The average sum assured per policy increased from Rs 4,269 to Rs 4,854; new business amounted to just above Rs 701 crores under 14.44 lakh policies as against Rs 703 crores under 16.46 lakh policies. The noticeable fall in the number of policies is chiefly attributed to the slowing down of activity in the second half of the year due to dissatisfaction among class I and II officers over their terms and conditions of service. The total business in force as at the year-end increased by 8.8 per cent to Rs 3,887 crores. The ratio of lapses to mean life assurance business in force fell from 8.2 per cent to 7.5 per cent. The premium income rose from Rs 146.73 crores to Rs 162.25 crores and the total net income from Rs 179.60 crores to Rs 205.09 crores. The life fund as at the close of the year stood at Rs 901.61 crores, an increase of Rs 93.25 crores over the year.

Of the total investments in India of Rs 779.98 crores, the public sector accounted for 74.5 per cent, the private sector for 19.4 per cent, the co-operative sector for 5.2 per cent and the joint sector for 0.9 per cent. During the year, the Corporation ad-

vanced loans aggregating Rs 5 crores to State Electricity Boards for development schemes, and agreed to underwrite 84 new issues to the extent of Rs 17.54 crores. Total assets amounted to Rs 986.64 crores, as against Rs 880.57 crores a year before, the net increase in assets since its inception thus amounting to Rs 572 crores. Income from interest, dividends and rent before deduction of income-tax was Rs 43.96 crores as against Rs 38.25 crores in the preceding year. The gross rate of interest realised on the mean life fund increased from 5.11 per cent to 5.27 per cent and the net rate realised increased from 4.07 per cent to 4.90 per cent. The overall expense ratio rose from 27.46 per cent to 27.55 per cent, while the renewal expense ratio increased from 12.46 per cent to 14.09 per cent, the increase in expenses being due partly to the revision of the terms and conditions of service of employees at all levels.

During the year claims inclusive of bonus additions amounted to Rs 40.46 crores under matured policies and Rs 12.36 crores under policies becoming claims by death. In the first year of operation of general insurance business, gross direct premium amounted to Rs 46.52 lakhs and net claims Rs 5.14 lakhs. A sum of Rs 11.06 lakhs

is carried forward as the net adverse balance.

Of the policies issued in India during the year, 10.42 lakh policies, or 72.65 per cent of the total, were taken by persons insuring for the first time, and 5.90 lakh policies assuring Rs 144.59 crores, being 21 per cent of the total new sums assured in India, were issued under the non-medical schemes. Some 2.22 lakh policies assuring Rs 76.86 crores were issued under the salary savings scheme. New business amounting to Rs 16.35 crores was written under group insurance and group superannuation schemes. The Corporation issued 8,751 policies assuring Rs 11.05 crores in the foreign countries, as against 8,532 policies assuring Rs 10.21 crores, in the previous year.

Indian Hume Pipe

A **S**IZABLE erosion of margins is revealed by Indian Hume Pipe's financial results for the year to June last; sales and pipe laying bills at Rs 5.46 crores were 17 per cent better and gross earnings at Rs 72.63 lakhs were 14 per cent lower than in the preceding year. The gap further widened following increased provisions for depreciation and prior charges, but a good saving in taxation together with a bigger write-back has left equity earnings of Rs 23.96 lakhs to compare with last year's Rs 24.99 lakhs. The unchanged dividend of 15 per cent requiring Rs 9 lakhs is, therefore, again well protected.

The directors say that the company made satisfactory progress in completing the jobs of laying of prestressed concrete pipes and erection of penstocks at various places, and it has large orders on hand. Its factories at Vishakhapatnam, Pattencheru and Karari are in regular production, and the new factory at Talcher is to shortly go into production. The erection of the Benghazi factory has been nearly completed and it is expected to soon begin production. The company is awaiting the approval of the Company Law Board for investment in the proposed floatation of a subsidiary in Ceylon. The directors propose to incorporate a new subsidiary company in the name and style of "National Rifles Ltd" in which Indian Hume Pipe will invest Rs 10 lakhs.

Oriental Power Cables

The main difficulty faced by the power cables industry has been the shortage of lead due to insufficient import allocation. The prospect of the industry getting increased supply of

raw materials including lead has improved, as the Planning Commission has now accorded a high priority to the industry. This has been possible because the Government has obtained a special loan for providing additional raw materials to the industry.

Despite the shortage of lead, Oriental Power Cables, which began commercial production of paper insulated power cables in July 1964, has reported fair progress in the year ended May last. It has not only been successful in manufacturing all types of power cables, but it has also been the first in India to produce 22, and 33 KV power cables which till now were imported. The company's sales during the year were over Rs 97 lakhs (against nil). After providing Rs 18.74 lakhs (Rs 1.06 lakhs) for depreciation, however, there was a loss of Rs 13.55 lakhs which, together with the previous loss, makes a total loss of Rs 14.47 lakhs to be carried forward. The company is setting up another plant for the manufacture of PVC cables which will enable a better and fuller utilisation of some of the existing equipment. One distinct advantage of this plant will be that all the necessary raw materials will be secured from indigenous sources. The company has already obtained the necessary foreign exchange allocation, and has applied to two financial institutions for loans for financing the project.

B B Petrol

THE directors of British Burmah Petroleum have proposed that the company be wound up and put into voluntary liquidation, as it is carrying on no business and nearly the whole of its capital assets are invested in fix deposits with Indian companies. For a considerable time past it has continued to function in the hope of obtaining satisfaction for its claims against the British Government for destruction of its assets in Burma during the second world war. This prospect is now "completely and irretrievably ruled out" since the British Parliament passed a Bill indemnifying the Crown against all such claims past, present and future, thus putting an end to a "long fight" in which the company has lost by only a narrow margin. An extraordinary general meeting has been called for this purpose. Meanwhile, there are reports that some shareholders intend to oppose the directors' proposal; they want the company to continue by utilising its liquid resources in some profitable new line of business.

The accounts for the year to March last show a net profit of £9,472 which is adjusted against the previous debit balance of £29,289. For the third year in succession the dividend is passed over.

Bombay Burmah

AS in the previous year, a comparison of financial results of Bombay Burmah Trading Corporation for the year to May 1965 is again complicated owing to transfer of the Wallace Bay branch timber operations to Wallace Bay in the beginning of 1964. Because of its formation into a separate company, the preceding year's accounts included five months' trading results of that company. The accounts in respect of N V Indo-Java Rubber Planting and Trading Company for the year 1964 were not received from Indonesia. The information concerning this Company, therefore, could not be included in the latest report.

Gross trading receipts have slipped by Rs 2 crores to Rs 3.37 crores and gross earnings by Rs 20 lakhs to Rs 1.29 crores. With depreciation claiming a little more at Rs 19.08 lakhs (Rs 18.62 lakhs) and the tax liability lower at Rs 53.95 lakhs (Rs 60 lakhs), after-tax profits stand at Rs 55.87 lakhs (Rs 70.56 lakhs). After taking into account the write-backs of Rs 2.15 lakhs (Rs 0.80 lakh) and providing Rs 1.27 lakhs (Rs 2.80 lakhs) for prior charges, equity earnings of Rs 56.75 lakhs compare with Rs 68.56 lakhs in 1963-64. Of this, the unchanged total dividend of 18 per cent absorbs, as before, Rs 48.15 lakhs, reducing the cover from over 1.4 times to below two times. The balance sheet, however, continues to reflect a sound financial position; the capital of Rs 2.68 crores is supported by reserves aggregating Rs 3.08 crores. Net block stands at Rs 3.06 crores, as against Rs 2.99 crores a year ago.

Voltas

Although the final working results for the year ended 31st August, 1965, are not yet available, Voltas report an increase of 9 per cent in their total sales for the year, carrying the previous figure of Rs 41 crores to Rs 45 crores. At the close of the year, the order books shows orders in hand valued at Rs 13.27 crores as against Rs 11.32 crores at the end of the previous financial year. Despite the higher incidence of indirect taxation, credit curb and inflationary pressure on costs, indications are

that the net working results for 1963-64—which were the highest in the history of the company—will be repeated.

The major units of the Company's manufacturing works at Thana have reached completion. The Mining Equipment Shop has been in operation for the last 8 months, and production has now commenced in the Airconditioning & Refrigeration unit, which will produce vital plant and equipment for Defence and other essential projects. The manufacturing divisions contribution of Rs 2.42 crores towards the Company's total sales in 1964-65 is expected to increase by almost 80 per cent in the current financial year. Steadily increasing production is also becoming available to the Company from its various joint ventures, such as, Scottish Indian Machine Tools, International Tractor Co of India, Lakshmi Machine Works, and Lakshmi Card Clothing Manufacturing Co.

Window Glass

THE wired and figured glass industry has been suffering from "sizable" indigenous over-production resulting in considerable idle capacity. In order to help the industry, the State Trading Corporation has provided relief to manufacturers on particularly benefit producers, like the Calcutta-based Window Glass, whose products have been already well received in the export markets. In this context, the management of their exports. This measure should Window Glass is hopeful that "within capacity will be utilised for export a very short period" the manufacturers and that will considerably improve the overall sales position.

Meanwhile, in the year to March last the company was able to nearly double its sales from Rs 24.91 lakhs to Rs 49.20 lakhs, but the outcome was a loss of Rs 14.92 lakhs which together with the previous losses lifted the total loss to be carried forward to Rs 17.18 lakhs.

Phoenix Mills

SATISFACTORY working results have been reported by Phoenix Mills for the year to March last, with sales of cloth, yarn, surgical dressings and waste rising from Rs 4.11 crores to Rs 4.53 crores and gross profit up a little from Rs 50.13 lakhs to Rs 50.73 lakhs. After making necessary provisions, net profit is a shade lower at Rs 14.73 lakhs (14.90 lakhs). Of this, the unchanged dividend of Rs 20 a share demands Rs 9.60 lakhs, and is adequately covered by earnings. During the year, machinery of the value of Rs 31.10 lakhs was added to the mills.

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Liabilities and Assets of Banks

(Amounts in lakhs of rupees)

	Year	No of Reporting Banks	Paid up Capital	Reserves	Total Paid up Capital & Reserves (4+5)	Percentage of 6 to 12	Deposits					Cash		Total Cash (13+14)
							Fixed	Savings	Current	Others	Total	In Hand	At Banks	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Scheduled Banks														
State Bank of India														
1960	1960	1	5,63	7,45	13,08	2.27	311,90	41,84	194,24	29,37	577,35	24,14	43,81	67,95
1961	1961	1	5,63	8,20	13,83	2.60	249,86	49,87	194,44	38,29	532,46	26,46	41,08	67,54
1962	1962	1	5,63	8,75	14,38	2.68	258,03	57,88	210,27	10,42	536,60	36,67	15,54	52,21
1963	1963	1	5,63	9,30	14,93	2.67	261,70	70,68	218,08	9,64	560,10	5,38	41,94	47,32
1964	1964	1	5,63	9,90	15,53	2.49	263,91	86,25	254,95	17,93	623,04	7,63	67,10	74,73
Subsidiaries of State Bank of India														
1960	1960	8	4,95	2,12	7,07	6.89	48,66	19,45	27,46	7,06	102,63	4,58	6,06	10,64
1961	1961	8	4,95	2,40	7,35	5.88	61,80	25,34	30,70	7,07	124,91	4,53	8,70	13,23
1962	1962	8	4,95	2,56	7,51	5.38	70,26	28,29	31,53	9,45	139,53	4,42	8,07	12,49
1963	1963	7	5,00	2,73	7,73	5.08	77,62	32,64	36,28	5,64	152,18	6,10	11,36	17,46
1964	1964	7	5,00	2,88	7,88	4.45	86,21	37,75	45,04	8,23	177,23	6,30	8,46	14,76
Other Indian Scheduled Banks														
1960	1960	68	26,19	21,51	47,70	4.61	467,28	198,52	266,00	102,65	1,034,45	41,46	77,54	119,00
1961	1961	58	25,61	23,77	49,38	4.35	520,25	228,09	274,04	112,66	1,135,04	44,72	70,14	114,86
1962	1962	57	29,38	27,28	56,66	4.36	606,43	270,85	306,60	114,75	1,298,63	46,51	89,06	135,57
1963	1963	57	30,44	30,15	60,59	4.09	690,06	325,66	335,47	103,64	1,481,83	59,11	89,38	148,49
1964*	1964*	52	32,06	32,70	64,76	3.80	804,03	401,76	386,08	114,00	1,705,87	67,09	112,80	179,89
Indian Scheduled Banks														
1960	1960	77	36,77	31,08	67,85	3.96	827,84	259,81	487,70	139,08	1,714,43	70,18	127,41	197,59
1961	1961	67	36,19	34,37	70,56	3.94	831,91	303,30	499,18	158,02	1,792,41	75,71	119,92	195,63
1962	1962	66	39,96	38,59	78,55	3.98	934,72	357,02	548,40	134,62	1,974,76	87,60	112,67	200,27
1963	1963	65	41,07	42,18	83,25	3.79	1,029,38	428,98	589,83	145,92	2,194,11	70,59	142,68	213,27
1964	1964	60	42,69	45,48	88,17	3.52	1,154,15	525,76	686,07	140,16	2,506,14	81,02	188,36	269,38
Foreign Scheduled Banks**														
1960	1960	16	4,65	2,29	6,94	14.33	29,47	7,32	6,88	4,76	48,43	4,27	3,25	7,52
1961	1961	15	3,68	2,12	5,80	14.51	23,62	5,81	6,03	4,50	39,96	3,53	2,68	6,21
1962	1962	196	3,49	2,10	5,59	14.58	22,28	5,76	5,74	4,68	38,46	3,17	2,66	5,40
1963	1963	173	3,11	2,10	5,21	15.24	18,84	5,27	5,71	4,37	34,19	2,74	2,66	5,40
1964	1964	80	2,17	1,63	3,80	13.18	13,79	4,50	5,75	4,79	28,83	2,59	2,38	4,97
Total Scheduled Banks ***														
1960	1960	93	36,77	31,08	67,85	3.96	930,57	284,95	590,53	147,33	1,953,38	72,39	146,94	219,33
1961	1961	82	36,19	34,37	70,56	3.94	951,71	333,64	593,38	170,18	2,048,91	78,08	140,77	218,85
1962	1962	80	39,96	38,59	78,55	3.98	1,064,63	393,46	632,43	144,59	2,235,11	90,19	129,78	219,97
1963	1963	79	41,07	42,18	83,25	3.79	1,168,92	471,16	679,52	157,84	2,477,44	73,30	159,74	233,04
1964	1964	75	42,69	45,48	88,17	3.52	1,309,14	575,86	781,68	153,66	2,820,34	83,82	207,95	291,77
Non-Scheduled Banks														
1960	1960	251	4,65	2,29	6,94	14.33	29,47	7,32	6,88	4,76	48,43	4,27	3,25	7,52
1961	1961	210	3,68	2,12	5,80	14.51	23,62	5,81	6,03	4,50	39,96	3,53	2,68	6,21
1962	1962	196	3,49	2,10	5,59	14.58	22,28	5,76	5,74	4,68	38,46	3,17	2,66	5,40
1963	1963	173	3,11	2,10	5,21	15.24	18,84	5,27	5,71	4,37	34,19	2,74	2,66	5,40
1964	1964	80	2,17	1,63	3,80	13.18	13,79	4,50	5,75	4,79	28,83	2,59	2,38	4,97
Total of Scheduled and Non-Scheduled Banks ***														
1960	1960	344	41,42	33,37	74,79	4.24	960,04	292,27	597,41	152,09	2,001,81	76,66	150,19	226,85
1961	1961	292	39,87	36,49	76,36	4.17	975,33	339,45	599,41	174,68	2,088,87	81,61	143,45	225,06
1962	1962	276	43,45	40,69	84,14	4.18	1,086,91	399,22	638,17	149,27	2,273,57	93,36	133,04	226,40
1963	1963	252	44,18	44,28	88,46	3.97	1,187,76	476,43	685,23	162,21	2,511,63	76,04	162,40	238,44
1964	1964	155	44,86	47,11	91,97	3.63	1,322,93	580,36	787,43	158,45	2,849,17	86,41	210,33	296,74
State Co-operative Banks														
1959-60	1959-60	22	14,62	5,07	19,69	32.73	20,15	7,32	23,59	9,09	60,15	72	17,22	17,94
1960-61	1960-61	21	18,24	5,76	24,00	33.18	24,73	6,60	25,62	15,38	72,33	80	16,19	16,99
1961-62	1961-62	21	21,26	7,59	28,85	35.42	29,88	6,92	27,03	17,61	81,44	74	19,31	20,05
1962-63	1962-63	21	23,18	8,77	31,95	32.83	37,12	7,96	35,63	16,61	97,31	84	12,70	13,54
Central Co-operative Banks														
1959-60	1959-60	368	29,89	9,75	39,64	42.76	31,47	26,17	25,70	9,37	92,71	5,71	25,48	31,19
1960-61	1960-61	375	37,14	11,44	48,58	44.52	36,26	31,68	30,75	10,42	109,11	7,93	31,18	39,11
1961-62	1961-62	357	45,82	13,57	59,39	48.94	39,71	35,71	33,13	12,81	121,36	9,10	33,97	43,07
1962-63	1962-63	363	53,25	16,59	69,84	48.96	44,46	40,55	43,10	14,55	142,66	10,70	28,28	38,98
Banking Unions and Industrial Co-operative Banks ****														
1959-60	1959-60	32	1,58	45	2,03	75.19	1,07	28	1,02	33	2,70	7	76	83
1960-61	1960-61	31	1,78	50	2,28	78.35	1,12	33	1,13	33	2,91	19	1,39	1,58
1961-62	1961-62	30	1,84	57	2,41	77.74	1,30	32	1,14	34	3,10	20	2,18	2,38
1962-63	1962-63	23	1,85	59	2,44	81.88	1,27	34	92	45	2,98	12	1,24	1,36

LIABILITIES AND ASSETS OF BANKS (CONTD)

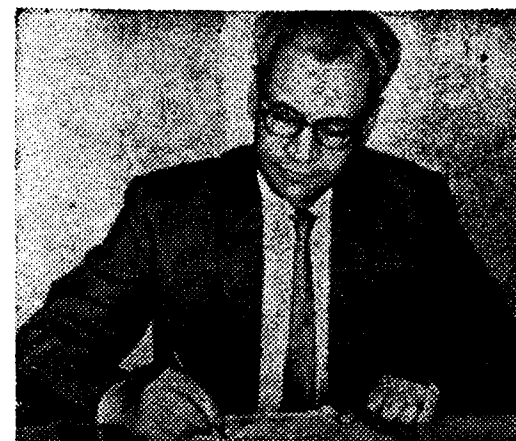
	Percentage of 15 to 12	Investments		Total Investments (17+18)	Percentage of 19 to 12	Money at Call and Short Notice	Loans and Advances	Bills Discounted and Purchased	Total Bank Credit (22+23)	Percentage of 24 to 12	Profit made during the year %	No of Offices	
		Govt Securities	Others									Indian	Foreign
(16)	(17)	(18)	(19)	(10)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	
Scheduled Banks													
State Bank of India													
11.77	284.24	22.52	306.76	53.13	1.73	216.54	15.70	232.24	40.23	1.76	901	8	
12.68	214.37	22.36	236.73	44.46	1.80	239.27	16.04	255.31	47.95	2.26	946	8	
9.73	241.14	28.14	269.28	50.18	5.07	254.54	15.94	270.48	50.41	1.97	1,002	8	
8.45	259.93	30.44	290.37	51.84	6.33	271.16	18.99	290.15	51.80	1.93	1,069	7	
11.99	234.09	35.84	269.93	43.32	2.96	367.73	25.31	393.04	63.08	2.05	1,136	7	
Subsidiaries of State Bank of India													
10.37	43.50	7.31	50.81	49.51	1.54	50.01	8.87	58.88	57.37	35	381		
10.59	42.80	9.33	52.13	41.73	5.41	58.54	9.46	68.00	54.44	54	490		
8.95	49.27	12.75	62.02	44.45	8.74	62.33	8.47	70.80	50.74	41	519		
11.47	48.58	16.30	64.88	42.63	13.07	64.64	9.90	77.54	48.98	48	566		
8.33	49.45	22.49	71.94	40.59	17.93	82.89	12.57	95.46	53.86	47	608		
Other Indian Scheduled Banks													
11.50	260.01	66.07	326.08	31.52	9.29	593.80	121.36	715.16	69.13	4.39	2,799	89	
10.12	274.59	75.92	350.51	30.88	24.71	627.21	140.65	767.86	67.65	6.37	2,883	897	
10.44	309.31	87.20	396.51	30.53	27.29	727.57	152.25	879.82	67.75	5.63	3,005	93	
10.02	332.50	104.90	437.40	29.52	28.27	818.52	205.73	1,024.25	69.12	6.38	3,283	8	
10.55	392.01	115.22	507.23	29.73	34.59	938.56	238.15	1,176.71	68.98	6.62	3,634	83	

	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
Indian Scheduled Banks	11.53	587.75	95.80	683.65	39.88	12.56	860.35	145.93	1,006.28	58.69	6.50	4,081	97
	10.91	531.76	107.61	639.37	35.67	31.92	925.02	166.15	1,109.17	60.88	9.17	4,319	97
	10.14	599.72	128.09	727.81	36.86	41.10	1,044.44	176.66	1,221.10	61.84	8.01	4,526	101
	9.72	641.01	151.64	792.65	36.13	47.67	1,514.32	234.62	1,388.94	63.30	8.79	4,918	93
	10.75	675.55	173.55	849.10	33.88	55.48	1,389.18	276.03	1,665.21	66.45	9.14	5,378	09
Foreign Scheduled Banks	9.10	39.82	95	40.77	17.06	15.17	176.33	34.84	211.17	88.37	1.62	69	
	9.05	42.98	81	43.79	17.07	13.14	191.94	37.73	229.67	89.54	1.99	71	
	7.57	44.69	2.09	46.78	17.97	7.66	216.62	45.67	262.29	100.75	1.61	82	
	6.98	53.13	2.12	55.25	19.50	12.83	239.14	38.13	277.27	97.86	1.86	86	
	7.13	79.45	2.41	81.86	26.05	8.66	230.84	41.83	272.67	86.78	2.12	90	
Total Scheduled Banks	11.23	627.57	96.85	724.42	37.09	27.73	1,036.68	180.77	1,217.45	62.33	8.12	4,150	97
	10.68	574.74	108.42	683.16	33.34	45.06	1,116.96	203.88	1,320.84	64.47	11.16	4,390	97
	9.72	614.41	130.18	774.59	34.66	48.76	1,261.06	222.33	1,483.39	66.37	9.62	4,608	101
	9.46	964.14	153.76	847.90	34.22	60.50	1,393.46	272.75	1,666.21	67.26	10.65	5,004	93
	10.35	755.00	175.96	930.96	33.00	64.14	1,620.02	317.86	1,937.88	68.71	11.26	5,468	90
Non-Scheduled Banks	15.53	12.22	4.33	16.55	34.17	1.35	29.92	97	30.89	63.78	24	789	2
	15.54	9.95	4.24	14.19	35.51	1.42	24.31	75	25.06	62.71	23	622	2
	16.71	5.19	15.15	39.37	39.37	1.54	20.41	70	21.11	54.86	20	565	1
	15.79	8.38	4.81	13.19	38.58	3.04	16.90	84	17.74	51.89	13	487	1
	17.24	6.63	5.22	11.85	41.10	81	14.43	68	15.11	52.41	13	326	
Total of Scheduled and Non-Scheduled Banks	11.33	639.79	101.18	740.97	37.01	29.08	1,066.60	181.74	1,248.34	62.36	8.36	4,939	99
	10.77	584.69	112.66	697.35	33.38	46.48	1,141.27	204.63	1,345.90	64.43	11.39	5,012	992
	9.96	654.37	135.37	789.74	34.74	50.30	1,281.47	223.03	1,504.50	66.17	9.82	5,173	10
	9.49	702.52	158.57	861.09	34.28	63.54	1,410.36	273.59	1,683.95	67.05	10.78	5,491	94
	10.41	761.63	181.18	942.81	33.09	64.95	1,634.45	318.54	1,952.99	68.55	11.39	5,794	90
State Co-operative Banks	29.83	19.60	8.61	28.21	46.90		129.86	129.86	129.86	215.89	1.17	113	
	23.50	20.83	18.30	39.13	54.09		166.69	166.69	166.69	230.46	1.51	119	
	24.62	21.62	22.09	43.71	53.67		196.51	196.51	196.51	241.29	2.04	101	
	13.91	24.92	25.31	50.23	51.62		214.09	214.09	214.09	220.00	2.18	102	
Central Co-operative Banks	33.65	15.21	23.92	39.13	42.21		170.94	170.94	170.94	184.38	2.30	1,245	
	35.84	16.34	27.94	44.28	40.58		214.38	214.38	214.38	196.48	3.20	1,409	
	35.49	17.50	33.41	50.91	41.95		253.18	253.18	253.18	208.62	3.98	1,617	
	27.32	19.61	39.62	59.23	41.52		286.85	286.85	286.85	201.07	4.51	1,776	
Banking Unions and Industrial Co-operative Banks	30.74	23	1.76	1.99	73.70		5.17	5.17	5.17	191.48	12	32	
	54.30	25	1.94	2.19	75.26		5.65	5.65	5.65	194.16	12	36	
	76.77	27	1.46	1.73	55.81		5.77	5.77	5.77	186.13	15	38	
	45.64	18	2.23	2.41	80.87		5.28	5.28	5.28	177.18	11	33	

Source : Reserve Bank of India, Bombay.

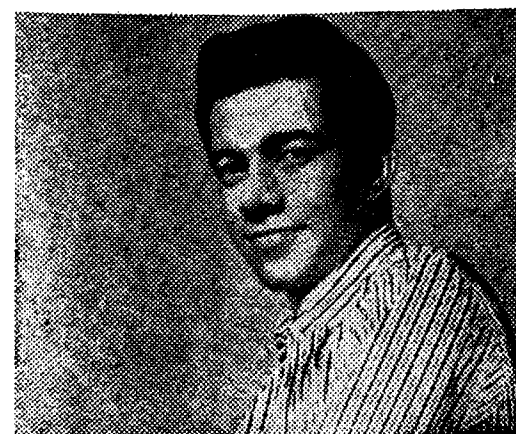
* Excludes one scheduled bank which has not reported.
 ** Figures relate to their business in Indian Union.
 *** Figures in column 7 relate to banks registered in Indian Union only.
 **** Banks having capital and reserves of Rs 1 lakh and over.

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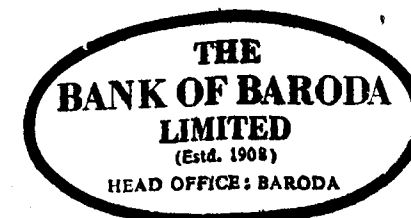
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A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIRS

Discd Sum

**A MODEL FOR THE FOURTH AND FIFTH PLANS
ARAB NATIONALISM AND BRITISH INTRIGUE
PROBLEMS OF RAISING AGRICULTURAL OUTPUT
ARE WE GOING WEST?**

VOLUME XVII NO 47

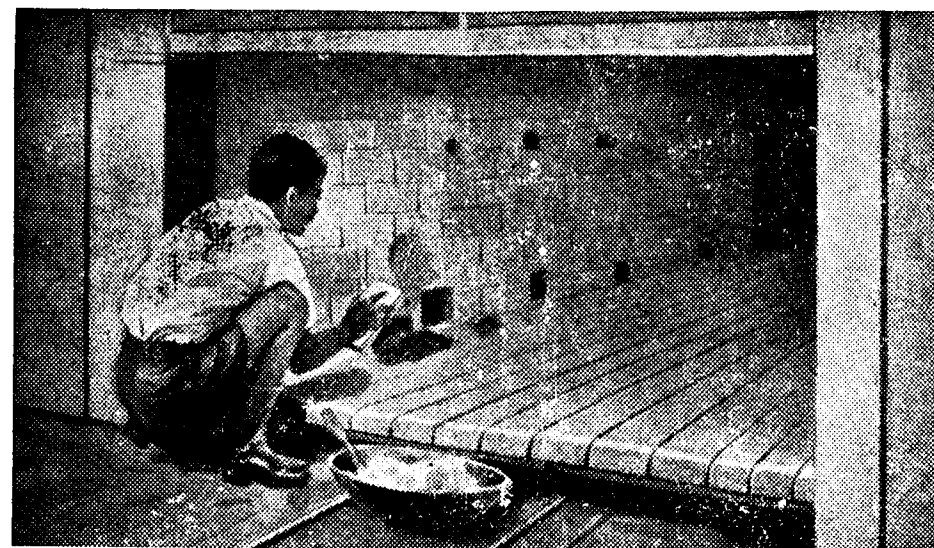
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THE ECONOMIC WEEKLY

Vol XVII No 47

Nov 20, 1965

EDITORIALS

- Miss How Many Meals?* 1715
More Loyal Than the King 1716
What Next on Kashmir? 1716

WEEKLY NOTES

- Import-Saving Possibilities — 1717
The New Birds — Vanaspati
Prices — Mystery of Star
Fighters — Postal Savings
Deposits

CAPITAL VIEW

- Are We Going West? 1720
— Romesh Thapar
FROM THE LONDON END
A Possible Election Manifesto 1721
LETTER FROM SOUTH
A Deep Freeze? 1723

LETTER FROM AMERICA

- The Cult of the Personality: 1724
Politics under Johnson
— Philip G Altbach

BOOK REVIEW

- Arab Nationalism and British
Intrigue 1727
— Aloo J Dastur

SPECIAL ARTICLES

- Are the British Racists? 1725
— Taya Zinkin
Problems of Raising Agricultural
Production: Report on
a Seminar
— C V H 1728

- An Almost Consistent Inter-
temporal Model for India's
Fourth and Fifth Plans
— Joel Bergsman
Alan S Manne 1733

AROUND BOMBAY MARKETS

- Dalal Street at New Low 1742

BUSINESS NOTES

- Indian Aluminium — Hindus-
tan Aluminium — Indian
Oxygen — Mysore Cement
— Saurashtra Cement —
Hindustan Brown Boveri —
Nepa Mills 1743

CURRENT STATISTICS

1745

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Miss How Many Meals?

THE sound and fury is over. Only a few weeks ago we heard bold declarations that the country will do without PL 480, that crash programmes for self-sufficiency in food were all but ready. The Food Minister himself has now admitted squarely that there is not going to be any forgoing of grain imports; that anybody who thinks of such a possibility is living in a fool's paradise. Of course, he has hastened to add that PL 480 food does not imply any American influence over our policy making. Ambassador Chester Bowles need not have given the bland patronising assurance about PL 480 wheat being non-political: the Food Minister himself has rebuked all those who suspect any such evil design in the State Department in Washington. Only, one wonders, why did everyone get so worked up over the issue only a few weeks back?

Have we, after all, discovered that no "crash programmes", however inspired, are going to increase agricultural production in the next few months? Have we been sobered by the continuing arrival of news of crop failures and near-famine conditions in different parts of the country? Or has the change, coinciding with the return to India of S K Patil, got something to do with any decisions taken in Washington or any discreet and tacit commitments given by Prime Minister Shastri's "special envoy" who, according to the Food Minister, did not have any brief to discuss food with the US Administration?

The change in attitude is not of the Food Minister alone; Congress MPs are reported to have vociferously advocated all-out import of food, as much as possible, from US and other countries. It is not that there is more wisdom in the matter among the Left parties; seven of them met in Delhi to discuss the Government's food policy but it cannot be said that they have come out with any new suggestions that could benefit the Agriculture Ministry. One supposes that Krishi Bhawan is not bereft of experts who could think of clearing forests and cultivating fallow lands and who know of the disincentive effect of loopholes in land reform measures. The Minister for Food and Agriculture is naturally not going to be a mere listener: as may be expected, he is constantly engaged in preparing plans to make the country self-sufficient in the near future. As late as on November 12 he announced on the floor of Parliament the impending finalisation of a comprehensive programme to that end.

It is no use harping on the theme of scepticism about such talk of revolutionising agricultural production: we are willing to wait patiently for the schemes to emerge and even more patiently for them to be implemented. But the problem, in the short run, is of distribution rather than of production, and the most excellent production programme, that might raise production by 25 per cent even in a single year, is irrelevant at the moment, with famine lurking round the corner, and here the failure of our food administration is staggering.

The only concrete programme that has emerged up till now is that of missing a meal—a programme that ignores the fact that if most people in India were to miss not more than one meal a week, the requirements of food would immediately rise by a staggering proportion! But what about statutory rationing, procurement and state trading? The latest position of the Food Ministry is that if any State wanted to resort to monopoly procurement, the Centre would not prevent it. The implicit assumption is that the Centre is willing and in a position to prevent a State Government from doing anything in the matter of food distribution. Experience in the past does not show that the assumption is correct—whether the inhibiting factor is more political than constitutional is irrelevant. Considering the way the Centre is engaged in the apparently endless process of persuading the States to come to some sort of a unified policy and the way it is still unable to take decisions on any issue, whether it be rationing or procurement or levies, it is to be feared that the slogan of "miss a meal" will lead the way to "miss two meals" and "miss three meals" and so on. After all, the food problem can *always* be solved if enough people miss enough meals. And that's probably how it will be solved in the coming months.

More Loyal Than the King

THE All-India Radio is not exactly unused to criticism. Apart from general inefficiency and the quality of programmes, it has been taken to task, often enough and very deservedly, for acting as the mouthpiece of the government and suppressing or playing down news and views unfavourable to the government. It must have been a new experience for the AIR, therefore, to be put on the mat in Parliament for permitting a speaker in one of its programmes to question statistics put out by the Government.

On Monday the Minister for Information and Broadcasting had to face what newspaper reports described as "a barrage of angry questions" in the Lok Sabha over a recent broadcast in which a speaker had expressed the opinion that the losses suffered by India in the fighting with Pakistan appeared to be much higher than the official estimates. Some of the more zealous members of the Congress Party one may have expected to pounce on the AIR for this; in fact, however, it was not they but "several opposition members" who took exception to the broadcast and criticised the Minister for allowing such a statement to be made on the radio. Hiren Mukerjee, the leader of the Right communists, characterised the AIR's lapse as "dangerous and mischievous".

This was strange behaviour indeed for members of the opposition in Parliament. Have they come to accept that the proper function of the AIR is just to disseminate government publicity? This they will stoutly deny, of course, maintaining that their stand in this particular case is dictated by the fact that the matter concerns the war with Pakistan which is, after all, a grave national issue. True, the war with Pakistan is a grave national issue, but so is the food situation, even more grave perhaps. For that reason is no one to be allowed to say over the radio that perhaps the Government is painting an over-optimistic picture of the food prospects in the coming months? If it is possible to present facts of food production and supply in a manner as to show the Government in a more creditable light than it deserves, the same is theoretically perfectly possible with statistics relating to a war.

In fact, it is accepted practice in a war to play down one's losses and play up those of the enemy — as much

because of considerations of the enemy's morale as because of any government's natural anxiety to convince its people that it is doing well and so deserves their continued support. In the last world war, for instance, the contemporary German and Allied accounts of the various battles couldn't well have been both true. Or, take again, the claims of the Americans and the South Vietnamese Government and the Viet Cong about the Vietnam civil war. Of course, it is possible that the Government of India is either too innocent or too truthful to take recourse to this accepted practice, but the point is, how do Hiren Mukerjee and the other members of the opposition who jumped to the defence of Government statistics of losses in the war know?

The AIR, everyone knows, is far from impartial even in its presentation of news, not to talk of its comments, and, surely, members of the opposition don't have to waste their spleen at rare, accidental departures

from these standards? The incident in the Lok Sabha, however, does not come entirely as a surprise considering that the opposition, with the exception of a few members of the Left Communist and Swatantra parties, has delivered itself bound hands and feet to the Government over the Indo-Pak war and the Kashmir question. In having done this the opposition parties may pat themselves on their patriotism but they are in fact making it easy for the Government to make glaring departures from the ways of a democratic society. Such departures have painfully multiplied since the state of Emergency was first proclaimed after the Chinese attack three years ago to give the Congress Government powers to put such of its actions as it wishes beyond the pale of judicial review. The fight with Pakistan has strengthened the trend, thanks both to clever exploitation of the situation by the Government and the Congress Party and the political ineptitude and irresponsibility of the opposition of which the "barrage of angry questions" on Monday was an excellent example.

What Next on Kashmir?

THE charge levelled by some members of the opposition in the foreign affairs debate in the Lok Sabha that in the war with Pakistan India had found herself friendless was as exaggerated as the Foreign Minister's attempt to meet it by making a list of countries like Cyprus, Singapore, Ethiopia and Czechoslovakia was irrelevant. Such arithmetic exercises are immaterial to the question what will be our next move on Kashmir. We may tell ourselves, as we have been interminably, that the Kashmir issue does not exist since it was settled eighteen years ago, but that is not the end of the matter. For one thing, there is the two-months old invitation from the Soviet Prime Minister to Shastri and Ayub Khan to meet for talks in Tashkent. Also, there is the prospect, ever so little brighter now, that sometime or the other the first two parts of the Security Council's resolution of September 20 may be implemented, bringing India, Pakistan and the world to face the resolution's call to "consider... what steps can be taken to assist towards a settlement of the political problem underlying the present conflict".

What to do when the last part of the Security Council's resolution is reached has not apparently begun to seriously engage the attention of the Govern-

ment yet. Though Shastri did say during the Lok Sabha debate that India was prepared to consider ceasefire and withdrawal "more or less simultaneously", no doubt the expectation is that it will be a long time before "steps... to assist towards a settlement of the political problem" will begin to be pressed on India, particularly in view of the ticklish problem of bringing the infiltrators inside Kashmir within the scope of any arrangement for withdrawal of the rival forces.

The Soviet invitation, however, has to be answered, especially since Ayub Khan has accepted it "unconditionally". The Prime Minister was, however, less than forthright on this matter, judging by newspaper reports of his speech in the absence of the full text. According to these reports, he ruled out any meeting with Ayub Khan if the subject of discussion was to be Kashmir since such a meeting could "never bear fruit". At the same time, however, he was prepared to accept the Soviet invitation to discuss ways to improve the "total relationship" between India and Pakistan. Now, it is plain enough that the Soviet Union has not taken the important diplomatic initiative of inviting the Prime Minister of India and the President of Pakistan at this critical moment to discuss the weather. Prime

THE ECONOMIC WEEKLY

Minister Kosygin's intentions were clear in his letter of September 18 to India and Pakistan: he began by expressing concern over the "conflict in Kashmir" before going on to urge that "acting in the spirit of the UN Charter and the spirit of the Bandung Conference, the two sides ought to enter into negotiations with a view to settling peacefully the differences that have arisen between them". Equally clear it is that the "total relationship" between India and Pakistan cannot be improved by

discussing border skirmishes, utilisation of Indus waters or settlement of refugees. Important as these problems are, they are more the consequences than the causes of poor relations at the root of which is the Kashmir problem.

To meet all attempts at getting India and Pakistan talking with the emphatic declaration that India will never submit to pressure from any country to make her "part with Kashmir" is irrelevant. As far as one can judge, no

country—with the exception of Pakistan, of course—wants to make India "part with Kashmir". But there is going to be little sympathy for our no-talks-whatever stand. We are certainly right to say that we would not have any particular solution foisted on us by force; however, in that event the world expects that we will make some moves on our own. Are we, then, embarked on a course which will put us in the wrong with almost every country in the world?

Weekly Notes

Import-Saving Possibilities

THERE has been a sudden increase in the number of reports of shortages of imported raw materials. These include such crucial materials as sulphur, rock phosphate and nonferrous metals, all of which are used directly or indirectly in basic industries. Indeed, sulphur and rock phosphate are connected with food production through their use in fertilizers. Industries dependent on these raw materials are now threatened by idle capacity, and some units by virtual closure.

We are wholly dependent on imports for our needs of sulphur, rock phosphate, and non-ferrous metals. Commonsense would tell one that it is strategically and economically inadvisable to depend on these imports, not only because of our chronic foreign exchange stringency which might constantly pose a threat to the basic industries connected with these materials especially as with the expansion of those industries our requirements of these materials will increase, but also because there is a world shortage of these materials. Tin is in perpetual short supply. The US has clamped strict controls on copper exports because of the material's current shortage. Sulphur is already in short supply with the world demand for it annually rising by 10 per cent and the supply of it by 2 per cent. We have been obtaining rock phosphates from Tunisia, the UAR, and Jordan on a barter deal basis, but generally short of requirements (this year 4.20 lakh tonnes against the needed 7.50 lakh tonnes, and next year the same quantity, with some luck, against the needed 9.38 lakh tonnes). Even so these sources have not proved reliable, and other countries such as the US, who are possible suppliers, would insist on hard exchange payment. That hard

exchange is going to get even scarcer with the accentuated uncertainties of aid following the recent hostilities and the prospective defence-oriented plan.

The greater, therefore, the urgency to effect early substitution of as many of these materials as possible. It might save subsequent scrapping costs. Is sulphur, for instance, all that indispensable? Its major users are the fertilizer industry, rayons and textiles, alums and other inorganic heavy chemicals, the iron and steel industry, and the petroleum refining industry. But nearly always it is the sulphuric acid manufactured from sulphur that is industrially used, either to act as a chemical agent as an acid, or for its hygroscopic qualities, or for pickling as in the iron and steel industry. Sulphuric acid is the agent for sulphate formation and for sulphonation, but is used abroad more frequently by virtue of being a rather strong and economically priced inorganic acid. Though it enters into countless industries it very infrequently appears in the final product. This is significant. Even in the fertilizers industry, which is the single largest consumer of sulphuric acid, the acid is used in the manufacture of superphosphates as a chemical agent, for its acid properties. And though ammonium sulphate which is another fertilizer has a sulphur content, it is only the nitrogen of the ammonium sulphate which the soil requires. As such, another ammonium compound might do as well. Nitric acid has strong hygroscopic qualities, and both that and hydrochloric acid might substitute sulphuric acid in many of its roles. Much greater use of hydrochloric acid might help in the utilization of by-product chlorine of the electrolytic caustic soda process. Today not only is that chlorine wasted, raising the apportioned costs of caustic

soda and the little hydrochloric acid produced, but non-utilisation of the poisonous gas is actually a hindrance in the expansion of electrolytic caustic. Producing off-colour sugar too will apparently save the country some 25,000 tonnes of sulphur.

How much effort has gone into working out the economics of such alternative substitution in the various industries? The rupee-cost of the alternatives, even if it is higher, may not be quite so crippling as the unreliability of foreign supplies and the foreign exchange burden. A high-powered technical group of Government officials and technicians from industry to work out chemical engineering and commercial possibilities appears very relevant as part of the emergency drive to be self-reliant. Foreign exchange so saved could be used for example to import, from hard currency sources, rock phosphate which is a direct component of an essential fertiliser.

The New Birds

THE enforcement of foreign exchange regulations has led to at least one strange but welcome transmutation of genes. The Benthall family which controlled Bird Heilger of Calcutta, one of the largest business groups in the country, has sold its interest at less than par value to the group's executives, whose ownership will vest in their pension and superannuation funds. The total share capital of the two companies, Bird and F W Heilger, amounts to Rs 110 lakhs; above 70 per cent of it is reported to have changed hands now. Whether this is in addition to the roughly 15 to 20 per cent which was earlier reported to have been sold at par to the present Indian chief executive is uncertain. The precise nature of the

transfer has not been revealed but, given the pattern of ownership as it was six years ago (it could not have changed significantly since then), the sale of the Benthall interest alone would suffice for transfer of control (see table below).

The significance of this deal lies not in its mechanics but in transfer of control of a leading business house to its professional executives acting as such. The group's interests are spread over jute, coal, paper, engineering, fire-clay, electricity, iron ore, investment, trading and miscellaneous business. Bird Heilger would now be the only business house in India to be controlled by executives, who would hereafter be responsible to themselves instead of to financiers, indigenous or foreign. The experiment will be watched with great interest because by the end of the next year the Company Law Board will have weeded out managing agents from most of the companies which still have them. Bird Heilger companies are fairly tightly held, i.e., the controlling block in most of them accounts for a considerable part of their equity and this proportion was raised in the fifties to avoid the kind of raids which affected Andrew Yule among others. One also awaits the reaction of banks which are addicted by tradition to ask for guarantees from managing agents (though these are somewhat different in Calcutta as compared with Bombay and Ahmedabad) to the installation of professional executives in positions of top control.

The Benthall family played a notable role in the industrial development of eastern India; Sir Edward Benthall

took a hand in politics too. Though the group fell foul of foreign exchange regulations and the Benthall family would have found it difficult to secure anything like a fabulous price for its holdings under these circumstances, it is to the credit of the family that it did not think of selling to the highest bidder.

Vanaspati Prices

THE dominant element in the cost of production of vanaspati is the cost of the oil used. Oil costs account for about 80 per cent of the cost of producing bulk vanaspati and about 90 per cent in the case of the small packs. Any change in oil prices is, therefore, bound to have a significant effect on vanaspati costs and prices.

During 1964 the Government and the industry agreed on a scheme of voluntary price control by the industry. This has been in force since then. Individual manufacturing units now charge a price based on a variable factor—the cost of the oil bought by them—and a constant factor, which is a fixed margin to cover overheads, process loss, processing costs and packaging, distribution, labour and excise duty, as well as profit. For the three vanaspati packs that are permitted to be sold, the price is fixed on the following basis:

16.5 kg: Oil price + Rs 738 per tonne
4 kg: Oil price + Rs 1173 per tonne
2 kg: Oil price + Rs 1331 per tonne

The trade margin is fixed at Rs 40 per tonne irrespective of the number of intermediaries and remains the same regardless of the price of vanaspati. There is, therefore, little difference between the prices of different brands except

THE ECONOMIC WEEKLY

because of marginal differences in the oil bought in any week by different concerns. But the margin for other expenses and profit is low leaving no cushion between manufacturing costs and consumer price. In the past, vanaspati prices though necessarily related to oil price fluctuations did not change frequently, because the manufacturer and the trade were able to absorb some of the increase in oil prices, for a while. This is no longer the case.

In fact, vanaspati prices would have been even higher this year if the industry had used only groundnut oil. Thus a leading bulk brand sold in September 1964 for Rs 3744 per tonne when the groundnut oil price was Rs 2921 per tonne; last month when the oil price was Rs 3155, this brand was selling at Rs 3845. (The vanaspati prices quoted include trade margins and all taxes in Bombay). The increasing tendency in recent years to use a proportion of cottonseed oil in vanaspati has helped enlarge the quantity of edible fats over what would otherwise have been available since cottonseed oil is not popular as an edible oil by itself. Also, it is cheaper than groundnut oil. In addition, the use of the cheaper PL 480 soyabean oil has also prevented vanaspati prices from rising proportionately to groundnut oil prices.

The fact of the matter is that there is a chronic shortage of oils and fats in India. This was aggravated last year by the failure of the castorseed crop and a general food shortage. It was inevitable that a product, the dominant element in whose cost is the price of oil, should be subjected to increases in price. If PL 480 oil does not come

THE ECONOMIC WEEKLY

through next year, one can foresee difficult times ahead for the industry in finding oil to meet the demand. It is easy to say that the solution is a rise in production. The problem here is, as with other food crops, one of increasing productivity.

The other aspect of the problem of edible oil shortage is to use more efficient methods of extraction. Solvent extraction leaves less than 1 per cent residual oil in the cake. Groundnut cake from ghanis can leave as much as 15 per cent residual oil. Even the most efficient methods of expelling oil still leave 5-6 per cent oil in the cake. Yet (except for soyabean oil this year) solvent extracted oil is not permitted for edible use by Government. The reason is that many small units use non-food grade solvents to extract oil and are also not very efficient in separating all the solvent from the oil.

However, this prohibition of solvent extracted oil from edible use has not prevented unscrupulous people from breaking the law and mixing solvent with expelled oil and selling it as edible oil. Detection of such mixing is in many cases well nigh impossible. All that the prohibition has achieved, therefore, is to prevent the vanaspati industry from using solvent extracted oil even when it can be certain that the oil is extracted with food grade solvents. The Government could immediately reduce the pressure on vanaspati prices by permitting solvent extracted oils to be used in vanaspati, if food grade solvents have been used in the extraction.

The long-term solution to getting maximum oil yields in extraction is to encourage the setting up of large solvent extraction plants and to ensure the availability of food grade solvents. One way of ensuring that solvent extracted oils are not injurious to health is to ban the use of all non-food grade solvents in oil extraction.

Mystery of Star Fighters

A Correspondent writes:

THE Star Fighters (F 104s) of Pakistan remained a mystery in the recent conflict. To go by news reports, they made an appearance early on in the Chhamb sector, did rather badly and then disappeared from the operations. Since they are the most advanced aircraft in the Pakistan Air Force, the inference was that there were difficulties of personnel or servicing. Recent reports from Western Germany

suggest, however, that the fault might be with the planes themselves.

A decision to use a slightly earlier version of the Star Fighter, F 104 F, as the basic aircraft of the West German air force was taken by Franz-Josef Strauss nearly four years ago when he was Defence Minister. Star Fighters were to be built in West Germany under licence from Lockheed Corporation to be used as fighters, interceptors and fighter-bombers. Their association with a controversial figure like Strauss was bound to bring them critical attention; and ever since Strauss went, Star Fighters have been obliging their critics with new troubles.

The production in Germany has itself been somewhat erratic. West German experience in building planes is extremely limited: as a result of post-war restrictions placed by the Allies, little planes for pleasure, business and spraying pesticides are about all the West German aircraft industry can make. The Star Fighter presents a further problem: it is a highly automated plane, and carries a correspondingly elaborate electronic system. The first reactions to difficulties were that the West German firms were at fault; the more recent view is, however, that the basic design is defective. Most faults can be traced to the elaborate electronic system or to the heaviness of the plane as a fighter. The introduction of a newer version, F 104 G, has not made much difference.

The most disturbing fault of the Star Fighter is its tendency to crash. Some twenty have crashed in the last year in West Germany; crashes have become so frequent that the village of Schortens, which is near a military flying school, has appointed a committee to protest against them and take steps for its protection. All 656 Star Fighters of the West German air force were grounded recently for the second time this year.

The Star Fighter is the first problem that the Defence Committee of the just-elected Parliament has taken up. The Committee will probably only emphasise what is known about the plane already — that its navigation system is inaccurate and its engine not powerful enough; it is difficult to see what further it can do. For the F 104 will remain the chief aircraft of West German air force right up to the 1970s, and its faults are too serious to be remedied piecemeal. The United States, insofar as it has any use for aircraft,

has gone over to the TFX, so no one — probably not even Lockheed — has much interest in keeping the Star Fighter alive.

Postal Savings Deposits

POST office savings bank deposits are large enough to make the institution a mass repository of small savings. Total deposits at the end of March 1964 were Rs 512 crores, not much lower than Rs 600 crores at the State Bank of India. The number of depositors has increased steadily from 84 lakhs in 1960 to 110 lakhs. The growth of deposits, however, has been rather sluggish; in 1962-63, in fact, withdrawals were almost as large as deposits. In spite of more attractive interest rates offered recently, deposits have not increased significantly and the average balance per depositor has hardly risen at all over the last 5 years. What is more, the fairly large amounts of withdrawals indicate that the deposits are more in the nature of current than long-term savings accounts.

The distinctive role of postal deposits in the broad spectrum of small savings schemes is no longer clear. This institution was built up at a time when banking offices were almost exclusively confined to the principal towns and there were practically no other small saving schemes. Both these conditions are radically altered now; there is a considerable variety of taxable and tax free, official and private, small savings schemes. The greatest scope for postal savings, one would imagine, is in areas where banking facilities are poor and public confidence in private banks has still to be built up. Actually, a considerable part of the deposits seem to be in areas which are fairly well provided with banking facilities. The magnitude of the accounting work involved in managing these accounts has become large enough to justify mechanisation in the principal centres. One of the greatest disincentives to opening a saving bank account at a post office is the 19th century formalities associated with it while the traffic is of modern dimensions. It would also be worthwhile to link up saving bank accounts with money order remittances. The latter involve and concern the great majority of postal customers who are exposed to great inconvenience and waste of time every month. Could not the Post Office evolve a transfer system for remittance from the principal towns to villages?

Ownership of Bird and F W Heilger

(As in September 1959)

	Bird			F W Heilger		
	Ordinary (Rs 100 each)	Preference (Rs 100 each)	Deferred (Rs 10 each)	Ordinary (Rs 100 each)	Preference (Rs 100 each)	Deferred (Rs 10 each)
Total No of shares	40,505	25,500	45,000	18,005	20,000	20,000
Owners						
(1) Sir Edward Benthall and family	22,280	—	45,000	9,255	500	20,000
(2) Trustee companies in India	14,000	220	—	7,400	2,320	—
(3) Bird investment companies in India	125	16,980*	—	—	9,980†	—
(4) Trustees in India	2,250	7,600	—	500	6,100	—
(5) Wives of executives	1,600	100	—	600	100	—
(6) Foreign shareholders (miscellaneous)	250	500	—	250	1,000	—
(7) Others	—	100	—	—	—	—

* Including 13,980 held by F W Heilger

† Including 6,980 held by Bird

Are We Going West?

Romesh Thapar

WHEN rumours circulate in the Capital, they have about as much coherence as the policies of the ruling party. Take a sampling from the week during which the Congress Working Committee was meeting and the State's chief ministers were in session. Gulzarilal Nanda, in a fit of frustration following his hot war with TTK, had lost his astrological aplomb and submitted his resignation to Lal Bahadur — but only after ensuring that Morarji Desai had been neutralised as head of the proposed administrative reforms commission. Subramaniam, failing to elicit any response from Lal Bahadur on compulsory procurement and rationing except meaningless slogans, was ready to throw in the sponge. Meanwhile, Asoka Mehta at the Planning Commission had discarded his aggressive armour of optimism and was preparing to emerge in sack cloth and ashes.

Rumours do not rest content with 'news'. They offer 'developments', too. The fact that so many 'Nehruists' were abandoning the grounded Ship of State had persuaded Lal Bahadur to devote a little more time to plans other than those connected with his visit to the USA. This visit, masterminded by talkative emissary Patil, had consumed so much of Lal Bahadur's disorganised time that all decision-making in the GOI had come to a halt.

Nehruism — For the Moment

Rumour says that the Prime Minister has after much cogitation decided to plug Nehruism on public platforms until he has got the USA to guarantee the free food and the foreign exchange he needs to keep the country ticking. Patil, it is said, approves of the stratagem. So do other confidants. But the boys at the US embassy take a dim view of Patil's irresponsible prattle about the rosy prospects before India once Lal Bahadur goes West.

Apparently, John Freeman for the UK and Chester Bowles for the USA had been projecting the image of an angry India determined to become self-reliant and now terribly hyper-sensitive about attempts to link aid and food to any set of conditions. This diplomatic drilling from Delhi was making some impact — even in newspapers hitherto critical. London and Washington were beginning to seek out ways of withdrawing from commitments on Kashmir.

But Patil's junket has made Freeman

and Bowles look as if they are comies, out of touch with Lal Bahadur's thinking — that is, if Patil's thinking is Lal Bahadur's. Patil has succeeded in reviving the almost exhausted lobbies in London and Washington which have always believed that aid and food can and should be used to strengthen India for the battle against communism. Lal Bahadur's skilful performance during the foreign debate in the Lok Sabha is seen as an attempt to repair the damage done by Patil even though the direction of his groupings remains unchanged.

Surprisingly enough, almost everyone believes that between Lal Bahadur and Patil it has been agreed that the news of the visit to the USA should be officially announced soon after Parliament adjourns in December and that it should take place before this year is out — and definitely before Parliament reconvenes. It is not possible to postpone the visit for very long as food and foreign exchange shortages will begin to loom large as 1966 is ushered in. Confidence that all will be well once LBJ meets LBS is fairly widespread, particularly, it is said, among the western-oriented bureaucrats who run the government for Lal Bahadur. But, and here's the rub, the facts being trotted out by the foreign experts in the Capital tell a different story.

It is said that although there is general agreement that efforts be made to de-link Kashmir headaches from the business of saving India's economy, Lal Bahadur will be told in no uncertain terms to commit himself to a detailed in-put plan for agriculture, to an opening up of the industrial sector to private foreign capital, and to a simplification and reform of administrative procedures. In addition, he will be told to take immediate steps to meet the criticisms and recommendations made some time ago by the World Bank — including devaluation.

Soviet Reactions

The gossip say that Lal Bahadur knows all about these demands, but he still wants to go a-visiting. This probably is the sum total of our self-reliant posture. After all, what has the gold bonds scheme produced? Some sixty lakhs of rupees in gold — that is, only thirty lakhs at international prices!

Speculation is ripe about Soviet reactions. Yes, TTK has been 'honoured' in Moscow and military supplies con-

tinue to pour in from the USSR, but the *claque* inside Parliament and outside which responds to the invisible strings which Lal Bahadur pulls is busy thrilling all over to the possibilities inherent in the visit to the USA. It's the old dream to get others to solve our problems, a dream that makes a tiny Establishment in the country rich, flabby and incompetent. And there is no one around with the power and organisation to challenge the no-changers and to say the problems cannot be solved this way.

Diplomatically, reports are current that Rawalpindi is being kept posted by the US State Department on thinking in Delhi. This explains the timing of Bhutto's sudden *volte face* on the Soviet desire to hold the Tashkent mediation conference. He now wants the mediation, it is suggested, because he has been told that Lal Bahadur feels that mediation will amount to skipping the phases in the UN Resolution and re-opening talks on the future of Kashmir. The foreign 'uglies' say that Lal Bahadur's manoeuvrings condition Bhutto's twists and turns. Some sensitive observers in the Capital are only hoping that he doesn't test Soviet patience to breaking point. Then it will be from the frying pan into the fire.

Kamaraj's Different Tune

Kamaraj, it is assumed, is very disturbed about what goes on. His speeches in South India, numbering over fifty, make interesting reading, for they show him to be out of step with Lal Bahadur — indeed, with all those who would go West. So far the Congress President has confined himself to educating the South about the lessons to be learned from the collision with Pakistan. He is now persuading himself that the North needs the same medicine. Frankly, he is about the only strongman in the Congress Party who talks about socialist objectives. Lal Bahadur must be wondering what's bitten him. He does not underestimate Kamaraj, for Kamaraj can be a very big thorn in one's side.

From all this speculation and conjecture, you might be on the verge of concluding that Lal Bahadur is probably riding the Syndicate which brought him to power. I would not bet on it. Permutations and combinations take place in the command centres of the ruling party. They reflect the strengths and weaknesses of those individuals who control the party machine in the

States. So far, there is nothing to suggest that we are united, willy nilly, behind any single leader. After all, at the apex of power it is not a servile, conformist press which moulds attitudes and opinions. No public showmanship can hide the truth that there is no leader, no collective, no firm grip on the jobs to be done today and tomorrow.

This is the essence of the crisis, but how is it to be diagnosed when public posture has no connection with actual commitment, when policy-making bodies like the Cabinet and the Congress Working Committee run away from policy-making, when there is no dialogue on the challenges facing us and the responses which have to be forged, when the little thinking that is done is *ad hoc*, from day to day, on the basis of hunches. In this paralytic situation, rumours dominate the Capital

— contradictory rumours, meaningless rumours, absurd rumours.

I have tried to record this mood, if only to caution those unfortunates who believe their daily newspaper and imagine that all is well. If something drastic is not done to make the country aware of the critical times ahead, we will begin to live almost entirely on foreign props — and that would mark the beginning of the end of the secular, socialist democracy we had tried to build. Exhortations about self-reliance cannot save us. We must plan our self-reliance. And this demands self-confidence to organise the maximum and efficient mobilisation of internal resources and manpower. Once we address ourselves to this task, the food and aid we receive from abroad can do no damage — and probably it will come in larger measure. But who is to convince those in power?

FROM THE LONDON END

A Possible Election Manifesto

THE crisis in Rhodesia has dominated the UK political scene, and as the sordid drama relentlessly unfolds, one wonders whether the moderate measures outlined by the Prime Minister, who, incidentally, is said to regard Rhodesia as his Cuba, will prevent the outbreak of a real conflagration on the Continent of Africa. The bipartisan unity of the two parties on Rhodesia now seems likely to be split over the issue of sanctions which certainly have a crucial role in Wilson's method of tackling the situation. While there is bound to be concern, particularly in the Left Wing of the Labour Party, with regard to the Government's Rhodesian policy, what is to be made of the policy on other matters outlined in the Queen's speech for the next Parliamentary session?

A careful analysis of the Queen's speech will reveal that the Labour Party has taken a significant move to the right, caught between the need to pacify the overseas creditors who have loaned Britain some £1,000 million in the last year and the slender parliamentary majority which makes some concession to the Liberals essential if Labour is to remain in power. These two factors have led to priority being given to a number of unpopular domestic measures to tackle the balance of payments position and the dropping of steel renationalisation from the present session.

Quite obviously, in order to pacify foreign lenders, who, indeed, made it a condition of their loans, first priority is being given to getting the balance of payments position right. Wilson was at pains to state that any programme of social reform, however desirable, must depend on the economic situation. "We must get the balance of payments right". The speech states quite clearly that "priority" will be given to ensure that external payments are in balance next year, and that sterling is strengthened. Because of this, top position in the list of the 24 major measures outlined in the speech is given to George Brown's incomes and prices policy. The aim is to put teeth into this policy by giving Brown's Department power to demand advance notice of price and pay changes, to defer the implementation of those he refers to Aubrey Jones's National Board for Prices and Incomes and to give Jones authority to call for information and witnesses. At the moment, the non-statutory early warning system is still being negotiated with the Trade Unions and employers, but the Queen's speech makes it abundantly clear that if no satisfaction is obtained from this, legislation will be passed to empower the Government to act against Trade Unions.

While the Conservatives and Liberals (particularly now that steel nationalisation has been dropped) will find lit-

An uncertain Lal Bahadur, a disgruntled Nanda, a confused Swaran Singh, a brittle Krishnamachari, a frustrated Subramaniam, an impatient Chagla, a demoralised Asoka Mehta, a worried Indira Gandhi, an unhappy Kamaraj, an opportunist Patil, and cynical, parochial *satraps* in the States, is the complex of leadership which today many a nation has to carry. This should not depress us. What is disconcerting, however, is the total absence of effort to forge a collective leadership to get the country moving. This effort has to be sparked, somehow. May be, once again, Kamaraj holds the key.

Tailpiece: Even as V K Krishna Menon warned against the 'militarisation of the mind' in India, news reached me of scholarships instituted for Indians to study the practice of non-violence in the USA!

tle to object to in the Speech, the Left Wing of the Labour Party is applauded by the omission of any reference to renationalisation and by the inclusion of what they deem "anti-Union" legislation. The basic fears of the TUC are quite understandable; once the precedent is set for new legislation on Trade Unions, later Governments will take advantage of this breach to push it further. The Tories are already proposing to do this. The *Daily Worker*, in commenting on the Queen's speech, summed it up as showing "tenderness to the steel tycoons, toughness to the Trade Unions". However, at the moment, the Left Wing of the Party is severely emasculated with their more dynamic leaders imprisoned in the Cabinet and the fundamental loyalty to the Party as a whole which prevents them from rocking the boat and making it sink at a moment like this. After thirteen years in the wilderness it is understandable that action at this stage which would bring the Government down is not contemplated by any section of the Party, however strong its feelings on nationalisation may be. Protest in plenty will occur and have, indeed, been made, particularly by Michael Foot, but secure in the knowledge of the fundamental loyalty of the left wing, Wilson can afford to ignore these. He has, of course, said, as a result of pressure from the Left, that although there is no time for nationalisation in this ses-

sion, the programme has not been abandoned and that it is a question of "not whether, but when". This is the only sop is he prepared to offer the Left Wing.

The nice calculation on this point made by Wilson takes the limitations on the Left Wing's freedom of action into account, as well as the fact that the Liberals would certainly have voted against steel and thereby brought the Government down. In order to stay in power to carry out other aspects of the Labour Party's policy it was necessary to abandon steel until such time as Labour can count upon a larger majority in the House. Maudling was at pains to point this out when he said: "So long as the Government's majority is so tenuous, Wilson can be sure that however hard his Left Wing may bark, they will not bite the hand that could possibly feed them".

Perhaps the session's most controversial measure is that relating to immigration. This Bill will reduce the number of work vouchers for Commonwealth immigrants to 8,500 a year. Certainly on immigration the Government faces opposition, not only from its own Left Wing, but from a number of Liberals and indeed some Conservatives too. Although the Government has refused to make major concessions to critics of its White Paper on Commonwealth Immigration, a small gesture has been made with regard to the question of deportation. An independent committee has been set up to consider the rights of appeal of aliens and Commonwealth citizens refused entry or facing deportation, but no concessions are to be made on the basic racist character of this Bill.

Should a spring election become necessary, the Queen's speech could do very well as a manifesto-like programme for the Labour Party. The speech includes Bills to help the ratepayer, the leaseholder, the sick, the unemployed, the widowed, as well as retired public servants. People do not generally vote against houses, and there are some six Bills to alleviate the housing problem, including increase of subsidies to local authorities providing rented houses for low-income families, rating reform to facilitate payment by instalments, rebates for people with low incomes and the transfer of more of the burden of the rates to the central Government. Another important feature is the Bill to provide leasehold enfranchisement. There is also the introduction of the new Land Commission. In the field of

earnings-related benefits, supplementary unemployment, sickness and widows benefits related to past earnings will be payable during the first months away from work, in addition to lump sums payable under the Redundancy Payments Act. As far as consumer protection is concerned, some of the Molony Committee's proposals on the misdescription of goods on labels and in advertisements will be implemented and this will help shopping housewives. All of these add up to a tidy programme of vote-catching social reforms. In addition, a Parliamentary Commissioner or "ombudsman" will be created to investigate complaints passed on by MPs about Whitehall's administrative actions. The Queen's speech also deals with implementing recommendations of the Devlin Committee to abolish the

casual system of dock labour.

Taken by and large, Parliament will have a full time getting through the Bills outlined in the Queen's speech. The major question that remains is whether the present swing to the Right in the Labour Party is a temporary feature or an indication of a permanent trend. In theory, steel nationalisation has not been abandoned, but is this one of the items that is going to be indefinitely postponed and, therefore, dropped discreetly from the programme? Is the Labour Party finally making up its mind to abandon socialism, and was Desmond Donnelly right when he said that the intentions reflected in the Queen's speech are the first stage towards the creation of a single, radical, classless, non-doctrinaire party of the British Left?

LETTER FROM SOUTH

A Deep Freeze?

IN Andhra there is an uneasy calm descending. Nobody quite knows what to do and what to expect. The cease-fire is so uncertain. The Americans are so tantalising. Will they send the food or won't they? And on what basis should one begin? Suppose the food comes after all the fuss and strain of the levy on farmers, storage and rationed distribution? Won't it all have been a foolish waste of time?

This is how many of the top Congress leaders in the State argue and keep themselves in a State of suspended animation. The days of seminars and tripartite meetings are the days of evasion, of a pretence at emergency. Much of the original enthusiasm has evaporated now that the realisation has dawned that the rationale of an emergency is radical social change.

There was a Food Seminar held the other day. Its fatuous nature was quite clear from the start since the Government had not even thought it fit to draw up an agenda. There was a general airing of views by all and sundry. The only piece of fun was provided by the squabble between the Pradesh Congress Chief, Thimma Reddy, and some officials, who knew that the Ministry was behind them. In any event the quarrel was over a minor point about the implementation of the shockingly inequitable land revenue system. Since there was a quiet determination that nothing concrete was to be achieved this petty quarrel was allowed to hold the centre of the stage. The only other point of interest was the proposal to have a drainage tax in the delta areas to deal with the financial side of a very long overdue measure.

Taxes versus Savings

There has been something of a battle in the wings on the question of taxes versus savings. Shastri's admonition has been taken quite seriously. If voluntary savings are not pushed up to a very much higher level then the only alternative would be to impose a stiff dose of taxes. As far as savings are concerned the biggest "donors" should be the Nizam and the temples—great hoards of gold and valuables are available with both these symbols of persistent feudalism. The Nizam shows absolutely no signs of relenting, apart from a grand donation of Rs one lakh! An Union Deputy Finance Minister flew down to Hyderabad to "persuade" the

very aged potentate but as it happened it was his birthday and the Minister was not given an appointment. He tried to explain it away as having been due to the old man's ill-health. The very next day there was a shrill protest of contradiction—the Nizam was well but, well, he couldn't and didn't see the point in seeing the emissary from New Delhi.

The temples, especially the Tirupati Devasthanam, are said to have agreed to weigh the Prime Minister in gold—a diminutive affair, after all. But even here second thoughts are on the way. Temple gold is "sacred" and would it be right to treat it in this way? Then, again, some devotees have been honest in the past few years and started giving the God 14-carat legal gold. Should this now be disposed off or should "real" gold be given? Nobody knows what to do. Tackling the Nizam would be difficult enough but the temples, especially Tirupati, are quite beyond the powers of our secular Ministers who rarely do anything before first making their *pranams* to the idol of Lord Venkateswara or Malikarjuna, as the case may be.

Land Revenue : A Suggestion

It seems to have been decided to impose savings, therefore, on those who cannot escape it—the civilians and the workers. A sliding scale is going to be fixed and the 'savings' deducted at source. Grumbling there may be but these two sections will have no choice but to comply. Obviously, however, the yield is going to be very meagre. Taxes cannot be avoided and, indeed, should not be.

It is true that as far as land revenue is concerned Andhra is perhaps the first among the States of our Union. But it is as iniquitous a tax as any that can be imagined and with the great jump in prosperity of the rural rich there is plenty of surplus to mop up still. The low rate of land revenue actually acts as a production disincentive. The landlords and kulaks of the delta districts just don't know what to do with the money they already have—how much can beer, whisky and women absorb after all? If they could be prodded into producing more to keep up their present vulgar standards of living Andhra should be able to double or even treble its present production. It has been estimated that a steeply

rising land revenue surcharge on just about some 3,000 persons throughout the State would give Andhra almost all the extra revenue she needs. It could even be that the land revenue could be reduced for the smaller farmers or even done away with altogether, considering the tremendous expense of collection. Would the Government dare, though? After all, somebody said, these three thousand are the real rulers of Andhra and how can the Congress government afford to touch them.

Popular Fervour Unabated

In the meantime, this criminal inaction on all fronts comes against the background of very severe drought, said to be the worst in living memory. The Rayalaseema region faces the prospect of a full-scale famine and even Khammam has been hit. All-party committees, including the local Congress leaders and MLAs, have been set up to provide adequate relief in these districts, comprising a good third of the entire State. No buffer stocks worth the name have been built up and Brahmananda Reddy will find it very difficult to keep his promise to Shastri to supply as much food as the latter asked for.

And yet all these depressing trends have not killed the people's fervour. Potharaju, the ack-ack hero from Amritsar, is given a lion's reception wherever he goes. His popularity, for the moment at any rate, is beyond even the film star's reach. The people still flock to political meetings in a way they have not done since 1955, not only in the towns but in the very depths of the countryside. This popular awakening will soon enough embarrass all those who wish to convert the emergency into a deep freeze of India as she is and should not be.

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The Cult of the Personality Politics under Johnson

THE United States is slowly yet perceptibly moving into the "Johnson Era". President Lyndon B. Johnson already dominates Washington in a way that President Kennedy never did, even though Kennedy was clearly a more charismatic leader. He is a masterful politician with more than two decades of experience in the complexities of the American federal government. The presence of the President is felt in the Congress and in all of the various federal agencies to an unprecedented degree. Hardly a wheel turns without the knowledge and approval of the President. Under the American system of government, the presidency is a strong office, but the present occupant of the White House has taken steps to enhance this already powerful office. Many observers have applauded Johnson's impressive domestic achievements during this short period in office, but there has been muted criticism of his "style" and some fear expressed for the future of democracy under so strong an executive.

Important Changes since Kennedy

A number of important changes have taken place in Washington since the beginning of the Johnson Administration which will give some idea of the "new regime" on the banks of the Potomac River. The spirit of dialogue and open discussion which existed during the Kennedy years has disappeared, as have most of the well known intellectuals and academics. Kennedy attempted to convince the public before launching a legislative programme, too often neglecting the intricacies of Congressional politics. Johnson does just the opposite, assuring the success of his programmes by careful manipulation and persuasion of Congressmen and Senators, but permitting very little public discussion or debate even on important legislative matters. The refusal of the Administration to participate in an open discussion on the Vietnam war is one indication of this fact.

The Harvard intellectuals of the Kennedy Administration have, for the most part, been replaced by Texans with limited experience outside the world of pragmatic American politics. Furthermore, the spirit of discussion

of the Kennedy era has been replaced by a kind of subtle authoritarianism. The White House staff are no longer "idea men" but are more like presidential secretaries. Advisors in the State Department and other government agencies are much less free to openly discuss policy with the President. The focus of the Capital is on President Johnson, and every effort is made to keep the spotlight there.

Arm-Twisting: Many Ways

The Johnson Administration is particularly averse to criticism. The "great consensus" is one of the key elements in the Johnsonian "Great Society". Newspaper reporters who write articles critical of the President are put on the mat and lectured. More importantly, they find themselves unable to obtain news stories and are systematically excluded from White House functions. Government officials who publically disagree with the President are simply fired, and Congressmen who vote against Administration measures find that their home districts are without federal government funds for roads, schools, or the poverty programme. Outspoken critics of the Administration's foreign policies like Senators Fulbright and Robert Kennedy are out of favour at the White House, and their home states are losing government contracts. Federal patronage is denied to recalcitrant legislators. The federal "pork barrel" (the annual allotment of federal money to the states and localities) is effectively manipulated by the Administration to coerce co-operation from legislators.

Lyndon Johnson's mastery of the art of pragmatic American politics has paid dividends during the recently concluded session of Congress. An unprecedented number of measures have been passed by the Congress. The Voting Rights Bill helps to assure that Negroes in the South will not be denied the vote, while the Medicare programme firmly places the United States on the road to publically administered medical service. The Education measures provide, for the first time, substantial aid to higher education from federal sources. The war on poverty has been expanded and is beginning to take root in the depress-

ed areas of the United States. Thus, the recent Congress can claim to have the most progressive legislative record in recent decades. Critics of the Congress have stated that it has been a "rubber stamp" of the President, and there is a good deal of truth to this statement. Johnson has been charged with using his famous "arm twisting" techniques on legislators, effectively wielding the tremendous powers of his office. It is significant that many of the recent legislative measures, while important steps forward in the struggle for social justice in America, will also tend to increase the power of the President. In the War on Poverty, for example, the President has tremendous influence over which communities receive funds and how the several hundred million dollars are allocated. Naturally, political factors may become involved in the distribution of funds, thereby applying further pressure on legislatures and local leaders to follow the President's wishes. Federal money can be traded for conformity to the pattern of the "great consensus".

Foreign Policy Not Debatable!

The Achilles heel of the "Great Society" is foreign policy. The Vietnam war is essentially President Johnson's war (with assistance from Secretary of Defence, McNamara). There has been virtually no discussion of American Vietnamese policy in Congress, which under the Constitution has responsibility for declaring war, and many Congressmen are critical of the war. The powerful Senate majority leader, Senator Mansfield is reported to have privately opposed the present escalation, although he has not spoken out publically on the issue. Criticism of American Vietnam policy has been widespread outside of Congress as well. In addition to the Teach-in Movement and the recent protest demonstrations, which had the effect of bringing the opposition into the public eye, there has been discontent from the venerable *New York Times* and many moderate political and business leaders. Indeed, it is fair to say that the Vietnam war is the most unpopular war in which the United States has engaged since the War of 1812.

The intervention in the Dominican Republic has been even more openly criticized in the United States, while the Latin American reaction has been understandably hostile. Senator Fulbright, the influential chairman of the Senate Foreign Relations Committee and the most astute analyst in the American Establishment, has openly attacked the intervention. His sentiments are shared by most liberals within and outside of the government. The Administration has yet to defend itself on the issue, and it has consistently refused to allow foreign relations to be openly debated.

It would seem that President Johnson simply has very little understanding of foreign affairs, and that he prefers to concern himself with domes-

tic policy, where he is able to wield almost overwhelming power. His over-simplified views of foreign affairs and the impossibility of internal discussion and criticism gives many Americans cause for alarm about future trends in foreign relations. When issues such as Vietnam are discussed, the Administration's "facts" simply do not agree with those of independent observers, and meaningful debate is precluded. And of late, the Administration has refused to publically discuss the issues at all.

Living with the Texan

What, then, of the future? President Johnson is firmly in the saddle and most of Texas seems to be moving to Washington. It is likely that the President will be able to continue his

strong influence over the Congress, and increase his ability to manipulate the legislative branch and the administrative agencies to do his bidding. The President is clearly popular with the people, although he is not the sort of leader who arouses the kind of devotion which John F. Kennedy did. The prospects for a shift in foreign relations seems quite remote, with the Administration becoming "harder" in its views rather than more moderate. The American "cult of the personality" seems to be here to stay at least for the next three years, and probably for the next seven. The American people, and the rest of the world, will have to live within the Texan in the White House.

—Philip G. Altbach

Are the British Racists?

Taya Zinkin

THE first time I became aware that there is such a thing as colour was when I stayed in a seaside resort hotel in France. There was a commotion in the hotel. For days all the grown-ups talked about nothing else but the extraordinary way in which the British behave. The commotion was sufficiently great for me to remember it though I was barely 6 years old. A British Colonel and his family who had booked rooms for the season protested on arrival because there was a coloured family, probably from French Africa, staying in the hotel. The Manager told the Colonel that if he did not like it he could go elsewhere, that the hotel had no intention of getting rid of the coloured family. The Manager had been so shocked by the Briton that he told everybody about it. Colour bars in France were, and I am glad to say, still are, unheard of.

The British by contrast are racists. A trip to Brazil is illuminating about race relations in the United States. Had the French or the Portuguese or the Spanish colonised the USA, instead of it being the British, there would be no Watts, no segregation, no race riots. North America would be like Brazil, without colour consciousness. Indeed, I remember an American friend saying at the height of the Alabama riots, "We white Americans are what the British made us, and we then proceeded to make the negroes what they are because of

what the British made us. Look at Canada, even their Indians are treated differently from ours, that is because of the French tradition".

Working Class: Worst Racists

The British are racists; and the worst racists of them all are the British members of the working class. This was again reiterated by Desmond Donnelly, the Labour M.P., when he warned a club in Exeter University of the "fundamental, deep-rooted prejudice of the conservative working man". Donnelly said that very often it is the communist factory shop steward who does not allow the employment of coloured people. He went on to complain that the Government White Paper on Immigration was an insult to Commonwealth immigrants because of the ceiling of 8,500 allowed in every year when there is no ceiling on other immigrants — he must have had Ireland and the continent in mind. The Immigration Act has caused much heart-burn amongst some liberal minded Labour and Liberal M.P.s because it is a really racist Act which gives wide powers of deportation without redress to a special tribunal, and because it discriminates between blacks and whites, and because it lowers the age of dependents. The Tories were far more liberal than Labour since they are not so dependent for support upon foremen and shop-stewards of the kind Donnelly had in mind.

Racism takes many forms; some of them however are due, not to the evil in man, but to his environment. Thus the mothers of a school in Birmingham have petitioned the local authorities to move their children out of the school to turn it into a reception centre for immigrants. Their reason was not colour prejudice but common sense. There are over 80 per cent coloured children in that school. The mothers did not object to so many children being coloured but to their scant knowledge of English. Their own children were being kept behind; a matter of the greatest importance when at the ripe old age of 11 a child's career is set according to how that child does at the Eleven Plus. The Headmistress of that school had been pressing for a long time for extra teaching staff in order to get over the initial difficulty the immigrant children have in following the classes.

Speaking of racism on the BBC, Robert Gardiner who is the Executive Secretary of the UN Economic Commission for Africa, and the first coloured man to deliver the Reith Lectures, said some very interesting things. He pointed out that it is natural for people to feel more at ease with their people and to believe that their own people are superior. When colour comes in the way of underlining the difference it becomes easier still to be racist, especially when peo-

ple have been conditioned to be so. For example nobody is anti-Eskimo; the Eskimos are too remote and too few to excite anything but curiosity. Racists often take cover under the difference in cultural behaviour, etc, to explain why they consider themselves better than others; but this is merely an alibi. German Jews and American negroes are culturally German and American. This did not stop Nazism or segregation. As Gardiner saidly points out "A negro remains a negro first". In England racism applies to all non-white Commonwealth immigrants; Indians and Pakistanis are often lumped together with Africans, if they do not belong to the professional classes or are not students, but are bus drivers or shop assistants or unskilled factory labourers. There is a threshold beyond which colour prejudice creeps into industry and business. Thus if in the department of a business there are two or three coloured (African or Asian) clerks nobody minds; but at a certain stage if about half the staff of that department is coloured then it becomes impossible to recruit white people for it; indeed the whites in it will ask to be transferred because it has become infra dig for them to work in what has become a coloured department. The Personnel Director of a big organisation therefore explained to me that it seems in the interest of the immigrants themselves to disperse, not only as far as housing, but in jobs too.

A brave and honest attempt is being made amongst politicians to evolve an election code for the burning issue of immigration. Whether this code will be adhered to is to be seen; in India even Congress agents sometimes distribute toddy before elections. The projected code has seven points.

Point I: moderate language should be used when talking of immigrants. Point II: there should be no general critical statements about immigrants. Point III: candidates who have to criticise immigrants must do so constructively. Point IV: candidates should discourage divisions in local communities. Point V: candidates must accept responsibility for statements made by their agents and canvassers. Point VI: candidates will be held responsible for the views of those who support them. Point VII: copies of election literature mentioning immigration must be given to the press on the date of issue.

The way to hell is paved with good intentions. I have no doubt that with the best goodwill in the world, when it comes to winning a marginal constituency, underhand exploitation of racism will be resorted to to win these last critical extra votes.

Watching the development of racism in Britain as I have been doing for the past 5 years I cannot but help feel worried. The problem is going to be very acute as soon as a lot of youngsters, children of immigrants, who have been educated in Britain and have grown to expect British standards of living and opportunity come into the labour market. Their expectation will be higher than those of their white counterparts. Many a white dock-worker or factory-worker is quite happy, unless the child is exceptionally bright, for his son or daughter to follow in parental footsteps.

This, however, is not true for most Commonwealth immigrants. They emigrated not only because the pay was better than in their native place but because they hoped for a better life for their children. They did what the British and the Continentals did when

they migrated to the United States: they ran after a better life. Like these European immigrants to America they are content to do menial jobs so long as the door of equal opportunity is open to their children. In Britain there is no prejudice against Commonwealth nurses and doctors; but there is a terrific prejudice against most other white collared jobs. One reason is that potential employers are afraid that if they hired a coloured person existing staff will resent it; another handicap is the prospect of having to promote a coloured person over a white one, a problem every bit as tricky in the employers' mind as employing women in positions where they have to be in charge of men.

As with everything else it is the first step which counts. If the first coloured employee fits in well, then more will follow. But if too many follow, then the whites will opt out. From the very start the coloured people are damned if they do and damned if they don't. How British society will meet the challenge which lies ahead is anybody's guess. So far the future is not bright.

Arab Nationalism and British Intrigue

Aloo J Dastur

Jordan: A Political Study, 1948-57 by Aqil Hyder Hasan Abidi; Asia Publishing House, 1965; pp 251, Rs 25.00.

JORDAN exemplifies the position and role of Great Britain in the Middle East between the two World Wars. Having made secret treaties during the war of 1914-18, which conflicted with each other, Britain and France parcelled out the Turkish Empire between them. In this nefarious task Britain found able aides in the sons of Sheriff Hussein. The elder, Abdullah, was created Amir of the area east of the Jordan river and Transjordan became a British Mandate.

Abdullah was sustained in power by lavish financial grants by Britain and assisted by British officials. Arab notables who previously detested Turkish imperial rule now disliked British imperialist control over the budget, finances, army, economic development and foreign affairs. The little desert country formed an important link in Britain's imperial lifeline. The strongest Arab armies were the Arab Legion and Frontier Force trained by the British. British policy paid off during World War II when Abdullah proved a steadfast friend.

He earned his reward in 1946 when he was recognised as king of Transjordan and became a little less dependent on Great Britain. Yet he was strongly criticised by the Arab League for continuing in subservience to the British. This blocked the country's entry into the United Nations. Abdullah himself never became popular in the other Arab countries specially Egypt and Saudi Arabia because of his ambition to rule over greater Syria.

Entry of Palestinian Arabs

If he could not translate his dream of Great Syria into reality he created the Hashmite kingdom of Jordan after the Palestine War. When his Arab Legion alone of Arab armies successfully resisted the Israeli attack he incorporated what remained of Palestine into his enlarged kingdom; with a small area he had also to take in nearly a million people, half of whom were without shelter or means of support. The Jordanian Parliament confirmed the union in April 1950.

Till then Abdullah had had a rather easy time; thereafter his troubles started. Challenges were thrown at him from several directions — his relationship with Britain, attitude towards Israel, the general economic si-

tuation in the country, and above all, his disinclination to share power with the Parliament. He regarded Great Britain as his benefactor and protector; the Palestinian Arabs now in Jordan held Britain responsible for their fate and misery. Of all Arab rulers he was the only one who harboured lurking recognition of Israel and even made secret peace overtures surrendering the Rutenberg region to the Israeli army: all the while he maintained the strictest secrecy and even indulged in subterfuge and falsehood when the surrender leaked to the people. The economic situation deteriorated with the large refugee influx. Political conditions developed a fluidity because of the clash which arose between the incoming Arabs who were better educated, more politically conscious and more ardent in their nationalism than the Jordanians. Abdullah's patriarchal superciliousness did not and could not impress them. He also clashed with his Chamber of Deputies. His softness towards Israel incurred Arab wrath and on July 20, 1951, he was murdered.

Dr Abidi brings into bold relief Abdullah's policies running counter to the prevalent Arab mood. He delineates the impact of the character of the king on his desert kingdom and without conscious effort shows how he could not fit into the conditions created by the second World War. He could not reconcile himself to the new world of the Arab League and a militant Arab nationalism; he paid the price with his life.

The Talal interlude is well delineated. The world was led to believe that he was not in his proper frame of mind; he was compelled to be "a king on holiday" by going to Europe "for rest and convalescence". The facts were that Talal unlike his father had the makings of a democratic king, and hence was kept in the background during the long spell of Abdullah as Amir and King. As king he gave a new constitution to his people, which sought to make the government function on the twin bases of responsibility and responsiveness. The Chamber of Deputies was given wider powers. A Workers' Bill of Rights was introduced in the legislature. Talal sought greater co-operation with the Arab world and a little less reliance on the British. The people were

with or for the new king. All this was "not to the taste of some of the interested foreign powers. Nor were they liked by the local oligarchs". If the father was murdered for his autocracy the son was deposed for being a democrat.

His son and successor, Hussain, educated at Harrow and Sandhurst, had been impressed by British institutions but not deeply enough to work them in his country inspite of Talal's effort. The nationalist fervour which was unleashed by Talal could not be curbed. This became increasingly evident when the Cold War projected itself in the region. Always under British control and influence the monarchy and the oligarchy favoured joining the Baghdad Pact; but effective opposition by political leaders prevented Jordan's entry. The revolution in Egypt and the abolition of the monarchy there had its own reaction in the country. It intensified the feelings of Arab nationalism — a force under-estimated by both Britain and France.

Hussain's Troubles

Hussain's troubles have been many and varied; but a single undercurrent is the conflicts created by the incorporation of a part of Palestine. Abidi analyses cogently the problems and prospects of integration which is not yet complete. Diversities exist in the social, economic, political and above all emotional spheres, but gradually the kingdom is being knit into a single whole, the lead being taken by the Palestinians. They are again waiting to form a political opposition in the legislature something not known before the union. The contrast between the pre-union and post-union politics is sharp. The place of Jordan in the Middle East and in world affairs depends not only on how the country conducts its affairs; it depends rather on how the Arabs as a whole shape their future and how far Jordan can loosen the chains that bind her to Great Britain.

Jordan shares with other Asian countries the fluid politics of having too many political parties. These fall roughly into four categories: pan-Arab, parochial, pan-Islam and Marxist. Since Abdullah's days there is a ban on the propagation of Communist literature although the Communist Party as such exists. The constitution

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recognises the right of forming parties, but in practice the government must grant a licence to form a party! In spite of these handicaps the parties are playing their role in gradually drawing Jordan into the Arab fold and releasing the British economic and military hold.

Abidi's treatment is historical and analytical. He has relied in the main

on primary sources and his documentation is as perfect as can be. Starting out with sympathy he has pinpointed the weaknesses in the political structure and functioning, and their causes; he has disclosed the long and ill-disguised aim of Great Britain in sustaining the monarchy and controlling the army; he has revealed the efforts at bringing the

country more in to the political and economic vortex of the Arab world; in short, he has succeeded in projecting a true image of the little desert kingdom.

To put the finishing touch to a wellknit doctoral dissertation Abidi furnishes an excellent bibliography which will certainly be the envy of all Ph D Students.

Problems of Raising Agricultural Production

Report on a Seminar

C V H

AT last the cobwebs that enveloped thinking on food production problems in Andhra are being cleared up. The two-day seminar on food production convened by the State Chief Minister, K Brahmananda Reddi in Hyderabad, on November 1 and 2, contributed to this result by throwing into prominent relief the factors that stood so far, and that stand even today, in the way of augmenting the food production potential in the State in the immediate future and later. Many of the bottlenecks disclosed by the deliberations could have been eliminated earlier; that they were not is a sad commentary on the absence of administrative initiative and lakadaisical execution. We may assume that urgent follow-up action will follow now, and that the tempo generated will be a lever for achieving the objective of national food self-sufficiency at least by 1971. The action programme for the short-term discussed at the seminar is designed mainly to clear the ground for raising a second rice crop on an additional acreage and to remove obstacles to increasing the yield of the rabi crop.

Inter-State Dispute Settled

The raising of a second paddy crop in an extra 1 to 1.5 lakh acres (if other steps had been taken the acreage could have been presumably substantially increased) is interlinked with the availability of adequate irrigation facilities and other essential inputs. The major proportion of this acreage will have to be in the Krishna and Godavari basins and in the area served by the Tungabhadra canal system, the Nizamsagar reservoir and Pennar basin.

So far as the Krishna basin is concerned, the problems of supply of water from the Tungabhadra reservoir, which is the main source of irrigation for the

second crop, have now been satisfactorily settled between the Andhra and Mysore Governments, eliminating the earlier uncertainty on that account. It is gratifying that the Centre has agreed to shoulder responsibility for supplying fertiliser, seeds, implements (including diesel engines and drilling equipment for wells) and plant protection equipment urgently needed in this connection. Assured of these inputs (one can only hope that all these will be available in time for this year's rabi crop) farmers would be able to expedite transplantation of seedlings for rabi sowing immediately, to avoid the prospect of shortage of water supply during the summer months.

While many of the issues raised at the seminar (there were only a few on which what may be considered firm recommendations were made) are beneficial from the standpoint of increasing production, their effectiveness will naturally be realised only later. Surprisingly, one heard that routine activities such as the removal of silt in the Krishna and Godavari canal beds and improvement of drainage facilities in the delta area had been either held up for years or that work has been proceeding at a painfully leisurely pace. The excuse that funds and machinery for undertaking these urgent works are inadequate, may cover many sins and much lack of foresight, but it is not a convincing explanation why funds were not asked for in time or available funds were not utilised to the maximum advantage.

Somewhat more inexplicable, however, is why the proposal made by the Chief Minister, K Brahmananda Reddi, some time back for creation of a special drainage improvement fund, with initial capital provided by the Government, to be replenished by imposi-

tion of a cess on lands which will directly benefit from drainage schemes, which was an excellent idea, was not pursued so far. The drainage problem in the low-lying delta areas, which are subject to inundation by floods and from which flood water cannot be easily drained is a long-standing one and legislation, if necessary, has to be introduced to create the fund suggested. As proposed, it will not be a burden on the general revenues while on the other hand it can be utilised also to implement the recommendations for permanent control of floods that the Mitra Committee appointed by the Central Government is expected to make.

Supply of Inputs

Discussions at the seminar on the problem of supply of seeds, fertilisers, pesticides and agricultural credit disclosed serious drawbacks in the manner and methods of providing these essential inputs. Blackmarketing in and adulteration of pesticides was admitted by official spokesmen and also adulteration of fertiliser and underweighting of supplies sold in bags. Granting that fertiliser is in short supply, the principal problem was equitable distribution of the allocated quantities to all the farmers in an area. The co-operative societies, through which the distribution is now being made, have been habitually misusing their privileged position and blackmarketing the commodity. Plant protection material supplied by Government has been found to be adulterated and the spraying equipment faulty.

As for seeds, research farms in the State have been putting in some hard and intelligent work to develop hybrid strains of maize and bajra and conducting experiments on Taichung Variety

1. But it has been disclosed that these improved seed varieties can be made available to farmers in sizeable quantities only over the years. This is another instance of the age-old complaint about the wide time-lag between evolution of new techniques of cultivation or improved varieties of seeds in research farms and communication of the knowledge about them and their use to the farmer. This problem has become so well established that the per acre increase in food production will conceivably continue to trail behind expectations for quite a long time. A State seed co-operative is contemplated in the Fourth Plan, the benefits of which will be derived only towards the end of that plan. Similarly, a demonstration farm to carry out intensive experiments in the Japanese method of cultivation and the use of Japanese farm equipment under a team of Japanese agronomists has been set up only a few days back at Bapatla, even though the Japanese method of farming has been in vogue in sizeable areas in Andhra Pradesh for about half-a-decade.

The Hyderabad seminar evoked an immediate and helpful response from the Government about minor irrigation sources which are the main sources of irrigation in large tracts not served by protected irrigation works. On the one hand it was agreed that legislation would be introduced to vest authority in the State Government to take over the repair of irrigation tanks in erstwhile zamindari and jagirdari areas. On the other hand, it was agreed to increase the powers of executive engineers to accord technical sanction to minor irrigation works costing up to Rs 50,000 and to take up the restoration of tanks.

Not Enough Credit

The problem of credit for short, medium and long-term agricultural needs, in adequate quantities and at the appropriate time is again a long-standing and complex problem. On the one side while the demand for such credit has been rapidly growing, the co-operative agencies have so far been able to supply only about one tenth of that demand. The movement labours under both external and internal limitations, among the former being the restrictions imposed on advances by the Reserve Bank to co-operative banks which are the principal agencies for channelising funds for agricultural credit through primary co-operatives, and among the latter being the inability of co-operative institutions to mobilise savings, promote thrift and cut down

overdues. The growing overdues, amounting to between Rs 5 and Rs 6 crores, have been a standing blot on as well as a standing challenge to the movement and efforts to collect them have achieved only partial success.

A new procedure for disbursing short term credit to individual farmers, on the basis of the extent of land owned, the kind of crop grown and the anticipated return from it, is stated to be under consideration to facilitate the supply of farmer's needs. The change contemplated (it is proposed to issue pass books to individual farmers in which all entries about credit transactions will be noted) should answer the criterion that credit should be linked with productivity and the farmer's effort to augment production. It should also enable him to get credit from other sources besides the co-operatives. On the whole the seminar strengthened the prevailing view that the two major impediments to liberal extension of credit facilities are, firstly, the chaotic conditions in the co-operative movement and inefficient or corrupt management of societies and, secondly, the enormous overdues which indicate either the non-credit-worthiness of the farmers, inefficient operation of the co-operatives or the fact that credit facilities are being grabbed by a few privileged individuals.

In a State like Andhra Pradesh, where the average farmer is an intelligent participant in farming with a traditional bias towards improved methods, if agricultural production is not keeping up to the schedule, it can only be because the farmer is not getting all the assistance he should. On the other hand the present is not a situation in which increase in production can be left to take care of itself. In every

single direction in which the average farmer expects to be helped, he is either receiving only inadequate help, advice and encouragement or he is not getting them at the proper time. For this the blame should be laid partly at the doors of the official machinery and partly at the doors of the Government, which has permitted the official machinery to plod on, without inter-departmental coordination, without imaginative appreciation of the farmer's requirements and without the realisation that rules and regulations are not designed to hinder but help him in carrying on his vocation.

An Agricultural Commission

It is imperative that this situation must change. And if the bureaucratic machinery is invested with the requisite sense of urgency in this respect, the hope that the country's food deficit (amounting to 7 or 8 per cent) will be wiped out in the next 2 or 3 years, need not remain a pious one. The Andhra Pradesh farmer will be able to play a central role in that process.

Lastly, the suggestion put forward by the State Congress President that an Agricultural Commission should be set up to conduct a comprehensive enquiry into various problems of the agricultural industry requires to be given serious consideration by the Government of India. It is nearly four decades since such an enquiry into India's premier industry was made by the Linlithgow Commission. Much water has flown down the various rivers since then and many developments have taken place. The industry has now to play a predominant part in the nation's economy and a comprehensive and co-ordinated picture of its problems, its needs and of steps to meet them should be considered an urgent need.

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ANNOUNCEMENT REGARDING PROPOSED ISSUE OF PREFERENCE SHARES

This Announcement is NOT a Prospectus. Persons interested in full details may obtain copies of the Prospectus and Forms of Application from the Company's Bankers, Brokers and Underwriters and at the Company's Registered Office.

Hindustan Aluminium Corporation Limited

(Incorporated on 15th December, 1958 under the Companies Act, 1956)

Registered Office :

'INDUSTRY HOUSE', 159, CHURCHGATE RECLAMATION, BOMBAY - 1

Existing and Proposed Activities of the Company

The Company was incorporated on 15th December, 1958 with the objects stated in its Memorandum of Association and in particular to carry on the business of producing aluminium and aluminium products and with that end in view an Integrated Aluminium Plant has been erected at Renukoot near Rihand Damsite in District Mirzapur in the State of Uttar Pradesh. The construction of the factory with an initial production capacity of 20,000 M Tons per annum of aluminium was completed in 1962 and production commenced in May, 1962. Shortly thereafter, the Plant went into full production and the annual output was over 22,000 M Tons. In early 1964, a Properzi Mill Plant was set up for production of redraw wire rods with a rated capacity of 6,000 M Tons per annum. This Plant has fully come up to expectation. Thereafter in early 1965 an Extrusion Press and Rolling Mill for producing aluminium extrusions and rolled products (Sheets etc) was installed with a rated capacity of 2,000 M Tons and 7,000 M Tons respectively, thus bringing the total capacity of the fabrication plant to 15,000 M Tons.

In view of the growing demand for aluminium products in the Country, it was decided to increase the licensed production capacity of the Company's Integrated Aluminium Plant from 20,000 M Tons to 60,000 M Tons of aluminium and of the Fabrication Plant from 15,000 M Tons to 37,000 M Tons.

For this expansion the Company has already obtained Industrial licences from the Central Government under the Industries (Development & Regulation) Act, 1951.

Location of the Factory

RENUKOOT,

District Mirzapur, Uttar Pradesh

Board of Directors

1. **SHRI G D BIRLA** Industrialist & Businessman.
(Chairman) Director:
Birla House, Gwalior Rayon Silk Mfg (Wvg)
5, Tees January Co Ltd,
Marg, New Delhi. Hindustan Times Ltd,
Birla Gwalior Private Ltd.
(Managing Director)
2. **MR EDGAR F KAISER** Industrialist.
Oakland 12, Director:
California, USA, Kaiser Aluminium & Chemical
Corporation,
Kaiser Industries Corporation and
other companies.
3. **MR MARVIN L LEE** Businessman and Vice-President
Oakland 12, and General Manager
California, USA, International Division Far East
Region of Kaiser Aluminium &
Chemical Corporation.

Director:
SKY Aluminium Co Ltd,
Thai Metal Works Company Ltd.

4. **SHRI M P BIRLA** Industrialist & Businessman.
15, India Exchange Director:
Place, Calcutta. Bally Jute Co Ltd, Birla Gwalior
Private Ltd (Managing Director),
Universal Cables Ltd, Jayshree
Textiles & Industries Ltd, United
Commercial Bank Ltd, Birla Jute
Mfg Co Ltd, and other companies.

5. **SHRI ARVIND N** Industrialist & Businessman.
MAFATLAL Director:
Mafatlal House, Bombay Burmah Trading Corpo-
Backbay Reclama- ration Ltd, Indian Dyestuff Indus-
tion, Bombay 1. tries Ltd, Industrial Investment
Trust Ltd, National Machinery
Manufacturers Ltd, Mafatlal Fine
Spg & Wvg Co Ltd, New Shor-
rock Spg & Mfg Co Ltd, Nation-
al Rayon Corporation Ltd, Phal-
tan Sugar Works Ltd, Sassoon
Spg & Wvg Co Ltd, Standard
Mills Co Ltd, Surat Cotton Spg
& Wvg Mills Ltd, Tata Iron &
Steel Co Ltd, Hoechst Dyes &
Chemicals Ltd, Polyolefins Indus-
tries Ltd, Reserve Bank of India,
Industrial Development Bank of
India, and other companies.

6. **SHRI D P GOENKA** Industrialist & Businessman.
9, Brabourne Road, Director:
Calcutta. Hastings Mills Ltd, Universal
Cables Ltd, Hukumchand Jute
Mills Ltd, Industrial Credit &
Investment Corporation of India
Ltd, State Bank of India, Calcutta
Steel Co Ltd, Indian Guarantee
and General Insurance Co Ltd,
Hassimara Industries Ltd, British
India Corporation Ltd, Export
Credit Guarantee Corporation
Ltd, Titaghur Paper Mills Co
Ltd, Andhra Pradesh Paper Mills
Ltd, and other companies.

7. **SHRI N K PETIGARA** Solicitor and Partner of
21, Pali Hill, Messrs Mulla & Mulla & Craigie
Bombay 50. Blunt & Caroe, Solicitors, Bombay
Director:
Bank of India Ltd, Bombay Dye-
ing & Mfg Co Ltd, Bombay Sub-
urban Electric Supply Ltd,
National Peroxide Ltd, New India
Assurance Co Ltd, Henley Cables
India Ltd, Scindia Steam Naviga-

tion Co Ltd, Ahmedabad Electri-
city Co Ltd, Indian Guarantee &
General Insurance Co Ltd, Hin-
dustan Polymers Ltd, Western
India Spg & Mfg Co Ltd, Her-
dillia Chemicals Ltd, Oriental
Fire and General Insurance Co
Ltd, and other companies.

8. **SHRI R N GOENKA** Industrialist & Journalist.
Hicks Bungalow, Director:
Express Estates, Express Newspapers Ltd, Indian
Mount Road, News Service Ltd, Gwalior Rayon
Madras 2. Silk Mfg (Wvg) Co Ltd, Crissa
Cement Ltd, and other companies

9. **SHRI G D JHAWAR** Businessman.
51/C Garriahat Rd, Director:
Calcutta 19. Usha Martin Black (Wire Ropes)
Ltd, Electric Construction and
Equipment Co Ltd, and other
companies.

Managing Agents

Birla Gwalior Private Limited,
15, India Exchange Place,
Calcutta 1.

Share Capital

AUTHORISED :		
1,00,00,000	Equity Shares of Rs 10/- each.	Rs 10,00,00,000
2,50,000	9% Redeemable Cumulative Preference Shares of Rs 100/- each	Rs 2,50,00,000
1,50,000	9.3% 'B' Redeemable Cumulative Preference Shares of Rs 100/- each	Rs 1,50,00,000
60,00,000	Unclassified Shares of Rs 10/- each	Rs 6,00,00,000
		Rs 20,00,00,000

ISSUED, SUBSCRIBED AND PAID UP CAPITAL :

60,00,000	Equity Shares of Rs 10/- each fully called up (including 6,00,000 Shares of Rs 10/- each issued as fully paid up pursuant to contracts for consideration other than cash). Rs 6,00,00,000 Less: Face value of shares forfeited Rs 64,500	Rs 5,99,35,500
2,50,000	9% Redeemable Cumulative Preference Shares of Rs 100/- each fully called up. Rs 2,50,00,000 Less: Face value of shares forfeited. Rs 27,000	Rs 2,49,73,000
		Rs 8,49,08,500
	Less: Calls in arrears	Rs 4,000
		Rs 8,49,04,500

Add: Forfeited shares account (Amount paid up)	Rs 32,625
	Rs 8,49,37,125

PRESENT ISSUE :

1,50,000	9.3% 'B' Redeemable Cumulative Preference Shares of Rs 100/- each	Rs 1,50,00,000
	At par payable in full on application. The issue has been fully underwritten.	

Underwriters

The above mentioned issue of 1,50,000 9.3% 'B' Redeemable Cumulative Preference Shares of Rs 100/- each offered to the public is fully underwritten as follows:

Name and address	Amount underwritten Rs
1. Life Insurance Corporation of India YOGAKSHEMA, Foreshore Road, Bombay 1.	75,00,000
2. Industrial Finance Corporation of India, Reserve Bank Building, 6, Parliament St, New Delhi.	40,00,000
3. Unit Trust of India, Bombay Life Building, 45, Veer Nariman Road, Bombay 1.	10,00,000
4. Indian Guarantee & General Insurance Company Ltd, Gresham Assurance Building, Sir P M Road, Bombay 1.	10,00,000
5. G M Pyne, Allahabad Bank Buildings, 14, India Exchange Place, Calcutta 1.	10,00,000
6. Harkisondass Lukhmidass, Stock Exchange Bldg, 5th Floor, Apollo Street, Bombay 1.	5,00,000
TOTAL	1,50,00,000

In the opinion of the Directors, the resources of the underwriters are sufficient to discharge their respective underwriting obligations.

Brokers

CALCUTTA

Messrs G M Pyne,
Allahabad Bank Buildings,
14, India Exchange Place, Calcutta

Messrs Place, Siddons & Gough (Private) Ltd,
6, Lyons Range, Post Box No. 592, Calcutta 1.

BOMBAY

Messrs Navalchand T Shah & Co,
15, Union Bank Building, Dalal Street,
Post Box No 88A, Bombay 1.

Messrs Harkisondass Lukhmidass,
Stock Exchange Building, 5th Floor,
Apollo Street, Fort, Bombay 1.

Messrs Batlivala & Karani,
Union Bank Building, Dalal Street,
Fort, Bombay 1.

Messrs Chimanlal J Dalal & Co.,
107, Stock Exchange New Building, Dalal Street,
Fort, Bombay 1.

Messrs Rasiklal Maneklal & Co.,
Stock Exchange Old Building, Dalal Street,
Fort, Bombay 1.

Messrs A B Pandit & Co.,
32, Apollo Street, Bombay 1.

Messrs Dhirajlal Maganlal Purshotamdas,
Stock Exchange Building, Apollo Street,
Fort, Bombay 1.

Mr Kaiki J Khambatta,
Old Stock Exchange Building,
P O No 533, Share Bazaar Fort, Bombay 1.

MADRAS

Messrs Harbans Singh Mehta & Co.,
Mercantile Bank Buildings,
Post Box No 291, Madras 1.

NEW DELHI

Messrs Harbans Singh Mehta & Co.,
33, Regal Building, Parliament Street,
P O Box No 300, New Delhi 1.

Bankers

1. THE UNITED COMMERCIAL BANK LIMITED
UCO Bank Building, Dr Dadabhai Naoroji Road,
Bombay 1.
2. THE CENTRAL BANK OF INDIA LIMITED
Central Bank Building, Mahatma Gandhi Road,
Bombay 1.
3. THE BANK OF BARODA LIMITED
Bank of Baroda Building, Apollo Street,
Bombay 1.
4. THE BANK OF INDIA LIMITED
Bank of India Building, Mahatma Gandhi Road,
Bombay 1.

Solicitors

Messrs Mulla & Mulla & Craigie Blunt & Caroe,
Jehangir Wadia Building,
51, Mahatma Gandhi Road,
Bombay 1.

Auditors

Messrs Singhi & Co.,
Chartered Accountants,
1/B Old Post Office Street,
Calcutta.

The subscription list will open at the commencement of the banking hours on the 29th November 1965 and will close at the close of Banking hours on the 9th December 1965 or earlier at the discretion of the Directors, but not before the close of Banking hours on the 3rd December 1965.



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An Almost Consistent Intertemporal Model for India's Fourth and Fifth Plans

Joel Bergsman
Alan S Manne

The principal purpose of the model presented below is to compare the balance-of-trade time paths under alternative strategies for the Fourth and Fifth Plans. The analysis is also intended to be of use in estimating the absolute levels of foreign exchange requirements implied by a specific set of growth and performance assumptions.

"There was probably no other person in the whole country who had meditated so much on the question of interest. Margayya's mind was full of it. Night and day he sat and brooded over it. The more he thought of it the more it seemed to him the greatest wonder of creation. It combined in it the mystery of birth and multiplication. Otherwise how could you account for the fact that a hundred rupees in a savings bank became one hundred and twenty in course of time? It was something like the ripening of corn. Every rupee, Margayya felt, contained in it seed of another rupee and that seed in it another seed and so on and on to infinity. It was something like the firmament, endless stars and within each star an endless firmament and within each one further endless ... It bordered on mystic perception."

From R K Narayan, "The Financial Expert"

IN this paper we present a model intended to quantify some implications of alternative paths of economic growth for India. The model may be regarded as a "requirements analysis". The calculations are begun by postulating aggregate growth and import substitution targets. The implications for production, investment, and the balance-of-trade are then derived. The model itself does not specify what policy measures would have to be taken to implement one of these alternative programmes. We do not attempt to spell out the particular mix of quantitative controls, fiscal and monetary measures best suited to achieve the postulated targets.

The analysis is intended to be useful in estimating the absolute levels of foreign exchange needs implied by a specific set of growth and performance assumptions. The principal purpose, however, is to compare the balance-of-trade time paths under alternative strategies for the Fourth and Fifth

Plans. For this reason, no constraint has been placed on the magnitude of the balance-of-trade deficit in any year.

Because it takes machines to make machines, there is an immediate additional cost attached to import substitution or export promotion in the capital goods industries. The cost can be measured both in additional import requirements and in additional investment requirements. According to our calculations, the additional foreign exchange costs are more than recovered over the ten year period considered here.

In our calculations, an accelerated programme of capital formation during the Fourth and Fifth Plans implies a sharp immediate rise in the demand for such investment goods as machinery and construction. To the extent that this additional demand can be met through an increase in foreign aid and loans, there is no immediate domestic economic problem. But to the extent that the investment goods are to be provided for domestic sources of supply (e.g. construction projects employing manpower in large quantities), there is a domestic policy problem to be faced. An ambitious programme for the mobilization of domestic power and physical resources also implies an ambitious programme for raising taxes, private savings, and the earnings of public enterprises. If the mobilization of savings is less vigorous than is implied by the import substitution and physical output targets, then inflation — whether open or repressed — is a likely consequence.

Model formulation

In two previous reports, a 30-sector interindustry model was employed to construct an internally consistent set of output levels, investments and import requirements for a specific future year. Rudra and Manne (1965) deal with 1970-71, the terminal year of India's

Fourth Plan period; and Srinivasan, Saluja, and Sabherwal (1965) deal with 1975-76, the terminal year of the Fifth Plan. The present project is even more ambitious: tracing out alternative time paths for each of the 30 sectors over each year of the Fourth and Fifth Plans, starting from the expected condition of the economy as of 1965-66.

We believe that investigation of annual time paths is a useful extension of single-period analyses. Our model was designed primarily to explore balance-of-trade time paths under alternative growth and import substitution strategies. With a one-period model, such an analysis is impossible. Also, investment programme bottlenecks may be hidden unless year-to-year time phasing is explored. See Chakravarty and Lefebvre (1965).

In addition to the time phasing of imports, this model is designed to explore some specific effects of time lags between investment and output. The model calculates the structure of the economy for a target year five or ten years in the future, and works out the time paths that would get the economy "from here to there" — from the assumed base year position to the calculated target year position. The model operates as if the demand-supply gap for each commodity is to be filled either by imports (producers' goods), by consumption shortfalls (food and fibres), or by increases in domestic output (services). These "shock absorbers" are assured to be available for bridging the gap between domestic supplies and total demand. We take the 1965-66 levels of domestic output of each item as a datum, and we suppose that each sector's output expands at a constant growth rate during the Fourth Plan and at another rate during the Fifth. Because of the domestic service sectors, the model is "almost consistent" rather than fully consistent. In the service sectors; (notably construction), domestic pro-

Table 1 : Alternative Projections of Domestic Expenditure Components

	Rupees, thousand crores (1959-60 market prices)					Annual Percentage Increase	
	1960-61 (actual)	1965-66 (estimates)	1965-66 (model)	1960-71 (model)	1975-76 (model)	Fourth Plan ^a	Fifth Plan
Case A1							
Induced investment ^b	2.51	2.15	3.21	4.13	6.12	13.9%	8.2%
Exogenous investment ^c		1.45	1.45	2.45	4.47	11.1	12.8
Government consumption	1.38	2.70	2.70	3.80	5.40	7.1	7.3
Household consumption	12.60	14.70	14.70	19.20	26.70	5.5	6.8
Gross domestic expenditure	16.49	21.00	22.06	29.58	42.69	7.1	7.6
Case A2							
Induced investment ^b		2.15	3.08	4.26	6.12	14.7	7.5
Case A3							
Induced investment ^b		2.15	2.94	4.05	5.91	13.5	7.9
Case B1							
Induced investment ^b	2.51	2.15	2.68	3.49	5.51	10.2%	9.6%
Exogenous investment ^c		1.45	1.45	2.22	3.94	8.9	12.2
Government consumption	1.38	2.70	2.70	3.80	5.40	7.1	7.3
Household consumption	12.60	14.70	14.70	18.30	23.90	4.5	5.5
Gross domestic expenditure	16.49	21.00	21.53	27.81	38.75	5.8	6.8
Case B2							
Induced investment ^b		2.15	2.56	3.60	5.51	10.9	8.9
Case B3							
Induced investment ^b		2.15	2.43	3.40	5.31	9.4	9.3

Notes : ^a Growth rate based on estimated level for 1965-66.
^b Includes inventories.
^c Includes replacement investment, together with housing, health, education, roads, etc. See Table X-3B, Rudra and Manne (1965).

Table 2 : Merchandise Imports and Gross Domestic Production

Commodity	Merchandise Imports Rs crores			Gross Domestic Production Rs crores		Ratio of Imports to Gross Domestic Production							
	1960-61	1965-66	1965-66	1960-61	1965-66	Case 1		Case 2		Case 3			
	(1)	(2)	(3)	(4)	(5)	1960-61 (6)	1965-66 (7)	1970-71 (8)	1975-76 (9)	1970-71 (10)	1975-76 (11)	1970-71 (12)	1975-76 (13)
03 Equipment, electrical	57	106	168	126	246	.452	.431	.150	.100	.200	.100	.375	.250
04 Equipment, transport	69	92	162	201	369	.343	.249	.150	.100	.200	.100	.250	.200
05 Equipment, other	229	429	605	344	660	.666	.650	.250	.200	.450	.200	.525	.350
06 Iron and steel	121	93	67	269	578	.450	.161	.050	.025	.100	.025	.100	.050
09 Other metals	49	63	93	32	62	1.531	.1016	.500	.500	.500	.500	.500	.500
10 Other minerals	10	n.a.	24	45	65	.222	n.a.	.180	.180	.180	.180	.180	.180
23 Petroleum products	123	101	97	237	405	n.a.	n.a.	.040	0.40	.040	.040	.040	.040
24 Crude petroleum			52	3	23	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
27 Chemicals ^b	111	92	21	284	548	.391	.168	.100	.022	.100	.022	.125	.070
Others, excluding food	177	326 ^c	314										
Total, excluding food	946	1302	1603										

Notes : ^a Future domestic production of crude petroleum is specified exogenously. Imports are determined residually as the difference between demand and domestic production.
^b From 1965-66 onward, total demand for chemicals is probably underestimated by the model because of outdated norms.
^c Includes commodity, 10, "other minerals".

Sources : Column 1 Rudra and Manne (1965), 1959-60 prices.
 2 Our estimates of actuals, current prices.
 3 Model results, Case A1, 1959-60 prices.
 4 Rudra and Manne (1965), 1959-60 prices.
 5 Our estimates of actuals, 1959-60 prices.
 6 Column 1—Column 4.
 7 Column 2—Column 5.
 8-13 Assumptions, cases 1-3.

duction could be a bottleneck during years too close to the base year for output to be expanded. See Appendix for details on the mathematical formulation.

Principal Assumptions

The calculations are based upon two alternative time paths of aggregate domestic expenditure. For each time path, three alternative assumptions concerning import substitution targets are considered. Each of the six possible combinations of aggregate growth and import substitution has been explored.

Table 1 indicates the two alternative aggregate growth paths. The figures for induced investment emerged from the calculations themselves. The other three items (i.e., exogenous investment, government consumption, and household consumption) were determined exogenously prior to running the model.

Case A represents what we believe to be the consensus at the Planning Commission for the Fourth Plan, together with the Perspective Planning Division's proposals for the Fifth Plan. Case B corresponds to a more pessimistic view than is being considered by the Planning Commission — hence slower rates of growth of agricultural development and of consumption, and a reduction in exogenous investment.

For each of the two aggregate growth assumptions, three cases are considered with respect to import substitution. These three alternatives differ in the assumed ratios of imports to domestic production for each sector. Table 2 indicates the ratios assumed for the target years of 1970-71 and 1975-76. Case 1 represents the most rapid programme. Case 2 is less rapid during the Fourth Plan, but reaches the same position as Case 1 by the end of the Fifth Plan. Case 3 is slower than Case 2 for both Plan periods. Table 2 contains the actual import coefficients for 1960-61, preliminary estimates for 1965-66, and the three alternative assumptions for the future.

The six combinations of assumptions will be identified as Case A1, A2, B1, etc.

Principal Results Import Substitution

We first turn to the results with respect to import substitution. Figure 1 is based upon aggregate projection A, and shows the trade deficit

corresponding to the three alternative targets for import substitution. Household and government consumption, exogenous investment, and exports are identical for all three curves in Figure 1. The curves represent our estimates of the time-paths of the trade deficit corresponding to the three different import substitution strategies—exogenous final demands being held constant. Case 1, the most ambitious import substitution strategy, has the highest deficit in the early years, but achieves the greatest reduction in future deficits. Over the eleven-year period considered, the present cost of the trade deficit for Case 1 is lower than that for Case 2, and that of Case 2 is lower than that for Case 3, discounting at either zero or 10 per cent per year.

Figure 2 shows similar results under aggregate projection B. Regardless of the aggregate projection considered, our calculations indicate that a rapid import substitution strategy pays off in terms of foreign exchange costs.¹ This payoff holds true over whatever range the capital and current input coefficients remain valid.

For those concerned with the overall balance of payments, Table 3 indicates both debt service and the bal-

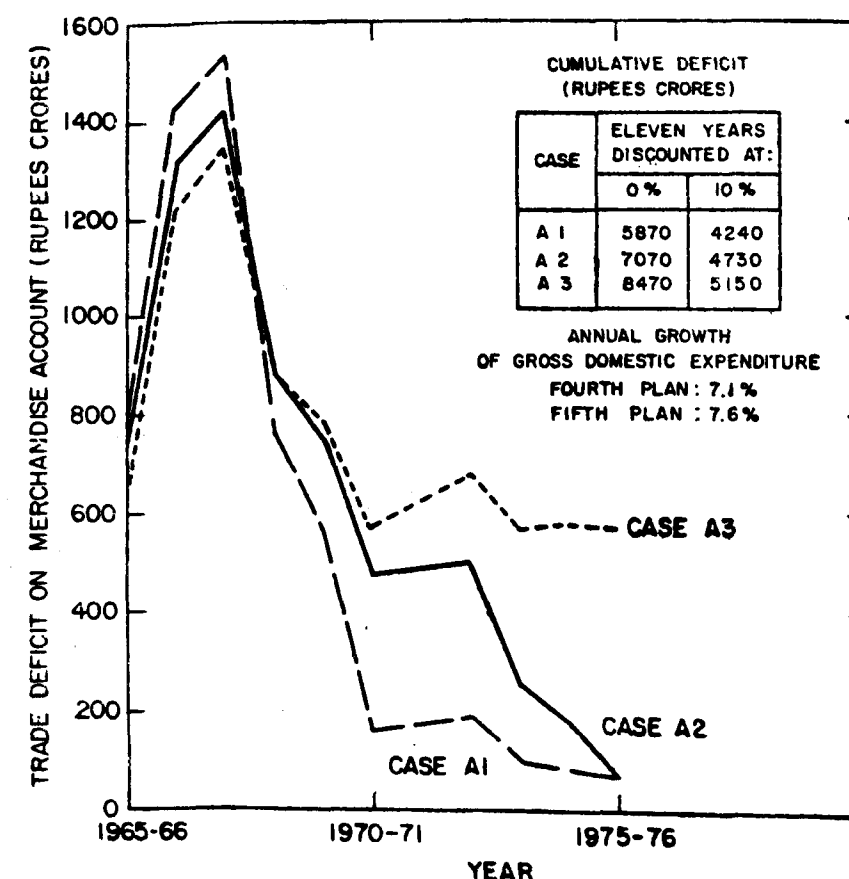
ance-of-trade deficit for the six alternative cases. The total would have to be covered by gross foreign aid, foreign private investment, and net exports of other services such as tourism.

Domestic Savings

Cases A and B differ substantially in terms of growth of household consumption: 5.5% per year in A versus 4.5% in B during the Fourth Plan. (See Table 4a for a comparison of A1 and B1.) In order to satisfy the higher consumption demands, gross investment and the trade deficit are both higher in A than in B.

Now assume that just enough foreign financing to cover the trade deficit is always available. Gross domestic savings will then be identically equal to the difference between gross investment and that trade deficit. If foreign financing can be adjusted in this way, it turns out that the implied domestic savings ratios (whether marginal or average) are not significantly different as between Cases A and B. Even though A provides more consumption than B, the foreign financing of the trade deficit would enable India to get along with almost the

Figure 1: Alternative Time Paths of Trade Deficit: Case A



same savings ratios in either case.

If we continue to assume that enough foreign financing will be made available to cover whatever trade deficits are generated, it turns out that the implied domestic savings ratios are affected by the import substitution programme. (See Table 4b.) The more rapid the import substitution programme (i.e., in moving from Case 3 to 2 to 1), the less foreign financing becomes available and the greater the reliance upon domestic savings.

Case A1 (the most ambitious in terms of both aggregate growth and import substitution) would require that domestic savings be stepped up from an average 15% of gross domestic expenditures in 1965-66 to 22% in 1970-71. The implied domestic marginal propensity to save would be 39% during the Fourth Plan. The less ambitious import substitution cases (A2 and A3) would imply marginal savings propensities of 36 and 33% respectively. The less rapid the import substitution programme, the lower would be the requirements for domestic savings and for fiscal austerity, and the higher would be the continued dependence upon foreign aid.²

Construction Bottleneck

Cases A and B both imply an increase in aggregate growth rates from the Third Plan to the Fourth Plan. (The rate of increase of gross domestic expenditures would move from 4.9% to 7.1% for Case A and to 5.8% for Case B.) This implies an immediate rise in demand for producers' goods—particularly investment goods.³ Because it takes time to expand the capacity of the Indian economy, much of this sharp increase of demand would have to be satisfied by imports. (See Figures 1 and 2) Demand for services such as construction, transport, and electric power cannot, however, be met by imports. According to our estimates of growth in demands, present capacities, and time lags, this problem of excess demand would be serious only in the urban and industrial construction sector. The 1965-66 demand for this service implied by our growth assumptions is about 50% higher than our estimate of current supply. We have assumed that this sector's output can be expanded with only a one-year lag. Domestic supply could therefore rise to meet the demand by 1966-67; the required increase in output in one year would be between 50% and 75%.

The exact magnitude of this problem depends in several assumptions and

parameter estimates which are all subject to error. One does not, however, have to believe the precise specifications of our model, or the precise estimates of our parameters, to realize that an acceleration of growth requires a sharp increase in the supply of investment goods and services.

There will be wide differences of opinion as to the feasibility of providing the resource inputs needed for internal consistency within one or another of our six alternative cases. Our model is intended only to quantify the requirements to "get from here to there" under a given set of productivity assumptions. The efficiency implied by our estimates of capital and current input requirements, gestation lags, etc., is not fixed forever. Resource input requirements could be reduced either by reducing targets, or by increasing efficiencies.

Other Results

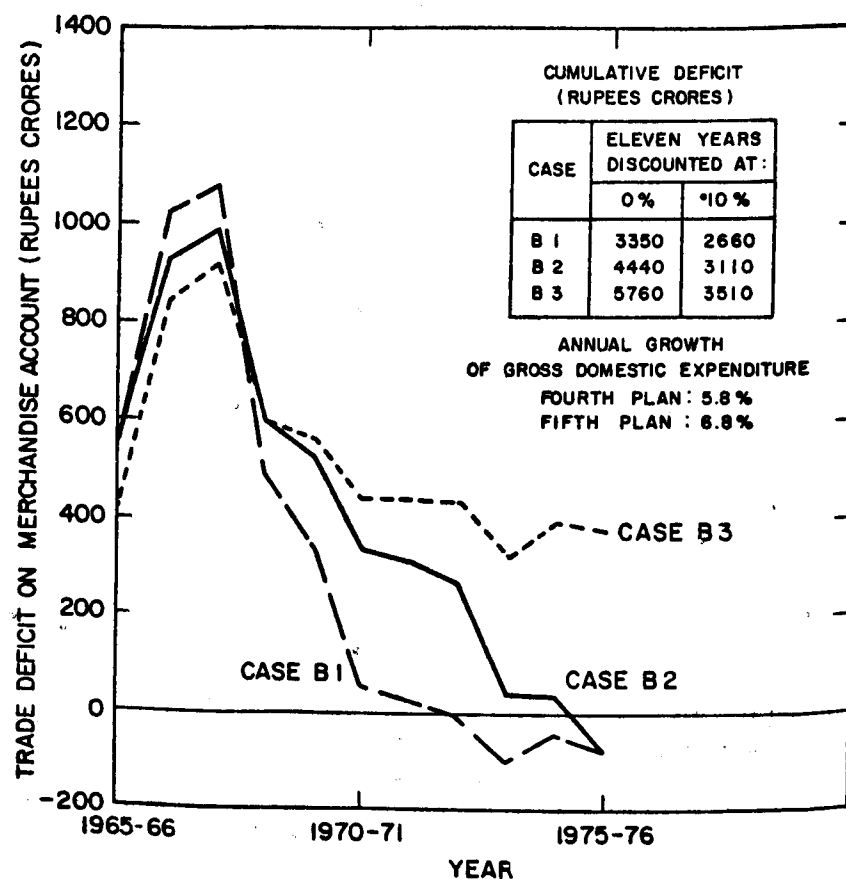
Table 5 contains selected output targets implied by our calculations for Case A1. Note that the growth rates for producers' goods (machinery, steel, petroleum products, and electricity) are all much higher during the Fourth than during the Fifth Plan. The output of consumers' goods, on the other hand,

grows more rapidly during the Fifth Plan. These results are reasonably close to the targets shown in Perspective planning division (1964). Output levels for all 30 sectors are listed in Table 6.

The Fourth Plan investment allocations proposed in Planning Commission (October, 1964) are shown in Table 7. Also shown are the investment allocations generated in our calculations for Cases A1 and B1. The Planning Commission is evidently counting on a more substantial gain in the productivity of investment than is implied by our capital coefficients.

All of the six basic cases have been premised upon merchandise exports growing from Rs 633 crores in 1960-61 to Rs 1,520 crores in 1975-76 (i.e., a growth rate of 6% per year). These six basic cases explored alternative import substitution strategies. We have also investigated a variant concerned with export promotion. Starting from the same initial position in 1965-66, this variant is premised upon an aggregate growth of exports at 9% per year, with most of the additional exports concentrated in the engineering industries. Since both the import substitution and the export promotion assumptions are rather arbitrary, a comparison of the absolute trade de-

Figure 2: Alternative Time Paths of Trade Deficit: Case B



ficits is not very useful. A more meaningful result is the ratio of reduction in the trade deficit to the additional export revenues. This comes out to about 75%. This means that 25% of the additional export revenues are offset by imports needed to produce the additional exports.

For each of the 30 sectors, a gestation lag of one or more years has been assumed. The particular estimates are listed in Appendix 2. One set of calculations was made which was identical to Case A1 except for these lags. The modification consisted of reducing the lags by one year. The most pronounced effect, as might have been anticipated, was a reduction in endogenous investment. This reduction was on the order of 5%. In a growing economy, a shortened lag has a similar effect to a reduction in the capital-output ratio. The reduction in investment in turn implies a corresponding reduction in machinery imports and in the balance-of-trade deficit.

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Notes

¹ In earlier experiments we analysed a case with a higher aggregate growth rate than Case A. The results with respect to import substitution were similar.

² We have calculated the magnitude of this trade-off for the period 1965-66 through 1975-76. The

ratio of reduction in domestic savings to increase in the trade deficit, holding consumption and exports constant, can be regarded

as the rate of transformation of rupees into foreign exchange through the process of import substitution. For the import sub-

Table 3: Net and Gross Foreign Exchange Requirements, Fourth Plan (Rupees crores)

	Balance-of-Trade Deficit	Debt Service		Total
		Existing Debt	Fourth Plan Borrowing	
	(1)	(2)	(3)	(4)
Case A1	4440			5800
A2	4840		240	6200
A3	4800	1120		6160
B1	3000			4290
B2	3380			4670
B3	3360		170	4650

Sources: Column 1: Results of model. Note that imports of foodgrains have been excluded.

2: U S Agency for International Development.

3: Rough estimates based on average historical lending patterns and terms and column 1.

4: Sum of columns 1, 2, and 3.

Table 4a: Implied Gross Domestic Savings

(Rupees crores)

		1965-66 (estimated)		
		1965-66	1970-71	1975-76
Case A1 (consumption grows at 5.5% per year in Fourth Plan)	Gross investment	3,600	6,590	10,600
	Trade deficit	500	160	70
	Implied domestic saving	3,100	6,430	10,530
	Gross domestic expenditure	21,000	29,600	42,700
Case B1 (consumption grows at 4.5% per year in Fourth Plan)	Gross investment	3,600	5,710	9,450
	Trade deficit	500	60	-80
	Implied domestic saving	3,100	5,650	9,530
	Gross domestic expenditure	21,000	27,800	38,700

Table 4b: Implied Gross Domestic Savings Ratios

(Per cent of gross domestic expenditure)

	Marginal Ratios		Average Ratios		
	Fourth Plan	Fifth Plan	1965-66 (estimates)	1970-71	1975-76
Case A1	39%	31%		22%	25%
A2	36	33	15%	21	25
A3	33	30		20	23
B1	38	35		20	25
B2	34	37	15%	20	25
B3	31	34		19	23

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CSM-2A

situation programmes we have analyzed, roughly two rupees of additional domestic savings would be needed to reduce by one rupee the requirement for foreign aid.

Note that this would make possible a corresponding increase in the employment of construction workers.

Appendix
Mathematical Formulation

This work has been carried out in two parts. First, a consistent set of output levels, imports, and induced investment was derived for each of two target years. Except for induced investment, these inter-industry calculations are similar to those discussed

in Rudra and Manne (1965) and Srinivasan, Saluja, and Sabherwal (1965), and we omit a detailed verbal description here. The target years were the ends of the Fourth and Fifth Plans, i.e., 1970-71 and 1975-76. In each case the base year was the last year of the Third Plan, 1965-66.

After calculating these output levels

Table 5: Comparison of Gross output Targets ^a

					Percent Growth over Five Years	
		1965-66	1970-71	1975-76	Fourth Plan	Fifth Plan
Case A1						
05	Equipment, other (Rs crores)	660	1423	2278	116%	60%
06	Iron and steel "	578	1359	2254	136	66
15	Food grains "	4642	5770	7389	24	28
16	Cotton and other textiles "	1024	1320	1943	29	48
23	Petroleum products "	405	894	1497	120	68
29	Electricity "	168	427	732	154	72
Perspective Planning Division (1964)						
Machinery	(Rs. crores)	432	1151	1928	166%	68%
Steel ingots	(million tons)	7.8	17.5	29.0	124	66
Food grains	(million tons)	90	122	151	36	24
Cotton fabrics	(million meters)	5075	6400	9500	26	48
Petroleum products	(million tons)	13	27	42	108	55
Electricity generation	(billion kw. hours)	47	95	151	102	59

^a Sectoral classifications are not strictly comparable between the two sources.

Table 6 : Gross Output Levels. Cases A1 and B3

Sector	Output Levels (Rupees crores, 1959-60 producers' prices) 1970-71				Annual Growth Rates, Fourth Plan	
	1960-61	1965-66	Case A1	Case B3	Case A1	Case B3
1. Construction—urban and industrial	1201.0	1615.	3678	3149	18.0	14.0
2. Construction—rural	416.0	a	620	536	8.8	8.4
3. Equipment, electrical	126.0	246.	501	371	15.0	8.6
4. Equipment, transport	201.0	369.	716	594	14.0	10.0
5. Equipment, other	343.5	660.	1423	1040	17.0	9.5
6. Iron and steel	269.0	578.	1359	1070	19.0	13.0
7. Iron ore	7.8	15.	38	33	21.0	17.0
8. Cement	52.6	71.	170	146	19.0	16.0
9. Other metals	32.0	62.	227	174	30.0	23.0
10. Other minerals	45.4	65.	198	175	25.0	22.0
11. Plantations	196.0	232.	276	272	3.5	2.2
12. Leather and leather products	189.0	220.	338	317	9.0	7.6
13. Animal husbandry	1130.0	323.	1881	1778	7.3	6.1
14. Food industries	1323.0	1550.	1980	1903	5.0	4.2
15. Food grains	3974.3	4642.	5770	5551	4.4	3.6
16. Cotton and other textiles	900.0	1024.	1320	1250	5.2	4.1
17. Jute textiles	130.0	165.	214	206	5.4	4.5
18. Other agriculture	2097.0	2427.	3353	3194	6.7	5.6
19. Chemical fertilizers	20.7	83.	455	435	41.0	39.0
20. Glass, wooden and non-metallic mineral products	398.0	507.	1107	960	17.0	14.0
21. Forestry products	180.0	240.	506	440	16.0	13.0
22. Motor transport	325.0	480.	965 ^b	885 ^b	15.0	13.0
23. Petroleum products	237.1	405.	894	818	17.0	15.0
24. Crude oil	3.2	23.	71 ^b	71 ^b	25.0...	25.0
25. Rubber products	67.5	102.	162	147	9.7	7.6
26a. Synthetic rubber	—	8.	11	8	6.6	0.0
26b. Plantation and reclaimed rubber	15.5	18.	30 ^b	30 ^b	11.0	11.0
27. Chemicals	284.0	548.	842	749	9.0	6.4
28. Railways	454.0	513.	884	792	11.5	9.0
29. Electricity	103.4	168.	427	379	20.5	17.7
30. Coal	109.0	152.	246	214	10.00	7.1

Notes : a Output level for Case A1 : Rs 406 crores; for Case B3 : Rs 357 crores.
b Determined exogenously.

for the target years, the output levels, the input-output coefficients, and the exogenous final demands for the intermediate years (i.e. 1966-67 through 1969-70 and 1971-72 through 1974-75) were interpolated log-linearly. Inter-industry demands were then calculated by the input-output method.

In each year, the induced investment demands were generated through an accelerator relationship, i.e. through multiplying capital coefficients by future output increases. In order to calculate induced investment within the interindustry model of the two target years 1970-71 and 1975-76, the future output increases were derived from the current absolute levels of output by exogenously specified sectoral growth rates for the subsequent five-year plan. An iterative procedure was employed to insure that the output growth rates specified for the Fifth Plan would be consistent with the absolute output levels derived separately for 1970-71 and 1975-76. The computer was programmed to calculate the 1970-71 output levels, then revise the Fifth Plan growth rates, then revise the 1970-71 output levels, and so on. Fewer than 10 iterations were required in order to obtain a mutually consistent set of growth rates and output levels.

After calculating the demands and interpolating domestic production levels log-linearly for the first four years of each Plan period, the computer programme calculates the implied supply-demand gaps for each item in each year. It is supposed that these gaps will be bridged in one of three ways—depending upon the sector:

- imports of investment and producers' goods in sectors 3-10, 19-21, 23-27, 30.
- consumption shortfalls in the food and fiber sectors 11-18.
- revisions of the domestic output levels within the five service sectors: 1, 2, 22, 28, and 29. (Revisions above the log-linear trend line are not permitted during years for which this ment prior to 1965-66.)

As the calculations turned out, the consumption shortfalls were negligible, and so were the revisions of domestic output for the five service sectors. The only service in which a significant gap occurred was urban and industrial construction (sector 1) for the year 1965-66. It is because of this one major gap that our calculations are "almost consistent" rather than fully consistent.

The following characteristics of the computing procedure should be noted:

- 1) By postulating shock absorbers such as consumption shortfalls and producers' goods imports, this resembles an open-loop simulator rather than a fully consistent model. (In a closed-loop negative feedback simulator, these gaps would trigger policies designed to reduce their magnitude.)
- 2) Unlike a recursive dynamic input-output model, this interpolation procedure ensures that virtually all domestic output levels for the initial year 1965-66 will match the estimates of initial conditions. The five service sectors are the only ones in which this output matching cannot be guaranteed in advance.

3) Output during the Fourth Plan is assumed to grow along a loglinear trend line. This implies that the short-run accelerator is sufficiently flexible so that these output increases in the first years of the Fourth Plan are not constrained by the project starts that were underway during the final years of the Third Plan.

The model has the following variables:

- x_j^t annual rate of domestic production, process j year t .
- y_i^t annual import rate, item i year t .
- v_j^t annual rate of investment demand in year t for good j induced by output increase.

The superscripts t on the above three variables take on the value for each year from $t = 1965-66$ through $t = 1975-76$.

The model also has the following

parameters and exogenous data:

- a_{ij}^t current account inter-industry demands on item i per unit output of process j . Some of these norms change over time.
- b_{ij}^t fixed capital account demands on item i per unit increased in output of process j .
- c_i^T ratio of import to domestic production of item i , year T . The superscripts T take on two values: $T = 1970-71$ and $T = 1975-76$. Most of the non-zero c_i^T parameters drop from 1970-71 to 1975-76.
- J inventory demand per unit increased in activity level. (Set at zero for service sectors and .25 for others.)
- q lag in investment demand, varies with sector of destination.

Exogenous Data:

- x_j^{65} annual rate of domestic production, process j , 1965-66.
- $(h, g, e, o, k)_i^t$ annual rate of demand, item i , year t , by household, government, exports, others,

Table 7: Size and Pattern of Investment, Fourth Plan

	Planning Commission (1964)	Case A1	Case B1
Net fixed investment: ^c			
Agriculture & irrigation (% of total)	17%	23%	22%
Power, industry transport, & communications " "	64	61	63
Housing, education, health & other " "	19	16	15
" " " "	100%	100%	100%
Total net investment (Rs crores) ^d	20,000 ^a	26,700 ^b	22,800 ^b

^a 1963-64 prices.

^b 1959-60 prices.

^c Sectoral classification not strictly comparable between sources.

^d Includes Rs 1200 crores for increase in stocks; excludes replacement estimated at Rs 3000 crores.

and exogenously specified capital formation.

m^t = total value of exogenous imports, year t .

x_{20}^t, x_{24}^t = annual rate of domestic production of motor

(domestic production) + (imports) =

$$x_i^T + y_i^T = \left(\begin{array}{c} \text{interindustry} \\ \text{demand} \end{array} \right) + \left(\begin{array}{c} \text{exogenous} \\ \text{final demand} \end{array} \right) + \left(\begin{array}{c} \text{Induced investment demand:} \\ \text{fixed and inventories} \end{array} \right)$$

$$\sum_j a_{ij} x_j^T + (h+g+e+o+k)_i^T + v_i^T + J(x_i^{T+1} - x_i^T)$$

$$i = 1, \dots, 30$$

Induced fixed investment demand:

$$v_i^T = \sum_j b_{ij} r_j x_j^T (1+r_j)^{q-1} \quad i = 1, \dots, 30$$

Import levels:

$$y_i^T = c_i^T x_i^T \quad i = 1, \dots, 30$$

Note that we have eliminated the non-competitive imports specified in Rudra and Manne (1965), and Srinivasan (1965).

The investment demands and imports are expressed in terms of the domestic production levels. We are then left with a set of 30 equations, in 30 unknowns x_j^T .

x_j^t = log-linear interpolation between x_j^{65} and x_j^{70} for $t = 66$ through 69; between x_j^{70} and x_j^{75} for $t = 71$ through 74 ($j \neq 1, 2, 22, 28, 29$)

x_j^t outputs in the service sectors are set equal to total demand unless this value lies above

transport and crude petroleum year t .
 r_j annual growth rate of process j , subsequent Plan.

The variables are related through the following equations:

$$x_i^T + y_i^T = \left(\begin{array}{c} \text{interindustry} \\ \text{demand} \end{array} \right) + \left(\begin{array}{c} \text{exogenous} \\ \text{final demand} \end{array} \right) + \left(\begin{array}{c} \text{Induced investment demand:} \\ \text{fixed and inventories} \end{array} \right)$$

$$\sum_j a_{ij} x_j^T + (h+g+e+o+k)_i^T + v_i^T + J(x_i^{T+1} - x_i^T)$$

$$i = 1, \dots, 30$$

$$v_i^T = \sum_j b_{ij} r_j x_j^T (1+r_j)^{q-1} \quad i = 1, \dots, 30$$

$$y_i^T = c_i^T x_i^T \quad i = 1, \dots, 30$$

It has been our experience that the model is sufficiently well behaved to produce unique, non-negative values of the x_j^T .

Having calculated the x_j^T for each sector for 1970-71 and 1975-76, we then calculate the annual variables as follows:

x_j^t = log-linear interpolation between x_j^{65} and x_j^{70} for $t = 66$ through 69; between x_j^{70} and x_j^{75} for $t = 71$ through 74 ($j \neq 1, 2, 22, 28, 29$)

$$y_i^t = \begin{cases} -x_i^t + \sum_j a_{ij} x_j^t + (h+g+e+o+k)_i^t + J(x_i^{t+1} - x_i^t) + v_i^t & (i=3-10, 19-21, 23-27, 30) \\ 0 & \text{all other } i \end{cases}$$

$$v_i^t = \sum_j b_{ij} (x_j^{t+q} - x_j^{t+q-1}) \quad i = 1, \dots, 30$$

In calculating the trade deficit for each year, we include imports of commodities as well as additional exogenous imports. Since the export final de-

log-linear trend line during Fourth Plan, and additional investment would be required prior to 1965-66.

$$y_i^t = \begin{cases} -x_i^t + \sum_j a_{ij} x_j^t + (h+g+e+o+k)_i^t + J(x_i^{t+1} - x_i^t) + v_i^t & (i=3-10, 19-21, 23-27, 30) \\ 0 & \text{all other } i \end{cases}$$

$$v_i^t = \sum_j b_{ij} (x_j^{t+q} - x_j^{t+q-1}) \quad i = 1, \dots, 30$$

mand sector is valued at producers' prices, we allow for trade and transport margin on exports:

$$\left(\begin{array}{c} \text{trade} \\ \text{deficit} \end{array} \right) = \left(\begin{array}{c} \text{imports} \\ 17 \text{ sectors} \end{array} \right) + \left(\begin{array}{c} \text{exogenous} \\ \text{imports} \end{array} \right) - \left(\begin{array}{c} \text{exports at} \\ \text{producer} \\ \text{prices} \end{array} \right) - \left(\begin{array}{c} \text{margin on} \\ \text{exports} \end{array} \right)$$

$$= \sum_{i=3-10, 19-21, 23-27, 30} y_i^t + m^t - \sum_j p_j^e x_j^t$$

Pre-vocational Training

Agreement with Unicef

AN agreement for the implementation of a scheme of pre-vocational training for children of the age group 11-14 was signed in New Delhi on Monday last. The scheme is being implemented by the Union Department of Social Security in co-operation with three specialised agencies of the United Nations, viz, UNICEF, UNESCO and ILO. The scheme is designed to impart training in certain trades such as sheet metal work, gas welding, smithy, moulding and carpentry, to children who discontinue their studies after the primary stage. Basic general education will also be provided.

This is a pilot scheme under which 65 pre-vocational training centres will be organised by the end of Third Plan. Fifty-five centres including five regional centres have already been started so far, and the remaining ten centres are expected to commence functioning by February, 1966. The duration of the training is three years after which the pupils would be given a certificate of competence to enable them seek employment as semi-skilled workers or work on family farms, or enter industry as apprentices.

In the first three years, the scheme is estimated to cost Rs 67.95 lakhs, out of which UNICEF's share will be Rs 30.11 lakhs, the balance being borne by the Government of India. UNICEF will supply workshop tools, equipment, training aids and text-books for the schools and will bear all the expenditure on the training of craft instructors. The ILO will assign an expert to advice and assist in the preparation of the curriculum and the coordination of the participation of the various national and international bodies in the programme. UNESCO will provide an expert in general education for this programme.

Speaking on the occasion of the signing of the agreement, D C Das, Secretary, Department of Zonal Security, said that the scheme of pre-vocational training would provide technical training to substantial number of young men in our country who are not keen to have academic education. He hoped that once the scheme takes its roots, thousands of boys would become useful to their own families as well as to the nation.

Dalal Street at New Low

Thursday, Morning

DALAL STREET last week moved into new low ground with several shares touching new low levels for many years. The crisis of confidence has deepened with the further fall in equity prices. But for the fairly encouraging corporate news during the week, the announcement of cement decontrol from next year and possibility of early decontrol of sugar, the performance of the stock market could have been much worse. The stock market bull has been completely frustrated by the persistent deterioration in the economy and political uncertainties. The Deputy Chairman of the Planning Commission, who, not long ago, had accused the business community of propagating a sense of gloom and frustration, himself painted a very grim picture of the economic prospect at the recent meeting of the Informal Consultative Committee of Parliament for Planning Commission. He spoke of mounting defence expenditure, non-availability of non-project aid from the U.S., lower industrial output, setback in agricultural production and fall in Government revenues. President Radhakrishnan and Prime Minister Shastri warned the nation against the possibility of a concerted attack by China and Pakistan. Reports for power cut have been on the increase. Response to the gold bonds, remittance scheme and defence loans has so far, been extremely disappointing and if the Government is unable to mobilise sufficient funds through these measures, resources will naturally have to be raised through heavy additional taxation.

Cotton Mill shares were the worst sufferers, with India United Mills, Indore Malwa and Kohinoor striking new lows for the past six years. Selling in Textile shares has been provoked by the steady deterioration in the industry's position which is reflected in a record low production of cloth and yarn in October. Rayon shares fared only slightly better. Steels, Dyes and Chemicals were also distinctly subdued. Sugar shares were a little quiet. Only Cement shares recorded modest gains because of the increase in cement prices from the beginning of next year under the decontrol scheme. Premier Construction were another bright spot on substantial informed buying. Cash shares were depressed due to lack of support.

COTTON

Prices Recede

COTTON prices have come down by about Rs 25 to Rs 50 per candy from their highest levels during the past fortnight or so. This brings all varieties of cotton within the statutory ceilings. Lest one gets the impression that cotton prices have suffered some serious decline, it is necessary to point out that ceiling prices for the current season are Rs 75 to Rs 100 per candy higher than in the previous season. The recent setback in prices is not due to any upward revision of the crop estimates; few observers place the crop at more than 52 lakh bales which means that cotton will continue to be in short supply this season, unless, of course, the gap between mill consumption and indigenous supply is made good through imports the outlook for which can by no means be regarded as very promising.

Prices have eased because while new crop arrivals are gradually picking up, mill buying continues to be restricted. The fall in prices has been more pronounced in the case of Punjab cottons, especially Bengal Deshi, because the crop movement in the Punjab is getting into full swing which is quite normal for this time of the year. Apart from the fact that cotton prices have been pushed to their all-time highest, growers as well as merchants seem reluctant to hold large stock of cotton with them because of the financial stringency and political uncertainty. Few people would like to take the risk of carrying large stocks of cotton because of the uneasy truce between India and Pakistan.

Despite forecasts of a substantially smaller crop, market sentiment has recently been affected by the heavy decline in the mill output of both cloth and yarn during October. Cloth and yarn production at 377 million yards and 154 million lbs respectively is the lowest for a very long time. Apparently, the cotton mill industry seems convinced that reduced production is the only answer to the problem posed by heavy accumulation of stocks with mills. In any case cloth production is bound to be adversely affected by the reduced availability of cotton in the 1965-66 season.

The turnover in the spot market continued to be on the low side. It is not merely that mills are reluctant to purchase more than their bare minimum requirements in view of the acute financial stringency which has been aggravated by the piling up of huge stocks of cloth and yarn; but traders too are in no mood to extend their commitments because they are experiencing considerable difficulties in realising their dues from mills. Export business has been almost at a standstill for the past fortnight or so because Japan, the main buyer of Indian Deshi, has been purchasing its requirements from Pakistan which has been quoting 1 d to 1½ d lower than India for its Deshi cotton. Sales registered up to November 8 this season total 53,027 bales. Virtual absence of overseas demand has adversely affected Bengal Deshi prices recently. Cotton futures which had been sticky around Rs 909 for several weeks have declined to around Rs 902 in sympathy with the easier tendency in the spot section.

OILSEEDS

Prices React

OILSEEDS and oil prices have registered an all-round sizable setback from their previous week's record high levels. Groundnut oil ready has come down from Rs 37.50 to Rs 34.25, linseed oil from Rs 32 to Rs 30.50 and castor oil (Commercial) from Rs 24.25 to Rs 22.25—all per 10 kilograms. Groundnut ready is down by about Rs 9 a quintal and linseed by about Rs 5. Oilseeds futures have also moved down—castorseed April from Rs 112 to Rs 106 and linseed April from Rs 130 to Rs 125.50 (per quintal).

No market can keep rising indefinitely without occasional setbacks caused by corrective profit-taking. It is quite normal for speculators and traders to book their profits when the market has moved too far in any direction. Considering the fantastic rise in vegetable oil prices over the past four or five weeks, technical considerations alone could have produced a setback of the order that took place last week. But apart from technical considerations, increased flow of new crop groundnut arrivals, mostly from the south, and reports of beneficial rains in north India imparted an easier feeling to the market.

Trading sentiment last week was also believed to have been affected by persistent talks that the Forward Markets Commission was seriously considering the imposition of heavy margins on non-transferable specific delivery contracts in groundnut oil with a view to containing the volume of speculative business in these contracts. Whether or not margin can check the rising trend in prices is a very moot point. But it can certainly have a good restraining effect on the volume of business. It is rather intriguing why the Commission should go about consulting the associations entrusted with the conduct of trading in non-transferable specific delivery contracts in groundnut oil in regard to the action it intends to take when it has already imposed penal margins in the hedge contracts in castor, linseed and cottonseed. Being the major edible oil, groundnut oil should really have been the first to attract the Commission's attention. It is really amazing how the Commission has tolerated a rise of Rs 11 per 10 kilograms in groundnut oil in a matter of some five weeks and not taken any action whatsoever, especially when it had prescribed penal margins for hedge contracts in the far less important oilseeds—castor, linseed and cottonseed.

The Forward Markets Commission decision to impose a margin of Rs 100 per quintal in castor futures when its price goes beyond Rs 112 and a 100 per cent margin in cottonseed futures when the contract is quoted at Rs 75—which is its current rate—makes virtual nonsense of the facility of hedge trading. Instead of calling for such margins, why does the Commission not prohibit completely futures trading in these commodities. All facilities for speculative buying must be stopped when the commodities concerned are in acute short supply. And as for trading in non-transferable specific delivery contracts, the least that the Commission can do is to impose severe penalties on those found guilty of not being able to observe the terms of the contract. To allow parties to settle their contracts without effecting actual delivery of goods is to undermine the very sanctity of the non-transferable specific delivery contract.

The week's review of the oilseeds market will not seem complete without a mention of the further increase in vanaspati prices and of the Gujarat Government's decision to extend the ban on the export of groundnut and its products excluding oilcake to cover cottonseed. The ban on the export of

groundnut and groundnut oil has seriously affected the working of the solvent extraction plants. It is difficult for these plants to operate unless they can find a ready and profitable market for the solvent extracted oil the export of which is also banned. As for the further increase in vanaspati prices ranging from Rs 200 to Rs 270 per tonne by the manufacturers—the second rise in November—it is a strange irony that the increase in vanaspati prices should have been announced in a week which has registered a decline of nearly Rs 300 per tonne in the price of groundnut oil. The price of vanaspati would be revised downward in

BUSINESS NOTES

Indian Aluminium

SATISFACTORY progress is being made by Indian Aluminium in implementing its expansion projects. The main equipment at the new foil rolling mill at Kalwa has been erected. The construction work at Alupuram for further expansion of the smelter capacity to 15,850 tonnes per annum and for the installation of a 5,000-tonne per annum Properzi rod casting mill is going ahead. It is intended to start up these new facilities early next year. Necessary steps are also being taken for the early implementation of the West Coast project.

According to an interim report from the company, the financial results of the first half of 1965 show sales at Rs 74.4 million compared to Rs 71.3 million during the same period in 1964 and Rs 148.4 million during the whole of the past year and the Pre-tax profits of Rs 24.8 million compare with Rs 29.9 million and Rs 49 million, respectively. The provision for development rebate this year is substantially higher at Rs four million, as against only Rs 0.4 million during the corresponding period of last year consequent on the start-up of new production facilities at the Alupuram smelter and the Kalwa foil mill. With the tax liability estimated at Rs 10.3 million (Rs 12 million), net earnings stand at Rs 10.5 million, against Rs 10.6 million.

The results would have been still better but for the critical power supply situation in Kerala owing to which operations at the Alupuram smelter was once again seriously affected. A partial supply of electric power was made available to the new smelter from the middle of February last; the full contracted supply of 12,500 kilowatts was delivered only six months

December provided groundnut oil prices keep lower. But the question is whether under the present conditions of short supply the poor consumer will also reap the benefit of cheaper prices. The policy of revising prices too often must be discouraged and if prices are to be revised then the manufacturers should be compelled to stamp prices and the date of manufacture on the containers so that the consumer can know the correct price of vanaspati. This will bring into light traders who continue to withhold the goods from the market in the hope of realising higher and higher prices from consumers.

later. There were severe and repeated power cuts in June and July. The production loss attributable to these power cuts during the first half-year is estimated at 1,260 tonnes of aluminium metal. Alupuram now has a total metal-producing capacity of 10,850 tonnes.

Hindustan Aluminium

A Rs 21-crore expansion aimed at raising capacity to 60,000 tonnes has been undertaken by Hindustan Aluminium. It is stated that on completion of this programme towards the end of the next year, the company will be the largest manufacturer of aluminium in India. Nearly Rs 5 crores have already been spent on this Programme, and arrangements have been made for a long-term dollar loan equivalent to Rs 6.53 crores from the Export-Import Bank, Washington. The company will soon enter the capital market with a public issue of Rs 1.5 crores in 9.3 per cent preference shares of Rs 100 each. The entire issue is underwritten, one half by LIC and the other half by some other financial institutions and two firms of share brokers. After the proposed issue, the issued capital of the company will be raised to Rs 10 crores.

Meanwhile, the company has reported satisfactory progress in its working during the current year. The production in the first eight months of this year is placed at around 15,560 tonnes compared to 22,880 tonnes in the whole of 1964. The sales in the first half of 1965 amounted to about 11,779 tonnes valued at about Rs 4.5 crores, on which the gross profit is estimated at around Rs 2 crores. During 1964, the company sold 26,849 tonnes valued at Rs 11.12 crores and

earned a gross profit of Rs 4.47 crores. Out of the 1964 earnings the company cleared arrears of dividends on the existing preference shares upto the end of 1962. The arrears on this account amount to Rs 45 lakhs.

Indian Oxygen

INDIAN OXYGEN is now in the midst of a major expansion programme spread over four years ending September 1967. It includes several new projects covering additional facilities for production and distribution of gases, production of user equipment and electrodes, etc. It is proposed to increase the share capital by the issue of 9.80 lakh new ordinary shares of Rs 10 each as rights at a premium of Rs 4 per share. Of the proposed issue, the parent company, British Oxygen, will not only take up its due share comprising 5.88 lakh shares, but it has also agreed to take up any shares not subscribed for by other members. If, as a result, the percentage of the British Oxygen's shareholding in the company should exceed the existing percentage, then it will divest itself of such excess shares within a period of two years from the date of allotment of the excess shares, at a price not exceeding the issue price. An extraordinary general meeting has been called for to consider a resolution to this effect.

The new ordinary shares will not rank for any dividend in respect of the year ended on September 30, 1965, but will otherwise rank *pari passu* in all respects with the existing ordinary shares. The directors expect to maintain the existing rate of dividend, i.e., Rs 1.20 per share. They also anticipate that with the growth of the company during the coming years as a result of its Rs 6 crores expansion programme, and in the absence of any unforeseen circumstances, it should be possible for the company to maintain the dividend at a satisfactory level on the capital as increased by the proposed one-for-three rights issue.

Mysore Cement

DURING the year to June last Mysore Cement's plant increased to 90 per cent of rated capacity compared to 71 per cent in the preceding year. Since June 1965, however, the plant has been working at a little over the rated capacity, and it is felt that, given proper equipment and facilities, production can be kept above the rated capacity level. The company's expansion programme aimed at doubling production capacity was earlier expect-

ed to be completed towards the middle of this year; according to the revised estimate the expanded plant should be on stream before January next. A geological survey of the company's limestone deposits has revealed adequate supplies of quality limestone for the plant.

During 1964-65, the company sold 87,070 tonnes of cement, as against 74,708 tonnes in the preceding year, and sales brought in Rs 69.13 lakhs compared to Rs 57.49 lakhs. After providing Rs 17.32 lakhs (Rs 20.85 lakhs) for depreciation, however, the outcome of the year's operations was a loss of Rs 5.76 lakhs compared to a loss of Rs 21.68 lakhs previously. Together with the previous loss, the total loss carried to the balance sheet has risen to Rs 52.30 lakhs. The increase in the retention price of cement from Rs 79 to Rs 83 per tonnes with effect from June last is expected to improve the company's profitability. The proposed partial decontrol of cement, when it comes into effect, should further improve the company's earnings potential.

Saurashtra Cement

A LETTER of intent has been obtained by Saurashtra Cement and Chemical Industries for establishing a third plant with an annual capacity of 3.33 lakh tonnes of cement, and the company is negotiating for purchase of the necessary capital equipment for this purpose. Meanwhile, the second plant commissioned towards the end of August last has been working only on a trial basis due partly to the teething troubles and partly to the non-availability of regular and adequate power supply. During the year ended June 1965, the production of clinker was 2.10 lakh tonnes as against 2.05 lakh tonnes previously and that of cement 2.26 lakh tonnes as against 2.19 lakh tonnes. The Singach Salt Works achieved production of 35,456 tonnes of salt, and of the total sales of 6,766 tonnes, 6,200 tonnes were exported to Japan.

The financial results for the year 1964-65 show sales a shade higher at Rs 2.20 crores (Rs 2.18 crores) but gross profit considerably better at Rs 75.56 lakhs (Rs 66.64 lakhs), reflecting the benefits of increase in the retention price of cement as well as in packing charges granted by the Government from time to time. There is a saving of about Rs 8 lakhs in the provision for depreciation, but the tax liability has syphoned off Rs 16 lakhs more than in the previous year, leaving after-tax profits only marginally better

THE ECONOMIC WEEKLY

at Rs 31.96 lakhs (Rs 30.99 lakhs). What is more encouraging from the shareholders' point of view is that the company is not only clearing arrears of dividends on preference capital, but also paying a maiden dividend on ordinary capital at a handsome rate of 12 per cent.

Hindustan Brown Boveri

ALL-ROUND improvement in production, sales and earnings has been recorded by Hindustan Brown Boveri (formerly Hindustan Electric) in the year to April 1965. The company has sufficient orders on hand to ensure continuous production for the manufacturing units at Faridabad, Ghaziabad, Howrah and Gorva. The Howrah works has already reached its rated capacity for the manufacture of transformers, and the Gorva factory is expected to soon reach the licensed capacity. The management is negotiating for orders as well as necessary import licences for components for undertaking manufacture of extra high tension air blast circuit breakers.

During 1964-65, sales advanced from Rs 4.8 crores to Rs 7.7 crores and gross profit from Rs 27.37 lakhs to Rs 44.58 lakhs. Despite the increased provisions for depreciation, taxation and prior charges as also for preferential dividends, equity earnings have considerably improved from Rs 8.68 lakhs to Rs 12.24 lakhs, lifting the cover for the dividend raised by a point to five per cent from 1.67 times to 1.7 times.

Nepa Mills

AN expansion programme aimed at stepping up the factory's capacity by two-and-a-half fold to 75,000 tonnes, estimated to involve an investment of Rs 9.5 crores, is being actively pursued by National Newsprint and Paper Mills. The company has already concluded a contract with Wartsila, Finland, for the supply of certain equipment worth about Rs 1.5 crores, and the first consignment is expected at the factory site by the end of 1965.

Meanwhile, during the year to March last the company has reported lower sales and profits; the value of sales is down by about Rs 10 lakhs at Rs 3.10 crores and gross profit nearly Rs 7 lakhs lower at Rs 84.12 lakhs. Margins have suffered a setback due to the rise in costs of raw materials and chemicals. A higher tax charge of Rs 31 lakhs (Rs 20 lakhs) has further widened the gap at the after-tax level, and equity earnings are a third lower at Rs 34.54 lakhs. Accordingly, the cover for the unchanged dividend of six per cent has slipped from 1.73 times to 1.17 times.

CURRENT STATISTICS

SCHEDULED BANKS' ADVANCES

(Amount in lakhs of rupees)

Nature of Security	Advances Outstanding as on			
	July 30, 1965	June 25, 1965 Revised	July 31, 1964	July 26, 1963
Number of reporting offices	(1)	(2)	(3)	(4)
Food Articles	155.49	168.51	97.84	100.24
1 Paddy and Rice	17.84	18.50	13.61	10.09
(a) To rice mills	2.98	5.04	4.16	4.81
(b) To others	14.86	13.46	9.45	5.28
2 Wheat	12.27	7.45	6.66	12.56
(a) To flour mills	1.07	1.19	1.64	2.87
(b) To others	11.20	6.26	5.02	9.66
3 Other Cereals and Pulses (including jowar, bajra, gram and maize)	19.56	19.26	11.06	13.91
4 Sugar (including khandasari)	86.35	101.14	49.94	47.88
(a) To sugar factories	76.81	87.26	42.78	37.20
(b) To others	9.54	13.88	7.16	10.68
5 Gur	3.23	4.53	3.42	1.13
6 Vegetable Oils (including vanaspati)	16.24	17.63	13.15	14.67
II Industrial Raw Materials	174.19	194.17	152.83	145.04
7 Groundnuts	7.27	9.68	3.16	4.96
(a) To manufacturing units	2.87	3.47	1.07	1.91
(b) To others	4.40	6.21	2.09	3.05
8 Other Oilseeds	18.06	21.09	14.18	18.70
9 Cotton and Kapas	124.43	134.77	107.04	97.79
(a) To cotton textile mills	72.03	72.89	70.30	62.78
(b) To spinning factories	9.85	12.02	7.95	5.75
(c) To others	42.55	49.86	28.79	29.26
10 Raw Jute	24.43	28.63	28.45	23.59
(a) To millers and balers	21.54	24.09	26.53	22.22
(b) To others	2.89	4.54	1.92	1.37
III Plantation Products	76.43	71.86	69.22	59.55
11 Tea	52.09	47.63	48.62	43.42
12 Cashewnuts	10.86	11.14	8.31	5.81
13 Coffee	6.57	7.02	7.09	6.34
14 Other Plantation Products	6.91	5.86	5.20	3.98
IV Manufactures and Minerals	778.71	756.69	647.35	531.97
15 Cotton Textiles (including yarn)	169.69	166.91	135.31	119.27
(a) To mills	114.54	113.28	86.52	78.08
(b) To others	55.15	53.63	48.79	41.19
16 Jute Textiles	37.02	35.87	33.22	23.43
(a) To mills	18.71	19.45	15.85	9.10
(b) To others	18.31	16.42	17.27	14.33
17 Other Textiles	38.95	39.05	43.48	38.89
18 Iron, Steel and Engineering products	280.15	270.11	221.40	181.54
19 Other Metals and Metal products	38.56	35.63	31.73	30.86
20 Coal	17.12	16.80	8.00	5.57
21 Manganese, Mica and other Minerals and Mineral oils	30.44	29.85	23.86	14.76
22 Chemicals, Dyes, Paints, Drugs and Pharmaceuticals	61.31	58.82	54.97	45.82
23 Electrical Goods	38.86	36.64	28.73	24.17
24 Others Manufactured Goods	66.61	67.01	66.65	47.63

	(1)	(2)	(3)	(4)
V Other Securities	590.30	577.16	501.92	437.59
25 Real Estate	43.10	42.03	41.48	34.32
26 Gold & Silver Bullion and Ornaments	20.67	20.07	18.41	16.80
(a) Gold and Silver Bullion	1.54	96	62	49
(b) Gold and silver ornaments	19.13	19.11	17.79	16.31
27 Fixed Deposits	36.86	35.93	28.56	22.38
28 Government and Other Trustee Securities	23.81	25.34	25.62	30.34
29 Shares of Joint Stock Companies	89.92	91.90	93.39	91.44
(a) To stock and share brokers and dealers	10.45	10.27	11.38	10.56
(b) To others	79.47	81.63	82.01	80.88
30 Debentures of Joint Stock Companies	27.38	24.44	24.45	25.28
31 Assets of Industrial Concerns—fixed or floating (other than those specified under above categories)	145.89	139.83	108.45	81.96
32 Other Secured Advances not mentioned above	166.43	159.24	126.77	107.01
33 Composite Advances	36.24	38.38	34.79	28.06
Total Secured Advances				
(I to V)	1,775.12	1,768.39	1,469.16	1,274.39
VI Unsecured (Clean) Advances	253.86	301.76	259.81	214.20
(a) To Multani Shroffs	6.79	7.41	—	—
(b) To others	247.07	294.35	—	—
TOTAL BANK CREDIT (I to VI)	2,028.98	2,070.15	1,728.97	1,488.59

BANKING RETURNS

Rs crores				
Scheduled Banks	Nov 5	Oct 29	Oct 8	Nov 6, '64
1 Aggregate Deposits (net)	2819.50	2812.54	2786.18	2514.80
Demand (net)	1389.90	1385.77	1367.39	1251.22
Time (net)	1560.71	1554.00	1546.23	1358.11
2 Cash in Hand	69.38	70.21	69.78	75.29
3 Balances with the Reserve Bank	104.04	111.46	98.85	101.36
4 (2) + (3) as % of (1)	6.15	6.46	6.05	7.02
5 Borrowing from Reserve Bank	3.64	3.00	12.77	5.88
(a) Against Usance Bills and/or Promissory Notes	—	—	—	0.15
(b) Others	3.64	3.00	12.77	5.73
6 Advances	1770.29	1780.52	1801.28	1455.98
(a) State Bank	434.67	434.87	438.02	322.89
(b) Others	1335.62	1345.65	1373.26	1133.09
7 Bills Discounted				
(a) Inland	166.15	161.48	153.53	188.23
(b) Foreign	75.90	76.48	74.23	77.32
(c) Total	242.05	237.96	227.76	265.55
(i) State Bank	25.88	24.78	23.64	21.83
(ii) Others	216.17	213.18	204.12	243.72
8 (6) + (7) as % of (1)	71.37	71.77	72.83	68.46
9 Investment in Govt Securities	859.99	857.34	853.25	800.84
10 (9) as % of (1)	30.50	30.48	30.62	31.85

STOCKS OF RAW MATERIALS AND MANUFACTURED GOODS

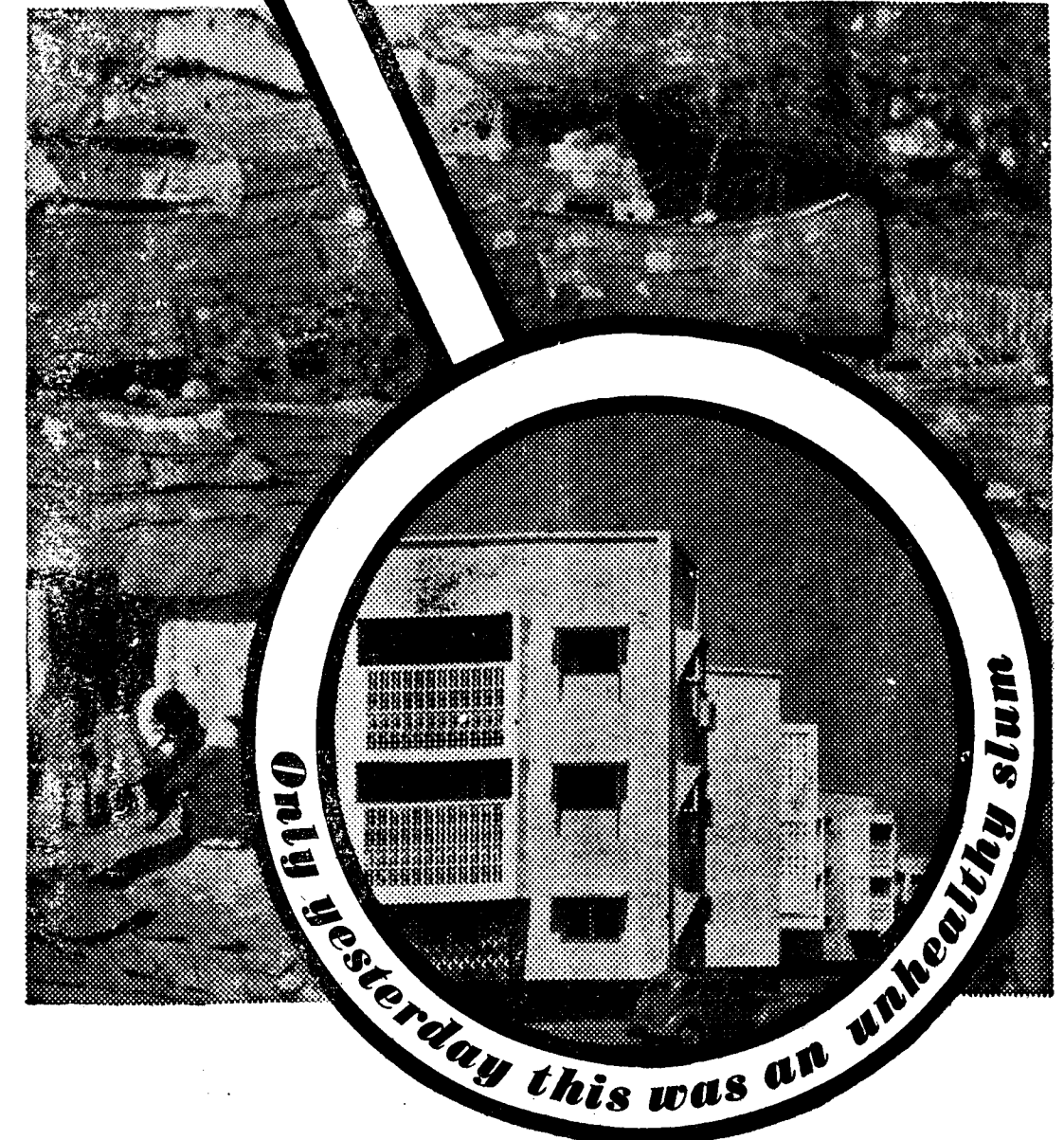
(At or about the end of each period)

	Raw Materials						Manufactured Goods					
	Raw Cotton ('000 bales)		Raw Jute ('000 bales)	Rubber ('000 m tons)	Coal ('000 m tons)		Iron Ore ('000 m tons)	Food Manufactures ('000 m tons)			Cotton Yarn (Million kg)	Cotton Piece-goods (Million metres)
	Indian	Foreign			Pithead	With Industries		Sugar	Salt	Vegetable Oil Products (Vanas-pati)		
1965												
June	—	—	—	15.43	5,221	—	1,586	1,468	3,940.0	8.5	22.9	296
May	1,881	411	1,250	14.26	5,226	3,227	1,644	1,702	3,017.6	8.3	21.1	274
April	1,777	406	1,459	13.12	5,217	3,116	1,526	1,827	2,455.1	9.8	20.2	281
March	1,462	401	1,691	14.09	5,260	2,936	1,485	1,698	2,108.0	13.5	17.7	267
February	1,320	398	1,883	15.77	5,077	2,935	1,522	1,415	2,111.2	10.6	14.2	238
January	1,281	388	1,959	17.95	4,993	2,945	1,424	1,050	2,239.7	9.9	14.2	218
1964												
June	1,970	254	1,689	16.80	5,139	3,749	1,105	877	3,509.6	10.9	12.1	146
1964	1,616	240	1,917	19.11	5,006	3,251	1,404	658	2,431.6	6.6	12.4	122
1963	1,579	212	2,321	18.31	4,720	4,418	2,089	540	1,820.2	10.9	9.2	186
1962	1,217	242	2,245	16.33	3,483	2,899	2,516	1,169	1,269.6	8.8	10.1	432
1961	1,413	397	1,240	13.36	3,290	2,273	3,378	1,328	1,317.3	8.9	7.4	292
1960	961	404	907	12.27	3,458	1,513	2,465	1,008	1,562.9	7.5	14.6	311
1957	1,120	224	1,220	10.12	3,328	1,467	1,475	737	1,309.1	9.3	19.7	618

	Manufacture of Textiles (contd) Jute			Paper and Paper Boards (000 m Tons)	Chemicals and Chemical Products ('000 m Tons)						Non-Metallic Mineral Products			
	Hessian Cloth & Bags	Sacking Cloth & Bags	Cloth (000 m Tons)		Sul- phuric Acid	Caustic Soda	Super Phos- phate (P ₂ O ₅) Content	Paints and Varnishes (000 m Tons)	Matches (000 Cases)	Soaps (000 m Tons)	Sheet Glass (000 Sq Metres)	Cement (000 m Tons)	Refrac- tories (000 m Tons)	
	(Million ('000 m Metres) Tons)	(Mill- ion Metres	(000 m Tons)											
1964														
June	136	42	—	—	—	—	—	—	—	—	—	196	—	
May	133	41	—	50	24.3	32.0	4.0	8.4	6.0	—	3.8	1,015	178	
April	137	42	105	47	23.9	33.4	4.7	8.9	5.9	—	4.1	1,186	154	
March	155	48	106	47	24.3	27.6	5.6	9.1	6.2	—	3.9	1,369	143	
February	149	46	94	42	23.4	26.6	5.2	8.9	6.0	5.9	3.7	1,437	158	
January	142	44	96	43	25.5	25.3	4.0	8.6	5.6	6.9	3.9	1,547	155	
1964														
June	145	45	101	45	24.8	29.9	3.1	9.1	4.4	14.8	4.7	1,345	128	
1964	122	38	83	37	23.6	23.8	3.8	6.8	7.7	16.5	3.7	1,427	146	
1963	128	39	105	47	25.9	22.8	3.0	11.6	5.9	24.6	5.1	1,116	122	
1962	77	23	104	47	15.8	24.2	3.1	11.6	4.1	14.4	5.5	840	148	
1961	52	16	60	29	16.8	13.8	4.2	7.8	5.6	3.4	5.6	305	169	
1960	97	30	88	42	17.7	10.8	13.4	6.1	2.2	5.7	6.6	706	196	
1957	85	26	85	39	11.9	6.8	1.0	1.9	3.6	9.7	7.4	520	111	

	Basic Metal Industries ('000 M Tons)		Manufacture of Machinery Except electrical machines			Electric Machines, Apparatus, Appliances & Supplies				Transport Equipment	
	Pig Iron (Producers)	Finished Steel (Producers)	Diesel Engines (Nos)	Sewing Machines ('000 Nos)	Machine Tools ('000 Nos)	Dry Cells (Lakh Nos)	Storage Batteries ('000 Nos)	Electric Lamps ('000 Nos)	Electric Fans ('000 Nos)	Auto mobiles (Nos)	Bicycles ('000 Nos)
1965											
June	—	—	—	—	—	—	—	2,958	—	2,829	—
May	66	134	1,983	18.5	22.8	36.1	26.8	3,001	—	2,847	83.1
April	51	132	1,831	23.8	19.5	43.3	27.3	2,461	164.0	2,196	79.7
March	50	141	2,282	15.8	22.2	76.6	31.9	2,514	101.1	1,818	77.2
February	48	165	1,973	23.0	19.8	44.8	30.3	2,585	208.7	3,640	58.6
January	52	159	2,116	20.0	18.7	57.8	36.5	2,111	204.1	2,891	18.4
1964											
June	93	148	2,569	13.3	15.4	31.8	25.0	2,301	75.5	2,507	80.9
1964	61	166	2,087	17.7	15.5	62.1	31.8	1,923	175.1	2,621	39.3
1963	71	161	3,305	21.9	12.6	45.4	26.6	2,175	153.3	2,570	97.2
1962	54	187	2,922	5.6	14.5	37.8	25.4	1,570	69.9	2,515	71.3
1961	68	208	3,678	—	11.4	46.9	24.5	1,303	81.5	1,505	108.7
1960	63	156	1,308	—	9.9	74.3	20.5	1,528	89.1	2,019	113.3
1957	48	100	662	15.4	55.71	50.8	27.0	2,361	77.6	1,048	107.3

Source: Central Statistical Organisation, Government of India.



What was once an ugly slum, is now a well-planned housing colony. All over the country, new residential colonies are springing up, bringing improved living standards and public health amenities to previously neglected areas. Much of this progress has been made possible through LIC investments.

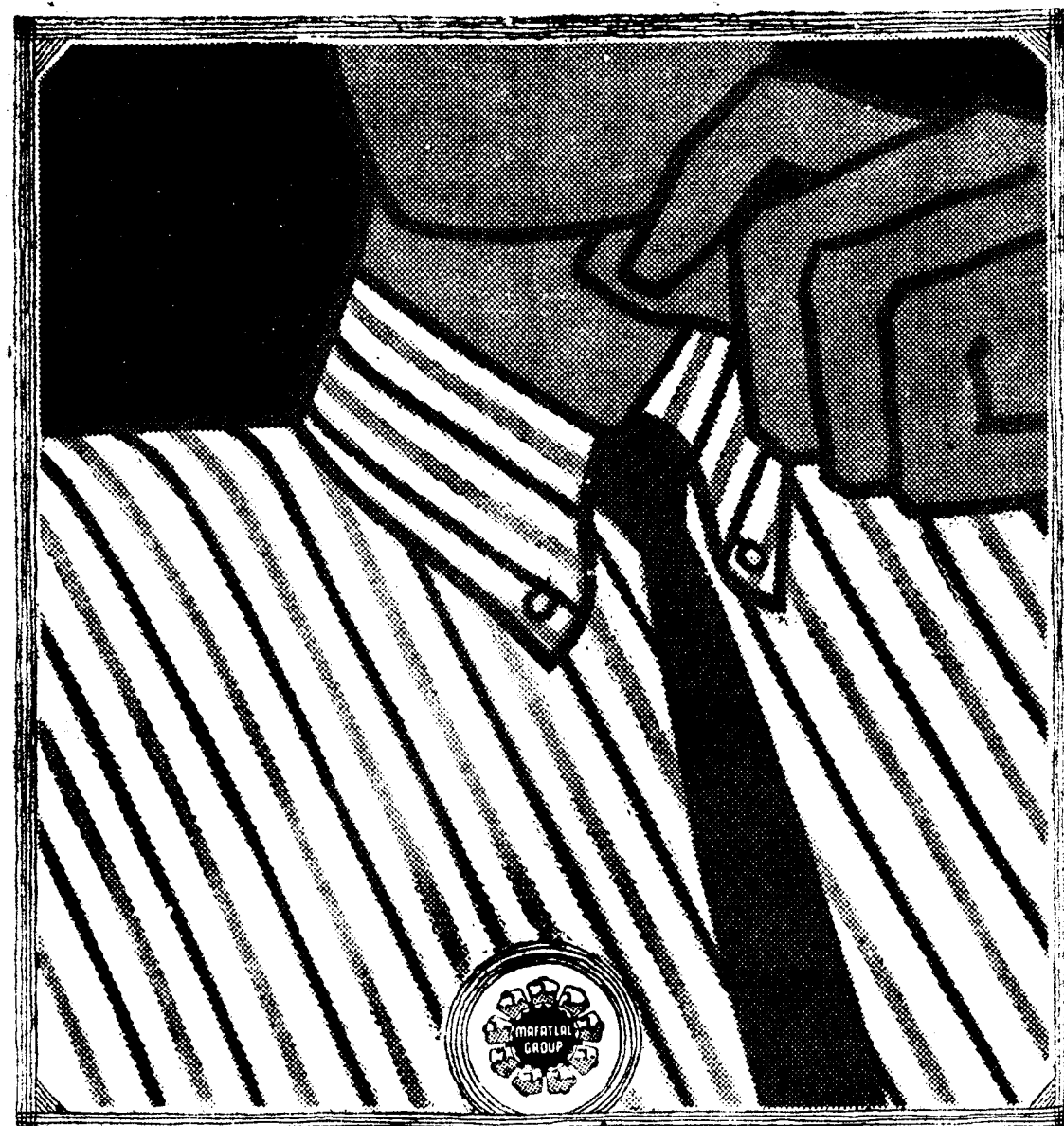
Year after year, LIC aids housing progress through loans to State Governments for housing schemes, schools and other welfare projects. In other spheres of development too—transport, agriculture, and industry—LIC investments play a vital role. LIC invests Rs. 3 million every day to better the standard of living.

Life Insurance Corporation of India



These were some of LIC investments as at March 1965:	
Loans to State Govts. for Housing Schemes	Rs. 59,02,22,000
Loans to Co-operative Housing & Finance Societies	Rs. 15,09,34,000
Cement	Rs. 7,99,78,000
Electricity	Rs. 11,49,16,000
Iron & Steel	Rs. 10,59,02,000

Your welfare
is our responsibility



**GENTLEMEN PREFER
MAFATLAL GROUP
POPLINS AND SHIRTINGS**

NEW SHORROCK, (SHORROCK), Ahmedabad · NEW SHORROCK, Nadia · STANDARD, Bombay · STANDARD (NEW CHINA), Bombay
STANDARD, Dacca · SASSOON, Bombay · SASSOON, (NEW UNION), Bombay · SURAT COTTON, Surat · MAFATLAL PINE, Navsari

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THE ECONOMIC WEEKLY

A JOURNAL OF CURRENT ECONOMIC AND POLITICAL AFFAIR

**SELECTIVE RESTRICTION OF CREDIT
FAULTY PLANNING OF DRUGS INDUSTRY
UTILITY OF FUTURES MARKET IN COTTON
BLUNTED DRIVE FOR SELF-RELIANCE**

pick of the season...



Poysha containers

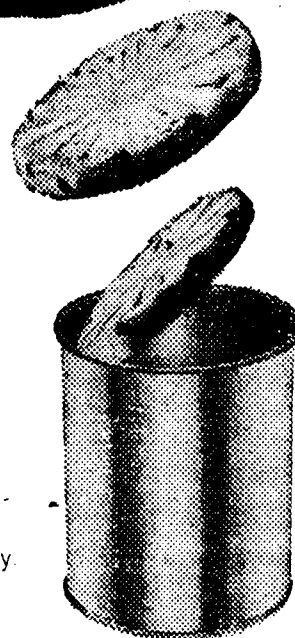
Not only fruits but also other foods as well as pharmaceuticals, vegetable and mineral oils, paints and dyes... they all come to you in protective Poysha containers. Poysha serves all the major industries catering to your daily needs.

Poysha's sales have increased eightfold in as many years: a phenomenal growth record indeed. Today, it ranks second among Indian container makers; but it is second to none in quality and service, thanks to its expert personnel, strict quality control and the most modern machinery.

To serve you even better, Poysha has joined hands with one of Europe's

bring it to you

leaders in packaging: Lubecawerke of West Germany. Now all of Lubecawerke's experience and expertise pooled in its Central Laboratory are available to Poysha for its large expansion programme. Its 3 new factories at Thana (Bombay), Ghaziabad (Delhi) and Cochin will soon be ready. Then it will make 5 containers for every 2 it makes today. What's more, it will offer comprehensive technical advice, better on-the-spot service and a wider choice of packaging materials to industries all over the country. For you, this will mean more and more of the better things you need... in Poysha containers — which even now run into millions every year.



POYSHA: ALREADY INDIA'S SECOND LARGEST CONTAINER MAKER—AND STILL GROWING RAPIDLY

POYSHA INDUSTRIAL COMPANY LIMITED

THE ECONOMIC WEEKLY

Vol XVII No 48 Nov 27, 1965

EDITORIALS

Selective Restriction 1747

The Plan Is Dead

Long Live Planning! 1748

WEEKLY NOTES

Getting the Farmer to Spend!

— New Look of Soviet Aid

— States in the Red —

Without PL 480 Cotton —

Export Bills Credit Scheme 1750

LETTER TO EDITOR

British Attitude to the Indo-Pak War

1753

CAPITAL VIEW

The Blunted Drive for Self-Reliance

— Romesh Thapar 1749

FROM THE LONDON END

Facing Up to Ian Smith 1754

BOOK REVIEW

Reform of the Educational System

— M R 1757

SPECIAL ARTICLES

De Gaulle's Rule by Referendum 1755

India, Pakistan and the Englishman: Some Irreverent Thoughts

— Libra 1759

The Drugs and Pharmaceuticals Industry: Faulty Planning

Cause of Raw Material Shortage

— Ajoy Gupta 1761

Utility of the Futures Market in Cotton

— M G Pavaskar 1765

FROM THE CHAIR

The National Newsprint and Paper Mills Ltd

1771

AROUND BOMBAY MARKETS

Downward Drift Continues 1773

BUSINESS NOTES

Scindia Steam Navigation —

Waterfall Estates — Indian

Detonators — Chas Pfizer —

Morarjee Goculdas — Hingir-

Rampur Coal — Shah Cons-

truction 1775

CURRENT STATISTICS

1777

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Selective Restriction

THE Reserve Bank's credit policy announced this week contains few surprises. Speaking in Madras a few weeks ago the Governor of the Reserve Bank had indicated the broad lines on which the policy was likely to be framed and the latest announcement spells out the details. The Governor referred to the new policy as one of selective liberalisation: it is equally one of selective restriction — not in the sense of selective credit controls as we have understood the term in India but of specifying areas where credit will be made tighter and the cost higher.

The Governor, at his press conference called to explain the policy — incidentally, a practice to be commended — gave only the broadest indication of how much the magnitude of priority sector refinance would be, suggesting that of the Rs 200 crores or so of refinance, about 50 to 60 per cent may be for these sectors. It would have been useful to have had a breakdown of this into the three component categories of priority sector refinance.

One cannot seriously quarrel with the choice of the priority sectors themselves, but a few questions may be asked. Why does the scheme of defence supply advances not take into account the working capital needs of defence production industries during the stage of production? The anomaly is the greater as this principle is partly conceded by packing credit for exports obtaining refinance but not export bills. Rupee export bills will, however, continue to get refinance at the Bank Rate. The Chabiani Working Group on the cost of export credit had in fact recommended an extension of the rupee bills scheme to all export bills but the Reserve Bank appears to have decided against it. It would be interesting to know why. As regards food-grains advances to Governmental agencies the magnitude, of course, would depend on the procurement operations but if the scheme extends to all the agents of the State Government then its policing will present problems.

Unless one can be sure that the total of finance under the priority sector refinances is going to be greater than what banks might have obtained under the previous arrangement one cannot call this new policy one of liberalisation, even on a selective basis. On the other hand, the Reserve Bank has taken steps which clearly are in the direction of tightening. Thus all the priority sector borrowing will form part of banks' borrowing from the Reserve Bank for computing the net liquidity ratio. In other words, a bank with a low liquidity ratio will be induced to borrow only for the priority sectors and not for others while for a bank with a high liquidity ratio, the new scheme does not confer any tangible benefit unless its net liquidity position goes down to 30 per cent. Further the Reserve Bank has enhanced the rate at which the cost of borrowing goes up, to 1 per cent from 1/2 per cent for every 1 per cent decline from 30 per cent in the net liquidity ratio on the entire non-priority sector borrowing. This represents a real squeeze alongside the continuance of the 10 per cent ceiling on advances rates. For the banking system as a whole the cost of borrowing from the Reserve Bank bids fair to be significantly higher than last year unless one were to assume that refinance for the priority sectors will account for the bulk of the central banks' accommodation.

The net effect of this policy may well be to make credit not only costlier but tighter, though given the present economic situation — with the food position assuming greater gravity each day and budgetary operations adding to monetary pressures — such a policy is perhaps inescapable. At his conference with the press the Governor suggested that bank credit was expected to rise by about Rs 400 crores — or almost as much as last year. This would at first sight seem to be a larger figure than the situation warrants. There will be the usual protests from vested interests that the credit policy is unnecessarily harsh and will retard production. The fact, however, is that the impairment of production is more likely to come from a shortfall of raw material and other supplies. A free flow of credit under such circumstances can only worsen the situation. If the credit squeeze

should, however, hurt production there is the Reserve Bank's assurance that it will modify its policy if the situation warrants it.

Another interesting aspect of the new policy is the requirement regarding the Reserve Bank's prior authorisation for fresh limits of Rs 1 crore and above. In some predictable circles this has been described as "backdoor nationalisation"! The Reserve Bank's letter to banks describes this as an additional measure of credit regulation and as a step towards closer alignment of credit growth with the Plan's needs. There is no reason to assume that it is anything more than this. It is a pity the Bank has not indicated what the control will mean in dimensional terms but it seems clear that this would give the Reserve Bank considerable dimensional and direc-

tional control on lending. The French practice, which seems to have inspired the latest move, is used for this purpose and it remains to be seen how the Reserve Bank uses this new power. A natural query arises as to why this control has been limited only to fresh credit limits for, in the nature of things, it is unlikely that in any year there will be many new limits of Rs 1 crore or above. The position with regard to existing limits of Rs 1 crore and above (except where they are raised) appears to have been condoned. Is it the suggestion that these limits are sufficiently 'aligned' (to use the Bank's phrase) with the Plan needs or that credit regulation in this respect is sufficient? Surely this cannot be so. Why then have these been let off? For all its apparent ingenuity, the new policy leaves a number of questions unanswered.

The Plan Is Dead, Long Live Planning!

IT is not true that the Fourth Plan has been killed in the shooting war between India and Pakistan, though the average Indian, drunk with the sense of glory over the destruction of Pakistani Pattons does not require any persuasion that it is so. We concluded one of our editorials in the issue of August 14, weeks before the war, with the assessment: "The administration has been left to carry on to prepare a Fourth Plan and a Perspective Plan which nobody seriously wanted to implement. Hence the unreality of the discussions on the Fourth Plan and even more so on the Perspective Plan. A show had to be kept up for the benefit of the public. The show is still on but it may be called off soon. One is waiting for the politically opportune moment". This assessment was as much based on the spate of contradictory utterances about 'plan pause' and 'plan holiday' and what not that had been emanating from leading personalities of the Government representing all shades of opinion as on the fundamentally unsound way in which the Fourth Plan had been prepared all along the way without paying any attention to the realities of the economic situation as obtaining during the Third Plan period. The utterances represented an attempt at telling the nation that planning was to be shelved—but apparently the decision had been taken that the foreign exchange crisis, being largely

the result of the Finance Minister's ineptitude, was not a sufficiently convincing excuse for such an important change in Government policy as the scrapping of the Plan. Events have proved that the decision to wait was a very wise one; for within weeks came the shooting war and the announcement of foreign assistance being withheld.

What precisely is the state of affairs now? Some time back it was given out that two alternative outlines of the Plan were being prepared—one on the assumption of normal flow of foreign assistance, the other without it. There was in that the expression of a resolution—resolution is too strong a word but, say, just a wish—to do without foreign assistance if need be. But that phase is also over; no alternatives are being prepared—as a matter of fact, not even a single version is being prepared. The outline, it has now been given out, will be ready only by the middle of next year; by that time, it is hoped, foreign assistance will start to flow again. The current programme is to wait and hope.

This surmise is based on the spate of self-contradictory banalities and platitudes that are pouring out from important quarters. For the most extraordinary statement, the credit goes to the Prime Minister himself. In an address to Congress workers in Madras Shastri is reported as

having said, "Two months hence we may have to face special difficulties... As the situation develops we will take necessary decisions to counter them." He was referring to the difficult food and economic situation which he anticipates to deteriorate. There is thus an admission in his statement that at present no decisions are being taken: they will be taken! One of the situations that is likely to develop is that of a large number of factories grinding to a halt for want of imported raw materials. From Shastri's statement as well as from other news reports it is clear that nothing is being done in the matter apart from waiting for the US State Department to change its mind.

What will be done in two months' time when the factories have actually stopped, a large number of projects left incomplete, and industrial production fallen according to the predictions of Asoka Mehta? The latter drew before a meeting of MPs an all-round gloomy picture of the economy; the Minister for Planning talked in Parliament about the Fourth Plan requiring to be amended. Yet at the same time reports are emerging from the Planning Commission that it is not really necessary to do anything about the Fourth Plan; after all, it has been discovered, defence does not have much impact on most industries, and priority for agriculture—was that not all along incorporated in the Fourth Plan?

We also do not think that the waiting will be in vain; our leaders are quite right that the aid-givers are going to change their mind and foreign assistance will flow again. But surely the stoppage of the flow and its renewal are not unaccountable factors like the monsoon fluctuations: by the time the aid starts to flow in again, important changes would have taken place all along the line in economic policies and methods of planning. There is every reason to fear—or hope, if one likes—that the spokesmen of Big Business will have their way and there will be planning once again, but in the style of what is being called the 'French method of planning. Before the Fourth Plan is ultimately launched—it would be no doubt—there would very probably be, sitting in the Planning Commission, not only representatives of the Indian private sector but also of the aid-giving agencies and governments to guide us along the path of what we shall still call self-sufficient growth!

The Blunted Drive for Self-Reliance

Romesh Thapar

THE other day, I was reading a longish, thesis-type article in which a rather provocative attempt was made to systematise the business of political forecasting and to reduce the margin of error or errors to the minimum. Supposedly, such exercises are designed to prepare the 'in-puts' for complex computers which will tell us what to expect of our politicians. In the midst of this pleasant pastime I asked myself whether any 'system' or 'computer' could have tackled the perambulations of the Congress Party during these past few weeks.

Idle speculation needs discipline. Within the pages of a single newspaper, I learnt that Prime Minister Lal Bahadur's visit to the USA would be concerned with 'goodwill' and would not be linked with economic aid; Congress stalwart Raghunath Singh had urged that the word 'Hindu' should not be dropped from the name of Banaras University as in its wider connotation it does not denote communalism; Deputy Finance Minister Rameshwar Sahu had declared that the public response to the gold bond scheme so far "is satisfactory, but the figure is not very encouraging."

Left Language-less?

No 'system' or 'computer', I am afraid, could cope with this barrage of double-talk. Indeed, even the brains of acclimatised observers and political analysts are paralysed. The mental exhaustion is so complete that newspapers in the Capital—and, presumably, in the States—are content to record every bit of nonsense with unflinching devotion. Maybe, in the quest for a national language, we are now in the unique position of possessing no language at all in which to express what we really intend. This, of course, is an asset diplomatically—but only if the people of the country at least know what's cooking.

A fortnight ago, we were still in the midst of the passion for self-reliance and were fully determined that we would not be pushed around by those who would exploit our food and foreign exchange shortages. Today, we go around furtively, talking about a foodgrains deficit which might touch 10 million tons (15 million if distri-

bution breaks down!) and of a virtual closure, by March 1966, of some 40 per cent of our industry. The earlier passion, set against the facts of our shortages, should have sparked the internal effort to face the critical situation—an effort which would neutralise many of the ill-effects of dependence and help make it temporary. But the passion is being deliberately dissipated, for the feeling is widespread among those who rule that it is preferable to beg rather than to work, particularly if votes are to be collected democratically in 1967.

Waiting for Something to Turn Up

Even as this tragic defeat is being inflicted upon us, we sit around in the Capital merrily recounting tales of how the Army Chief does not protest when a *tikka* is planted on his forehead at a public function, of how the Home Minister wastes time ploughing his garden when he should be cleaning up the administration, of how business tycoons engage the services of foreign consultants despite a foreign exchange shortage and the availability of local expertise, of how the same kind of people engage foreign architects to plan buildings in Calcutta, of how crores of rupees worth of machine-tools are imported while HMT in Bangalore stockpiles tools which are not in demand, of the lavish foreign exchange made available by our normally vigilant Reserve Bank to our emissary MPs, of import entitlement licenses used for the purchase of the most ridiculous non-essentials (even toilet paper!) and of how it is how in the interest of the very very rich to convert their 'white' money into 'black' in order to purchase gold for bonds and enjoy the incometax-free, wealthtax-free and gifttax-free benefits offered by an indulgent GOI.

The achievements of eighteen years are in danger of being pulverised. Nevertheless, a communist joins the mob to call on the Ministry of Information and Broadcasting to silence those who controvert official facts, a Jan Sanghi rants in the style of the *Mahabharata* about the need to destroy Pakistan, a Socialist becomes the spokesman of an assorted

bunch of vegetarians who are demanding the manufacture of nuclear weapons, and a Swatantraist works overtime to persuade our confused politicians that the answer to our problems is to recognise Chiang Kai-shek's regime in Taiwan. Small wonder, then, that Congressmen fiddle—and wait for LBS to visit LBJ.

Non-Official Advisers for Ministers

The visit will soon consume all our faculties, but there are a few hardened optimists who continue to believe that once Lal Bahadur has ensured us against the impending crises he will move to build the self-reliance he has talked about. Frankly, I do not see the signs. The bureaucrats, thoroughly incompetent on economic and technical matters, seem relaxed and still able to quote rules and regulations for a do-nothing plan. Unless their self-reliance is broken, there's little hope. This may appear contradictory, but not for those who have had the opportunity to trudge the corridors of the sprawling GOI Secretariat. Ask the Punjabis, their economy disrupted by war, what they think.

In the kind of democracy we have bestowed upon ourselves, it is imperative that emergencies be tackled through the creation of all-powerful cells of experts whose decisions cannot be challenged. We have to use this approach to the agricultural and industrial crises—if only to save democracy itself. It is a technique frequently employed, even in Britain. The knowledgeable maintain that our troubles in food and foreign exchange are largely curable, that it is possible even at this late stage to get back on our feet without embarrassing supports. But it is the knowledgeable who are kept at a distance. There are too many scandals to hide.

Moves recently initiated to appoint advisers to ministers, selected by the ministers and serving at their pleasure outside the permanent bureaucracy, should do much to concentrate expertise where it is needed. This excellent US practice could be embodied in our system of government. Yet, there is a strange reluctance to implement the scheme. Surely the ICS is not all that powerful. Or are

November 27, 1965

we to wait for Morarji Desai to deliver the opinion of his administrative reforms commission?

Meanwhile, as we mark time and hope that all our problems will be revolved by a benevolent, understanding LBJ, the Soviet Union has thought fit to renew the call for the Tashkent meeting. The Prime Minister's mercurial responses to this particular initiative are becoming the talk of diplomatic circles. Now, it is assumed, that TTK, just back from Moscow, has underlined the necessity

for a more serious dialogue with the Soviet leaders on the problems of the sub-continent. Hence, Lal Bahadur's more constructive reaction to the Tashkent meeting. He is beginning to realise that we hurt only ourselves by a conditional, inhibited attitude to talks and discussions. We should be clear about our objectives — and talk.

The conviction is at last forming that we are saddled with more problems today than before the conflict with Pakistan, that we have to apply ourselves to finding solutions over

THE ECONOMIC WEEKLY

which we have a fair degree of control, that V K Krishna Menon's warning about the militarisation of the mind must be heeded. In other words, the realisation spreads that government by slogans is no panacea. This thinking is likely to crystallise during the coming weeks. It remains to be seen whether it will express itself sharply enough to steer us toward a programme of self-reliance. Let us hope that we will not be left at the mercy of those who imagine that the tenor of their speeches is the barometer of our independence.

Weekly Notes

Getting the Farmer to Spend?

ANY index of political activity, whether it be based on the number demonstrations organised, committees appointed, minutes written or official hours wasted, would correlate well with the trend of urban food prices in this country; in this sense food prices are the most important political barometer, the strongest galvanising force in the arena of politics. Behind every leap in food prices is a story of privation which, untold and unwritten though it remains, leaves a mark on those who hold power and assume responsibility.

And yet, those in power go on collecting these blots of shame as if they were rare stamps. In the last decade we had a serious inflation roughly every five years; now it promises to visit us every other year. What has brought us to this state of affairs? What has been done and what left undone?

A part of the story is familiar to us — the story of abdication of responsibility by sharing it. By introducing food zones the government assumed responsibility for feeding the deficit areas; by making the zones co-terminus with States it shared out the responsibility between the States; by leaving procurement to their sweet will it abdicated responsibility. For the consequences of irresponsibility we have to wait only till summer.

But this is not the whole story; there is the question of production. The UN Economic Survey of Asia and the Far East for 1964 is of the view that "Fundamentally the Indian food problem during the last decade was caused by the low level of production, which was below the demand and which tended to increase only just as far as the

rate of increase of demand, and by the large fluctuations in production which could not be offset by imports or by release of government stocks". Distribution, one might say, becomes a problem only if production is inadequate.

But what level of output would be adequate? The present level plus two million tons, five million tons, ten million tons? Who wants this additional produce? If it is the towns, the additional requirements can only be marginal. For the Survey estimates an increase of 2.5 million tons in the urban demand for food between 1951 and 1961 — a period in which production increased from 55 to 80 million tons. A tenth of the increase in output would have sufficed the towns, apparently.

Where did the additional output of food go? Partly to feed the additional population, which increased by over a quarter; partly to satisfy the demand of people who became better off. The Survey gives twice as much weight to the influence of population growth as to that of income rises; the effect was probably more equal in view of the low income elasticities the Survey assumes.

What do the agriculturists do with their additional incomes? The information the Survey gives is amazing. A rupee spent on agricultural goods generates only 12 paise of further demand, nine of which go to agricultural goods, one to food industry and one to mining and manufacturing. This is so amazing as to be incredible: if it were true, about the only use agriculturists made of additional incomes was to gorge themselves. Nevertheless, there is some truth in the picture: in particular, Indian farmers do not spend on services as Australian and Philippino

farmers do or on fertilisers as the Taiwanese farmers do.

The crux of the problem is, therefore, the high degree of auto-consumption in agriculture. As long as the preference of agriculture for its own goods remains so strong, an increase in agricultural output and incomes will increase the marketed surplus little. It follows that the solution of the problem of inflation lies in increasing agricultural taxation, compulsory procurement, provision of urban goods and services in rural areas and setting up industries (fertilisers is one of them) which generate little demand for agricultural good. In any case, increasing agricultural output will not by itself solve the problem.

New Look of Soviet Aid

FRESH ground has been covered in the strengthening of economic relations with the Soviet Union and Czechoslovakia. The Finance Minister who recently visited these countries has reported to the Parliament that they have agreed to examine, within the next few months, the feasibility of expanding economic and technical assistance for the Fourth Plan. The Soviet Union has agreed to give, and Czechoslovakia will consider giving, non-project aid on terms approximating those for project aid.

This represents a significant departure from Soviet policy hitherto. So far she had insisted that conventional 12-year loans would be confined to large public sector projects; for smaller public and eligible private projects they extended only deferred payment facilities which the Indian Government understandably restricted as far as possible within certain well defined categories. All non-project items, the Soviet bloc insisted,

THE ECONOMIC WEEKLY

should be looked after under bilateral trade agreements. The relaxation now envisaged would cover the maintenance requirements of Soviet-aided as well as other projects. A time limit has been set for completing the negotiations for additional project credit; the examination of technical feasibility and the availability of resources within the Soviet Union for determining the extent and direction of fresh aid would be completed by March next year. The amount and pattern of non-project assistance will be settled along with the new five-year trade agreement, negotiations for which will commence early next month.

In both Moscow and Prague the Finance Minister seems to have asked for financing of the entire foreign exchange component of assisted projects, especially Bokaro. Even before the position became critical, there was considerable difficulty in finding free foreign exchange to make up the deficiency in Soviet bloc credits. Completion of projects on schedule was held up in some cases and, of late, the taking up of new projects was ruled out till the entire foreign exchange cost of the project and of the ancillaries, which were to meet the portion kept aside for domestic procurement, was assured. This is what is intended in the request for additional facilities for Bokaro, the Korba aluminium plant and for the coking coal projects. Additional projects proposed to the Soviet Union are special steels and alloys, electronics, electrical stampings, mechanised farms, land reclamation and specialised post-graduate education and to Czechoslovakia plants for railway wheels and axles, cranes and structurals and machine tool accessories.

In over-all terms, the range though certainly not the magnitude of aid from the Soviet bloc is beginning to equal that from Western sources without losing its special emphasis on heavy industry. Aid for maintenance imports implies, moreover, that repayments on the earlier Soviet credits have been indirectly postponed.

States in the Red

IN formulating its credit policy for the busy season the Reserve Bank has reiterated that "the major objective of credit regulation must remain the maintenance of reasonable balance between aggregate money flows and the availability of real goods and services". This is its rationale for tightening the terms of refinancing of bank advances other than for defence, food and exports. There is, however, reason to sus-

pect that the Reserve Bank has not extended this rationale to its dealings with governments, particularly the State governments who have been getting themselves up to their ears in debt to it.

As on Friday, November 19, the Reserve Bank's advances to the States stood at Rs. 127.16 crores compared with Rs 39.56 crores on November 20 last year — or over three times as high! The State governments' borrowings have been steadily going up since March, in complete disregard of the Union Finance Minister's repeated injunctions to them to play their part in maintaining fiscal and monetary discipline. That something like this would be inevitable was foreshadowed in the States' budgets for 1965-66. It will be recalled that except for Rajasthan and Madhya Pradesh, none of the States proposed new taxation though practically every one of them had yawning deficits which totalled Rs 76.6 crores compared to Rs 39.7 crores in 1964-65 (revised estimates) and Rs 5.4 crores in 1963-64 (actuals).

A part of the increase in Reserve Bank loans to the States is likely to have been for food procurement and distribution, but how large a part one does not know. Similarly, how much of the borrowings are to be attributed to the demands, unforeseen at the time of the formulation of the State budgets, arising out of the war with Pakistan, is also not known. Nevertheless, one can be quite sure that not all, or even the bulk, of the State's borrowings from the Reserve Bank can be attributed to their activities in the priority sectors of defence and food. And what cannot be so attributed needs to be looked into critically in the context of the Reserve Bank's own ground rules about maintaining balance between money flows and real goods and services.

Not long ago the Centre had taken over a part of the overdrafts of some of the States in the hope that this would encourage them to mend their profligate ways, starting from a clean slate. Also, in the last few months the Union Finance Minister and the Deputy Chairman of the Planning Commission have gone round the States to impress on them the need to raise resources through fresh taxation and to exercise strict control over their expenditure. These efforts have clearly been in vain. Isn't it time that some sort of policy — a parallel credit policy — is formulated to regulate State governments' borrowings from the Re-

serve Bank? None obviously exists at present.

Without PL 480 Cotton

THE cotton textile industry is deeply concerned over T T Krishnamachari's statement at last week's meeting of the Parliament's Informal Consultative Committee attached to his Ministry that the Government wanted to stop altogether import of cotton under PL 480. The industry's anxiety is not surprising. The prospect of having to do without US cotton when there is going to be a serious shortfall in domestic supply due to the failure of the 1965-66 crop is indeed disturbing. Cotton imports under PL 480 have been very substantial in recent years. Out of the total volume of imports under PL 480 since September 1956 valued at Rs 1,444.2 crores, cotton has accounted for Rs 131.2 crores.

Imports of foreign cotton during the past six years — 1959-60 to 1964-65 — totalled 50.67 lakh bales, of which 21.87 lakh bales were accounted for by US cotton received under PL 480. Out of the 8.18 lakh bales of foreign cotton imported in 1964-65, PL 480 cotton accounted for 1.59 lakh bales and another 1.02 lakh bales were received from the US under barter agreements.

The 1965-66 cotton crop is expected to yield no more than 52 lakh bales, of which only 48/49 lakh bales will be available to the cotton mill industry, the rest being used for export and non-factory consumption. This will be far short of the normal requirements of the industry which consumed 56.12 lakh bales of indigenous cotton and 7.60 lakh bales of foreign cotton in the last season. Because of the tight foreign exchange position there is no hope of making good the shortfall in domestic production through larger non-PL 480 imports of foreign cotton: it is extremely doubtful whether these imports will be even maintained at the previous season's level. The gap between the industry's normal requirements and total availability of cotton will widen if imports of US cotton under PL 480 are stopped.

The PL 480 agreements stipulate the maintenance of normal imports of the commodity concerned from outside sources. It is possible that the Government is being obliged to stop or severely restrict import of cotton from the US as it is finding it difficult to maintain normal imports from other sources because of the foreign exchange situation. Or it might be that unable to persuade the US Government to provide sufficient aid under PL 480, New

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Delhi has no choice but to cut out imports of less essential commodities and utilise as much of the available aid as possible for importing foodgrains.

The cotton mill industry's concern over any cut in the supply of foreign cotton is natural but this industry is not alone in having to suffer because of the restricted supply of imported raw materials. As a matter of fact, there is a section of opinion in the country which has always been critical of the huge sums of foreign exchange spent on import of cotton, particularly when the industry has been steadily losing ground in the international markets and its exports consist mostly of fabrics made out of indigenous cotton. The continued dependence of the industry on imported cotton when the country has the largest area under cotton in the world is a matter for concern. The Government and the industry must share the blame for not making the required effort to improve the yield of cotton which continues to be ridiculously low—around 100 to 120 lbs an acre, the lowest in the world. It is only very recently that the industry has started taking an interest in schemes for the development of cotton production.

Export Bills Credit Scheme

WITH the gradual tightening of Reserve Bank accommodation to banks, the problem of bank financing of exports has become an increasingly difficult one. The extension of the Bill Market Scheme in 1958 to cover usance export bills payable within 90 days did not, in spite of various relaxations introduced subsequently, prove to be of much value to the banks in securing additional resources.

The 1962 amendment of the Reserve Bank of India Act enabled the Reserve Bank to purchase and rediscount export bills maturing within 180 days and to lend to scheduled banks against eligible promissory notes arising out of export and maturing within 180 days. The introduction of Section 17(3A) authorised the Reserve Bank to make advances to scheduled banks against the security of their promissory notes repayable on demand and accompanied by their declaration of holdings of eligible usance export bills negotiated or discounted by them. The usance of the bills (which may be in rupees or foreign currencies) was not to exceed 180 days.

Effective from March 23, 1963 the Reserve Bank introduced the Export Bills Credit Scheme. Under the Bill Market Scheme the Reserve Bank

granted accommodation against demand promissory notes of banks accompanied by usance promissory notes drawn by exporters, involving a stamp charge of 0.2 per cent. The Export Bills Credit Scheme replaced the exporters' usance promissory notes by banks' declaration regarding their holdings of adequate usance export bills in their advance portfolio. Banks are granted Reserve Bank assistance at the Bank Rate provided they charge the exporter a rate not exceeding 1½ per cent per annum over the Bank Rate. All banks who are dealers in foreign exchange are eligible for refinance facility under this Scheme. Limits in respect of export bills are sanctioned for a period of one year from October 1 to September 30 of the following year.

According to figures published in the latest issue of the Reserve Bank of India Bulletin, the Export Bills Credit Scheme seems to have gained in popularity during the last two years. Between March 23 and September 30, 1963 limits sanctioned under the Scheme amounted to Rs 10.10 crores and advances were availed of by scheduled banks to the extent of Rs 5.21 crores. In the 1963-64 Bill Market year (i.e., October 1963-September 1964) assist-

ance aggregating to Rs 20.31 crores was availed of by the scheduled banks, and this figure went up to Rs 30.55 crores in 1964-65. The number of banks which availed of the refinancing facility also rose from 5 to 9 over the period.

It is worth noting, however, that out of the total utilisation of Rs 50.55 crores accommodation against bills in foreign currencies amounted to the trifling figure of Rs 1.28 crores in 1964-65, as against Rs 4.62 crores in 1963-64. This sharp decline underlines the reluctance of the banks to utilise the facilities offered by the Scheme in respect of foreign currency bills negotiated by them. The inference may be that the stipulation regarding charging a maximum interest of 1½ per cent over the Bank Rate makes the Scheme not remunerative enough to the borrowing banks who can obtain rediscounting facilities abroad and carry the advances earning better rates of interest. The fact that only 9 of more than 30 banks who are authorised exchange dealers have joined the Scheme also shows that the Scheme has far to go yet to achieve its objective, the rather substantial rise in the amount of refinancing notwithstanding.

LETTER TO EDITOR

British Attitude to the Indo-Pak War

I AM an Indian national living at present in Turkey. I have lived in various other countries including Britain and Australia for the past 16 years. Perhaps you may permit me to say a few words with reference to Stephen Hugh-Jones' article "British Attitude to the Indo-Pak War" in your issue of October 16, 1965.

We are committing a profound mistake in expressing our resentment at the British attitude in the manner we have done so far. We imagine that the British are influenced by our anger or resentment; on the other hand, it makes them happy. We must understand the inferiority complex from which the British are suffering since the end of the last World War. Financially bankrupt (they could not fight even a six days' war against Egypt in 1956 without causing a run on the sterling and a deficit of one thousand million pounds which was later on loaned to them by the US after the latter had forced a humiliating surrender on them), their main object after the War has been to create the illusion of still being considered a Great Power (hence their

interest in the Commonwealth). If they are the object of criticism and resentment from any quarter, they are happy because they feel they are somebody; only lack of criticism bothers them.

We can cut Britain down to size if we totally ignore her and exact reprisals, politically and economically, whenever feasible. If after calculating the balance of advantage and disadvantage we can strike at Britain economically (e.g. ending arms purchase on a permanent basis, etc) and thus set a precedent to other African and Commonwealth countries, then we may see Britain changing her tune. No doubt Britain will clothe its changed attitude in high principles as usual, but we won't quarrel with her so long as we get the substance. What matters to her (perhaps to some other countries as well) is not resentment but the actions we adopt towards her. It is high time India acted up to its size, population and resources.

GOVIND NARAIN

Ankara, Turkey
November 12,

Facing Up to Ian Smith

AS the Rhodesian situation relentlessly unfolds with the inevitability of a Greek tragedy, it is becoming increasingly obvious that the measures and tactics so far employed by Harold Wilson to deal with the situation will not be adequate to stop the rot and overthrow the rebellious Smith Government which, eleven days after its illegal seizure of power, has now overcome any lingering doubts and is increasingly confident of its ultimate success. There is no doubt that the manner in which the British Prime Minister made it quite clear that he would not contemplate the use of force, inevitably strengthened Ian Smith's conviction that in these circumstances he would be able to get away with Unilateral Declaration of Independence.

Crisis Helps Wilson

The most urgent question now is whether Wilson's strategy is going to pay off. On the face of it, his own standing in the U K has risen considerably with the latest *Daily Mail* opinion poll giving the Labour Party a lead of 18.5 per cent over the Conservatives, and this is undoubtedly a reflection of his handling of the Rhodesian crisis. The general impression is that Wilson has moved from being a mere Party leader to a national leader, unwilling to take military action against Britain's kith and kin in Rhodesia and yet determined to take every possible legal step to bring the rebellious Government to heel. But it is becoming more and more obvious that the measures so far taken are not by themselves sufficient, and disillusion is bound to creep in with its inevitable reaction on the opinion polls. At this rate, the struggle with the illegal Rhodesian Government will be a long drawn out one with little hope of an early settlement and with all the consequential bitterness which the existence of Smith's Government will bring to the African continent.

Wilson's gamble has been that as the sanctions imposed by Britain and now, as a result of the latest United Nations resolution, by the rest of the world, begin to bite, the unity behind Smith will break up and his party will be ousted, and there will be a new chance for Britain to set up a constitutional government in Rhodesia. This raises the whole question of how effective sanctions can, in practice,

turn out to be and whether, even with the United Nations' backing, they can be fully implemented in a way that will really hurt. It is in this connection that the argument that sanctions should not be punitive becomes really illogical. Surely what is wanted are sanctions that will work quickly and bite deeply, rather than long drawn out ineffectual sanctions which can only tend to increase bad feelings on both sides without achieving the object for which they were introduced.

A Showdown Inevitable

It is now beginning to look as if the bipartisan approach to Rhodesia will soon crumble because the Conservative Party has made it clear (as a result of severe pressure from its Right Wing) that it will not, necessarily, back "punitive sanctions". There have already been rumblings over the application of tobacco sanctions, and the imposition of oil sanctions is bound to bring violent opposition. At the same time, Wilson is being pressed very severely by his own Left Wing to take more effective action, more punitive sanctions, and indeed, not to rule out the use of force. It now seems possible that a showdown on Rhodesia between the two Parties cannot long be postponed. Heath will certainly have a difficult time preserving Conservative unity on this emotive subject. While Sir Alec Douglas Home, Maudling and Duncan Sandys have given a large measure of support to the Prime Minister, Heath has not been as unequivocal and downright in his statements on Rhodesia; so it still remains to be seen what the impact of Rhodesia will be on internal British politics.

Turning now to the question of sanctions, it must be admitted that even the most enthusiastic supporters of economic sanctions realise that it takes time to make them effective, and time is certainly not on the side of Wilson. Sanctions so far imposed will take some time to work, although theoretically Rhodesia with an economy heavily dependent on trade and financial relations with the outside world, and the Sterling Area in particular, is acutely vulnerable to economic sanctions. One-third of Rhodesia's national product is exported and more than two-thirds of her exports enjoyed Commonwealth preference. The table below shows

Rhodesia's main trading partners:

Per Cent of Total Exports to	
Zambia	25.8
U K	25.5
South Africa	7.5
West Germany	6.6
Japan	4.7
Malawi	4.7
USA	3.3
Others	21.9
Imports from	
UK	30.4
South Africa	24.3
USA	6.7
Zambia	4.9
Japan	4.0
West Germany	3.9
Malawi	1.4
Others	24.4

Tobacco and Sugar

Tobacco, on which a sanction has now been imposed, provided over one-quarter of Rhodesia's external earnings in 1964. Perhaps even more serious, it was the Rhodesian branches of London-based banks which provided nearly all the bank credit which financed local farmers, commerce and industry. How will the ban on tobacco and sugar affect Rhodesia? The country earns some £24 million from these two exports. The impact on tobacco cannot hope to take immediate effect, as the present crop has been sold and it will be many months before the next crop is up for sale. The position with regard to sugar is slightly different. Sugar is already in world surplus and Rhodesia will feel the pinch of having to sell at the world price of £18 a ton rather than the Commonwealth price of £47 a ton. Again, the American action in banning the import of this year's Rhodesian sugar quota will also hurt. 9,500 tons of Rhodesian sugar are already on the way to America, but these will now not be accepted. America also buys at a price higher than the world price—6.85 cents a lb as against the prevailing free market price of under 2 cents. As a result of the American ban, the Rhodesians now stand to lose almost \$1 million in sugar revenues.

So far, Rhodesia has been extremely sceptical over the whole question of economic sanctions, and even the United Nations resolution calling for oil sanctions has not affected the Ian

Smith Government, and indeed, with the exception of some of the more serious-minded businessmen, the general Rhodesian mood is excessively confident, particularly in view of the support promised to them by the South African Government which could make it difficult for sanctions to operate.

Zambia's Predicament

The United Nations resolution "calls on all States to do their utmost in order to break all economic relations with Southern Rhodesia, including an embargo on oil and petroleum products." The main supplier of oil to Rhodesia is Iran who will have to be asked to stop crude exports to Rhodesia which are only a minute fraction of her total exports. Most of Rhodesia's oil is processed at the refinery at Umtali which is owned by a number of international oil companies —

B P and Shell own 31 per cent and the bulk of the remainder is divided among Mobil, Caltex and other US companies. The refinery could be ordered to refine any crude oil it can get, even from sources other than its own parent company, under the threat of a possible Rhodesian takeover. Rhodesia already has a month's supply of oil, and has also arranged to obtain supplies from Portugal, and is, therefore, confident of being able to stand up to these sanctions. Moreover, Rhodesia only depends upon oil for one-quarter of her total energy needs, and with her Wankie coal and the Kariba hydro-electric power, industry could still carry on, and, of course, Rhodesia's trump card is the immediate impact that such sanctions would have on Zambia, particularly as Zambia is dependent on Rhodesia for Kariba power, Wankie coal, Umtali oil, and a

large proportion of her food and manufactured imports. In order to deal with the problem of Zambia, Malcolm McDonald, as Her Majesty's Government's special representative in East and Central Africa, is on his way to Lusaka. Norman Kipping, former Director-General of the Federation of British Industries, is also in Lusaka at the request of the British Government "to look generally at Zambia's economy". At the moment it therefore appears as if Zambia will have more to fear in the repercussions of sanctions than Rhodesia.

The logic of events seems to prove that nothing short armed intervention will really succeed in bringing down the rebel Government, and the sooner the British Government realises this and takes strong action, the better it will be.

De Gaulle's Rule By Referendum

(From 'a Correspondent)

EARLIER this month Georges Pompidou, the French Prime Minister, invited his cabinet to lunch for having set a record by staying in office longer than any other French Government in recent years. Till General de Gaulle ushered in the fifth Republic in 1958, Governments in post-war France rarely lasted more than nine months. Behind this new-found stability is the overshadowing figure of the General, rather than Gaullist trappings like the nuclear *force de frappe*. The General knows very well that without him, the future of Gaullism is in doubt. This partly explains his decision, announced on November 4, to run for re-election to the Presidency for another seven-year term. The 75-year old General is expected to win the election which is due to be held on December 5.

De Gaulle's decision to run for re-election is proof that his policies have not taken root in France and that he fears things will fall apart again in his absence. Here is a paradox — the man is accepted, but his policies are not, to the same extent at least. This is to be explained in terms of de Gaulle's special technique of power.

De Gaulle has abandoned Algeria; he has defied America, France's benefactor for many years; he has slammed the door of the EEC in the face of Britain; and he is spending record sums on defence now when France is not

at war. In all these controversial matters, de Gaulle has carried the nation with him. Any explanation of his strength in terms of the weakness of the French for military men and the General's war-time record as Resistance Leader are hardly adequate. They do not explain why General Salan was allowed to be tried as a common criminal, without much protest, except from the extremist SOA.

The real explanation has to be sought in de Gaulle's political skill. By his own Constitution the President is supposed to be "above the parties" and an "arbiter". But he has interpreted his constitutional position to suit himself. De Gaulle's "direct approach" to the people through the referendum, personal tours, the TV and the radio appearances and what is euphemistically termed as his "loud thinking", which is reported widely in the press, is the secret of his personal rule. Through these means he has managed to get his actions confirmed by the people.

He has used the referendum most effectively. He has resorted to it four times since he came to power in 1958. The first referendum, in October 1958, was to get his Constitution approved; the second, held in January 1961, was over the granting of self-determination for the Algerians; the third, in April 1962, was to approve the Algerian peace-terms; and the last, held in Oct-

ober 1962, was over the issue of popular Presidential elections. It is interesting to note in retrospect that the General who was called to power to save Algeria for France made the French confirm his decision to the contrary in two successive referendums.

De Gaulle has a knack of handling the referendums. Take the last one which approved the direct election of future Presidents: de Gaulle made full use of the State information media to deliver the message that he stands for order against the chaos that will be France's if they vote for the "unknown" as against the "known", meaning himself. Then there was the threat that unless the French electorate not only voted "yes" in the referendum, but did so by a massive margin "my task will be ended, immediately and irrevocably". "But if, as I hope, as I am sure, you answer me 'yes' once more, then I shall be confirmed by all of you in the burden I bear". If "the majority of 'yesses' is small, mediocre and uncertain", he would resign! As one of the political commentators said: "the threat has been made with such emphasis that a vote for or against the Constitutional changes is indeed a vote for or against de Gaulle. And although no one can foresee exactly what would happen should de Gaulle retire to Colombey-vote will be for de Gaulle and against Les-den Eglises, the odds are that the

the Government of the Fourth Republic". In the event 62 per cent of those who voted did vote "yes".

With his direct approach to the people, over the heads of the legislators, de Gaulle is trying to build a new form of democracy based on referendum. The device is not liked by the old politicians whom the General is trying to eliminate from effective power. According to the 1958 Constitution—drawn up under de Gaulle's own supervision—the President of the Republic does not govern, he arbitrates between Government and Parliament and inspires the broad lines of policy. Hence, the politicians argued, de Gaulle had no right to appear on television and announce a referendum. The correct procedure, they said, should have been for Pompidou, as Prime Minister, to submit the new proposal to Parliament and get a two-thirds majority for it, before consulting the electors.

Constitutional or otherwise, de Gaulle knew his trump cards. He knew that people would like to have a say in the election of the President instead of it being done by a college of 60,000 notables on their behalf. And he forms the crucial questions for the referendum with great care. As one writer put it:

"If a referendum is to be held tomorrow to decide whether France should have a nuclear deterrent the actual question would, I imagine, be phrased something like: 'Should General de Gaulle be given full power to raise your standard of living by 25 per cent during the next year and equip France with modern means of defence?'"

In the wake of the 1958 constitution two issues were prominently discussed among constitutional experts. On the first—the necessity of restoring the authority of the state—most were agreed. De Gaulle himself had said: "The French nation will flower again or perish, depending on whether the State has or has not the strength, steadfastness and prestige enough to direct it in the way it must take...". Michel Debre his Prime Minister from 1959 to 1962 echoed the same sentiments: "Because in France Government stability cannot result from making constitutional law, it must result from making constitutional rules, and it is just what gives this proposal its decisive explanation and its historic justification". Ministers and the Premier, but he cannot remove the latter and, despite his new powers he remains in his role as

arbiter, above political discussion. The Premier and the Government who determine and guide the policy of the nation are responsible for it only before the Assembly". De Gaulle decisively resolved this controversy. He unceremoniously dropped Debre and picked Pompidou to echo his policies.

As one commentator has pointed out, Gaullists have no policy—until de Gaulle announces them. With his referendum, his provincial tours, his T V appearances and radio talks de Gaulle approaches the people directly, by-passing the Parliament in the process. Should the legislature decide to obstruct him in carrying out his mission of restoring the grandeur of France, he will again appeal to the electorate. Characteristically, de Gaulle announced his decision to run for the Presidency in a radio-television address to the nation emphasising, above all, his service to France and France's greatness under his stewardship.

Yet there was controversy as to whether this authority of the State lies in the President or the Prime Minister. One expert said: "in our opinion, if the constitution is applied in the letter, the President of the Republic names the

BOOK REVIEW

Reform of the Educational System

Climbing a Wall of Glass: Aspects of Educational Reform in India Ed by J W Airan, T Barnabas, A B Shah: Manaktalas, Bombay, 1965; pp 176, Rs 14.00.

LIKE the food problem, educational reform is a subject that can be depended upon to appear unfailingly on every agenda. We know what is wrong. We know the answers. Reports and expert commissions have said them many times over and are still saying them. But as long as there is reluctance to face basic issues and take firm decisions can any real transformation ever come about? Such decisions are not likely to be taken when those who are in charge of our affairs find it convenient to side with those who have a stake in resisting change. In the meanwhile we will watch helplessly the explosion of numbers forcing out adjustments within the creaky old structure. The irresistible demand for education will not be denied.

Not a Matter of Minor Changes

After eighteen years a coherent national policy for a national system of education is nowhere in sight. Perhaps, the Education Commission on whom so much hope hangs, will provide us with one. It should, or it will too late. The time to have done this was at the dawn of independence when the mood was receptive to grand changes. What sense do our development plans make unless we know how and where our educational plans will fit it? The language issue is shelved repeatedly so that comfortable ambiguity on the medium of instruction saves us a lot of painful decision making. Till we decide once and for all through what language our children are going to be taught, how can the preparation of text books and instructional material on the scale needed ever get under way? If we do succeed in evolving a national plan how are we going to ensure its implementation by the State Governments? Have we agreed on the technical bias we are going to allow? These are not just details. Educational reform is not a matter of minor changes — "some alteration of the syllabus, some changes of method, some fresh statements of purpose, some reorientation of teaching personnel" as one of the contributors to the book open under review puts it. It implies change in fundamental attitudes. Let us first be clear on what it is that we want and expect our education system to achieve.

The present book is a collection of contributions to a symposium inspired

by the laudable objective of eliciting the views and opinions of eminent University men who have a deep interest in education. The papers, as befitting a symposium, cover a range of topics — the role of the university, the problems of higher education, the medium of instruction, the examination system, the relation between the State and university, etc. These are all valuable in themselves but one hoped for something that would have taken us nearer "a coherent and integrated educational plan" — about the need for which there is unanimous agreement. The papers have a general, airy, philosophical trend, and the authors by choosing to focus on higher education have not improved matters.

The dramatic title of the book is very appropriate in a sense not perhaps meant by the editors. It illustrates not so much the difficulty of implementing a programme of reconstruction as of evolving one. Not that very little is done, but a great many things have been done without any kind of consistent objective.

The book is disappointing not because the authors do not belong to the category of professional educators. As the preface asserts, education is the concern of all. (Ironically, almost all major educational reform has hitherto been inspired by eminent men outside the university departments of education). Nobody expected elaborate technical detail about educational practices from such a group, though a knowledge of improved educational practices among the public is essential if they are to co-operate sympathetically with the educators. Such knowledge does exist in the advanced countries. However, educating the parents as to what we are educating the child for can come only after we have settled the latter question first.

Education asserts A B Shah realistically, can achieve only some limited goals in a poor country like India but he loses his practical sense when he declares with poetic fervour that the universities should be thrown open to all and that the problem of numbers is a mere bogey and no conflict exists between quantity and quality. Instead one wishes he had pursued the hint he threw in the opening pages regarding the essential difficulty of educational

reform in a developing society. Let us stop blaming the "British system of education" that was imposed on us and which is supposed to have led to our eternal ruin. It is refreshing to find some one refusing to find solace in a scapegoat and willing to admit that the western system of education which brought in a modernizing influence and inspired social reforms in the nineteenth and early twentieth centuries, failed to liberate the Indian genius because India did not rise to meet the challenge of modernity.

Basic Dichotomy

If we find ourselves in an educational mire, the fault lies in the Indian situation. We are caught in a basic dichotomy — our sense of national identity is roused only through our tradition, while our educational efforts aimed at modernization hang rootless because the indigenous culture having given no shape to the objectives and producers of a coherent education system provide no roots from which the modernising can sprout. Without a meaningful correspondence to the sense of national identity, education cannot become a mass movement. We will continue to produce a few "Westernized individuals" rather than a genuinely "modern" society, to borrow J W Airan's phrase in the book. How can a modern educational system strike roots when the soil is clearly antithetical to modernization and rationality. P N Mathur's preoccupation with Eastern spiritualism, whose content he himself does not care to elaborate, is an excellent example of the neurotic fixation on the ancient past. We cannot both admire the cobweb and effect the spring cleaning.

The essence of the problem is that we are asking the educational system to perform a feat it has never performed before in history. Formal institutionalised educational agencies are by their nature followers, not leaders of social change. Schools have ever been the effective transmitters of tradition. They reflect the prevailing social values and attitudes and accommodate changes that take place in society. This has been the situation in the advanced countries. In a developing society we turn to education to provide us with an instrument for change and to assist in the difficult task of creating new values and attitudes. "These values have to

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be realised in a social and economic context which requires that a process which took nearly three hundred years in the West should be telescoped in about one-tenth the period. Education in India has thus to function in a situation in which neither the cultural concomitants of a modern democracy nor the economic resources for its efficient working are yet available. In a society as status riven as the Indian, an egalitarian ideal is more easily written into the Constitution than translated into reality. Educational institutions can become the agency of change only when there exists an informed elite, passionate committed to progressive social change, which has the power and the willingness to use it for that purpose.

Fundamental institutional changes can be brought about only through political means. They can be achieved neither by a handful of dedicated people nor through the traditional machinery which has a built in mechanism to reject change. Any wonder, then, that we have a genius for reducing great reforms into administrative changes, as one author bemoans? Unless the political leadership implements a national educational plan committed to the ideals we have given ourselves in the Constitution, our educational machinery will faithfully reproduce the present pattern — viz that of educating a privileged few, alienated from their social milieu and having a stake in the *status quo*.

In this context, T A Earnabas and S K Huibe have in their paper on the "University and the Rural Community" given an illuminating example of how a meaningful relationship between the university and society can be forged. They describe the experiment conducted at Ahmednagar college in integrating the educated elite into the rural community. Their Rural Life Development and Research Project forms a part of the Social Science Department. The students participate in community development projects and simultaneously exploit the valuable scope field trips provide for enriching their sociological and economic studies. But one swallow does not make a summer.

Some of the other papers have some interesting suggestions. The functions of the university (which has in fact evolved into a multiversity) and the college must be reformulated, says one of them, making over to the college the task of providing the sense of participation in an intellectual community and the impact of modernity. Amlan Datta's

approach to the question of medium of instruction is persuasive. He would have us resign ourselves to a permanent bilinguism (regional language in the schools and English at the higher levels) and eliminate the Hindi-English controversy. Many would agree with him on the way the controversy has obscured real issues. H J Taylor deals with the examination system which he defines as "an instrument designed to reject at least half of any material presented to it". He pleads for a rational approach to the problem of measuring human attainments and recognition of education as "a technology which demands as such expertise as any other". Two papers discuss the importance of university autonomy and the creation of a corps of intellectuals, independent and free from any kind of external pressure. These will not emerge for the wishing. Some basic conditions have to be created and with that we come back to our starting point. The quality

of the product depends on the type of educational system we operate at all levels, and the objectives we seek.

Granted that the ultimate purpose of education is the development of every individuals' potentialities, it has, too, the mundane task of equipping each one with the necessary training and skills to earn a living. Not one of the papers have even casually noticed this aspect! What role is technical education going to play? The authors, all drawn from universities, understandably display a nostalgic attachment to the concept of the refined and cultured gentleman of leisure (though they take care to talk of social integration). Of the inescapable burden of education to train men for an industrialising, modernizing society they are significantly silent. Parents, too, certainly admire liberal education, but demand that first their boys get a job which will help them earn their bread!

— M K

India, Pakistan and the Englishman

Some Irreverent Thoughts

Libra

All over the world, says the author, the British are busy 'selling' Pakistan. It is not just that British newspapers and diplomats do it, but thousands of Englishmen wherever they have a chance to do so put in a good word for Pakistan and spread terminological and logical inexactitudes about 'the Hindus' by which they mean India.

This is a situation which Indian diplomats, mostly brought up in the 'gin and tonic' tradition, are rather diffident to tackle. It is time we took a lesson or two from countries, like the UAR, which do not suffer from the over-politeness and inferiority complex that afflict our diplomats when they deal with the British.

YESTERDAY while lunching at a restaurant in the capital city of a South-East Asian country, I was sitting within earshot of another table and could not help eavesdropping on some interesting conversation. At the other table was a group of about 10 people, all but one local officials military and civil—the one exception being a Englishman, obviously some kind of a functionary in a local military or a civil technical assistance job receiving an informal farewell from friends who were wine and dining him. After a couple of cocktails the Englishman became eloquent and started quite a talk on the India-Pakistan issue. The burden of his eloquence was simply this: "Kashmir" represented the one unfinished business of the British in India. Kashmir is predominantly Muslim, so it should have in all justice gone to Pakistan. But "Hindu" India grabbed it and is now bullying Pakistan to accept a *fait accompli*. The Hindus who pretend to democracy are against a plebiscite; and Pakistanis who are being libelled as undemocratic are asking for nothing more than self-determination!

A familiar stance—an all too familiar argument.

The story in that setting sounds so simple, so plausible. I have encountered this kind of scene in areas as wide as the British presence—in America, Asia, Africa, Latin America. I have heard myriad British throats selling Pakistan as they have taken to the denunciation of 'Hindu' India by innuendo and perversion of facts. It is not just that newspapers and diplomats do it, but thousands of little Englishmen wherever they have a chance to do so put in a good word for Pakistan and spread terminological and logical inexactitudes about "the Hindus" by which they mean India.

The little Englishman who has lost his colonies but not yet his colonial mind has an obsessive hatred of India and of the Hindus (may be an unconscious one) because these were the peo-

ple who spearheaded movements leading to the liquidation of the British Empire. He has a natural sympathy for the men who call themselves Pakistanis today because in his hour of peril in India they displayed their patriotism! by standing aloof from the freedom fight or even joining hands with the British reactionaries. The British never really liked the development of close relations between India and the USA.

The Americans, believe that it is the British who have thrust greatness on them before they were ready for it. With all their wealth and their fact-gathering capacity the Americans have an inferiority complex about their own diplomatic competence and their capacity to understand other people—especially the people of Asia. They saw a father image (perhaps I should say a mother image, the mom being the real boss in an American home!) in Winston Churchill and have a nervous apprehension of large power vacuums left behind by retiring imperialisms! They think they badly need some political and diplomatic crutches and they think that the British are such a crutch!

They have, therefore, developed special relations with the old lion of the United Kingdom even though it has lost most of its teeth and has grown thoroughly cynical with age. This special relation has cost the Americans dearly. In Europe it produced de Gaulle and in Asia it is losing them many friends but the Americans do not know how to run their responsibilities without the British uncle holding their hand in crisis situations. They look upon themselves as junior sheriffs unable to act without the old sheriff's guidance. In the UN, in Nato, in the World Bank and IMF, in SEATO, Cento and so on the two sheriffs sit and do business together. Not that they do not have their internal fights and jealousies (they are, indeed, countries which are so unlike each other in many ways) but in the presence of others they make up their little quarrels.

In this situation, the American dilemma is that even if America wants to build up an accord with "Hindu" India it is scared by the look of old Mother Hubbard who keeps nagging in the bedroom that Pakistan isn't all that lousy; that after all it has been a good mistress of all the western countries; that its flirtation with Mao is just the reflection of a love-hate complex, born of an excess of love for the west, which America has betrayed by too "speedy" rearmament of India; that the best way to deal with both these countries is the good old British remedy of starving them into submission; and that when this is not necessary anymore, Pakistan should be built up again by over-compensating aid so that the relative smallness of the country may be made up by the largeness of its equipment to help maintain a "balance" of power parity in the Indian ocean area. Otherwise "Hindu" India may interfere with the west's life-line to Australia and the Far East and Europe, and the British and the Americans will have trouble being sheriffs in this part of the world.

Old Mother Hubbard thought Pakistan should have submarines but was shocked when India asked for one, and wondered why non-violent India should have anything to do with submarines at all. She has been pulling uncle-Sam by the coat-tails to keep him away from giving wings and arms to India beyond the point that acutely displease Pakistan. A very influential British weekly once wrote a lengthy exhortation against India's foolish venture in buying submarines from Russia and ended with the silly sentence: "In any case, it is not good to do this because Pakistan won't like it". I am really serious; it said exactly that.

So the problem for us and for America is that that accord which is necessary is not so easy to achieve so long as uncle Sam maintains his special relation with Mother Hubbard. Our diplomats who are all junior lads brought

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up mostly in the "gin and tonic" tradition hesitate to explain their aims with a punch. They are not much good in the language of the "Dry Martini" and "Bourbon on the Rocks" and endeavour to feed the diplomatic lions of Washington with tomato juice and peanuts. They, therefore, keep losing their way inside Mother Hubbard's diplomatic skirts and seldom does uncle Sam really get to see them or hear them except on matters of economic aid. (Both America and Mother Hubbard would want to give us aid so we may be available as a buffer between them and the devil across the Himalayas.) Our Embassy in Washington is still so small compared to the "teeming millions" in India House, London. So, you see, we have quite some problems with old Mother Hubbard who is gone, but still not quite gone either, and lingers over our life like the village ghost!

May be we should seek de Gaulle's advise and find out how he managed to get out of the tangles of Mother Hubbard's skirt! But, more seriously, in addition to striving hard for an accord with America, we should also:

Endeavour to see, if we cannot set-

tle the border problem with China on some realistic basis. Our people have never tried a real face to face confrontation with the Chinese who, like the old Chinaman selling silk in the streets, are given to playing a bluff game of bravado outwardly but may be more "willing" in a private chamber. After all, our longer-term interests in Asia are not terribly divergent once China gets moderated enough to co-exist which she well might do, if we also make an 'atom bomb.

Reach out without too much scruple over the heads of the Bhuttos and the Ayubs to the many frustrated and honest Pakistanis and try and build an accord with them. After all, blood is thicker than water and Pakistan will not forever be run by mad men. Let not hatred get so deep in us as to make rapprochement with the moderate moslems, of which there are many in Pakistan, impossible.

We should have some frequent heart to heart chats with Nasser and the Arabs. They know a thing or two about dealing with Mother Hubbard. They do not suffer from the overpoliteness and inferiority complex that haunts our dip-

lomats when they deal with the British. The King of Jordan, the British puppet, has been purchasing supersonic planes right and left even though Jordan hasn't money enough to feed itself. On matters like this President Nasser's intelligence and ours should collaborate to ascertain whether these are British inspired purchases to help Pakistan out.

In country after country Pakistan operates on the technique of the Big Lie and British diplomats, news services and newspaper chains obligingly circulate them with characteristic British discipline. We must make it clear in all countries time and time again in our diplomatic efforts that the British are not our friends where Indo-Pakistani problems are concerned. This is indeed necessary. We do our business with too much politeness towards British embassies in third countries.

But more than that we must establish efficient connections with non-British news services and spend some money on our All-India Radio. For the size of the country and its problems the radio's voice sounds feeble beyond description.

The Drugs and Pharmaceuticals Industry

Faulty Planning Cause of Raw Material Shortage

Ajoy Gupta

The present shortage of raw material faced by the drugs and pharmaceuticals industry is largely the result of the failure to plan for the development in time of a broad-based chemical industry.

For the engineering industry the foundation was properly laid with the development of the iron and steel industry. In the case of drugs and pharmaceuticals this was not done. The programme for manufacture of intermediate chemicals is hopelessly behind schedule and development of the petro-chemical industry is still at the planning stage.

THE pharmaceuticals and drugs industry in India has now reached a position from where it can be visualised that in the near future we shall be able to achieve an appreciable degree of self-sufficiency in the manufacture of essential drugs and medicines. Production has gone up many times since Independence. In 1947-48 production was hardly Rs 11 crores; in 1958 it reached Rs 54 crores; in 1961 Rs 85 crores and in 1962 Rs 100 crores. The estimated production in 1963 is about Rs 130 crores. The Third Plan target of production is Rs 175 crores, which in view of the rate of increase in the first three years of the Plan may be achieved.

Demand Estimates

The estimated demand for drugs and pharmaceuticals as visualised by the Perspective Planning Division of the Planning Commission is: 1965-66 — Rs 175 crores; 1970-71 — Rs 300 crores; and 1975-76 — Rs 400 crores. The estimated investment in the pharmaceutical industry today is about Rs 56 crores, of which Rs 38.6 crores is Indian capital and Rs 17.4 crores foreign capital. The investment target of the Third Plan is Rs 40 crores, including the private sector's share of Rs 10 crores. The present output of the industry virtually meets the needs of the country, since we do not import any medicines. The P P D's estimate of demand, i.e., Rs 300 crores in 1970-71 and Rs 400 crores in 1975-76 calls for quite a phenomenal rise in production from Rs 60 crores in 1960-61 to Rs 400 crores in 1975-76 — roughly an annual rate of increase of 38 per cent over 15 years. However, in view of the programmes in the field of health as well as the targets of improvement in standard of living and the consequent rise in health consciousness of the population, the demand targets are no more than modest as will be clear from the statistics quoted in the following paragraph.

India has at present one doctor (with a degree or diploma in modern medicine) for about 5,850 persons. How this

compares with the position in some other countries will be seen from Table 1. In 1961, when the population was 439 millions, we had about 75,000 doctors, comprising 41,000 medical graduates and 34,000 diploma-holders. In the Perspective Planning Division's report on the Fourth Plan it is envisaged that we should have 87,000 doctors by 1965-66, 1,13,000 doctors by 1970-71 and 1,75,000 doctors by 1975-76. The targets for qualified nurses are 58,000 by 1965-66, 1,16,000 by 1970-71 and 1,77,000 by 1975-76. The number of beds in public hospitals is expected to rise to 2,09,000 in 1965-66, 2,24,000 in 1970-71 and 5,20,000 by 1975-76. The P P D has provided for investment on health in the public sector at Rs 614.4 crores in the Fourth Plan. The recurring cost on health programmes is estimated at Rs 40 crores in 1965-66 and at Rs 149.5 crores in 1970-71. Taking into account a health programme of this order the estimate of demand for medicine at Rs 400 crores in 1975-76 is certainly not too high.

Enough Processing Capacity

The pharmaceutical industry has certain distinctive features not shared by other industries. First, it is not a basic industry, but is more or less entirely a finishing industry. The development of pharmaceutical production is dependent on other basic industries like the chemical industry, from which the drug industry draws its raw materials. Second, the pharmaceutical industry consists of two fairly distinct sections with different functions: (a) processing and formulation of drugs and pharmaceutical chemicals into dosage form for ready use; and (b) production of drugs and pharmaceutical chemicals from basic and intermediate chemicals or from natural, vegetable or animal sources.

Today we are almost self-sufficient in respect of processing capacity for all sorts of pharmaceutical preparations such as injections, tablets, oral preparations, ointments for topical application, etc. We also make the common

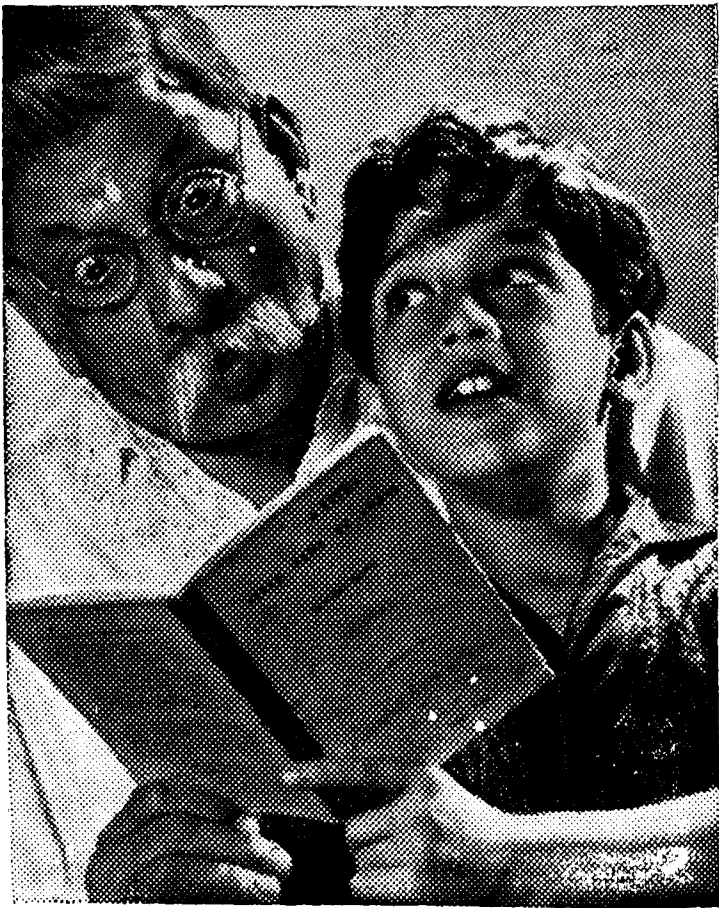
varieties of preventive medicines like seras, vaccines and anti-toxoids in sufficient quantity to meet the demand. In the field of pharmaceutical chemicals, we have made considerable headway in the last few years. Many of the important pharmaceutical chemicals are now manufactured in the country and manufacture of many others is under investigation. It is expected that we will achieve a degree of self-sufficiency in this line within a short period of time. The investment required for the expansion of the processing part of the pharmaceutical industry is much less than that required for the pharmaceutical chemical industry and it can be said with confidence that with some increase in the present installed capacity we shall be able to meet future demands for medicines. Moreover, much of the machinery and equipment required by the industry is now being manufactured in the country.

Table 1: Doctor-Population ratio in Selected Countries (1958-59)

Country	Number of Persons Per Doctor
USSR	555
Italy	691
USA	805
Canada	927
Japan	943
France	1,004
U K	650

Table 2: Import of Raw Materials by Pharmaceutical Industry

Year	Exchange made available (Rs crores)	Value of production (Rs crores)	Foreign exchange allocation as per cent of production
1958	9.54	54	18
1959	9.51	60	16
1960	9.40	70	13
1961	8.90	85	10



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Another aspect of the pharmaceutical industry is the need for strict quality control and a research-oriented pattern of development. Strict quality control is enforced by the Drug Control authorities and for this purpose up-to-date and well equipped quality control laboratories are absolutely essential. As for research-oriented development, medical research is perhaps the most active among research in all fields and every day new and improved drugs and remedies are being discovered for various ailments. A progressive pharmaceutical industry therefore has to keep itself abreast of new research and new developments because in many cases a popular drug becomes obsolete within a few years and has to be replaced by a new and more effective one.

At this point, however, it is necessary to mention that "research" and "development" in the pharmaceutical industry are often misinterpreted. Frequently the two expressions are used together and they have almost come to express a single broad process. Research and development are quite different and to present a correct picture the industry should indicate its efforts under either head separately. In practice, however, frequently items like planning, sales promotion, sales service, product development, market research and other non-technical activities are included under "research and development" in addition to basic and applied research conducted by research laboratories. True, all industrial or applied research is product or process oriented, yet it should be kept distinct from market development work which often costs very much more than research itself.

Small Units Have No Place

There are altogether 2,800 licensed units producing drugs and pharmaceuticals in India. Of these, only about 125 large units are licensed under the Industries Development and Regulation Act and come under the direct control of the Directorate General of Technical Development. The remaining units fall in the small scale industries category. To achieve the targets postulated for the Fourth Plan, there are two possible alternatives: (a) increase the production capacity of the large units; (b) issue licences to new manufactures. The smaller units have only a very limited role in the industry: they supply a limited market or manufacture only a few specialised items. Small units are not suited to large scale production of essential medicines and their mass distribution. The recent amend-

ment of the Drug Rules has stipulated certain manufacturing details as well as details of thorough standardisation and assay of the raw materials and finished products. To follow these rules properly it is necessary to have well-equipped chemical and pharmacological laboratories attached to production units. The smaller units cannot afford such laboratories. In fact, if the Drugs and Cosmetics Rules are enforced strictly and uniformly throughout the country, the very small manufacturing units will gradually cease to exist or will be forced to merge with other units. Also, administratively if too many small units are licensed it is difficult for the Drug Control authorities to check and supervise the quality of their output. The official policy in the pharmaceutical industry should aim at the enlargement of the large units and expansion of the relatively big ones among the small units to form economically and technically viable units.

The pharmaceutical industry like the

iron and steel and the fertiliser industries, is a mixed sector industry. The Government has established some factories in the public sector for manufacture of basic as well as finished pharmaceuticals. Notable among these are the Hindustan Antibiotics factory at Pimpri, near Poona, which manufactures penicillin, streptomycin and a few other antibiotics. There is a plan to manufacture vitamin B12 and vitamin C also at Pimpri. Three new pharmaceutical plants are being set up with Soviet collaboration in the public sector. These are the antibiotics factory at Rishikesh to manufacture all common antibiotics, including tetracycline; the factory for manufacture of synthetic drugs at Sanatnagar, Hyderabad; and the medical appliances and instruments factory at Madras. Hindustan Insecticides, which is also a public sector enterprise, manufactures DDT and BHC at plants in Delhi and Kerala. Manufacture of quinine and its salts has been, since its inception in 1860, carried on by the

Table 3 : Fourth Plan Target of Production of Selected Drugs and Pharmaceuticals

Item	Unit	DGTD Target	Health Ministry Target	Development Council Target
Antibiotics				
Penicillin	MMU	240	250	250
Streptomycin	T	225	300	300
Tetracyclines	T	150	150	150
Chloramphenicol	T	75	100	100
Sulphas				
Sulpha drugs	T	1,100	1,500	1,500
Anti-TB				
PAS, Salts and Esters	T	1,000	450	750
INH	T	300	450	450
Thiacetazone	T	100	100	100
Anti-Dysentery				
Iodo-chloro and di-iodo-oxyquinoline	T	150	200	200
Emetine	kg	—	250	250
Dehydroemetine	kg	—	100	100
Anti-Leprosy				
DDS	T	80	75	80
Anti-Malarial				
Amodiaquin, chloroquine and pyrimethamine	T	—	120	120
Anti-Filarial				
Diethylcarbamazine	T	100	50	50
Vitamins				
Vitamin A	MMU	40	40	40
Vitamin B1	T	70	75	75
Vitamin B2	T	10	10	10
Vitamin B6	T	2.5	15	15
Pantothenates and panthenol	T	—	12	12
Vitamin B12	kg	50	50	60
Nicotinic acid and amide	T	150	150	150
Vitamin C	T	150	375	375

Government. There are at present two factories—one at Mongpu in West Bengal and the other at Naduvattam in the Nilgiri Hills. With the increasing demand for quinine in the world market, these factories are being enlarged now to make available substantial quantities for export. Opium and opium products are manufactured at the Government factory at Gazipur. The Government has a monopoly in this field, opium being a narcotic drug. Most of the preventive medicines such as vaccines, seras and antitoxoids are also manufactured by Government and supplied to the public free for the prevention of epidemics. Some quantities of finished ready-to-use medicines are manufactured and distributed by the Government through their medical stores in Bombay and Madras. After meeting the internal demand, we export pharmaceutical goods worth about Re 1 crore.

Against the need for vast increase in production of pharmaceuticals and drugs, the problems facing the industry are also quite considerable. We are still dependent considerably on imported raw materials for drugs and pharmaceuticals. Imports are about 10 per cent of the value of production as is shown in Table 2. With the tightening of imports due to the shortage of foreign exchange, it has become very difficult for the industry to get supplies of these raw materials. Many pharmaceutical manufacturers have already taken up the manufacture of basic and pharmaceutical raw materials, but it will take some time to achieve complete self-sufficiency.

The targets of production for selected drugs and pharmaceuticals at the end of the Fourth Plan are given in Table 3. The present shortage of raw materials faced by the drugs and pharmaceuticals industry is to a large extent the result of the failure to plan for early development of a broad-based chemical industry. In the case of the engineering industry the foundations were soundly laid with the development of the indigenous iron and steel industry. In the case of drugs and pharmaceuticals this was not done. We had a plan of producing chemical intermediates in the public sector project of Hindustan Organic Chemicals at Panvel. But the whole plan has had to be reshaped and scheduled differently, which has set back the process of development of fine chemical industry in our country by years. The public sector project for manufacturing basic intermediates and drugs at Sanatnagar, Hyderabad, is also very much behind

schedule. The petro-chemical projects also need to be completed as early as possible to give a fillip to the basic and intermediate chemical industries. The time-scheduling and phasing of production programme is very important in

the chemical industry and even a slight imbalance can prove very costly in terms of avoidable imports of raw materials and outflow of foreign exchange for the finishing industries like drugs and pharmaceuticals.



Utility of the Futures Market in Cotton

M G Pavaskar

The futures market in cotton has been held responsible both for keeping cotton prices too low and thus denying farmers their rightful returns and for aggravating the rise in cotton prices. Surprisingly, neither allegation has been substantiated by evidence — statistical or other.

The examination of the utility of the futures market in cotton attempted below provides no evidence to support either allegation. On the contrary, the conclusion is that the closure of the market will, far from benefiting either cotton growers or consumers of cloth, only raise the cost of marketing cotton by denying the hedging facility to buyers and sellers.

DESPITE the long and chequered history of organised futures trading in this country, no business activity is so little understood and so largely misconceived as speculation on commodity exchanges. In the last few years, speculation has often been made a scapegoat for aggravating the rising trend of prices in many commodities. Thus, futures trading in gur came to be prohibited in early 1963, in gold and silver later in the same year and in rapeseed/mustardseed, groundnut and groundnut oil in June 1964. The expectations of the Government, however, were belied on all the three occasions, and the rise in prices in these commodities was not only not arrested but actually reinforced after the closer of the futures markets in them.

The futures markets in cotton have so far been spared this sad fate; but since last year they too have come under fire, albeit not for aggravating any rise in price of cotton but for preventing such rise and thereby denying the farmers their rightful return for the commodity they produce.¹ Doubts are also often expressed about the utility of the cotton futures markets, and occasionally, a section of the uninformed public have marched in procession demanding their closure. Amazingly, however, the various allegations against futures trading in cotton which have never been substantiated by any evidence—statistical or otherwise. It is, therefore, proposed to examine in this paper the utility of futures trading in cotton and its influence on ready prices with a view to assessing the real implications of such trading. The study has been confined to the futures market in cotton at Bombay as it happens to be the premier futures market in cotton in the country.²

Effectiveness of Hedging

The principal economic justification for establishment of futures market in any commodity is the need for hedging in it. Since commodity prices are continuously fluctuating, the risk in marketing commodities, especially those which involve considerable holding of stocks, is necessarily large. The buyers

and sellers of the commodity, therefore, enter into opposite sales and purchases in the futures market so that their loss in the one market due to adverse price change is offset by the gain in the other. Speculators, on the other hand, enter the futures market to absorb such hedge sales and purchases and in so far as they enable the buyers and sellers of physical commodity to transfer the risk of price fluctuations, they perform a useful economic function.

Curiously enough, no statistical data is available to indicate the extent of hedging activity in any futures market in this country. However, the need for hedging to the dealers and the stockists against either their forward purchases or stock accumulations, and to the processors and the mills against their forward sales of processed or finished goods can hardly be disputed. The risk of price fluctuations which different market functionaries face in the course of their trade is very much real even under conditions of short supply, and any step which seeks to avoid or reduce such risk is readily welcomed by them. The use of any futures market for the purpose of hedging can, therefore, be assumed if the futures contract traded therein is really an effective medium of hedging.

The hedging efficiency of any futures contract like the efficiency of any other business act depends upon the comparative relationship between the returns thereof and the costs therefor. A merchant would hedge his commitments in the futures market so long as the marginal 'net' return anticipated from hedging is more than the marginal cost of such hedging. The cost of hedging includes such fixed sums as brokerage, stamp duty, interest on margin deposits, etc. These are small in all organised futures markets. In the cotton futures market at Bombay, such charges altogether account for less than one-fourth of one per cent of the value of cotton to be hedged. An important element of cost, however, is the difference between the bid and the asked price in the futures market at the time of placing and lifting the hedge. This

difference varies directly with the volume of actual hedge and inversely with the volume of activity or turnover in the futures market. Such difference is large when the market is narrow and transactions are few, but is very small in more active and liquid markets. The cotton futures market at Bombay can claim to have a very high degree of liquidity, since the average daily turnover in it during the active marketing months is in the neighbourhood of one lakh bales or more. Hedgers can, therefore, place and lift their hedges with almost nil or little difference in the bid and the asked prices. So, normally, the total cost of hedging in the cotton futures market at Bombay would scarcely exceed one-fourth of one per cent of the spot price of cotton.

The anticipated return from hedging depends upon the extent to which hedging reduces the risk of losses in the ready market. A study³ of profits and losses from hedging in the cotton futures market for the six seasons viz, 1953-54, 1954-55, 1956-57, 1957-58, 1958-59 and 1962-63⁴ gave the results shown in Table 1 for hypothetical hedges of one and two month duration.⁵

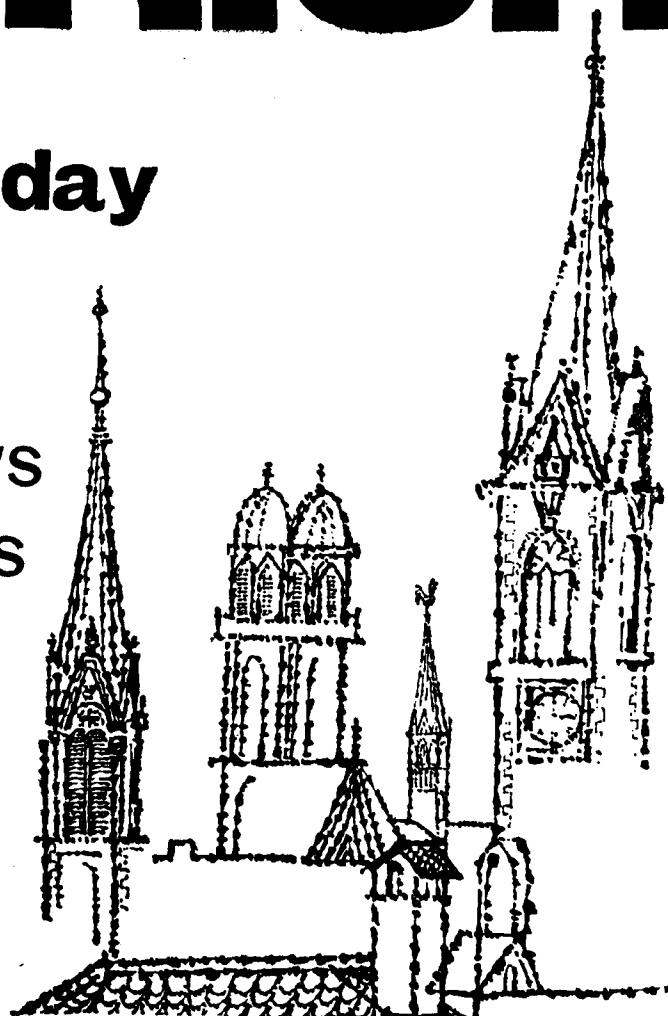
During these six seasons, the long-basis hedgers (ie, those who hold stocks or make forward purchases for delivery and sell in the futures market) met with losses in the ready market on 55 per cent of the occasions on stocks carried for one month and on 66 per cent of the occasions on stocks carried for two months. Their average loss during these occasions on one month's holdings of stocks was Rs 24.65 per candy and on two month's holdings was Rs 36.12. Hedging reduced their loss on an average by 41 and 30 per cent respectively. As their average loss in the ready market was found to be about 3 and 4 per cent of the average value of cotton (carried for one and two months respectively), the net return from hedging was around 1½ and 1¼ per cent of such value which was obviously well above the cost of hedging estimated at one fourth of one per cent.

As against these hedges with losses in the ready market must be set the

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hedges with gains in the ready market. During the six seasons, the long-basis hedgers earned profits in the ready market on their stocks or forward purchases on 45 and 34 per cent of the occasions of one and two month duration respectively. But hedging was unprofitable on these occasions as not only they lost their gains in the process of hedging, but incurred fresh losses amounting to about 1 and 1½ per cent of the value of cotton hedged. If account is taken of the profits in the ready market which would have accrued to them had they not hedged in the future market, the 'net' average loss to the long-basis hedgers on these was almost 6 and 8 per cent of the value of cotton hedged for one and two months respectively. On all the hedges (with both profits as well as losses in the ready market) therefore, the 'net' average return to the long-basis hedgers was found to be negative being approximately (—) 1 per cent. On the other hand, since losses to the long-basis hedgers are necessarily gains to the short-basis hedgers (i.e., those who buy in the futures market against their forward sales for delivery), the net average return from hedging to such short-basis hedgers was found to be positive by one per cent of the value of cotton purchased in the future market. In conclusion, therefore, it may be stated that while the cotton futures contract at Bombay provided adequate hedging protection to the short-basis hedgers (like mills and those merchants who make forward sales of cotton to mills on delivery contracts), it discouraged indiscriminate long-basis hedging on the part of cotton merchants and stockists.

However, though the average 'net' return from hedging to the long-basis hedgers was negative, it should be recognised that in the actual practice of hedging, it is futile to rely solely on such average 'net' return for assessing the expected return from hedging. The empirical validity of the average 'net' return derived on the basis of uniform hypothetical hedges is based on two assumptions, neither of which are true in the real world. Firstly, it assumes that the total volume of stocks held by the trade is always the same throughout the year. In fact, however, the unsold stocks with the trade vary from time to time, and the incidence of hedging losses is infrequent when stocks to be hedged are large. This is so because large stocks have always a bearish influence on the futures price of a commodity. Secondly, the concept of average 'net' return assumes that

hedges are placed and lifted indiscriminately without taking any view of the market. But in practice, hedges are always discretionary and selective, and are placed only when the stocks are large and the market is expected to move adversely to the detriment of the hedger. Though, the price expectations of hedgers may, at times, prove wrong, they are often correct, especially when the size of the cotton crop is known, for prices are then wholly determined by the trend in the mill demand for cotton and imports which can be estimated with a fair degree of accuracy. The more intelligent among the cotton merchants and stockists, therefore, do make effective use of the futures market from time to time for hedging their stocks or forward purchases particularly when they expect fall in the ready price of cotton. Thus, during 1963-64 season, the total tenders of cotton against the futures contract at Bombay amounted to over 45,000 bales. These large deliveries (which could not have been issued by pure speculators) comprising different varieties of cotton tendered at various upcountry centres illustrates the use of the futures market by the dealers and the stockists even at times when ready prices rule at ceiling.

Influence on Ready Prices

Although most of the critics of futures markets readily concede their utility for the purpose of hedging, they

nevertheless denounce such markets mainly because of their supposed adverse influence on the behaviour of ready prices. Thus, it is generally believed that since the futures price of cotton is quoted at a backwardation,⁶ the futures market imports a considerable bearish influence on the ready price of cotton. This belief is based on the oft-repeated assumption that future price is the expected spot price during the delivery month of the futures contract. A lower cotton futures price is, therefore, interpreted to imply that the consensus of market operators believes that the ready price of cotton is likely to decline till the delivery month. As such expectation discourages holding of large stocks, it is feared that the cotton futures market exports a bearish influence on the ready price of cotton.

This fear, however, is entirely unfounded. As commonly supposed, the backwardation in the cotton futures price is not the outcome of bearish market expectations, but is the compound result of many complex factors such as the broad-based nature of the cotton futures contract, the convenience yield on unsold cotton stocks, the system of fixing tendering differences at EICA, etc. For the purpose of this paper, it is scarcely necessary to discuss these various factors; suffice it to note that market expectations do not play any significant role in the discounting of the cotton futures price. Besides,

Table 1: Gains and Losses in Ready and Futures Markets to Long-Basis Hedgers
(Gains and losses are in Rs per candy of 355.616 kg)

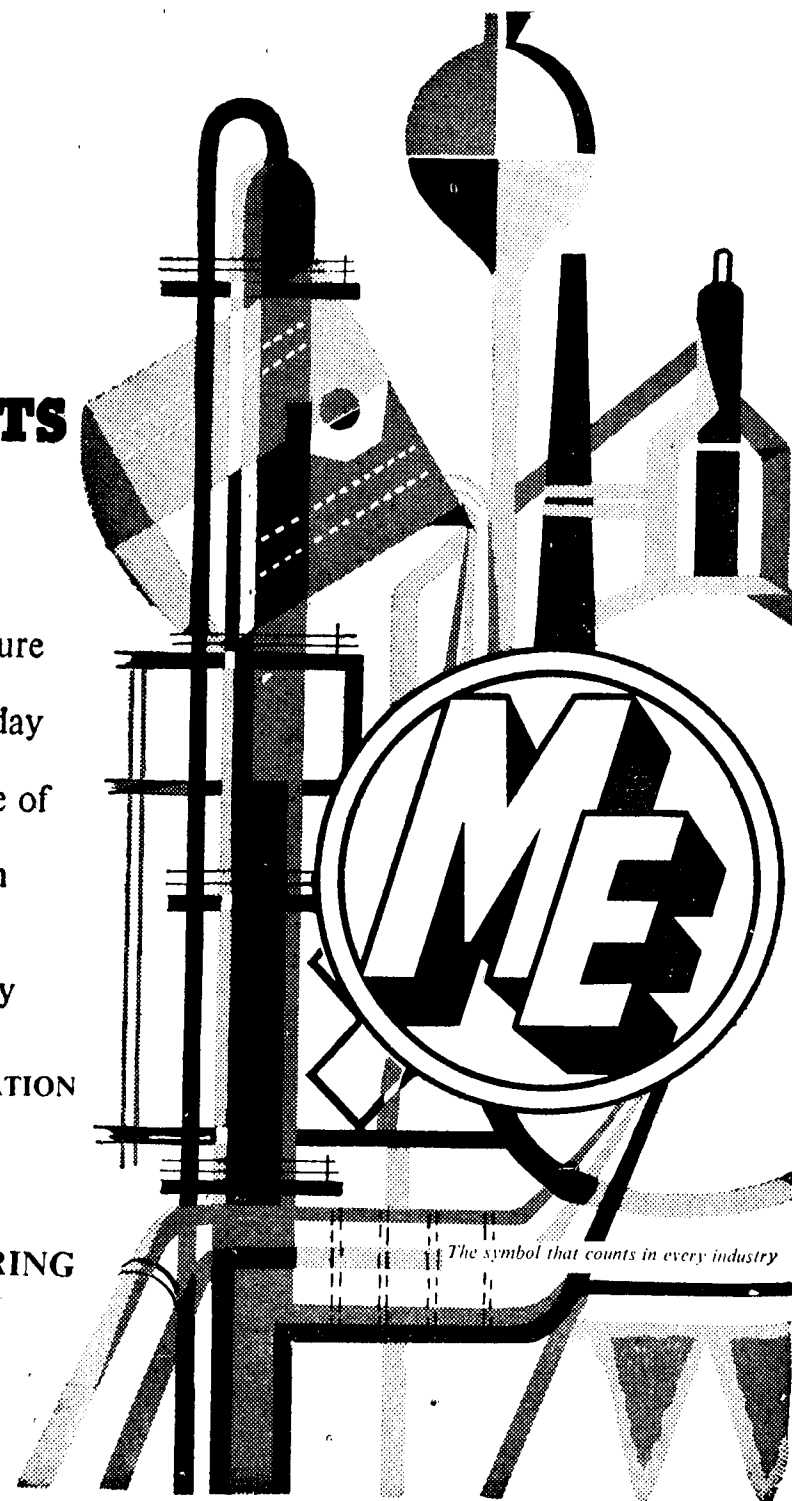
Season	Hedges with Losses in Ready Market			Hedges with Gains in Ready Market		
	No	Average Loss in Ready Market	Average Gain in Futures Market	No	Average Gain in Ready Market	Average Loss in Futures Market
Hedges of One-Month Duration						
1953-54	116	25.85	14.03	80	31.05	33.80
1954-55	123	35.08	10.45	59	20.02	25.15
1956-57	17	4.10	—20.03(loss)	87	21.87	38.32
1957-58	121	25.29	15.58	63	8.09	14.21
1958-59	68	10.35	6.94	96	11.58	16.96
1962-63	90	22.51	5.43	59	17.83	30.00
All seasons	535	24.65	10.13	444	18.56	26.61
Hedges of Two-Month Duration						
1953-54	126	39.44	20.98	45	56.93	60.62
1954-55	116	50.05	10.92	35	14.57	26.51
1956-57	—	—	—	66	36.18	62.25
1957-58	130	29.73	7.72	29	10.76	16.87
1958-59	68	9.40	1.65	72	10.28	22.58
1962-63	118	41.34	8.94	39	28.81	43.22
All seasons	558	36.12	10.90	286	26.71	40.44

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from the data presented in Table 2 it may at once be realised that the lower cotton futures price does not precipitate any unloading of cotton stocks as expected; but, on the other hand, trade and industry generally accumulate stocks as the futures contract progresses towards its maturity. Evidently, the cotton futures market does not have any depressing influence on the ready price of cotton.

The question that may then arise is: Does the cotton futures market aggravate the rising trend in ready cotton prices? It is true that the futures price of cotton rises relative to the ready price over the length of a futures contract. But this rise is merely a technical corrective to the large backwardation that is witnessed in futures price at the commencement of trading in each delivery, and could not be termed as a price aggravating influence. Such rise in futures price is expected because the futures market must reach the level of the ready market before the futures contract eventually goes off the board. In so far as the cotton futures market follows this expected behaviour, the cotton futures price does not appear to influence the level of the ready price, but is itself influenced by the latter.

It should, nevertheless, be recognised that, at times, in a future market, some of the unscrupulous operators do attempt to manipulate prices through speculative excesses especially when deliverable supplies are scarce. But thanks to the vigilance and the regulatory curbs imposed by the Forward Markets Commission, such opportuni-

ties for manipulation are now few in all commodity futures markets. Moreover, in the cotton futures market, the fact that many varieties of cotton could be tendered against the futures contract itself deters the operators from accumulating heavy 'long' positions. Besides, the effect of all manipulative activities is necessarily short-lived and is generally restricted to only the delivery month. In fact, for last several years, the total outstanding business in the cotton futures market has rarely exceeded even 2 lakh bales and is usually less than one lakh bales when the futures contract enters its delivery period. In a commodity with an average crop of over 50 lakh bales (of which over 80 per cent is tenderable against the futures contract), such small outstanding business can hardly make any serious dent in the price level particularly when at no time the unsold cotton stocks in the country are less than 7 to 8 lakh bales.

As against its supposed adverse influence on the ready price, there is some reason to believe that the cotton futures market may have partly reduced the seasonal variations in the ready price. A recent study of seasonal variations in wholesale prices of certain commodities¹ indicates that the seasonal amplitude of wholesale prices (i.e. difference between maximum and minimum of seasonal indices) in commodities like cotton and raw jute which are served by well-knit futures markets is much smaller than in major food crops like rice and wheat which have no organised futures mar-

kets. In fact, amongst the individual commodities, the average seasonal amplitude of wholesale prices for the period from 1951-52 to 1964-65 was the lowest for raw cotton, being only 4.2 per cent. It is further significant that the actual seasonal band in cotton prices has steadily narrowed over the last 14 years from 4.5 per cent during the period from 1951-52 to 1955-56 to 3.7 per cent for the period from 1961-62 to 1964-65. Although several factors, besides futures trading in cotton, may account for the narrow seasonal swing in cotton prices, the available data clearly indicates that the functioning of the cotton futures market has in no way heightened the seasonal variations in cotton prices as is often alleged. Evidently, the conflicting suppositions that the cotton futures market functions against the interests of either the cotton growers or the mills are scarcely well founded.

Conclusion

As a hedging medium, the cotton futures market at Bombay offers adequate protection to all short-basis hedgers. The long-basis hedgers also receive some protection, provided their hedging is selective and discretionary. On the other hand, as commonly supposed, the futures market does not appear to have any bearish influence on the ready price of cotton and therefore can have no adverse impact on the price received by the farmers. There is also no evidence to indicate that the cotton futures market has aggravated the rising trend in ready prices during the last few seasons. Demonstrably, therefore, none can gainsay that the closure of the cotton futures market would, far from benefiting either the cotton growers or the consumers of cloth, only tend to swell the cost of marketing cotton through denial of hedging facility to the different market functionaries whenever such facility is needed by them.

Notes

¹ The Government of Maharashtra appointed last year a Study Group on Forward Markets in Cotton with M B Ghatge as Chairman to enquire into these allegations against the cotton futures markets. The report of the study group is still awaited.

² Besides Bombay, futures trading in cotton is at present also conducted at Ahmedabad; but the activity there is much smaller than that at Bombay. The futures market in cotton at Akola is inactive.

Table 2: Average Cotton Stocks at Bombay at the Beginning of Each month and the Average Backwardation in Cotton Futures Price for the Period from 1953-54 to 1963-64

Month	March Deliveries		May Deliveries		August Deliveries	
	Stocks@ (in 1000 bales)	Back- ward- ation*	Stocks@ (in 1000 bales)	Back- ward- ation*	Stocks@ (in 1000 bales)	Back- ward- ation*
November	450	9.02				
December	392	7.93	352	10.48		
January	393	6.94	358	8.73		
February	454	5.83	412	7.35		
March	522	3.30	480	7.93	471	7.14
April			475	7.25	553	6.89
May			544	7.59	610	6.93
June					640	6.90
July					675	6.44
August					641	5.26

* Expressed as percentage of the average ready price of the basis variety.

@ The average stocks for the same months differ from delivery to delivery because averages for each delivery do not represent the same years, but represent only those years in which the respective deliveries were actually traded.

³ The detailed report on hedging efficiency of the cotton futures market is at present under preparation in the Forward Markets Research Unit of the Department of Economics, University of Bombay. The data presented in Table 1 has been drawn from the said study.

⁴ The other intervening five seasons, viz, 1955-56, 1959-60, 1960-61, 1961-62 and 1963-64 were excluded because throughout these seasons or over a major part of them, either there was no futures trading or the ready prices ruled consistently unchanged at the prescribed ceilings. It is recognised that the need for hedging does not cease even if the ready prices consistently rule at ceilings. But such periods were excluded as cotton used to be then unofficially traded at premiums for which no accurate and reliable data is available.

⁵ For the purpose of the study, it was assumed that (i) all hedges are placed and removed in the same delivery, (ii) all hedging is done in the nearest delivery, (iii) all hedges are placed and removed at the closing futures prices of every trading day and the ready transactions which are sought to be hedged are likewise entered in to at the official rates of the same day, and (iv) all hedging is done in cotton of only basic variety. While the gain or loss in the futures market was worked out by calculating the actual difference between the two futures prices (one at the time of placing the hedge and the other at the time of lifting the hedge), the gain or loss in the ready market was estimated after making an appropriate adjustment for approximate carrying costs (i.e., cost of storage, insurance, etc) in the difference between the two corresponding ready prices.

⁶ A futures price is said to be at a 'backwardation' when it is below the corresponding ready price of the basis variety of the futures contract. In the converse case, it is said to be ruling at a 'contango'.

⁷ "Seasonal Variations and Secular Trends in Wholesale prices, 1951-52 1964-65", Reserve Bank of India Bulletin, June 1965, pp 867-892.



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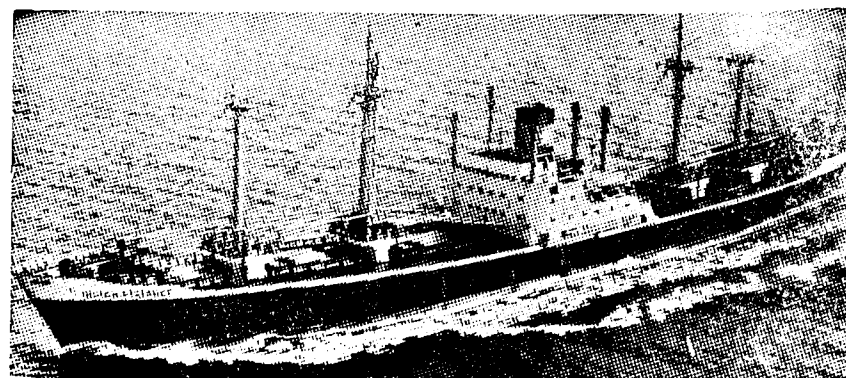
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FROM THE CHAIR

The National Newsprint and Paper Mills Ltd

Nepanagar

Speech by the Chairman Sir A Ramaswami Mudaliar

THE following is the speech of Sir A Ramaswami Mudaliar, K C S I, DCL (Oxon), Chairman of the Company, who could not be present at the Annual General Meeting. The speech prepared by him was read out by Shri S N Mehta, I.C.S., a Director of the Company, who was elected as Chairman of the Meeting held at Nepanagar, on the 22nd November 1965.

Gentlemen

I have great pleasure in extending to you a cordial welcome to the 18th Annual General Meeting of the Shareholders of the National Newsprint & Paper Mills Ltd. The Directors' Report, the Balance Sheet and the Audited Accounts for the year ended 31st March 1965, have been in your hands for some time and with your permission I shall take them as read.

I must once more apologise for my inability to be present at this meeting and to exchange greetings with you personally, but as I stated on an earlier occasion, it is due to my inability to undertake a somewhat arduous rail journey.

Production and Quality of Newsprint

Last year we were able to congratulate the Management on achieving the target of production and in fact exceeding it slightly by 78 tonnes. In the year under review, the production was slightly less than the 30,000 tonnes target. This is explained by the fact that the Mill was shut down for overhauling and necessary repairs for a period of 15 days, while in the previous year it was only closed for a period of 5 days.

The quality of the newsprint has steadily increased. Its tensile strength is better and it is hoped that with the utilisation of proper raw material and adequate quantity of chemicals, the quality may be further improved. I must, however, point out that the defect in the quality which is often emphasised by users is relative and if we compare our production with the Japanese newsprint rather than with Norwegian, Swedish or Finnish newsprint, it is not inferior in any manner. However, accustomed as we are

to high quality newsprint for a number of years, it will be the aim of the Managing Director and the technical staff to produce newsprint of a quality which will not be far inferior to that which the country has been accustomed to in the past.

Financial Results

As the Directors' Report states, the Company made a profit of Rs 65,54,440 after deducting Depreciation and Development Rebate Reserve.

For the year ended 31st March 1964, the Depreciation on plant and machinery was assessed on a sixteen years life and on the straight line method. During the year under review, there was a triple-shift working and according to Section 205 of the Companies Act, the life of additions to plant and machinery was reassessed on a fourteen years basis and the total Depreciation was thereafter arrived at.

Your Directors suggest that a sum of Rs 11 lakhs may be transferred to the General Reserve and a dividend of six per cent subject to tax may be disbursed on all equity shares for the year ended 31st March 1965. This would leave a small balance to be carried forward. As the Directors' Report points out, the cost of raw materials, of power and of wages have all gone up during the year and it is only through more efficient and economic management that the aforesaid financial results have been possible.

Caustic Chlorine Plant

In my speech last year I stated that the Caustic Soda Chlorine Plant which was then under construction may go into production and the Company would be in a position to avail itself of the production in the year under review. Though the Plant was ready for commissioning, as anticipated, it could not be commissioned for want of power. The necessary power was only released from 1st July and I am glad to state that from the very first day of operation, the Plant is running smoothly. However, the Plant could not obtain full production as the full extent of power

needed has not yet been made available.

Expansion

I referred last year to the expansion programme which was being considered by the Board and which had received the approval of the Governments concerned. Further progress has been made during the year and since the conclusion of the financial year, the expansion programme designed to increase the capacity of the Nepa Mills from 30,000 to 75,000 tonnes was approved by the Government. An order for a 125 tonne paper machine along with stock preparation plant and finishing equipment has also been placed with the well-known Finish firm, Messrs Wartsila, and it is hoped that this paper machine will go into production in the year 1967.

Negotiations are in progress for a semi-chemical pulping plant of 90 tonnes capacity and for the extension of bamboo chemical pulping plant. These extensions and the greater capacity production would likely need a much greater quantity of water than is now available and accordingly the project for a new waterworks has also been finalised. Negotiations are also afoot for the installation of a new 100 tonne recovery boiler along with black liquor evaporators and extension of causticising plant.

It is hoped that all these negotiations will be finalised as soon as possible.

Raw Material Committee

The great hesitation that the Board felt in 1963-64 when it was considering a plan to increase the production of the output in the Mill, was due to its concern about availability of the necessary kind of raw material and in adequate quantity. The Board itself, through its technical officers carried on the investigation but were not quite satisfied with the results of the investigation. Ultimately the matter was referred to the Government of India and a Committee was set up by the Government under the Chairmanship of my colleague,

Dr A Seetharamiah, to examine the availability of raw materials required for doubling the capacity of Nepa Mills. This Committee consisting of Experts in the field came to the conclusion that there was enough salai to meet the full requirements of the factory even after expansion for a period of 20-22 years, and there was never any question of the excess quantity of bamboo not being available. The Committee has also recommended the raising of plantations of Eucalyptus in Madhya Pradesh, so that the Mill may be adequately supplied with this raw material in future years also, and I am happy to say that the Madhya Pradesh Government is actually engaged in raising this plantation.

Industrial Truce

I referred last year with some satisfaction to the Truce Agreement which was signed on 11th November 1963, with the Nepa Mills Employees Union, an Agreement which was accepted would last for a period of three years. The Agreement was, however, denounced after the lapse of a year under a power exercised according to a local act of the Madhya Pradesh Government. I do not suggest that in the economic conditions prevailing in the country today, an employer could take advantage of an Agreement signed some time back, ignoring the increasing disadvantage caused by inflation and by rise in prices, but I feel that these adjustments could have been made without denouncing unilaterally an Agreement solemnly arrived at, even though justified by a legal enactment. The case of the workers and staff is being examined by the Board, and I trust a happy solution will be found so that normal and cordial relations will continue to prevail.

Public Projects and Government

By an order promulgated by the Government of India, Ministry of Finance, Department of Co-ordination, dated 6th April 1965, it is proposed to set up a Bureau of Public Enterprises in accordance with a recommendation made by the 52nd Report of the Estimates Committee of Parliament. The Committee had suggested the desirability among other things, of having a centralised co-ordination unit within Government to act as a service and evaluation centre. This centre will function with the hope of integrating and strengthening the present arrangements for co-

ordinating and examining the technical, economic and financial aspects of the projects and the working of enterprises. I welcome the setting up of such a Bureau of Public Enterprises, and as the Government order says, it will provide a central point of reference and consultation and also deal with matters of general interest, like personnel policies, training programmes, project planning, and economical, social and financial policies. A central unit of this kind, will, in my opinion, assist the Board of Directors of Public Sector companies in dealing with problems of management personnel, project expansion etc. It should also be recognised at the same time, and I hope it will by all concerned, both management and staff and workers, that it will curtail to some extent and in some direction the independent function of the Board on matters such as those mentioned above and to the extent that this is recognised by all parties. To that extent will the success of the co-ordination unit be ensured.

Thanks

I am not indulging in the language of convention when I state that my work as Chairman has been greatly facilitated by the help and advice which my colleagues on the Board of Directors, representatives of Government of India and of the Madhya Pradesh Government, have given constantly and I must express my very sincere thanks for such advice and for the continued interest that they have taken in the working of this Company. I must also express my thanks to the Representatives of

THE ECONOMIC WEEKLY

the private shareholders who have been assiduous in attendance at the meetings of the Board and have taken a long range view of the prospects of the Company and its utility to the Country. The Managing Director, Mr Kothari, has spared neither time nor trouble in coping with the work of the Factory along with his assistant from the factory site, but more than that he has had heavy duties and responsibilities in preparing the project report in negotiating with the various plant and machinery manufacturers, in facilitating the general progress of the existing units and in expediting the establishment of the units which are yet to come. Mr Singhanian the Deputy General Manager has been of very real help on the commercial side of the management; assisted as they have been by Mr Swamy the Finance Officer. To all three of them I would like to express publicly my real appreciation and my thanks for their devoted service and for the help they have given me. I should not forget to mention the faithful and loyal service of all the officers, the Assistant Works Manager for their help and co-operation in achieving the results that we had. To the workers in particular, I must express my appreciation of their co-operation and their responsible attitude in spite of the difficult times I have referred to and I trust that the happy relations which have generally existed throughout the period will continue for the prosperity of the Newsprint Mill, for the benefit of their country and ultimately for their own benefit also.

Sir A Ramaswami Mudaliar

Chairman

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AROUND BOMBAY MARKETS

Downward Drift Continues

DALAL STREET last week was forced to beat a further retreat under pressure of tired bull liquidation though the bears were by no means altogether reserved. The turnover was poor and interest was extremely selective with a few popular counters accounting for the bulk of business. Intermittent short covering and some replacement buying failed to produce any noticeable rally and Tuesday's closing prices for most shares were only slightly above the week's lowest levels.

That the stock market should continue to present a picture of gloom is scarcely surprising. President Radhakrishnan, Prime Minister Shastri, Deputy Chairman of the Planning Commission and the Union Finance Minister Krishnamachari have all made gloomy forecasts about the economic prospect. It might well be that a sense of crisis is being created in order to mobilise national will and resources for meeting the requirements of defence and development. But there seems little doubt that the economic prospect is really distributing.

There are already clear signs of a slackening of the industrial tempo. Industrial production is bound to suffer seriously as a result of acute shortage of various essential raw materials and components on account of insufficient allocation of foreign exchange. The shortage of foodgrains and the shortfall in production of other agricultural commodities have aggravated inflationary pressures on the economy. The response to the gold bonds and defence loans has been so poor that a heavy dose of additional taxation is inevitable. Some of the States have already made known their proposals for additional taxes. And taxation is one thing which the stock market dreads the most.

Distributing as it is, the economic prospect is rendered even more obscure by political uncertainties. The Indo-Pakistani crisis could flare up any time; the implications of the uneasy truce with frequent violations of the cease-fire are serious enough. The Chinese troops also continue to make trouble on the Sikkim border.

The announcement of the eagerly awaited credit policy for the current busy season has failed to please the market. Selective liberalisation of credit for defence, export and food is welcomed but the stock market has a

much bigger stake in what might be termed as the non-priority sector and credit for this sector is likely to become costlier.

Since equity prices have suffered quite a steep decline recently and there have also been reports of a fair amount of distress selling, it is quite possible that the market might take a pause for necessary technical adjustments. But the market is likely to encounter considerable difficulty in pushing its way up in face of political uncertainties and the deteriorating economic situation. Several shares appear to be standing at fairly attractive levels but the general market psychology is not conducive to the revival of investors' confidence.

COTTON

Distribution Control

COTTON prices have eased further by about Rs 10 to Rs 15 per candy and for the first time in many weeks the hedge contract (Virnar March) has been marked down below Rs 900 per 2 quintals — the contract touched a low of Rs 898 on November 23. Political uncertainties, financial stringency, increased pace of arrivals, restricted mill buying due to accumulation of huge stocks of both cloth and yarn and introduction of distribution control — all these factors have contributed in various degree to the recent setback in cotton prices.

Despite the recent setback, cotton prices continue to be well above the previous season's ceilings. In the circumstances, far from being a cause for anxiety the fall in prices should be welcomed. The easier tendency in prices does not reflect any improvement in the overall supply position of cotton. The 1965-66 crop is estimated at no more than 52 lakh bales which is nearly 4 lakh bales less than the actual consumption of indigenous cotton in the previous season. There is little hope of making good this deficit through larger imports. In fact, it is extremely unlikely that the country will be able to import as much cotton as it did in the 1964-65 season when actual arrivals of foreign cotton totalled 8.18 lakh bales.

It is now fairly obvious that the textile industry will experience acute shortage of cotton in the current season. The Textile Commissioner's decision to introduce control over the dis-

tribution is essential in order to ensure a steady flow of supplies to the textile industry at reasonable prices.

Under the distribution control scheme, mills can buy and/or take delivery of Indian cotton up to the end of December not more than 25 per cent of the total consumption of indigenous cotton during the previous season. And the additional quantity which the mills can buy during the next four months, January 1 to April 30, is not to exceed 35 per cent of the total consumption of Indian cotton during 1964-65.

Mills situated in Bombay and Ahmedabad currently having stock of (either in their possession or held by other license holders on their behalf) Indian cotton exceeding a quantity equal to 15 per cent of their previous year's consumption will not be permitted to purchase or take delivery of any further quantity of Indian cotton until their present stocks are reduced to a level below this limit. In the case of mills situated at places other than Bombay and Ahmedabad this restriction shall apply if their current stocks exceed 25 per cent of their previous year's consumption of Indian cotton. Those mills which are unable to utilise their quotas for the period September 1 to December 31 owing to the limitation imposed on the total stocks will be allowed to carry forward such unutilised quantities in the next period.

Staggering of purchases by mills and restrictions on their stocks help to keep cotton prices under check. But the supply position of cotton being what it is, industry, trade and growers will have to observe strict self-discipline in order to keep prices within the statutory ceilings throughout the season. Not too much need be made of the recent decline in cotton prices from their record high levels which, in a number of cases, were above the statutory ceiling prices.

OILSEEDS

Prices Ease Further

OILSEEDS prices suffered a further setback last week, the decline being more marked in groundnut and cottonseed than in linseed and castorseed. Groundnut ready has come down by about Rs 13 per quintal from its highest level reached some ten days earlier and cottonseed is down by about Rs 11 per quintal. Groundnut oil which

had been marked down from Rs 37.50 to Rs 34.25 in the preceding week has eased further to Rs 32.40 (per 10 kgs). Linseed oil has declined to Rs 29.50 from Rs 32 less than a fortnight ago. Castor oil (Commercial) has eased from Rs 24.25 to Rs 21.75. Groundnut expeller cake has declined by about Rs 25 per tonne. Oilseeds futures have eased in sympathy with the setback in the spot material. Cottonseed January is down from Rs 75 to Rs 65.50, castor April from Rs 112 to Rs 104.25 and linseed April from Rs 130 to Rs 122.50.

The decline in prices is steep but the rise had been even more steep. The fall is an inevitable correction of the preceding runaway rise. Lest one gets the impression that oilseeds prices have suffered some serious decline, it is necessary to point out that despite the recent setback, oilseeds prices are around the highest levels reached in the preceding season. Since edible oils constitute a necessity in the daily life of the common man, the decline in prices is to be greatly welcomed. Unfortunately, the supply position of edible oils being what it is—the major groundnut crop has failed and the outlook for rabi crop is not very encouraging—it is quite likely that the recent corrective phases in the oilseeds market may prove to be a short-lived affair.

While the current decline in prices is essentially in the nature of a technical correction of the preceding steep rise, the reactionary trend has been accelerated by the increased pressure of arrivals of groundnut crop in the terminal markets. The prevailing high prices, financial stringency and political uncertainty have induced farmers and up-country merchants to rush with the

marketing of the produce. The recent setback in prices is not due to any upward revision of the groundnut crop estimates. But the recent rains in Uttar Pradesh, Punjab and Madras are believed to have improved the prospects for the rabi crops of mustardseed, linseed and castorseed. Market sentiment last week was influenced to some extent by the Maharashtra Government's decision to restrict the movement of cottonseed and cottonseed oilcake from the State; this has caused a sharp setback in cottonseed prices.

It is difficult to say how oilseeds prices might behave in the near future. This is particularly because of the uncertainty about the attitude of various State Governments in regard to the movement of goods outside their boundaries. A move is already underway for banning the export of groundnut and groundnut oil outside Andhra Pradesh which consumes nearly 2 lakh tonnes of groundnuts as against its production of 4.5 to 5 lakh tonnes. Restrictions on the movement of oilseeds and oil from one State to another have distorted the supply and demand equation and it is virtually impossible to take a proper view of the trend of prices.

Reports from New Delhi suggest that the Government is now having second thoughts on the question of oilcake exports. Earlier reports had hinted at the possibility of oilcake exports being banned in order to conserve supplies for cattle feeding. The Government has given up this idea and exports will continue to be freely allowed as at present. Export houses reported fairly good business in groundnut extractions last week. Communist countries were men-

tioned as the main buyers.

MONEY AND BANKING

Unseasonal Slackness

CREDIT conditions in the Bombay short-term money market were comfortable during the major part of the week to November 24. On the last day of the week the market eased slightly due to a rise in supply. Despite the commencement of the busy season, activity in the market is far from satisfactory. Supply of funds showed marked improvement with large amounts left unemployed at the end of each business day. Due to the slackness in business activity during the past few weeks demand for funds has dwindled. The rate was $4\frac{1}{2}$ per cent till November 24; on that day it fell by $\frac{1}{2}$ per cent.

Scheduled banks' deposits declined from Rs 2819.50 crores to Rs 2811.57 crores during the week to November 12. Credit granted by banks, however, increased by Rs 10.86 crores to Rs 2023.20 crores, thus raising the deposit-credit ratio from 71.37 per cent to 71.96 per cent. To meet the increased demand for credit, banks reduced cash in hand by Rs 24 lakhs to Rs 69.14 crores, balances with the Reserve Bank by Rs 2.51 crores to Rs 101.06 crores, and investments in government securities by Rs 2.32 crores to Rs 857.67 crores. Borrowings from the Reserve Bank were lower as well by Rs 1.35 crores at Rs 2.29 crores.

Active notes during the week to November 19 declined by Rs 2.82 crores to Rs 2661.48 crores, according to the lat-

est statements of affairs of the Reserve Bank. There was a decline in notes held with the Banking department by Rs 77 lakhs to Rs 13.33 crores and in total notes issued by Rs 14.60 crores to Rs 2674.81 crores. Foreign securities remained unchanged at Rs 72.63 crores while balances held abroad increased marginally by Rs 31 lakhs to Rs 12.17 crores. Deposits of the Central Government increased substantially by Rs 26.73

BUSINESS NOTES

Scindia Steam Navigation

SHIPPING has quite rightly been regarded as a second line of defence, but if our shipping is to play this role effectively, we must ensure its development in a planned manner. The expansion of our tonnage since independence has indeed been striking, but it has not yet enabled us to achieve our objective of carrying a fair percentage of our overseas trade in national ships. Dharamsey M Khatau, Chairman, Scindia Steam Navigation Company, is of the view that future expansion should be so planned that we are able not only to carry 50 per cent of bulk cargo in our own ships, but also to reserve the liner trade increasingly for carriage in our ships. During the present conflict with Pakistan, Indian cargoes worth crores of rupees have been either seized by Pakistan, or have had to be landed at neutral ports. Such loss and inconvenience could be avoided if the expansion of our tonnage in future is planned wisely so as to cover the carriage of both bulk cargoes as also of liner trade.

In his annual statement circulated to shareholders, Khatau has pointed to the various handicaps suffered by the Indian shipping industry and has made some useful suggestions. He says that one of the major difficulties is to find foreign exchange for the purchase and building of ships, old and new, for overseas and coastal services. Particularly, coastal operators wishing to replace or augment their tonnage are faced with an additional handicap because coastal shipping cannot earn foreign exchange. Indian shipowners have, of necessity, to purchase such second-hand ships as are available, and they cannot prescribe what the age of the secondhand ship under offer should be. The benefit of development rebate on ships, new or secondhand, was halved to 20 per cent from April 1964. Later on it was raised to 30 per cent in res-

crores to Rs 79.19 crores. State government deposits were lower from Rs 7.25 crores to Rs 6.52 crores. Loans and advances to Governments increased by Rs 9.97 crores to Rs 127.16 crores. Deposits of scheduled banks were better by Rs 30 crores at Rs 104.44 crores. Advances to scheduled banks rose by Rs 10 lakhs to Rs 2.42 crores and investments increased from Rs 192.80 crores to Rs 212.52 crores.

pect of secondhand ships which are not more than seven years old. Khatau has suggested the restoration of the original position as existed before April 1964.

In regard to the trade with U.S. he has urged the Government of India to secure for Indian shipping lines the continuance of the privilege of equal participation in the movement of 'Aid' cargoes to India. Khatau feels that American shipping circles are pressing their Government to revise the present policy with a view to reserving upto 100 per cent of such cargo for American flag vessels. He has also suggested that whenever bilateral trade agreements are negotiated with other countries, the question of utilising Indian shipping services on a 50:50 basis should be insisted upon.

Khatau has pleaded for the setting up of a suitable machinery for keeping under constant observation the variations in the cost of operating coastal shipping. He has pointed out that coastal freight rates continue to be uneconomic despite the increase of 10 per cent allowed from August last. Not only does the increase fall short of what the industry had asked for, but as the Government took a long time to arrive at its decision the cost of operations have gone up still further. The increase in the excise duty on fuel oil, for instance, from Rs 32 to Rs 72 has alone neutralised nearly half of the sanctioned increase in freight rates.

Khatau visualises a difficult period ahead for Scindia Steam. In the present conflict, Pakistan seized two of the company's good ships, one of which was an overseas liner. This loss will affect not only cargo-cum-passenger services but also services in the overseas trades. The country's economy has worsened owing to the conflict with Pakistan, and more severe restrictions have had to be imposed on imports.

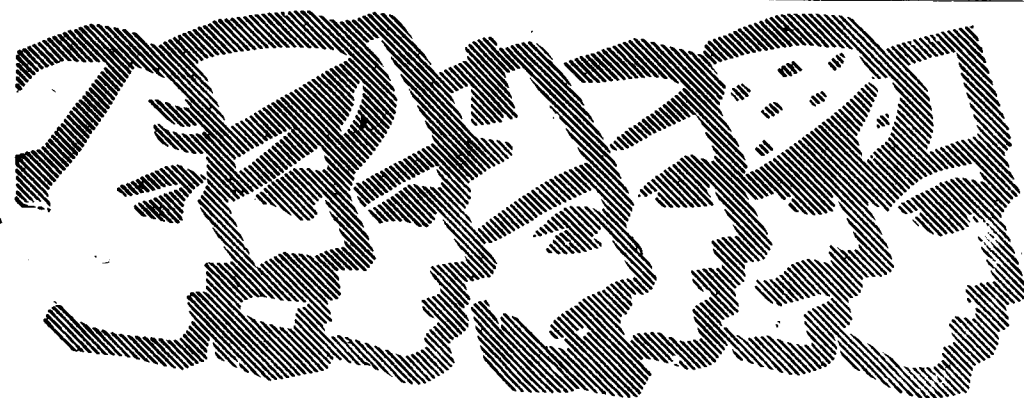
The U.K., our biggest market abroad, has imposed a surcharge on imports resulting in a significant decline in the trade between the two countries. The trade between India and the U.S. also has become virtually stagnant; the position can further worsen if the foreign exchange facilities hitherto extended to India are drastically curtailed or even not decided upon on a firm basis for some months to come.

The financial results for the year to June last are rather unimpressive: the total income is up from Rs 17.65 crores to Rs 18.77 crores and after-tax earnings a shade better at Rs 1.13 crores (Rs 1.12 crores). With development rebate requiring Rs 115 lakhs (Rs 97.5 lakhs), there is a deficit of Rs 2.48 lakhs compared to a surplus of Rs 14.46 lakhs in the preceding year, necessitating a bigger withdrawal of Rs 75 lakhs (Rs 50 lakhs) from reserves for payment of the dividend of Rs 1.25 a share. Obviously, the continuous rise in operating costs and delays at ports in India and abroad, which increased almost by 100 per cent over the previous year, have together affected the results.

Waterfall Estates

ALTHOUGH the South Indian tea crop has not been quite satisfactory, the total production in the country has exceeded the 364 million kgs, the target fixed for the Third Plan. Exports during last year amounted to over 227.5 million kgs valued at Rs 126.96 crores, showing an appreciable increase in export earnings over the preceding year. In the first seven months of the current year, exports totalled 51.1 million kgs compared with 45.1 million kgs in the corresponding period in 1964. For the Fourth Plan, a production target of 455 million kgs has been fixed. But unless measures like expansion and replanting are implemented in full, it may not be impossible to produce the targeted quantity.

Owing to inadequate rains, the coffee was a little below expectations last year but prospects for coffee in the export market have been quite favourable in that coffee has continued to fetch satisfactory prices. The Chairman of the Coffee Board has expressed the view that this trend is likely to continue during the next five years. The average Indian crop being about 60,000 tonnes, i.e., about two per cent of the world production, it should not be difficult for us to market it abroad at good prices. The planters intend to



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press for a much higher quota for export than the 21,600 tonnes given by the International Coffee Council.

Considering these factors, D C Kothari, Chairman, Waterfall Estate, visualises a good future for the plantation industry. In his annual statement circulated to shareholders, Kothari has expressed the view that given the proper incentive and facilities, the industry will fare even better in the coming years than heretofore.

In the financial year ended June last, Waterfall's sales of tea and coffee fetched Rs 43.53 lakhs and Rs 24.42 lakhs against Rs 41.32 lakhs and Rs 17.95 lakhs, respectively, and its net profit increased to Rs 9.52 lakhs from the previous level of Rs 5.57 lakhs, after making higher provisions for depreciation, taxation and development rebate reserve. Of this, the usual dividend on preference shares and dividend at the rate of 12.5 per cent on the equity capital together demanded Rs 6.23 lakhs.

Indian Detonators

A LETTER of intent has been received by Indian Detonators for an annual production of 15,000 tonnes of cartridged NG explosives and NCN explosives. The company is negotiating with Hercules Powder of the US for collaboration in this high explosive project. Meanwhile, the detonating fuse plant is expected to go into production in early 1966. The company began first stage manufacture in December 1964 with the production of certain components and assembling of aluminium electric detonators with imported filled shells. The factory has already reached a capacity of 40,000 per day on a single-shift basis. It is proposed to start a second shift to achieve the rated capacity for the first stage.

During the year to June last, the company's sales were slightly higher at Rs 1.14 crores (Rs 1.13 crores), but after-tax profits showed a fair improvement, rising from Rs 3.08 lakhs to Rs 4.86 lakhs. Of this, Rs 0.23 lakh have been utilised to write off share issue expenses and Rs 2.03 lakhs for allocation to development rebate reserve. A sum of Rs 2.94 lakhs is ploughed back. No dividend has been proposed, considering the company's heavy loan commitments and the prevailing uncertain conditions, even though the disposable profits are enough to maintain, if not to raise, the dividend even on the enhanced capital.

Chas Pfizer

PFIZER has grown into a many-faceted organisation operating in a

variety of chemical-based industries — pharmaceuticals, chemicals, agricultural products, fragrances, cosmetics, toiletries and a great variety of other products. As part of work at Pfizer, there is constant study, research, probing, and planning in every area of the company's activity. The company has always been in the forefront in the battle against disease. In India, it has planned to make its contribution in the areas of national health, agriculture, chemical industry, exports, etc, thereby supporting the development of our nation's economy.

Chas Pfizer and Co had the best year in its history in 1964. Not only did it produce and sell more products and render greater service to more people than ever before, but it also achieved the highest sales and highest earnings in its 116-year history. It increased dividend payments to share owners to a new high. The company's customers — including pharmacies and hospitals, farm and livestock owners, governments, industrial plants and retail stores in more than 100 countries — purchased an all-time record volume of Pfizer products totalling \$480.1 million, about 15 per cent more than in 1963. Net earnings rose to \$44.7 million, an increase of about 10 per cent. This represents an unbroken record of increased earnings now spanning 12 years. Although more shares were outstanding in 1964 than in the previous year, the per-share earnings rose to \$2.27 last year compared with \$2.08 in 1963. Moreover, share owners in 1964 received larger dividends — \$1.15 a share, compared with \$1.05 in 1963 — to maintain a record of increased dividend payments in all but one of the past 14 years.

Morarjee Goculdas

HIGHER sales and earnings have been reported by Morarjee Goculdas Spinning and Weaving Company in the year to June 1965, despite all-round rise in costs. Sales of cloth, yarn and waste fetched Rs 8.21 crores (Rs 7.65 crores) and gross profit amounted to Rs 59.14 lakhs (Rs 50.16 lakhs). After making necessary provisions for depreciation and taxation, after-tax earnings have more than doubled to Rs 16.44 lakhs (Rs 7.54 lakhs). But the improvement is more than wiped off, since additional provision for bonus for 1963 has syphoned off Rs 7 lakhs (nil) and development rebate reserve Rs 6 lakhs (Rs 2.10 lakhs). The remaining surplus of Rs 3.44 lakhs is transferred to general re-

serve out of which are to be paid the proposed dividends on equity shares at Rs 15 per share and at the usual rate on preference capital, together requiring Rs 8.87 lakhs (Rs 11.46 lakhs). Last year, Rs 14.83 lakhs were withdrawn from reserves because the third shift depreciation for 1962-63 necessitated provision of Rs 11.52 lakhs.

Hingir-Rampur Coal

HINGIR-RAMPUR Coal has installed all the equipment imported under the World Bank Loan and has completed the project for the reopening of No 5 pit. But the output of this pit is restricted to about 5,000 tonnes per month, against the rated capacity of 10,000-12,000 tonnes per month, due to difficulties in selling its output. Further development work is being hampered owing to the acute shortage of underground cables and cement. During the year ended June 1965, output totalled 1.96 lakh tonnes compared with 1.89 lakh tonnes previously, and sales brought in Rs 49.81 lakhs against Rs 46.38 lakhs. After providing for depreciation, taxation and development rebate reserve, however, the net profit is lower at Rs 1.69 lakhs (Rs 2.56 lakhs). The dividend is maintained at 10 per cent, absorbing Rs 1.20 lakhs.

Shah Construction

FOR obtaining exclusive licence for whole of India for exploitation of the French Patent called "Puits Developpe a Drain Rayonnants", Shah Construction has entered into an agreement with its inventor, Monsieur Paul Clausse. The arrangements for import of the Pile Driving equipment to be supplied by a Paris firm are completed, and the equipment will be shipped in January next. The company has secured an additional import licence for about Rs 18 lakhs for construction equipments from the US and France out of a Rs 28 lakh foreign exchange loan made available by I F C.

The financial results for the year to June 1965 are fairly impressive, with work bills rising from Rs 1.88 crores to Rs 2.01 crores and gross earnings from Rs 17.39 lakhs to Rs 23.09 lakhs. Even after setting aside considerably more for the necessary provisions, equity earnings stand higher at Rs 5.59 lakhs compared to the previous year's Rs 4.30 lakhs. Dividend, raised by a point to Rs 11 a share, requires Rs 5.50 lakhs (Rs 4.25 lakhs).

Index of Industrial Production

(Base : 1956=100)

	1965			1964
	August	July	June	August
(1)	(2)	(3)	(4)	(5)
General Index				
Seasonally adjusted	183.2	186.5	189.1	173.6
Crude	185.8	190.5	184.2	176.0
Mining and quarrying	177.2	182.3	181.2	158.4
Coal	166.3	172.3	172.2	150.0
Manufacturing	180.5	185.2	178.5	172.5
Food mfg industries	136.0	135.5	138.8	130.2
Wheat flour	237.4	237.8	290.1	330.8
Sugar	12.5	12.1	20.8	6.5
Tea	210.0	201.9	170.4	204.2
Salt	41.4	124.3	456.7	62.7
Beverage and tobacco industries	210.8	211.1	199.9	174.8
Manufacture of textiles	133.6	140.8	134.0	134.9
Spinning, weaving and finishing of cotton textiles	124.8	132.4	125.6	129.8
Cotton spinning	139.0	144.7	135.9	141.7
Weaving of cotton textiles	119.4	127.7	121.6	124.6
Mill sector	96.0	101.3	95.0	101.0
Decentralised sector	182.7	199.3	193.5	188.5
Spinning, weaving and finishing of woollen textiles	116.3	119.4	111.9	130.8
Spinning, weaving and finishing of textiles from silk and synthetic fibres	251.3	252.4	245.5	212.3
Spinning, weaving and finishing of jute manufactures	125.3	134.1	128.2	127.3
Footwear, other wearing apparel and made up textile goods	229.6	233.6	282.4	226.9
Rubber products	232.5	239.2	220.7	198.5
Chemicals and chemical products	238.0	239.5	233.0	234.3
Basic industrial chemicals	378.1	392.0	382.2	338.1
Heavy organic chemicals	414.5	454.3	445.8	311.0
Heavy inorganic chemicals	412.2	432.6	412.4	392.2
Synthetic Resins and plastics	652.1	658.0	587.7	556.7
Dye-stuff	201.0	164.9	194.6	159.9
Fertilisers	271.1	250.6	256.5	279.8
Paints, varnishes and lacquers	183.4	189.9	166.9	190.0
Soap	146.2	141.4	138.2	146.8
Matches*	142.9	152.4	148.2	180.1
Petroleum products	245.6	242.9	241.1	223.1
Non-metallic mineral products	239.2	237.9	233.0	212.1
Structural clay products	244.0	242.6	249.4	183.5
Cement	214.0	211.3	203.3	179.6
Basic metal	280.2	278.3	259.5	258.0
Iron, and steel basic industries	295.4	291.7	268.6	266.1
Pig iron	379.1	370.4	350.8	334.9
Finished steel	341.9	341.2	309.7	318.4
Copper smelting and rolling mill products	138.1	147.5	148.8	140.3
Aluminium manufacturing	427.9	407.9	428.9	395.3
Brass manufacture	156.4	181.2	148.1	201.9
Metal products	253.8	254.0	245.7	230.8
Bolts, nuts, screws, nails, springs, chains etc	179.5	186.5	180.3	164.5
Hand tools and small tools	672.6	675.4	579.5	560.3
Metal products not elsewhere classified	218.7	218.4	218.0	203.6
Machinery, except electrical machines	460.9	488.3	476.8	407.0
Internal combustion engines	464.3	539.0	460.2	410.3
Industrial machinery	481.2	504.8	527.9	430.9
Commercial, office and household machines	389.0	395.5	388.9	350.1
Sewing machines	345.6	346.4	350.5	250.2
Electrical machinery, apparatus, appliances and supplies	313.4	331.9	309.1	297.2
Power transformers	443.1	470.0	474.7	332.8
Electric motors	472.2	468.2	463.5	419.4
Electric cables and wires	297.3	328.4	279.9	328.0
Batteries	210.7	201.8	205.1	203.9
Electric lamps	343.9	330.3	311.5	267.2
Electric fans	413.1	423.0	398.2	380.5
Radio receivers	386.4	397.3	353.2	357.1
Transport equipment	189.4	202.9	208.8	184.6
Railway wagons	147.6	162.4	154.3	142.8
Motor vehicles	209.6	211.6	221.6	206.5
Motor cycles and scooters	954.4	1,031.7	1,008.9	758.8
Bicycles (complete)	196.5	239.9	251.6	174.3
Electricity, gas and steam	333.1	333.1	328.3	297.2
Electricity	333.1	333.1	328.3	297.2

* 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.

! Due to non-availability of production data, July 1965 figure has been repeated.

Source : Central Statistical Organisation (Industrial Statistics Wing), Calcutta.

BANKING RETURNS

Reserve Bank	Nov 19	Nov 12	Oct 22	Nov 20, '64
1 Note Circulation	2661.48	2674.29	2620.83	2432.94
2 Rupee Coins	102.98	101.57	103.78	103.79
3 Deposits				
(a) Central Govt	79.19	52.46	63.18	50.84
(b) Other Govts	6.53	7.25	3.22	6.49
(c) Banks	107.37	106.72	102.07	104.58
(d) Others	210.16	208.89	189.57	144.50
4 Foreign Securities	72.63	72.63	70.63	85.46
5 Balance Abroad	12.17	11.86	11.82	9.43
6 Rupee Securities	2365.44	2380.45	2337.44	2146.13
7 Investments	212.52	192.80	111.51	120.77
8 Loans and Advances to Govts	127.16	117.19	119.88	39.56
9 Other Loans and Advances	170.56	170.63	169.13	154.46
Scheduled Banks	Nov 12	Nov 5	Oct 15	Nov 13, '64
1 Aggregate Deposits (net)	2811.57	2819.50	2811.44	2523.93
Demand (net)	1377.02	1389.90	1390.35	1262.04
Time (net)	1564.17	1560.71	1550.03	1361.75
2 Cash in Hand	69.14	69.38	70.85	69.15
3 Balances with the Reserve Bank	101.55	104.06	101.58	95.36
4 (2) + (3) as % of (1)	6.07	6.15	6.13	6.52
5 Borrowing from Reserve Bank	2.29	3.64	5.91	0.79
(a) Against Usance Bills and/or Promissory Notes	—	—	—	—
(b) Others	2.29	3.64	5.91	0.79
6 Advances	1777.77	1770.29	1793.92	1456.56
(a) State Bank	438.75	434.67	436.40	321.80
(b) Others	1339.02	1325.62	1357.52	1134.76
7 Bills discounted				
(a) Inland	172.46	166.15	155.41	184.59
(b) Foreign	72.97	75.90	75.87	76.07
(c) Total	245.43	242.05	230.78	260.66
(i) State Bank	25.66	25.88	23.97	22.23
(ii) Others	119.77	217.17	206.81	238.43
8 (6) + (7) as % of (1)	71.96	71.37	72.02	68.04
9 Investment in Govt Securities	857.67	859.99	853.97	823.37
10 (9) as % of (1)	30.50	30.50	30.37	32.62

COAL PRODUCTION AND DESPATCHES

(Monthly average or calander months)
(000 tons)

	Raisings	Despatches	Stocks at Pit Heads
1965			
July	5,752	5,287	
June	5,750	5,180	5,221
May	5,829	5,195	5,226
April	5,969	5,362	5,217
March	6,027	5,252	5,260
February	5,481	4,820	5,077
1964			
July	5,365	4,774	5,006
1964			
July	5,365	4,774	5,006
July	5,234	4,602	5,141
1963	5,577	4,896	4,720
1962	5,129	4,573	3,483
1961	4,675	4,190	3,290
1956	3,338	2,959	2,810

Source : Central Statistical Organisation, New Delhi

Foreign Trade

Value of Merchandise
(Rs crores)

	Imports	Exports	Balance of Trade
1965			
1965	115.35	67.29	-48.06
August*	115.35	67.29	-48.06
July*	119.63	61.53	-58.10
June*	145.73	67.22	-78.51
May*	108.29	61.69	-46.60
April*	96.06	56.44	-39.62
March	104.62	76.90	-27.72
1964			
August	112.41	67.11	-45.30
1964-65	1,262.12	838.70	-423.42
1963-64	1,222.75	793.24	-429.61
1962-63	1,131.48	685.32	-446.16
1961-62	1,091.63	660.58	-431.05
1955-56	774.25	608.90	-165.35

* Provisional

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

Money Supply with the Public

(In lakhs of rupees)

Last Friday	Money Supply	Currently with the public	Deposit Money with the public	Variations in money supply
1965				
September	4,089.19*	2,720.45*	1,368.74*	- 11.73*
August	4,100.92*	2,697.81*	1,377.89	- 10.12*
July	4,111.04*	2,733.15*	1,351.72	- 60.79*
June	4,171.83*	2,820.11*	1,330.74	- 19.40*
May	4,191.23*	2,860.49*	1,325.81	- 4.35*
April	4,195.58*	2,869.77*	1,203.40	+ 115.41*
1964				
September	3,719.35*	2,515.96*	1,403.11*	- 46.36*
1964-65	4,080.17*	2,769.05*	1,311.13	+ 328.05*
1963-64	3,752.12	2,605.56	1,146.56	+ 442.15
1962-63	3,309.97	2,379.47	930.51	+ 264.15
1961-62	3,045.82	2,201.16	844.66	+ 177.21
1960-61	2,868.61	2,098.05	770.56	+ 199.16**
1956-57	2,341.89	1,622.73	719.16	+ 124.94

* Provisional. ** Derived from comparable estimates.

Source: Reserve Bank of India.

FOREIGN EXCHANGE RESERVES

(In lakhs of rupees)

End of	Amount	Variations ² over previous year/month
September + 1965	241.11	+ 5.82
September 1965	241.11	+ 5.82
August 1965	235.29	+ 3.79
July 1965	231.50	- 15.77
June 1965	247.27	+ 3.81
May 1965	243.46	- 6.64
April 1965	250.10	+ 42
September 1964	250.46	+ 5.14
1964-65	249.68	- 56.13
1963-64	305.81	+ 10.71
1962-63*	295.10	- 2.21
1961-62*	297.31	- 6.30
1960-61	303.61	- 59.25
1956-57	681.10	- 143.51

2 Movement in reserves increase (+) decrease (-).
* Include net borrowing from the I M F of \$ 122.5 million (Rs 58.3 crores) during 1961-62 and borrowing of \$25 million (Rs 11.9 crores) from the I M F against the stand-by credit of \$100 million in 1962-63.

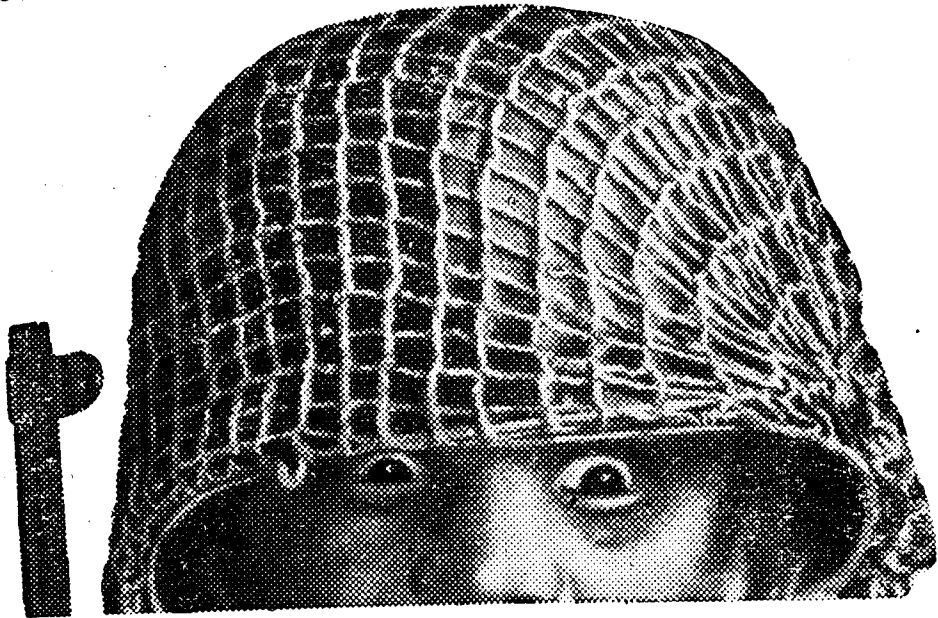
+ Provisional

Source: Reserve Bank of India.

INDEX OF WHOLESALE PRICES

(Base : 1952-53-100)

Groups and Sub-groups	MONTHLY AVERAGE		
	October 1965	September 1965	October 1964
Food Articles	170.1	172.0	168.6
Cereals	147.6	150.8	148.7
Pulses	168.7	169.5	184.1
Fruits and Vegetables	162.9	170.9	180.2
Milk and Ghee	171.4	167.9	146.1
Edible Oils	239.8	286.1	217.6
Fish, Eggs and Meat	192.2	191.5	164.6
Sugar and Gur	161.1	168.9	208.4
Others	194.7	195.4	181.0
Liquor and Tobacco	163.1	137.8	132.8
Tobacco	133.9	135.7	130.6
Fuel, Power, Light and Lubricants	150.0	149.5	145.2
Industrial Raw Materials	189.7	186.8	164.5
Fibres	158.4	154.8	145.0
Oil seeds	250.0	246.5	202.5
Minerals	129.3	129.3	103.6
Others	139.6	139.X	134.8
Manufactures	148.2	148.2	138.1
Intermediate Products	171.6	172.0	152.8
Finished Products	144.3	144.3	135.7
Textiles	141.7	142.3	124.0
Cotton Manufactures	139.7	139.6	137.2
Jute	143.1	144.9	123.4
Woollen	192.3	192.3	169.2
Silk & Rayon	138.6	141.0	132.9
Metal Products	187.2	184.7	169.5
Chemicals	127.8	126.8	120.3
Oil Cakes	243.2	242.4	205.1
Machinery and Transport Equipment	135.5	134.1	127.2
Others	128.7	128.8	127.7
All Commodities	165.5	166.0	157.7



The enemy is still watching...

...with hearts full of hatred, with eyes full of greed and hands crying for blood. □ There's no room for complacency. The struggle is not yet over. Uneasy truce! □ We must be awake... □ ...with hearts full of courage, with eyes set on our tasks and hands ready to toil. □ It's our turn to defend now...to flex our muscles...to strengthen our forces. Our weapons: austerity and a sense of responsibility.

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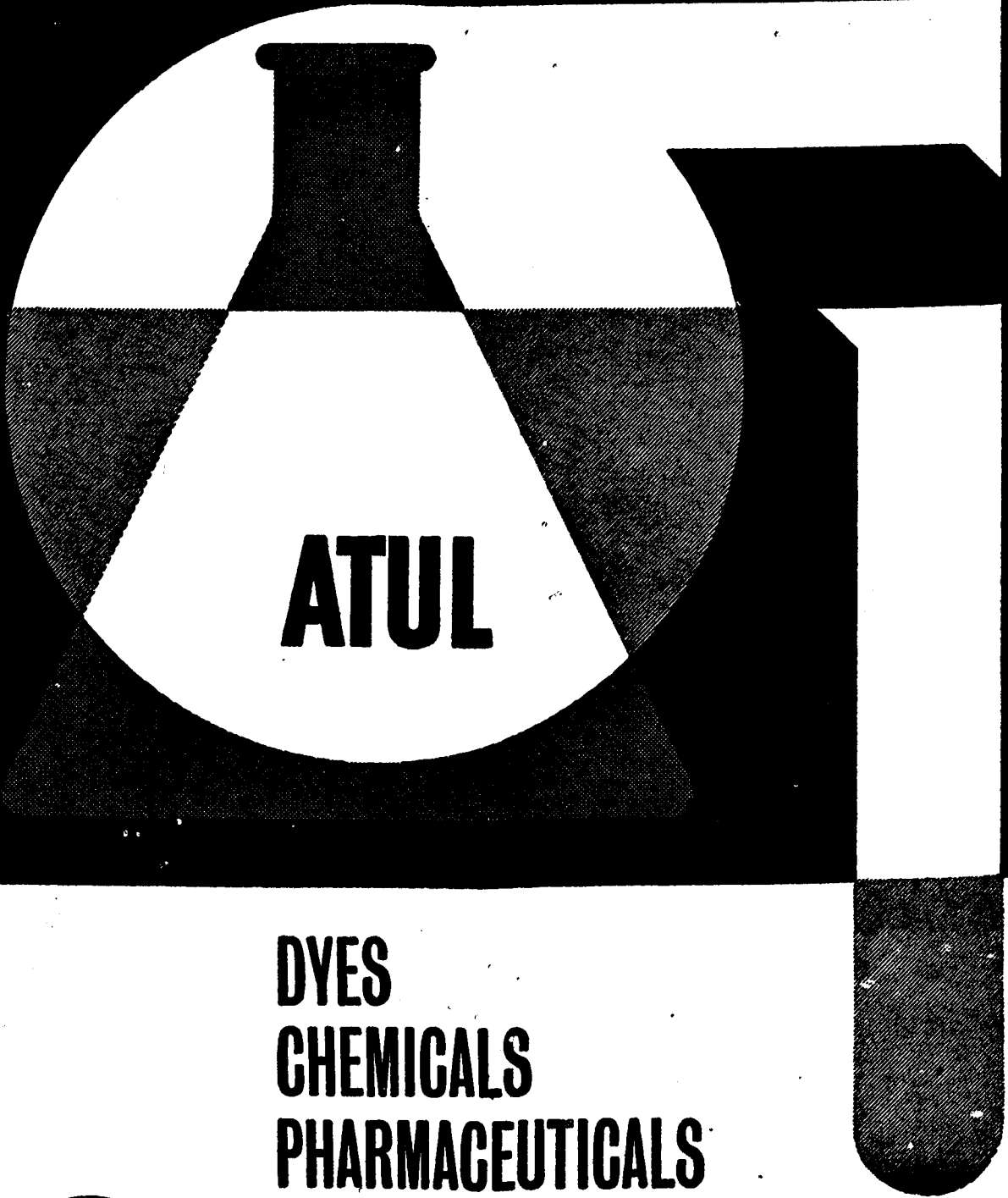
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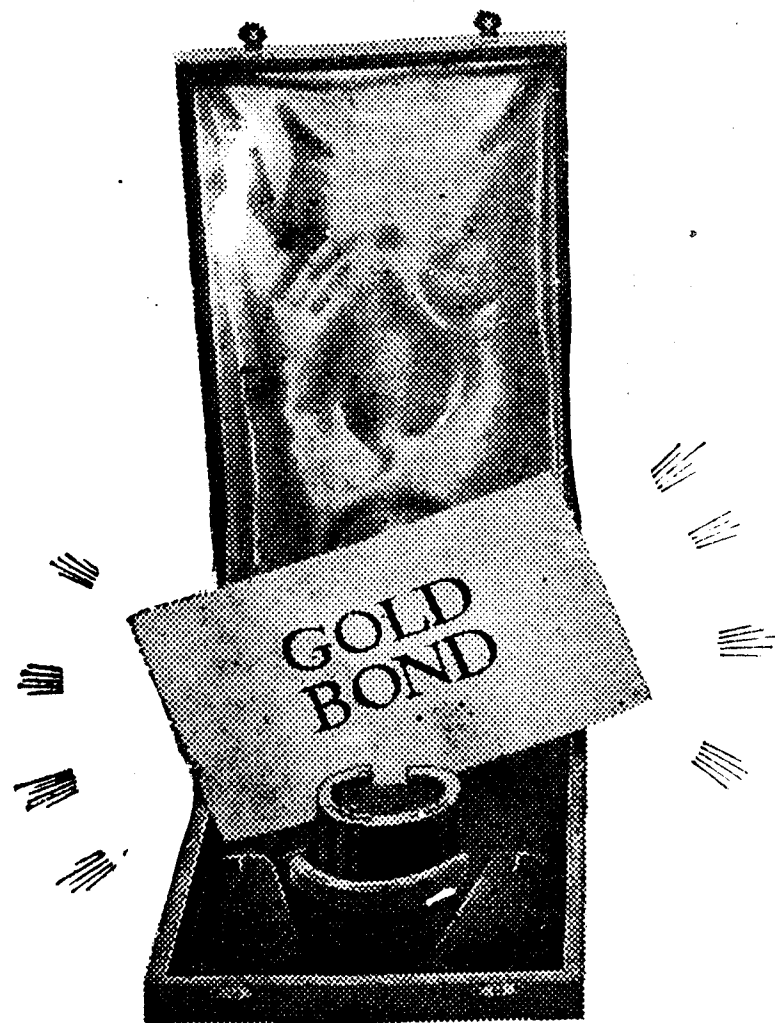
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THE ECONOMIC WEEKLY

Vol XVII No 49 Dec 4, 1965

EDITORIALS

Johnson's Talking Points 1779
Cracking under Pressure 1780

WEEKLY NOTES

Scrounging for Metals — The Last Throw — World's Industrial Giants — The Missing Millionaires 1781

LETTER TO EDITOR

India, Pakistan and the Englishman 1783

CAPITAL VIEW

Time for a Government of National Unity — Romesh Thapar 1784

FROM THE LONDON END

Common Market Overtures 1785

BOOK REVIEWS

Six Countries in Search of Development — Arthagnani 1787

Women Workers — Kamla Nath 1789

SPECIAL ARTICLES

Belgium's War of Languages — Taya Zinkin 1791

Medical Sociology : Some Problems for Study — C Parvatham S Sharadamma 1793

Case for State Production of School Books — Kamlesh Ray 1797

FROM THE CHAIR

Indian Oil Corporation 1799

AROUND BOMBAY MARKETS

Nothing But Gloom 1801

BUSINESS NOTES

Delhi Cloth and General Mills — Orient Paper — New Standard Engineering — Bharat Ball Bearing — Coastal Shipping 1803

CURRENT STATISTICS

1805

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Johnson's Talking Points

AS the Prime Minister negotiates the time table and agenda for his pilgrimages, first to Tashkent and then Washington or in the reverse order, President Johnson's talking points with Ayub and Shastri have been aired with Texan bluntness. There must be lasting peace in the sub-continent and effective common awareness of the danger to South Asia from "Chinese expansionism". If these are not forthcoming, there will be no economic aid from US nor, for that matter, from any member of the aid consortia for India and Pakistan. And military aid would be ruled out, of course. USSR shares the objective of peace on the sub-continent openly and perhaps the other one furtively but considers it politic to use aid as a carrot only.

India has desired lasting peace since partition. The late Prime Minister made a no-war offer to Pakistan many years back; the offer stands. Nothing would please and help us more than a demilitarised open border like that between US and Canada. This requires, as has been stressed for long and as Shastri has emphasised again, a desire or at least an effort on Pakistan's part to live in amity and co-operation with a neighbour who cannot help being bigger and stronger. It also requires—and this we have not always discerned with equal understanding—a convincing effort on our part to soothe the prickly emotions of Pakistan on the major issues which embitter her relations with us. Of these, to state the obvious, Kashmir is one. The recent conflict has demonstrated that, in spite of its great fighting potential, Pakistan cannot measure up to India's strength; she has no chance of wresting Kashmir from India by military or diplomatic force. At the same time, it is clear that a settlement on Kashmir, which is mutually acceptable to India and Pakistan, is one of the necessary conditions for peace and orderly development in the sub-continent. The vast difference between the nature and foundations of the two governments notwithstanding, the settlement has to be one which would meet the minimum demands of the majority of people in both countries.

The acceptance of this principle by the two governments would itself represent considerable progress. Signs of such acceptance are not completely absent. Ayub has agreed to discuss Indo-Pakistan problems in the whole perspective in Tashkent. Various formulas have appeared in the Indian press to re-arrange boundaries and administrative set-ups in such a way as to reconcile local demands and Pakistani feelings without allowing secession of Jammu and Kashmir. Merger of Jammu in Himachal, and retention of Ladakh as a Union territory, and grant of special autonomy to Kashmir Valley would, it is true, be a reorganisation somewhat different from that carried out in the rest of the country. The pace is being forced by international pressures, but local pressures in this direction are also not to be ignored.

In spite of her warmth for China, Pakistan, too, is aware of the limitations of a Rawalpindi-Peking entente and of the limited benefits it can bring her. Disengagement and a working peace, followed up with rapid economic growth, are the best guarantee which the sub-continent has against being dragged into the US-China-Russia power struggle. Assistance from the US and the Soviet Union, while necessary for growth has, therefore, its price which cannot be altogether escaped. President Johnson is naturally anxious to involve India and Pakistan in Viet Nam where, mercifully, some hopes of negotiations have emerged in the last few days. India is interested in the integrity and stability of her neighbours, but given our commitments on the northern borders, the Government's firm desire to maintain good relations with USSR and our consistent opposition to the use of troops on foreign soil, no active involvement can be visualised for us even by the US; Pakistan, on the contrary, as a founding and continuing member of SEATO, is less well placed to side-step US pressure. But, present economic difficulties notwithstanding, as a big power in the region and as the second largest Asian contributor to the Asian Development Bank, India has an important role, to be played firmly and independently, once a semblance of peace returns to the region.

Cracking under Pressure

SOME 6,000 'badli' workers have been retrenched from the textile industry in Bombay. Another 14,000 have been laid off in the Vidarbha area with eight mills closing down. This is disturbing. It is not improved efficiency and economics that have led to this action. It might be the less efficient mills that have been forced to take this course, but the factors that led to it may, unless tackled on a longer term basis, adversely affect even the existing soundness and growth prospects of the industry.

Retrenchment, moreover, is humanly painful, and appears legitimate by welfare standards of employer responsibility only if resorted to after every other principle of good shop-floor and financial management has been employed. What pressures have induced the mills to retrench and lay off? Have they fulfilled all the other criteria of efficient management before taking this step?

Stocks with the textile industry have been accumulating over the past few months. Stocks of cloth have increased from 2.62 lakhs bales of 1,500 yards each in January 1964 and 2.50 lakhs in June 1964 to 3.32 lakhs in January 1965 and 4.62 lakhs in September 1965. The accumulation, the result of consumer resistance with the inflationary rise in the cost of living, is expensive to carry with the increased cost of borrowing. Apparently, this burden is increased by the fact that wholesalers themselves are prepared to carry smaller stocks owing to the expensiveness of working capital.

Meanwhile, with the steep rises in the cost of living index, the average dearness allowance per worker per month has also been escalating, especially since the re-adjustment in the Consumer Price Index Series for the working class in Bombay. The index number for January 1964 shot up by 29 points. The average monthly D A for the industry meanwhile has risen from Rs 96 in 1963 to Rs 123 in the first six months of 1965, and to Rs 134 in October this year.

Just now stocks are once again beginning to move — a tendency which generally coincides with the end of the accounting year. But this is a short-term phenomenon. The increased cost burden of carrying stocks and of la-

bour is a more persistent problem, connected with the tendencies in the rest of the economy as well as with the inherent problems of the industry. It is on the latter that the industry itself can most fruitfully concentrate. The Millowners Association has in the meantime issued a notice of change in the method of computing dearness allowance that might mitigate the financial burden of the industry. This has still to be settled by conciliation under the BIR Act. Of course, just as mills, as commercial ventures, cannot be expected to be run as part of an unemployment relief scheme, it follows that any *ad hoc* cut and freeze in the D A cannot be expected for them. This, incidentally, was done by the Model Mills which for six years has been run as a State-owned unemployment relief venture. The mills has reduced its D A by Rs 1.03 and frozen it at that level.

There are, nevertheless, various fronts on which the mills can tackle their labour costs and strengthen their financial viability. One of the oldest industries in the country, the textile industry has generally had a comfortable indigenous market, not always conducive to efficiency. It is now badly in need of modernisation. Out of 187 composite mills only 48 are relatively well equipped, producing and increasingly exporting quality textiles; 60 others can produce quality goods and could export to a much greater extent.

However, modernisation can hardly go very far without efficient handling of the new equipment. And much effort is needed here to train workers. We have, for instance, too many men per loom. Studies by the U.S. Department of Commerce and the U.K. Cotton Board reveal that the productivity of a Japanese worker is twice that of the Indian worker, that of the U.K. worker is 60 per cent higher, and that of the U.S. worker is 4½ times that of the Indian worker. With such low productivity, our labour cost per unit of production is comparatively much higher, and the rising D A has merely accentuated this basic burden. The industry is thus labour-intensive and the share of the wage bill in the value added by manufacture is 58.09 per cent, next only to railway locomotives and rolling stock and jute textiles.

Again, while wage levels in Japan are high, the Japanese industry reportedly achieves a lot of short-term flexibility in its total wage burden by the employment of large numbers of sub-contractors and casual workers during extreme prosperity. The effective cost of such contracts is roughly half that of permanent employees. This advantage is additional to the Japanese industry's higher labour productivity. By comparison, in the Indian industry 88.4 per cent of the workers are permanent, 6.2 per cent temporary, 5.1 per cent 'badli', and 0.2 per cent casual.

On the labour front itself, therefore, there are at least two tasks to perform. One is the improvement and training of workers through the founding of training institutes along the lines suggested by the Joshi Committee this year. Possibly the ICMF could formulate a sustained training programme for its members. And secondly, various methods of introducing labour flexibility might be explored by individual mills with the help of the ICMF and its more efficient members. This might be best introduced as part of any programme for rationalization or modernization. Rising wage levels may not seem such a burden if productivity could be simultaneously improved.

But labour is only one of the fields of better management. There are several others. Concomitantly, a hard-hitting commercial policy through inventory control, planned cotton purchases, better financial management, better methods organization, and a competitive sales policy might reduce some of the weight of working capital, stocks-carrying, and higher cotton costs. There are several units within the industry itself from whose experience and performance the industry can learn many useful lessons.

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Scrounging for Metals

WHEN the Government recently decided not to continue protection to the non-ferrous metals industry beyond December 1965, it was in effect recognizing that the present conditions have made a merely formal point of protection. As it pointed out, the new levies and higher rates of import duty make 'protection' irrelevant. There is another reason. The acute shortage of foreign exchange, entailing drastic import cuts, itself ensures *de facto* protection.

What should be worrying us at the moment is not the need for protection, but the overall shortage of the metals. The Scarce Industrial Materials (Control) Order which was reformulated following the emergency to regulate the supply, distribution, and consumption of non-ferrous metals such as copper, lead, zinc and tin, has merely accentuated the problem of shortage immediately by freezing stocks. But it is the acute underlying shortage, which necessitated the Order itself, that poses the serious long-term threat.

This overall shortage had already been reflected in the soaring prices last September. Copper ingot prices had shot up by Rs 300 to Rs 680 per 50 kg, and lead prices by Rs 200 to Rs 500 per 100 kg. The buoyancy of world demand and the fresh levies were only partly responsible for this. The new defence needs and the freezing of stocks have had their impact on the industries using these scarce metals. HSL, and battery and tube manufacturers are facing idle capacity. Of course, as the Tariff Commission has recommended, the non-ferrous metals industry can do much in the way of improving its selling and distribution network. This might reduce somewhat the hardship of the actual users who are hit by the shortage and have to pay prohibitively high prices for their supplies. But this procedural expedient, though important and fortifiable by Government help and inspection, can at best be a stop-gap arrangement. The shortage itself will have to be tackled, and the sooner the better, since so many vital engineering industries and insecticide plants require these metals.

Today we spend around Rs 50 crores every year on the imports of these metals, and imports have been static

for some years now at 200,000 tonnes per year. Since the current indigenous industrial demand stands at 514,000 tonnes per year, imports satisfy less than 50 per cent of this demand. By 1970-71, given the new defence needs and the industrial expansion programmes, this demand will rise to around 888,000 tonnes. Indigenous production is comparatively negligible. In the early sixties indigenous copper accounted for about one-eighth of our total industrial consumption of copper. Since exchange allocations are going to remain curtailed—and Government has been quite firm on this—there is no alternative to increasing production.

The crash programme for geological surveys for minerals and for a planned expansion of the non-ferrous metals industry is in this context most welcome. The programme is to have an outlay of Rs 250 crores and is expected to increase the indigenous supply by 400 per cent. For too long now various projects for the production of metals such as copper and zinc have been in an embryonic stage, and the Third Plan has made little progress on them. The Geological Survey of India has asked for an increase in its strength from 1,400 to 2,000 during the next five years. If training of officers and technologists will take time, one hopes that there will be no stinting on the import of geologists and prospecting officers.

The additional copper is to be produced by expanding the production of the Indian Copper Corporation and by developing new projects at Khetri, Rakhra, Darico and Kolihaan. Khetri will get French assistance and Rakhra Soviet assistance. For zinc, the Zawar mine producing zinc concentrates is to be taken over by the Government from the Metal Corporation of India, and the Government hopes to expedite the smelter project for the mine. In Visakhapatnam too, Government has plans to set up a unit to operate on imported concentrates with Polish assistance.

There are other short-term possibilities too. Most of our non-ferrous metals have been imported till now free foreign exchange sources, mainly the U.S., Canada, West European countries, the Congo and Malaysia. There is a case now for intensively exploring arrangements on a rupee-payment basis, with the East European countries and

with some of the Asian and African countries.

There is apparently scope too for substituting the scarce non-ferrous metals by aluminium and plastics in some processes and these could be included in the Fourth Plan programme for non-ferrous metals. Buying interests in ore mines in different parts of the world is another method suggested by the President of the Indian Non-Ferrous Metals Manufacturers Association. It would be interesting to know what possibilities there are in this direction.

The Last Throw

WHAT does our agricultural policy amount to? For one thing, we have a policy to increase agricultural inputs. We plan increases in the consumption of water and fertilisers. We have succeeded better in increasing water consumption because the equipment and materials for irrigation are more easily available at home; for some reason, we have not hitherto seen the need to produce enough fertiliser plants at home, and consequently the rate of increase of fertiliser production and consumption has been puny.

A policy to increase agricultural inputs is not necessarily a policy to increase agricultural output. Skillful combination of inputs is far more important in agriculture than chaotic increases in single inputs; and the larger proportion of output increases in the past fifteen years has been due to an extension of the cultivated area much of which was no part of government policy. But increases in inputs would normally result in some increases in production. Thus, we have tried, however inefficiently, to increase agricultural output; and, whether by luck or by design, we have succeeded. Even this year's disastrous harvest does not detract from the fact that there has been a trend increase in agricultural output over the last fifteen years.

The other part of agricultural policy is the panic measures that are taken in and following years of bad harvests. They would hardly justify being called policy but for the fact that they are becoming so frequent as to shape long-term thinking and to build up a permanent framework. There is no pattern or consistency in the levies, methods of procurement, methods of distribution and import policies that are adopted

every year; but they are becoming permanent features. Their *ad hoc*, inefficient and inequitable character is all the more deplorable because they threaten to last.

The chaotic nature of procurement and distribution policies could have been explained away by saying that the previous crises caught us by surprise; but not this time. We had a serious inflation last year, in a year of good harvest, which was a signal for action; even this year we had ample warning of a bad harvest as early as September. We knew that the flow of food to towns was going to suffer. The food requirements of towns are a matter of simple arithmetic, and it ought to have been possible to organise compulsory procurement of the necessary quantities from the peninsula and the eastern States.

And yet, procurement was left to the States; and the measures taken by States bear no relation to either their capacity or the total need. Assam, West Bengal, Maharashtra and Madras have resorted to compulsory procurement without working out whether it would furnish enough grain; the other States have imposed grossly unequal levies on farmers or millers.

The result has been wildly inadequate procurement. This year's procurement of rice is expected to be 1.6 million tons; the Centre will, therefore, have to make a drastic cut in deliveries to the deficit States, which in 1965 would come to about 2.4 million tons. The note of alarm that has crept into the Food Minister's speeches underlines the failure of procurement.

Unfortunately, there is little to suggest that the Minister is doing much beyond getting alarmed. In his statement to the Parliament on Thursday he gently exhorted States to procure from the farmer, little realising that the procurement season for kharif crops is nearing its end. In the Food Ministry's review of the food situation that was circulated on Wednesday the States were advised to cordon off the demand from towns by introducing rationing, but the Minister has done nothing to ensure that they will have enough grain for the towns. In fact, by saying that the quantum of the ration might have to be reduced to 10 or even 8 ounces Subramaniam has assured them that they will not. Hitherto we thought that the Minister was failing to exercise his authority over the States; now there is a possibility that he might fail even to think.

Meanwhile, the problem has ceased to be one of provisioning the towns; in vast tracts of rural Gujarat, Maharashtra, Madhya Pradesh and Rajasthan there will be a famine in the absence of public food supply.

The food has got to be found; and if it is not found by procurement, there will be only one way left to get it within the country: to requisition stocks. This way will be adopted, sooner or later, under the pressure of circumstances. In summer, police parties will go about raiding traders' shops and godowns and public efforts will be supplemented by those of private rioters. But even in this extreme and coercive measure there is scope for equity and efficiency. The stocks are easier to get at just now because they are still concentrated with farmers; and more can be got if requisitioning is uniformly extended to all States and districts. For all the missed opportunities, there is still something the Food Minister could do.

World's Industrial Giants

GENERAL Motors is well known as the world's largest enterprise; the next three largest, which are also American, are less well known—Standard Oil, American Telephone and Telegraph, and Ford. The sales of the four together are Rs 15,000 crores even at the official exchange rate—more than India's national income. The sales of the 25 largest exceed Rs 55,000 crores, the sales of the largest 100 are just about Rs 100,000 crores. However, the 25 largest employ fewer workers than the entire manufacturing labour force of India according to the 1961 census.

Of the 100 giants, 67 are American, 13 West German, 8 British, 4 Japanese, 3 French, 1 Italian, 1 Swiss, 1 Dutch and 2 British-Dutch. Lever and Shell, the two Dutch-British enterprises, rank fifth and seventh. All the first 18 enterprises apart from them are American.

Thus, representation in the giants is closely related to the extent of the home market. It is also related to economies of scale and hence to industry. 14 of the 100 giants are oil companies, 12 make steel, 11 chemicals, 11 electrical equipment, 9 vehicles, 5 aircraft, 5 machines, and 3 electronic equipment.

Larger firms tend to grow faster. The increase in sales between 1963 and 1964 was 8.4 per cent for the

THE ECONOMIC WEEKLY

first 25 against 7.2 per cent for the 100.

The Missing Millionaires

THAT the grinding poverty of the country's teeming millions has a contagious quality has been suspected for some time. It is difficult to uncover rich taxpayers. In the income-tax assessment year 1962-63 (which roughly corresponds to fiscal year 1961-62), only 76 individuals (26 of them salary earners) and 15 Hindu undivided families had assessed incomes of over Rs 5 lakhs each. Less than 3,000 individuals (including about 1,000 salary earners) and 300 HUFs earned more than Rs 1 lakh in that year. There has been little or no change in these numbers over the last decade or so, credit for which is due neither to the socialist pattern of society nor *sadachar*. This phenomenon is the result of deliberate and organised harmonisation of the interests and wealth of the rich with the tax system. Viewed thus, it is not a peculiar national achievement. Titmuss points out comparable if not more spectacular feats in U K, the land of our fiscal mentors.

Would this harmony be disturbed and the arrangements reversed, if the tax rates in the higher brackets are lowered significantly, as the Finance Minister would like to do? For one thing, there is a catch in his intentions; he is likely to reduce the tax rates and increase the compulsory saving element, so that in overall terms, there may be no appreciable fall in the tax-payer's outgo. For another, the people who have already made arrangements for tax avoidance to their — and the tax authorities' — satisfaction are not likely to give them up; only the consummation of fresh arrangements might seem less attractive and so postponed. The substitution of high income tax rates by steeper rates of expenditure tax is not entirely feasible so long as tax enforcement and preventive policing lag behind careful disposition of private income and expenditure. Lower tax rates would probably dilute the guilt complex of both tax payers and gatherers, making a greater impact on the propensity to pay taxes than on the actual payment. They would no doubt provide equitable relief to the few rich honest tax payers, mainly salary earners.

The Hindu undivided family remains the favoured child of the tax system. The number of such families assessed

THE ECONOMIC WEEKLY

to income tax has remained fairly constant over the last several years. How far this is a result of the high exemption limit and legal partitions following the birth of each son in business families cannot be judged from the scanty data available. From plain observation, there is no doubt that the HUF is the most commonly used 'legitimate' device for tax avoidance which further reinforces the traditional

desire for male progeny. Fear of the broader legal and religious complications has kept Government away from tackling this issue. That is no excuse for its neglect by academic economists.

Income tax revenue statistics are easily the worst of those processed by Government departments from data available to them internally. They are made available so late and in such form as to be of little use to anybody

Table 1 : Income Tax Assessments by Type of Assessee

	Assessment Year	No of Assesseees ('000)	Income Assessed (Rs cr)	Total Tax Assessed (Rs cr)
Individuals	1959-60	768	742	97
	1960-61	828	778	98
	1961-62	940	885	113
	1962-63	962	923	118
Hindu Undivided Families	1959-60	69	89	13
	1960-61	70	89	12
	1961-62	73	97	15
	1962-63	73	95	14
Unregistered Firms	1959-60	29	35	8
	1960-61	28	32	6
	1961-62	30	39	9
	1962-63	25	35	7
Registered Firms	1959-60	14	113	4
	1960-61	15	128	4
	1961-62	18	149	5
	1962-63	30	197	8
Companies	1959-60	10	213	110
	1960-61	10	248	122
	1961-62	11	405	196
	1962-63	12	361	175
Total (incl others)	1959-60	891	1,192	230
	1960-61	952	1,275	243
	1961-62	1,073	1,575	338
	1962-63	1,104	1,612	323

Table 2 : Individual Assesseees by Range of Income

Income Range (Rs '000)	Assessment Year	No of Assesseees ('000)	Income Assessed (Rs cr)	Tax Payable (Rs cr)
0-7.5	1960-61	532	258	4
	1961-62	606	290	4
	1962-63	599	294	5
7.5-15.0	1960-61	192	200	10
	1961-62	214	222	11
	1962-63	236	246	12
15.0-25.0	1960-61	61	117	12
	1961-62	70	133	14
	1962-63	75	142	15
25.0-100.0	1960-61	40	162	46
	1961-62	46	191	47
	1962-63	48	195	57
100.0-500.0	1960-61	2.1	33	20
	1961-62	2.6	30	25
	1962-63	2.3	38	24
Over 500.0	1960-61	0.074	7	5.6
	1961-62	0.083	7	5.3
	1962-63	0.076	7	5.8

interested in the subject. Surely, there must be somebody in the Revenue Department who is not busy devising schemes for tax-credits and surrender of black money who can look into the arrangement and publication of these statistics?

LETTER TO EDITOR

India, Pakistan and the Englishman

THE tenor of the article by Libra (an unfortunate *nom de plume* in view of its meaning) in *The Economic Weekly* of November 27, 1965 is hardly in keeping with the high standards I have come to expect from your journal both in style and content. None will deny that British official thinking and attitudes have become more obvious to many during the course of this year as the conflict with Pakistan has opened out, but to tar "thousands of little Englishmen" with the same brush as their ruling establishment shows a lack of knowledge which ought never to find expression in your worthy paper. Apart from the fact that the average Briton is too interested in his dog and child, as also in his own relationship to the world, his main preoccupation has always been with domestic affairs. Has Libra not discovered also the other side of the medal, that there were and still are "Two Nations"?

Possibly I may have more experience of the "thousands of little Englishmen" than your contributor, especially those who live, work and play in the former empire. Let me assure Libra that the sentiments he ascribes to them are not those of the majority who now belong to a newer generation, untainted by the past. If Libra cares to live in the past it is his misfortune to be over-sensitive. How long are you going to go on flogging this dead horse, worrying yourself sick about non-essentials when the homestead needs repair? Possibly the feelings he describes are spoken by the *koi hai's* in their declining years in their declining clubs, but we regard them as amusing relics, a fount of ancient lore, in their amusing clubs. What Libra might have suggested was a taped record for posterity—think how valuable it will be to the scholar who pores over these unhappy days! I would have thought it better to ignore these types, rather than occupy valuable space and make no point in a journal.

V GRENFELL

Bombay
November 30.

Time for a Government of National Unity

Romesh Thapar

THAT shelf in the Prime Minister's office must be groaning; groaning with the weight of problems on which no decisions have been given. Seldom have we experienced such a state of affairs. And, now, we are also committed to visiting Washington and Tashkent, although we are not quite sure where to go first and what stand to take. If there is some plan concerned with the handling of these matters, then it must be lying buried deep down in one of those files on that shelf in the PM's office.

This lack of decision within the GOI is becoming so chronic that it intensifies the intellectual exhaustion which is noticeable at every level of thinking in Delhi. As one goes about the usual chores, people talk about the grave crises which are developing but are unable to present any clear or coherent plan of priorities to resolve them. A fatalistic feeling feeds the intellectual exhaustion, for now even the facts of our shortages and bottlenecks are variously interpreted by the experts. Every action which is contemplated sparks contrary opinion — and the result, unfortunately, is paralysis. In other words, there is no lead.

Putting Off Decisions Will Not Help

I have had occasion in the past to write about the need for associating outside expertise with the business of government, for building autocratic decision-making and implementing cells within the democratic structure, and for strengthening the writ of the Centre over the States. These notions prevail in various influential quarters within the ruling party, but today's situation has passed beyond the stage of minor repairs. A major overhaul will soon be demanded by the reformers.

Let me sketch the outlines of the thinking which is beginning to take shape. There is recognition that paralysis results from the belief that the solutions offered to relieve the crisis will be exploited not only by the disruptionist factions within the Congress Party but also by opposition groups anxious opportunistically to build their strength during an election year. This fear is particularly relevant on the food front where forcible procurement could ignite agitations of a violent kind. Even

in industry, measures to rationalise on the basis of indigenous resources could be challenged. Rapid mobilisation, on the basis of informed public opinion, might have denied anti-Congress elements the chance to ride the waves of the crisis, but there seems no chance of such a development in the present political confusion.

The feeling is also fairly general that the authority of the Centre has weakened so considerably over the past few years that no really decisive policy can be implemented. Regional and sectional interests come into play — and are often deliberately encouraged — to stifle central directives. What use, then, the experts, the technocrats, the high-powered cells to forge the details of policy and to order implementation? One weakness feeds the other. The longer the delay in decision-making, the more impossible the task of meeting the crises.

Food and Foreign Exchange Crises

The crises do not need underlining. Estimates of food deficit ranging from 6 million tons to 15 million. Industrial close-downs affecting anything from 40 to 50 per cent of capacity at present utilised. A hydro-electric and water famine. The possibility of large-scale unemployment. And a continuing threat along the land frontier of the country. Visiting the Capital, you would not think that this is the prospect in 1966. Uncomfortable, disconcerting facts — which we continue to imagine can be dissolved by food and foreign exchange from abroad.

As the crises take on sinister proportions, the earlier passion for self-reliance is beginning to revive here and there. It again gives strength to those who are continuing the search for political initiatives which would reinforce the role of the Centre. You might scoff at this after the disgracefully tame performance of the Union Cabinet over the Banaras Hindu University, controversy, but the search does continue — and it is possible that it may yield a tentative answer.

If the crises are of the scale that they can spell ruin, and if the Congress Party understands that food and foreign exchange aid from abroad cannot by itself cushion the shocks which are likely in 1966, there is only one

stratagem by which the Centre can be activated and strengthened to assess policies, make decisions and to carry out rigorous implementation. A government of national unity, based upon an agreed minimum programme and cutting across party labels, will have to be fashioned. Such an initiative would be resisted by those political groups which batten on national misery. However, it is the only method by which a healthy political break-through can be achieved under the present circumstances. And it is such a break-through, particularly at the Centre, which would create the sanctions for policies to deal with a crisis-engulfed situation.

Once a government of national unity is formed there will be no inhibitions about pushing through food procurement and industrial rationalisation as the bases of our self-reliance. The degree of autocratic decision-making and implementation required within the democratic structure could also be translated into practical terms. A new level of unity at the Centre would discipline the States, even persuade them to follow suit. Of course, the question of the general elections in 1967 creates complications party-wise, but it is widely feared that if the present drift continues the democratic election procedure itself may be severely damaged during the coming year by the operations of DIR.

Dangerous Tactics

The kind of stratagem being adopted by certain leading elements of the Congress Party to rally the people is most dangerous. Apart from the militarist posture, there is the tendency to exploit Hindu sentiments. This politicking will play into the hands of the revivalists, make of them the major pressure group in India. The sooner the more enlightened leaders of the ruling party realise this the better. The rapid erosion of Gandhian and Nehruvian concepts, upon which the solid achievements of eighteen years of freedom are based, crystallises the challenge which the democratic, socialist and secular elements within the Congress Party and outside must face.

If no visible and relevant consolidation of the enlightened within the ruling party takes place — and, frank-

ly, political quarters in the Capital are not very confident of such a development — the unfolding of each crisis in all its magnitude will either make us hopelessly dependent on foreign props or create a sharp political polarisation in the country. In such an atmosphere, and in the absence of any initiative towards a government of national unity, the need for a new political formation will be widely canvassed.

Indeed, the more perceptive in the national parties are wondering why this process has not already begun more energetically.

The annual jamboree of the Congress Party is due to be held in the middle of January. Kamaraj should have advanced the date in view of the impending conferences in Tashkent and Washington or postponed the confabulations to permit an informed de-

bate on the developments which will result from these conferences. The only decision taken so far has been the symbolic shifting of the venue from Jaipur to Chittor. When will the ruling party appreciate the need to give some solid base to these supposedly symbolic acts? Even now it is not too late to exercise the flabby Congress Party, to get it to act purposefully, to lead.

FROM THE LONDON END

Common Market Overtures

IS Britain now, once more, pursuing the possibility of trying to enter the Common Market? There have been a number of straws in the wind in the recent past to make it necessary to examine once more the possibility—admittedly not in the immediate future—of Britain's membership of the Common Market and the impact that this could have on Britain's trading partners in the Commonwealth and EFTA.

One of the factors in the situation is the new attitude taken by General de Gaulle on the possibility of Britain's place in the Common Market. It was, of course, the General's earlier veto which put a firm stop to Edward Heath's gamble to get into the Common Market, almost at any price, even if it meant selling the Commonwealth down the river.

The General's statement on this crucial question was made a few days after Heath visited him and discussed political, economic and military problems of Europe. It is understood that one of the main concerns of the leader of the Opposition was to pursue further the question of an independent and equal Europe to redress the balance between Europe and America. Obviously, any discussions on these lines would be dear to the heart of de Gaulle.

De Gaulle's statement, on the face of it, is certainly encouraging. "A certain number of signs indicate that the conditions which hindered Britain's rapprochement with the Continent, of Europe in the past are now beginning to weaken. The problem seems to be ripening in a positive direction and if this development should take more precise form it would be considered with sympathy by France."

However, one may be forgiven for wondering how serious the General

really is, and whether his remarks were not made more to deal with France's own personal problems, particularly the forthcoming French Presidential election and the Common Market crisis. Could it not be that by making what is no more than a conciliatory gesture, with no actual binding force, de Gaulle is hoping to undermine the negotiating position of the other five Common Market countries who, in view of the present French intransigence, might be tempted to approach Britain on their own behalf to take the place of France?

A Significant Move

It would, of course, be unwise to brush aside de Gaulle's statement merely as a tactical gesture. Perhaps the report given by Heath about the state of opinion in the Conservative Party, as shown at the party's Brighton Conference, and in the Opinion Poll results, may have induced the General to take a more positive approach to this question. Although de Gaulle made a number of friendly references to Britain when Wilson visited Paris, at that time he said nothing about British membership of the Common Market. Since that time, however, the General may have had cause to change his mind. An independent Europe, in the military field, would really involve British membership of the Common Market to give reality to a European nuclear strike force and an independent European aircraft and electronics industry. The growing urge within the Conservative Party for membership of the Common Market might also have persuaded the General that if a Conservative Government were returned to power in Britain, in exchange for the concrete advantages of Common Market membership such a Government might be persuaded to abandon the whole Sterling Area system, and thus pave the way towards the

type of reform of the international monetary system favoured by the French which is based on dealing with the problems created by the use of sterling as a reserve currency. The military argument, of course, carries the main weight, and it is as well to remember that Harold Macmillan's Nassau agreement with the United States is said to have been one of the factors which sparked off the veto by de Gaulle.

Obviously, Britain can do nothing about these feelers at the moment. While it is difficult to know the stand that the Labour Party would take today about joining the Common Market, despite the feelers that have been put out regarding bridge-building between EFTA and the Common Market, the official attitude seems to be that the Government is both ready and willing for Britain to join the Community, provided the five conditions set out by Hugh Gaitskell over three years ago are met. These are: (1) Proper safeguards for the Commonwealth; (2) Adequate arrangements for Britain's partners in EFTA; (3) Firm guarantees for British agriculture; (4) Freedom for Britain to pursue an independent foreign policy; and (5) Freedom to carry out national economic planning with effective powers to safeguard Britain's balance of payments.

The leader of the Opposition has also been careful to say that Britain cannot, at the moment, take any immediate initiative. Indeed, he stressed that it would be impolitic to do so until the European Economic Community had first sorted out its own problems. But there is no doubt that a future Conservative Government would pursue with great vigour the question of Britain's entry into the Common Market. That this is Conservative policy was made quite clear in the Party's new political statement "Putting Britain Right Ahead".

The statement relating to Europe says: "When the present uncertainties in Europe are resolved, we believe it would be right to take the first favourable opportunity to join the Community and to assist others who wish, in the Commonwealth and EFTA, to seek closer association with it".

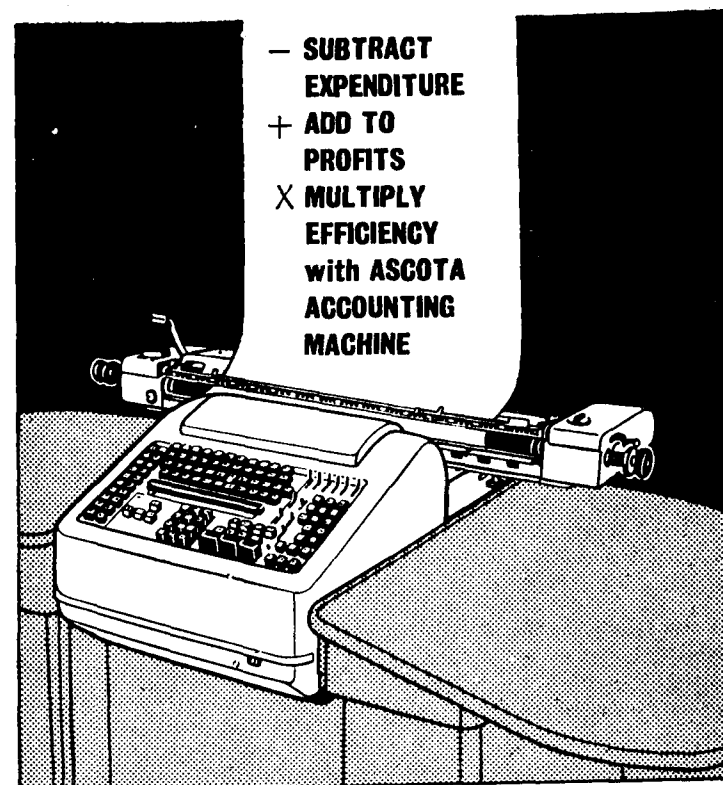
One argument that does make it seem possible that the General's offer is more serious than some have imagined is the fact that the real difference that France has with her other Common Market partners is the question of the supranational rights of the Commission. France is firmly committed to the belief that the reconstruction of Europe should be organised on the basis of greater sovereignty for its members, and greatly reduced powers for the Commission. This view, of course, is directly contrary to the whole concept of the Rome Treaty, and the essence of the de Gaulle offer may well be a bait to tempt the Five away from the supranational objectives by relaxing on the question of British membership, and making this an excuse to renegotiate, on a looser basis, the Treaty of Rome. This would certainly face the Five with an awkward dilemma.

Need to be Prepared

France's overtures to Britain have not gone unnoticed by EFTA countries who regard this new trend with a certain amount of alarm. Commonwealth countries also have cause for disquiet, and both Australia and New Zealand have made their own points of view perfectly clear to Britain. Leslie Castle, a leading New Zealand economist, who advised the New Zealand Government during the earlier abortive British negotiations for entry into the Common Market, has stated that if Britain were now to join the Common Market, this would present "a pretty serious portent for New Zealand". At a Press Conference, the New Zealand Prime Minister pointed out that if Britain now decided to join the Common Market, New Zealand would have to take prompt action to protect the access of her products to the Common Market. New Zealand is already discussing with Britain the renewal from 1967 of the right of entry for her meat and dairy produce.

While it is true that no immediate action can be taken with regard to British membership of the Common Market, it is only right to be prepared for such a step which will certainly have a very serious impact, not only on British farming interests, Commonwealth trade and trade with EFTA

countries, but also on the whole multi-lateral trade structure under which international trade is at present organized.



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Six Countries in Search of Development

Arthagnani

Asian Economic Development edited by Cranley Onslow; Asia Publishing House, Bombay, 1965, pp xi + 243.

THIS is a compact collection of studies of six countries in quest of development. The country-studies are of Burma by U Tun Wai, Ceylon by Gamani Corea, India by V K R V Rao, Malaya by Lim Chong Yah, Pakistan by Nurul Islam and Thailand by Puey Ungphakorn. C Onslow provides, in a concluding chapter, a comparative analysis of the problems of Asia's economic development.

The Different Backgrounds

Burma started with considerable war damage, the level of the gross domestic product in the immediate post-war year being 60 per cent of that in the immediate pre-war year. She sought to meet the problem by a system of planned investment. The pre-war level of gross domestic product was reached early in 1957-58, and over the whole period 1947-48 to 1961-62 an annual growth rate of 4.3 per cent was achieved. Burma was fortunate in having favourable terms of trade (pp 23-24), with a particularly high demand for rice. Political instability — particularly the Karen rebellion — tended to complicate the economic problem.

Ceylon saw in the post-war period a considerable growth of the public sector and routing of a substantial part of the gross domestic product through the Government budget. A rather rapid growth of population (about 3 per cent per annum) — thanks to the success of a DDT campaign to eradicate malaria — tended to keep low the growth of *per capita* income at about 0.7 per cent per annum during the period.

In India, planning was introduced as a deliberate means of accelerating the growth rate (through a rise in the rate of investment) and raising the growth potential (through emphasis on heavy industries). The development effort was essentially based on an extension of the public sector, particularly in heavy industries. The average growth of national income over the first decade of planning was 4.1 per cent per annum, and the economy has in fact become more dependent on external sources than before.

In Malaya, exports are equal to half the gross domestic product, and tin and rubber constitute about four-fifths of the gross export proceeds. It is clear,

therefore, that tin and rubber prices have an overwhelming influence in determining the gross domestic product of Malaya. Along with the prices of tin and rubber, the gross domestic product of Malaya has risen by fits and starts — at three points, 1950-51, 1955-56 and 1960-61 — during the period under review. Growth in Malaya has been mostly left to private effort, and planning has essentially meant an orderly arrangement of Government's investment programmes, mostly in utilities.

Pakistan, inheriting the same bureaucratic machinery and ideology as India, also resorted to planning, though a little later. Essentially it attempted to foster economic development through private enterprise, local and foreign. The average rate of growth of national income was only 2.28 per cent per annum during the period covered, though, as reports some time back indicated, the Second Plan was a success.

Thailand, like Malaya, experienced a rather rapid rate of growth during the period, the average annual growth rate being 7 per cent in the decade 1951 to 1961. One of the favourable factors was the high demand for rice. The Government has relied on private enterprise for the development effort.

Diverse Paths

Behind their common quest and the similarity of the external influences (aftermath of the Second War, like rehabilitation and the impact of external trade relations), the paths the six countries have chosen and their particular responses to external events are fairly diverse; this is so not only in case of divergent economies like Burma and Malaya but also in the case of economies like India and Pakistan which were unified till 1947.

In many respects, this divergence arises from the different starting points of the various economies: Burma, Malaya and Thailand were over-run by the Japanese during the Second War, while the War had only a peripheral impact on the other countries. This, for example, meant that the first group of countries (which had undergone a scorched earth policy from both the sides) had to make good considerable physical damage (compensated for only

partly and late by reparations), while the second group of countries started with considerable volume of foreign assets (sterling balances) built up during the War (though they also had problems of inflation and of economic adjustment to face).

In addition, the countries started out with different resources and different problems. Burma and Thailand had no food problem; Malaya had two basic resources — tin and rubber — which have been in great international demand during most of the period covered. Ceylon's experiment in social security — subsidised supply of rice — has created not only economic but also political problems for it. Both India and Pakistan, born of the same nucleus, have started out in different directions and have gradually acquired an identity of their own.

Superficial Judgement

Both Malaya and Thailand have followed essentially a free enterprise philosophy, while the other countries have depended in varying degrees upon statism for economic development. In his comparative analysis, C Onslow tries to argue from this the superiority of the free enterprise system in accelerating development. In fact, his definition of the scope of State functions (p 183) almost compares with Adam Smith's in the "Wealth of Nations". This, however, is a superficial judgment and is certainly not justified by the experience of the countries covered by the study. Both Malaya and Thailand had natural resources which, combined with the post-war trends in demand, helped to increase their income rapidly. The problems facing the other economies were far more complex, and they had less natural advantages (Burma excepted) in meeting them.

The editor fails to examine one essential potential determinant of economic growth of these countries — namely, greater economic co-operation among the countries themselves. It is almost certain that preferential trade and investment agreements among the countries, with provision of mutual holdings of currencies within board limits, would not only have been a liberalising element in the more state-controlled economies but helped in the

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THE ECONOMIC WEEKLY

long-term growth of the market for the products of the two liberal economies. Even today, these economies, in many ways complementary, are far more integrated to the western countries than among themselves.

All the studies are very well written, and bring out the essentials of the post-war developments in the individual countries. However, all the authors with the exception of Nurul Islam hold responsible positions in national or international organisations. A choice of authors from more independent sources like universities would have brought to

the studies a more critical approach to the methods followed in fostering development and to the assessment of the results achieved. There is a tendency, if not to whitewash failures, at least to tone down the consequent criticism. Both Burma and Pakistan, despite agricultural advantages, have done less well than expected. V K R V Rao, in keeping with his new official position, puts on a statesmanlike (or more plainly, a pompous) show. In the study on Ceylon, there is a tendency to identify the requirements of a democracy with those of a mobocracy — as if politics does not exist in other countries. And

it remains to be seen how far Malaya and Thailand have taken advantage of the present sunshine to broaden their economic base.

C Onslow's comparative analysis, by concentrating on the merits of private enterprise and not taking into account the critical differences in the economies, fails to fill the gaps left by the individual authors or to provide an analysis of the nature of, and factors in, economic development. On the whole, however, the book provides a useful record and summing up of development effort during a decade in an important group of countries.

Women Workers

Kamla Nath

Women in the Work Force in India by D R Gadgil, Asia Publishing House, Bombay, 1965; pp 33, Rs 3.

“WOMEN in the Work Force in India” is the text of the inaugural lecture by D R Gadgil in the Kunda Datar Memorial Lecture Series. The lectures under this series are to be on some “social, economic or political problems concerning Indian women”. It was fortunate for the subject to have as the first speaker Gadgil, who is not only one of the top economists of the country but who is also “very closely associated with social movements for improving the economic and social conditions of the less privileged sectors of the society”. But when faced with the problem of women, Gadgil realised the paucity of data. To make the best of the situation, he just and foremost as an economist, has analysed the participation of women in economic activity in the country. He has drawn on the figures on participation of women in the work force in the Indian Census for general trends, and on the findings of various socio-economic surveys for data on attitudes to work of women of different regions and groups.

Work and Socio-Economic Status

Gadgil begins by commenting on the close relationship between social stratification and economic position, the attitude of society towards manual work and towards women working outside the home. He says, “One of the most persistent aspects of Indian socio-economic structure that has been impressed on me through a study of the results of socio-economic surveys is the usual close correspondence between economic position and traditional social ranking in Indian rural society. Ability to keep away from manual work has been an

important distinguishing sign of socio-economic status among us. Therefore non-participation of women in any work and particularly manual work outdoors is everywhere considered a value. It is clearer however that the practical force of this value differs widely from region to region.” The latter perhaps explains partly the wide regional variations in the work participation of women, which are brought out by the Census and the Bench Mark Surveys quoted by Gadgil. The 1961 Census shows that the proportion of women workers varies from 9.4 per cent in West Bengal to 44.0 per cent in Madhya Pradesh (excluding the predominantly urban Union Territory of Delhi where it is only 6.5 per cent). The great majority (79.6 per cent) of women workers are engaged in agriculture. They come from the families of cultivators and scheduled castes and scheduled tribes. As the number of women that seek work depends upon the social conventions relating to outdoor work by women in these groups, the supply of female labour for farm work in any area depends upon the traditional behaviour pattern of the most numerous castes.

Are Values Changing?

However Gadgil's remark that “nothing seems to have happened in these socio-economic norms which change the supply of female labour and the only thing that changes the supply of female labour is the increase in the population and changes in sex and age distribution” needs to be investigated further. The data of 1961 Census indicate that these norms may be chang-

ing. Gadgil makes a similar point when referring to the facts that the proportion of women workers is much smaller in the urban than in the rural areas and that urban women workers are concentrated in ‘household industries’ and ‘other services’. He explains these phenomena as being due to lack of opportunities for employment and does not give recognition to the fact that they may be due also to changes in social values or economic status accompanying migration from rural to urban areas. But the more detailed data of 1961 Census which have since become available would lead one to think that changes in values and attitudes relating to work may indeed be taking place and the rural-urban work participation differentials may not be due only to lack of opportunities. The secular data on work participation rate over six decades, 1901-61, show a consistent and cumulative decline in work participation of women in the cities of India. This decline was seen in cities in all regions of the country. In Delhi the decline was from 16.9 per cent in 1901 to 4.5 per cent in 1961. The corresponding figures for Bombay were 21.2 per cent and 8.8 per cent, for Madras 11.6 per cent and 6.3 per cent and for Calcutta 15.5 per cent and 6.1 per cent.¹

Secondly, within the urban areas, the work participation rate for literate women is much smaller than that for illiterate women — 4.6 per cent as compared with 13.7 per cent. The percentage of workers among the literate women increases with education; it is as large as 71.3 per cent among those with technical degrees. But since the pro-

portion of the highly educated is very small, this rise with education cannot effect the decline in work participation rate, which takes place on the transition from illiteracy to literacy.

These facts would lead one to think that important changes in values and economic status may in fact be taking place in the urban areas. The marked and persistent decline in the work participation rate of women in cities can only be explained on this basis. Lower work participation among the literate women than among the illiterate women shows clearly that the literate urban women are not prepared to work as their illiterate sisters are prepared to do. Some of this difference is undoubtedly due to the different caste and class composition of literate and illiterate women. How one wishes the census data were available by caste! But there is no doubt that within each caste, the percentage of literates is going up. Even in rural areas there may be changes occurring which need to be investigated further. In my own village studies among women of cultivator families in Punjab and scheduled caste families in Rajasthan, I found unmistakable signs of the desire of women to cease working.² In the Punjab group the change was due to actual rise in economic status of the group; but in the Rajasthan group the most powerful motive was the desire to seek higher social status. I explain this change only on the basis of the social value of ceasing to working with rise in socio-economic status to which Gadgil refers.

Further Investigation Necessary

These findings are but straws in the wind and cannot explain trends over any extensive area. But they point to the need for more detailed investigations. Perhaps some young workers will put together the data on the subject available in the enquiries of the various Agro-Economic Research Centres and the studies of the Gokhale Institute and other institutions to see if any pattern of change is emerging.

Gadgil would be quite right if one interpreted his remarks to mean that the work participation rate among urban women would be much higher if wider work opportunities were available to them. The occupational structure of India is still overwhelmingly traditional, and a modern pattern has yet to emerge. Large numbers of rural women continue to work on family holdings, but opportunities for non-agricultural employment have yet to be created. These opportunities are emerging in urban areas for the educated,

but their number is infinitesimal. In the meantime changes in secular values and other factors, such as the decline of household industries, about which we know too little, are closing the traditional avenues of employment for urban women. Gadgil has made a valuable opening contribution to the subject of women workers and I hope that the lead given by him will be taken up by others to illuminate one of

the less known, but potentially most significant, areas of our socio-economic transition.

Notes

¹ Kamla Nath: "Urban Women Workers", *The Economic Weekly*, September 11, 1965.

² Kamla Nath: "Women in the New Village", *The Economic Weekly*, May 15, 1965.

Belgium's War of Languages

Taya Zinkin

The Congolese have a joke. "The Belgians", they say, "won their independence too soon. They still have tribal wars".

The two tribes are the Walloons and the Flemings—and the wars are over language.

THE other day there was a small item in the press about riots in Belgium; the press was too busy to go into much details because the very same day Ian Smith made his UDI. What lay behind the news from Belgium was a linguistic war which will sound quite familiar, in some of its aspects, to readers in India.

The Congolese have a favourite joke. "The Belgians", they say, "won their independence too soon. They still have tribal wars".

The two tribes are the Walloons and the Flemings. The cause of conflict is language. Over the chieftaincy they are at one. The monarchy is not particularly popular but it is not a cause of division. Nor is politics. The political parties, all of which have a Walloon and a Fleming wing which they try desperately to hold together. Religion is a source of unity; both tribes are Roman Catholic and they intermarry endlessly. One can never tell from a man's name which tribe he belongs to. Le Nain is Flemish, Van Den Drucken is Walloon.

It is over the question of language, and over language alone, that tribal feelings are bitter. The Walloons speak French, the Flemings speak Flemish. Flemish is not just a dialect spoken by some 5 million Belgians; it is essentially the same language as Dutch, and Flemings insist that, if one counts the Afrikaners of S Africa, it is spoken by 20 million people. The French speakers however, refuse to treat it as anything but a ridiculous dialect which "breaks one's ears", "*une langue avachie*" spoken only by the plebs, "*les bas fonds*", "*les coriaces*" (the indigestible), and they maintain on no particular evidence that the Dutch despise it too.

The Flemings outnumber the Walloons by 2 million, and they are not going to accept any French superiority; indeed, their own opposition is the more bitter because their own upper class, the "Fransquillons" as they rudely call them, speaks French. The weakness of the Flemish position lies in the immense attraction French has as a great world language. The leading French newspapers of Belgium continued to sell almost as many copies in the Flemish speaking areas as in the French, Flemish speaking areas as in the French, even when feelings had run so high that there was a riot in an Antwerp

church with chairs broken on heads because the sermon was in French. The Flemings have in the past backed their linguistic demands by action. They have marched on Brussels and torn down French signs on the sea-shore to claim their "sacred Flemish soil". Many Walloons in return are like that leading journalist who exploded "they are just good enough to sell us shrimps and take our money. Now, when my children want to go to the seaside for their holiday, I sent them to France".

The linguistic boundary in Belgium is old and has not changed substantially since Roman days. What has changed over time is the relative strength of the two languages. Between 1600 and 1900 French has got stronger. When Holland revolted against Spain in the 16th century and Belgium remained under Spain the speakers of Dutch and Flemish were cut in two. The Dutch upper classes continued to speak Dutch, but Flemish aristocrats and bourgeois learnt to speak French, much as their Russian counterparts did later on, because French was becoming the language of the educated over much of Europe. Fifty years ago, in Brussels, the capital, only the working class spoke Flemish, and French was the official language till after the first world war. French domination was further reinforced because the industrial revolution hit Walloon first, adding economic to cultural ascendancy.

The Flemish reaction goes back perhaps half a century, and has really come from universal suffrage and mass literacy. This was to be expected. It has happened everywhere. As people become educated and get the vote they want to be able to rise to the top without having to learn a foreign language. It is the same in Canada, where English overshadows French, in India where the regional languages have replaced English and where many people do not want to encumber themselves with Hindi when English is both so much more developed and attractive. But it is Ceylon which offers the most exact parallel to Belgium. In Ceylon the agitation for Sinhalese was led by those parts of the middle class who did not speak English: Buddhist monks, Village school teachers, Ayurvedic doctors. In just the same way, in Belgium it has been the local doctor, the village

teacher and the village priest who have fought for Flemish. After the first world war Flemish was given official status as the language of the Flemish speaking area, administratively as well as educationally, and at all levels; Brussels became theoretically bilingual; and the civil, though not the criminal code, was translated into Flemish.

Subsequently, an official linguistic boundary was drawn up on the map and it was decided that there would be parity in government recruitment between Flemings and Walloons—even to the Army—which ultimately should benefit the Walloons since they are less numerous) as well as total bilingualism for all senior posts (which in practice discriminates against the Walloons as many of them do not know Flemish). The boundary had to be drawn because of what is known as the "Francophone oil-stain". Brussels is Francophone rather than bilingual, but it is situated in Flemish speaking Brabant and it is growing like Jack's bean stalk, especially now that it is the capital of the Common Market. French speakers are spilling over into what used to be Flemish villages and are turning them into modern suburbia. They demand that their children be educated in French and there is considerable tension over schools.

The Flemings are not satisfied with what they have already achieved. They want Belgium to be truly bilingual. Emotions are so raw that one senior Belgian official exploded with despair when I saw him: "Let it be Chinese so long as there is only one language in Belgium!" However since it is not likely to be Chinese, true bilingualism may yet be the answer, but for this both languages will have to be learnt by everybody from the beginning. Some people talk of having lessons in French in the morning and in Flemish in the afternoon. This is a price French speakers are not likely to be willing to pay. Federation may be the answer, with Brussels playing the part of Washington D C. But, in that case, especially since Brussels may become the capital of Europe, Flemish will lose the battle, the more so that there is no chance of a Holland, evenly divided between Catholics and Protestants, welcoming 5 million Flemish Catholics.

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Medical Sociology: Some Problems for Study

C Parvathamma

S Sharadamma

In India till now very little work has been done in the field of medical sociology. The social scientist so far has held no place in the field of medicine in our country.

In the Western countries, on the contrary, phenomenal growth of knowledge is noticed in every field that has a bearing on health problems. Many sociologists have done research on health problems independently and also in collaboration with medical scientists. Further, the tools of social science are being increasingly applied to analyse the medical social structure in the West.

In this essay an attempt is made to discuss some of the important problems of approach involved in the study of medical sociology.

SOME Western sociologists, notably Merton and Kendall have suggested a useful list of substantive areas of sociological research in medicine. They are: Social Etiology and Ecology of Disease, Social Components in Therapy and Rehabilitation, Medicine as a Social Institution, and Sociology of Medical Education.¹ The area chosen for a sociological study of medical undergraduates in Mysore comes under the last category (See Section II below).

It is important to substantiate further how a sociological investigation of the 'medical universe' will unfold several interesting problems. A student's choice of medical career, his inclination towards specialization, his process of learning and his reliance on teaching, the mode of his interaction with the faculty members, his method of acquiring values of medical culture, and finally, his emergence as a physician offer interesting areas for sociological research.

Who Chooses a Medical Career?

Further, a sociological study will throw light as to who chooses a medical career and why? From which socio-economic and professional group does he come? What are the mechanisms for generating and nurturing medical ambition? Does a student change over the five-and-a-half years he spends in a medical school? Are there students untouched by the medical setting? What are the modes of adaptation and which social strata find it a smooth process? Does the medical school prepare student-physicians for their institutional role inculcating values basic to its culture? These and many more problems are of immense interest to a social scientist.

The mind of an entrant to the medical school is yet to be moulded and his personality to be developed. He is partially socialised; his family, as 'a major transmission belt for the diffusion of cultural standards',² has transmitted only a portion of the culture

accessible to its social stratum. Now he is enrolled as a member of a new culture-setting, namely, the medical-setting consisting of its complex institutions, schools, hospitals and clinics, its personnel, its standards and codes, its recruitment policies, its relation with public and its mechanisms of sociability and control. Here socialization of recruits consists of induction into the common core of the profession, over a period of five-and-a-half years.

Medical education equips a student not only with the existing body of medical knowledge but also with informal attitudes and patterns of thought. Further it makes him conversant with the modern technology and scientific outlook in medicine. Basic medical values, important parts of medical culture are acquired by the students during this period of professional training. "Students are expected to develop the ability to live up to the norm of 'detached concern'; they are taught how to be interested in a patient without becoming emotionally involved".³ Blumgart calls the profession of medicine 'a house of many mansions', embodying numerous professions within itself, with different types of persons working in different capacities.

Selecting the Right Students

Here arise some further problems of interest to a medical educator as well as a sociologist. Medical educators are confronted with the most important problem of selecting a student "who will contribute to medical science as an art, who will be actively interested in the progress of medical research, and will be able to tackle successfully ever-

lasting problems in medicine".⁴ An aspiring medical student's mental equipment, in other words, should be such that he would become a scientist of precision while solving a problem, and an artist of immense skill while handling a sick person. The other and more important aspect of the problem is how to select students coming from different social backgrounds who could hold a promise of versatility as far as medical education is concerned. Till now medical educators have paid but little attention to this aspect of the problem.

The concept of medicine and health care as a social institution enlarges the scope of the sociological study of medical education. The medical student enjoys a particular status. He is engaged in a complex array of social relations with his fellow students and the faculty, with other health professionals, technicians, and with patients. These people too occupy definite positions and play well defined roles. Thus the student is involved in an organised network of role-relationships. The social structure of the medical school helps him to learn these patterned social relationships. Besides, he learns to perform his many roles as healer, 'chief' of a 'unit', Head of a Department, medical researcher, educator, member of a professional society, and also as a member of his local community.

Merton observes that "medical schools act as guardians of values basic to the effective practice of medicine. Their job is enabling the medical man to live up to the expectations of the professional role long after he has left their sustaining environment."⁵

Table 1: Sex and Class-wise Distribution of Student Population

Class	Men	Women	Total
Pre-professional	150	49	199
Pre-clinical	308	88	396
Clinical	294	89	383
Total	752	226	978

In the field of medical education much of the research done by Western sociologists has concerned itself with the generalised effects of medical education on the student. Mary Jean Huntington has shown that medical students gradually develop a "professional self-image" in the course of their medical training. R C Fox says that the medical student learns and assimilates the traits a student will need to play the role of physician once he has left the school. She says that students are thoroughly trained to deal with the many areas of uncertainty and to develop 'detached concern.' Becker and others are particularly concerned with the level and direction of academic effort of medical students. Nathanson, comparing interviews of freshmen with those of senior medical students, says that freshmen are oriented to the interest of the patient, while seniors emphasize the need for preserving the solidarity and protecting the interest of the professional group.

These and several other problems are there. Mysore is a semi-urban community and the student population is drawn from different religious, linguistic, caste and socio-economic groups. A study of such medical undergraduates in Mysore city will certainly highlight several interesting problems. Systematic collection of data so as to give sociological dimensions to the study of the medical universe is thus the first step towards building up medical sociology in India to-day.

II

In January 1965, a sociological study of the medical undergraduates in Mysore was undertaken. The study is confined to the undergraduates admitted to the pre-professional course leading to MBBS degree under the 'New Scheme' which has been in operation since 1959.

Table 2: Distribution of Teaching Staff by Sex, Designation and Courses Taught

Designation	Pre-clinical		Pre-professional		Clinical		Total	
	M	W	M	W	M	W	M	W
Professors and Associate Professors	—	—	5	—	24	4	29	4
Assistant Professors	—	—	3	—	18	3	21	3
Readers	2	1	1	—	5	—	8	1
Lecturers	12	3	15	3	32	8	59	14
Technicians	—	—	2	—	9	2	11	2
Total	14	4	26	3	88	17	128	24

The complex of the medical institutions is spaciouly situated right in the heart of the well-planned city. There is the Medical College occupying an area of 82,000 sq ft affiliated to the University of Mysore, the Government College of Indian Medicine (*Ayurvedic* and *Unani*) and the various hospitals attached to the Colleges.

Until 1930, the medical courses were held in Bangalore where 30 students used to be admitted every year to the MBBS class. From 1930 onwards the medical courses have been in Mysore. Nowadays, the number of students has increased greatly in the Medical College. For the last 3 years the number has ranged between 200 and 220. During 1964-65 academic year, there were 978 students; 752 men and 226 women. Sex and classwise distribution of the medical student population is given in Table 1.

There are 152 teachers of, various ranks on the teaching staff of the College. This gives a student-teacher ratio of 6:1. The distribution of the teaching staff according to sex, designation and the courses they teach is given in Table 2.

The student population is heterogeneous in the sense it consists of young men and women drawn from different socio-economic, linguistic, religious and cultural backgrounds. From the economic point of view, the students can be said to be drawn 55 per cent from low income group, 33 per cent from middle income group, and 12 per cent from high income group. The details are given in Table 3.

The high percentage (55 per cent) of students from low income group belies the popular notion that medical education is the privilege of the rich or that only the sons and daughters of the rich can afford medical education which is admittedly expensive. The high percentage of medical students from low income group has become possible because of several factors. The Government's liberal policy and incentives in the form of scholarships, fee concessions and loans have attracted many students from poor families who would, otherwise, not have turned to medical education. The 'liberalization' of admissions by the introduction of the 'quota system' for different economic and caste-groups has enabled many students to enter

Table 3: Composition of Students by Income Groups

		(percentages ^a)		
Class		Low Income Group	Middle Income Group	High Income Group
Pre-professional	M	70	25.3	4.6
	W	44.9	32.6	22.5
Pre-clinical	M	61.7	28.1	10.2
	W	38.8	35.4	25.8
Clinical	M	48.2	43.1	8.6
	W	44.6	28.6	25.4

Note: Rs 1,500 and below per annum low income group.

Rs 1,501 to 5,000 per annum middle income group.

Rs 5,001 and above per annum high income group.

* To be added horizontally.

medical institutions. In the absence of the 'quota system' students belonging to low economic groups or certain relatively backward caste-groups would have been elbowed out of the 'competition' for admission by the other students, not necessarily on the strength of intrinsic merit, but often on the strength of wealth, opportunities for development and significantly better family background and upbringing.

Further, the low income group students are enabled to be in the medical colleges because of their parents' preparedness and determination to muster all possible resources and make all possible sacrifices to see their sons or daughters through the medical courses. It is possible to argue that the poor parents look upon their wards' education as an investment which will bring dividends in future and raise the standard of the entire families. Whatever the reasons prompting the parents, they do encourage and help their wards through the medical courses. An analysis of our recorded data supports the above observations.

From the point of view of the occupational background of the parents, 11 per cent students come from the families of physicians, 6 per cent from the families of teachers, 6 per cent from

families of clerks, 11 per cent from business families, and 36 per cent from agricultural families. The remaining 30 per cent come from the families of engineers, lawyers, executives, artisans and those serving in the defence forces, the police department, railways and public works department.

From the point of view of regions to which they belong, out of the 978 students, 970 are Indians and 8 are foreigners. Of the foreign students, 2 come from Nepal, 2 from Malaya, 2 from Africa, 1 from Iran and 1 from Ceylon; of these some are 'nominees' of the Government of India and some have come under the Colombo Plan. Of the 970 Indian students, 722 are from Mysore State, 245 from Kerala and 3 from Goa. Table 4 gives the regionwise distribution of the Medical College students.

As the students come from different regions, they also speak different languages. The group consists of students speaking English, Kannada, Telugu, Tamil, Malayalam, Hindi, Urdu and dialects such as Tulu and Konkani.

From the point of view of religious and caste backgrounds, setting aside the 8 foreign students, 5 per cent of the students are Muslim, 3 per cent are Christian, while the remaining may be

broadly said to be Hindu. Among the Hindus 25 per cent belong to various subcastes of Brahmins, 7 per cent are Lingayats who constitute a dominant non-Brahmin Saivite group in Mysore State, 13 per cent are Okkaligas who are another dominant non-Brahmin group of the State. Twelve per cent of the students come from Scheduled Castes and Scheduled Tribes, 7 per cent are Bants mostly coming from South Canara. While 3 per cent come from artisan castes like Carpenter, Blacksmith and Goldsmith, the remaining 23 per cent come from Banajiga, Barber, Coorgi, Kuruba, Valmiki and Yadava caste-groups (see Table 5).

Notes

- 1 Kendall, P, and R K Merton, 1958, pp 321-22.
- 2 Merton, R K 1959, P 147.
- 3 Fox, R C, 1957, pp 207-43.
- 4 Wahi, P N, 1963, p 85.
- 5 Corwin, 1961, p 605.

References

- (1) Becker and others, 1961: "Boys in White", University of Chicago Press.

Table 4: Regionwise Distribution of Students

Class	Mysore		Kerala		From Other States		Foreigners		Total	
	M	W	M	W	M	W	M	W	M	W
Pre-professional	122	35	26	14	1	—	1	—	150	49
Pre-clinical	240	64	62	24	2	—	4	—	308	88
Clinical	199	62	92	27	—	—	3	—	294	89
Total	561	161	180	65	3	—	8	—	752	226

Table 5: Castewise Distribution of Students

Caste	Pre-Professional		Pre-clinical		Clinical		Total		Men and Women	
	M	W	M	W	M	W	M	W	(Per cent)	
Brahmin	23	26	49	25	90	32	162	83	25.2	
Okkaliga	26	2	51	6	32	5	109	13	12.5	
Lingayat	12	2	26	2	24	5	62	9	7.5	
Bants	6	—	27	5	30	5	63	10	7.5	
Artisans	13	2	6	3	6	2	25	7	3.3	
Scheduled Castes and Scheduled Tribes	36	5	46	13	14	5	96	23	12.2	
Other Backward Caste-Groups	22	3	76	19	73	24	171	51	22.6	
Muslims	10	3	13	6	12	2	40	11	5.2	
Christians	1	1	5	9	10	9	16	19	3.2	
Foreigners	1	—	4	—	3	—	8	—	0.8	
Total	150	49	308	88	294	89	752	226	100	

- 1963: "Medical Education," in "A Handbook of Medical Sociology," Prentice Hall Inc.
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- (5) Fox, R C, 1957: "Training for Uncertainty" in R K Merton, P L Kendall, G Reader (Eds) "The Student Physician", Harvard University Press.
- (6) Huntington, 1957: "The Development of a Professional Self-Image", in R K Merton et al, (Eds), Harvard University Press.
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- in Jaco E Gartly (Ed), "Patients, Physicians and Illness", The Free Press, Glencoe.
- (8) Merton, 1959: "Social Structure and Social Theory", The Free Press, Glencoe.
- (9) Nathanson, 1958: "Learning the Doctor's Role: A Study of First and Fourth Year Medical Students", Unpublished M A Thesis, University of Chicago.
- (10) Wahi, P N, 1963: Editorial note, *The Indian Journal of Medical Education*. Vol 3, October, 1963.



DA 55/449

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Case for State Production of School Books

Kamlesh Ray

Good text books for schools are as important as good teachers. We are short of both.

Considering the quality of school books at present, it is questionable whether production can be left any longer to the efforts of individual authors and publishers.

State monopoly of production of school books, it is suggested here, will improve their quality and, besides, bring other benefits.

GOOD text books are as important as good teachers. We are short of both. While some of the text books are written by competent writers and teachers, many are produced by indifferent authors. The difficulty generally stems from the fact that the text books are written primarily out of mercenary considerations. Acceptance of a book in a school is left to the persuasion of the author or the publisher irrespective of the merit of the book. Many text books have come under severe criticism. These are of sub-standard quality, full of inaccuracies. Many competent authors shy away from the venture as they are not sure of a square deal from the publishers, nor are they proficient in lobbying from school to school.

The prices of school books are generally very high in relation to the resources of most of the parents. A large proportion of the students cannot afford to buy all the text books prescribed. Sales and distribution sometimes involve undesirable practices.

Books of foreign authorship and publication are still in use in Indian schools. Most of such books are good, yet not quite suitable. Good, because they are attractively produced, and do not contain serious inaccuracies. Unsuitable, because of the foreign setting, illustrations and examples. For instance, a nine year old boy learns about the weather in terms of England. He also learns that most of our daily food like butter, cheese, eggs and ham comes from Holland, Denmark and Australia. These books may be produced in London; they are excellent, but are quite out of place in this country. The knowledge acquired through these books has often no bearing on our children's experience. The children may eventually come to believe that what is learnt through books must necessarily be beyond any tangible experience.

Tagore once made a pointed reference to such foreign traits in education. He wrote of a boy in Allahabad who learnt all about rivers through his English book. When he was asked if he had

ever seen a river, he said 'no'. How was it that the boy who read about rivers in his text book failed to connect them with the mighty Ganga and Jamuna which flowed by his city? The answer may be that his English text book illustrated rivers with Thames, Severn, Nile, Danube and Mississippi, but not with Ganga and Jamuna.

Book of Western origin, besides, are more expensive and require foreign exchange. Some of the books reflect derogatory undertones towards non-white peoples of the world.

Size of the Problem

We have to produce books which will fit our environment. The task seems to be stupendous. School enrolment has gone up from 24 million in 1950 to 67 million in 1965 (see Table 1). Even so, on the whole only about one-half of children of school-going age are actually going to school at present.

The schools need over Rs 100 crores worth of books (see Table 2). The number of books to be used by a student varies from half-a-dozen in Class I to a dozen in Class V, in the Primary grade. Through Middle and Secondary grades, each student is required to study about 20 books. We have to prepare for the present and growing demand for school text books at all levels and in all the languages prescribed. Three objectives are to be achieved: high standard, low price, and easy availability.

Considering the present state of affairs, one comes to doubt if the text books should be left to private enterprise. Educational authorities can mobilise competent writers and teachers to produce standard text books on a regional or national basis. All such books need not be fresh ventures. There are a few good books already produced by Indian authors. These can be further scrutinized and perfected. New books have also to be written. Generally, a group of authors should work on a particular book or title.

This means a kind of nationalization

of text books. Many indifferent authors will be eliminated. There is likely to be some opposition from private publishers. High profits and super profits in the text book business will have to be curbed. The state has as much right to enter this sphere as any other under our mixed economy, and has a serious responsibility in the matter of education.

A standard text book produced by a body of experts will have great advantages. The cost of production will also be low when the book is printed in large numbers. A good book can be translated or adapted, if necessary, into various regional languages.

One criticism, however, may be levelled against nationalized text books. The same book read by all students will tend to produce regimentation of thought. Different treatment of a subject in different books would give a wider perspective, and permit exchange of knowledge and ideas among students leading to wider comprehension. A few standard text books for each class on individual subjects can be produced.

Cost of production can be lowered by printing large numbers. There are other elements which enter into final pricing. These can also be lowered under state publication of text books. The sale price of a book is generally set at 2½ to 3 times the cost of production. Book sellers get 30 to 40 per cent of the sale price as commission. The author is normally contracted for 10-12 per cent, seldom 15 per cent. What is worse, the author is never sure of the number of copies actually printed or sold. The allocation for publicity is low for text books, for, the sale depends upon the acceptance of a book by school authorities. This is generally arranged through personal contacts. The publisher's profit ranges between 12-15 per cent, but since most of the publishers are also book sellers, their total profit is higher.

If the text books are published by the state the price can be reduced at-

most to a half. Government can buy paper at the factory rate which is substantially lower than the market price. Since the books do not suffer from the uncertainty of acceptability, large numbers of copies can be printed. This reduces the cost further. Then, the sales being assured, the book sellers would not have to be favoured with the high percentage of commission on sale. While the normal channel of distribution (ie the commercial book shops) can be utilized, it would be necessary to open book stores at every school to ensure convenient supply and sale.

Sales and Distribution

We may for purposes of illustration work out the relative cost and price of a book which is sold for Rs 5 under commercial publication and sale. As shown in Table 3 the sale price can be brought down to a half of the commercial price. Savings are effected on cost of production (due to the factors mentioned earlier) as also on profits. But

the low percentage of profits will not hurt any party, since little uncertainty or risk is involved. For sales through school campus book stores, the commission will cover the establishment costs. Commercial book sellers will also get the commission. The authors will get an apparently low percentage of royalty, but this will be well compensated for by the assured large sales. For instance, a book selling for Rs 2.50 would fetch Rs 20,000 at 8 per cent on a sale of 100,000 copies. As each book will be written by a group of authors, the amount will be shared between them. Even so, the amount will be attractive and assured. This should be better given in a lump sum. Honorarium in a lump sum would be more satisfying to the author, and would avoid protracted accounting. The profit to the Government will be constituted into a development fund for the book project.

Mere publishing by the Government will not help the students unless sales are also organised. School books should

be available at campus stores under school management. Besides the obvious convenience of such an arrangement, commercial shops may not do justice because of the low commission. Some malpractices may also creep in. An instance may be mentioned. A State Government published a standard text book at a low price for primary classes and left its sale to commercial book sellers. The book disappeared from the market. After a time, it came to be sold with an undeclared compulsion imposed by the book sellers that it could be purchased only along with their 'notes' which cost three times as much.

Supplementary Readers

Text books which have to follow the prescribed syllabi are necessarily somewhat rigid, yet, competent authors can write lively text books. It is, however, necessary to provide the children with books which would transcend the grooves of text books and give them wider perspectives of co-ordinated knowledge. Such supplementary reading material will mostly come from free-lance authors. The subjects can be many and varied. Not being formal text books, these can be generally sorted out on their merit. A few of the high quality books on general science, history, biographies, international affairs and the like, can be selected by the school books organization of the Government for publication as a supplementary series.

Guide books for teachers in various subjects are no less important. In fact, this is an essential item for improving the standard of teaching.

Taking an all-India view, school books are a Rs 100 crore undertaking. A few standard text books are being attempted by the National Council of Educational Research and Training under the Union Ministry of Education. The States can also be associated with the project in a suitable way. Education being a State subject, the States have a vital role to play in the matter. It is desirable that uniform standards should be maintained throughout the country. The success of a project of this kind will largely depend on proper selection of authors and members of the boards, and maintenance of a healthy academic atmosphere in their activities.

The question of school books should be taken up with the utmost urgency.

FROM THE CHAIR

Year of Achievements for Indian Oil Corporation

Chairman's Statement at the Annual General Meeting

FOLLOWING is the text of a Statement by Shri P A Gopalkrishnan, ICS, Chairman, Indian Oil Corporation Ltd, at its Annual General Meeting held in November 27, 1965.

Gentlemen,

Before I describe the phenomenal progress which Indianoil has been recording since its active participation in the economic life of the country for the past four years, I would like to dwell in brief upon the emergence of a strong public sector oil industry in the context of the over-all industrial development. One of the factors which has been contributing to the rapid industrial growth in the country has been the energetic participation of public sector oil.

Whether in exploration, refining or distribution, oil industry in the national sector began from scratch and now it has come of age.

The steady rise in the demand for petroleum products is caused by several factors such as the industrialisation, urbanisation, growth of the population and the rising standard of living.

The consumption of petroleum products was a bare 4 million tonnes in 1951. It increased to over 10 million tonnes in 1961 and now it stands at about 14 million tonnes. Probably by 1971, the consumption is likely to go up to 22 to 25 million tonnes.

Indianoil's participation has also been growing steadily commensurate with the demand for petroleum products in the country.

Merger of the Divisions

The Balance Sheet and Profit and Loss Statement of the Indian Oil Corporation have already been circulated to you along with the Annual Report. You will see that the Public Sector Refineries at Gauhati and Barauni as well as the Pipelines Projects merged with the Indian Oil Company on September 1, 1964 to form this giant Corporation. With effect from April 1, 1965 the refinery at Koyali in Gujarat has also merged with the Corporation.

The Gauhati Refinery processed 749,164 tonnes of crude oil during the

year 1964-65 and Barauni processed 249,918 tonnes, the different units starting on different dates in the year. Barauni's production was also made available for sale but the production had not stabilised by the end of the financial year.

The Corporation's sale went up from 1.17 million kilolitres in the previous year to 1.72 million kilolitres in 1964-65. The sale petroleum coke in the year was 35,501 tonnes, as against 26,748 tonnes in 1963-64.

The operational cost per kilolitre was Rs. 31.68 in 1961-62, Rs. 30.16 in 1962-63, Rs. 29.21 in 1963-64 and Rs. 31.99 in 1964-65. The reasons for the increase in operational cost during the year are explained below.

Tankages

The tankage at installations, port and inland, increased from 367,780 kilolitres at the end of March 1964 to 406,960 kilolitres at the end of March 1965. Similarly, there was a significant increase in the number and tankage of depots. Many satellite and relay depots were constructed during the year as also bulk petroleum installations at various airfields. The total tankage of the Corporation's Marketing Division was about 489,225 kilolitres at the end of 1964-65 besides tankages for products at Gauhati and Barauni Refineries of 86,000 kilolitres and 1,20,453 tonnes respectively. The total number of depots of all kinds commissioned by the Corporation all over India was 175.

The number of consumer and dealer pumps for motor spirit and high speed diesel stood at 795 at the end of March 1964. It increased to 1353 at the end of March 1965.

The sales of Indianoil form a bigger and bigger percentage of the consumption of petroleum products in the country. In 1962-63 Indianoil sold 6.3% of the needs of the market. In 1963-64 the percentage increased to 10.1. In the four quarters of 1964-65 the percentages were 12, 13.4, 13.4 and 15.6 respectively. The sales have increased by leaps and bounds in 1965-66.

1965-66 has been a year of challenges. The hostilities on the border and the need for increased food production in the country have been the challenging factors in meeting the requirements of petroleum products both for the defence and food production in the country.

Essential Service

The local shortages of kerosene and high speed diesel in certain parts of the country, early this year, brought Indianoil to the forefront. The remedial measures which were taken to meet the shortages were of a strenuous nature but the challenge was successfully met. Since then Indianoil has won plaudits for effectively ensuring the supply of petroleum products. Oil supplies have come to be deemed as part of the essential service in the country.

Two lube oil blending plants were commissioned during the year, one in Bombay and the other in Calcutta. These plants are run by Indian Oil Blending Limited, which is a joint venture of the Indian Oil Corporation and Mobil Petroleum Company of the United States. Mobil lubricants are blended in these plants besides other forms of lubricants and the blending is done electronically.

The Corporation has been doing quite well in spite of the fact that it is competing with other oil companies which have not only worked in India for a much longer time but are big international companies with immense resources of all kinds in the oil industry. As far as India is concerned, however, the Corporation is bound to become the biggest oil organization in the country in the next two or three years.

Severe Competition

The paid-up capital of the Corporation is Rs. 44.26 crores and the turnover for the year is Rs. 77.82 crores. The net profit after allowing for depreciation and interest charges is Rs. 75.64 lakhs. The profit would have been Rs. 179.76 lakhs if the Corporation did not have to bear under-recovery of rail freight and the non-recovery of Central Sales Tax from customers as explained in the Report. Even so the profit is about Rs 8 lakhs less than last year although the sales of the Corporation have increased from 1.17 million kiloli-

Table 1: School Enrolment

(Numbers in millions)

Grade and Class	1950-51	1960-61	1965-66 (estimated)
Primary (I-V)	19.15	34.99	51.0
% (6-10 age) enrolled	43.1	62.4	77.8
Middle (VI-VIII)	3.33	6.71	10.8
% (11-13 age) enrolled	13.7	22.5	31.7
Secondary (IX-XI)	1.22	2.89	5.2
% (14-16 age) enrolled	5.4	10.6	16.8
All (I-XI)	23.70	44.59	67.0
% (6-16 age) enrolled	26.0	39.5	51.3

Table 2: Demand for School Books

Grade and Class	Estimated Enrolment in 1965-66 (million)	Average Cost of Books per Pupil (Rs)	Total Cost (Rs Crores)
Primary (I-V)	51.0	8	40.8
Middle (VI-VIII)	10.8	35	37.8
Secondary (IX-XI)	5.2	70	36.4
Total	67.0		115.0

Table 3: Comparative Pricing

Item of Cost	Commercial		Nationalised	
	Rs	per cent	Rs	per cent
Production	2.00	40	1.70	68
Bookseller	1.65	33	0.40	16
Author	0.60	12	0.20	8
Publisher	0.75	15	0.20	8
Total (sale price)	5.00	100	2.50	100

tres to 1.72 million kilolitres. The main reason for this is the severe competition that the Corporation had to face from the other companies, leading to a lowering of petroleum prices, particularly of Superior Kerosene. Secondly, the duty payable on certain petroleum products was increased in October and November of 1964-65 with the result that the Corporation was obliged to have increased working capital and there was consequently an increase in the interest charges. Thirdly, there was increase in the rates of interest more than once in the year and this increased the interest payable to the bank.

I have a great pleasure in referring to certain achievements of the Corporation. Formerly, the essential components of floating roof tanks used for motor spirit were imported by all companies. The Corporation imported the components for one floating roof tank and for the others, the components have been manufactured in India. The Corporation has also built air-craft refuellers which are in service with both civil and military air-craft. Formerly these were imported. Other items developed locally and used are power take off units fitted on tank trucks and tachometres.

Lastly, I would refer to training.

The Corporation has established training courses for sales, lubrication, engineering, operations, accounts and other items of work and these courses are of a continuous nature. Fresh recruits are trained before they commence their work and refresher courses are also provided. The Corporation has also established training courses in petroleum products for military personnel.

Before concluding, I thank all the Directors of the Board for their co-operation and advice and thank all those officers and staff who have worked hard to make the year successful.



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AROUND BOMBAY MARKETS

Nothing But Gloom

Thursday, Morning

DALAL STREET's trading pattern last week was not any different from that in the preceding week. In extremely restricted dealings equities continued to drift lower with a few professional operators dominating the scene all the while. Although selling was never heavy, the market was forced to seek a new low level because of the virtual absence of fresh support. Several shares touched new lows for many years.

New Delhi's reported decision to assign a bigger role to the private sector in defence production and the Finance Minister's statement hinting at the prospect of additional credits from Russia and Czechoslovakia for financing non-project imports failed to impart any steadiness to the market even though its technical position has improved considerably as a result of substantial anxious bull liquidation and bear pressure in the past few weeks.

But the stock market's performance could scarcely be expected to be encouraging when responsible Ministers continue to paint a gloomy picture of the economic situation and the nation is being alerted almost every day against a possible combined attack by Pakistan and China. The grim food situation, acute shortages of essential raw materials due both to a setback in agricultural production in the country and restricted imports on account of foreign exchange difficulties, uncertainty about the flow of foreign aid, serious power shortage, additional taxation by most of the States—all these make a formidable list of adverse factors. The economic situation is indeed very difficult and the outlook has been rendered more obscure by political uncertainties.

While the market could take a pause any time to allow technical forces to have their play and in the process equity prices might record some gains but prospects of any marked and sustained recovery seem remote. The crisis of confidence is, in fact, deepening with time as equity prices continue to seek new low levels.

COTTON

Dull and Subdued

WHILE cotton futures recovered after a further initial setback and closed almost unchanged over the week, the spot market continued to display a subdued tendency with most varieties

further down by about Rs 10 to Rs 15 per candy. But it bears repetition that the market is subdued only in relation to the recent past when they had been pushed to the revised statutory ceilings for the current (1965-66) season. Despite the recent setback, cotton prices continue to be well above the previous season's ceilings.

Recent rains at various places which have raised hopes of slightly better rabi crops have hardly anything to do with easier tendency in cotton prices. There has been no change in estimates about the 1965-66 cotton crop which continues to be placed around 52 lakh bales. The import prospects being what they are—even with best efforts imports are unlikely to exceed the previous season's figure of 8.18 lakh bales—there can be no doubt that the supply position of cotton will be very tight this season.

That cotton prices should have come down by Rs 30 to Rs 70 per candy over the past few weeks despite clear prospects of an extremely tight supply may seem somewhat surprising. But the reasons are not far to seek. Because of the acute financial stringency and continuing political uncertainties, agriculturists as well as cotton merchants are anxious to dispose of the goods as quickly as possible, especially when prices are ruling well above the previous season's ceilings. Few are inclined to take the risk of building up stocks. This explains why the pace of arrivals has been very satisfactory despite a much smaller crop. On the demand side, mills are having a difficult time. The off-take of cloth continues to be poor and because of the piling up of huge stocks of cloth, and yarn, the industry was obliged to effect a drastic cut in production in October and its performance in November or in the months ahead is unlikely to be more promising. Mills therefore are restricting their purchases to bare minimum requirements. Even the most well-to-do mills are unable to accumulate big stocks of cotton because of the distribution control.

The market could remain subdued for some time despite tight supply. But if the political situation improves and cloth off-take picks up there is a distinct possibility of a virtual scramble for cotton in the months ahead. Prices are likely to develop marked strength

as the season advances. Quite a good deal will, of course, depend on imports and US supplies under PL 480. Meanwhile, overseas demand for Bengal Deshi continues to be poor mainly because of substantially larger supplies at cheaper rates by Pakistan. Sales registered up to November 26 are placed at 57,507 bales which is a poor showing indeed.

OILSEEDS

Steadier After Setback

THE reactionary trend in oilseeds prices which had been in evidence for some time made further progress early in the week following the announcement of certain curbs on speculative activity in non-transferable specific delivery (NTSD) contracts in groundnut and groundnut oil. Reports of beneficial rains in some of the oilseeds producing areas also aided bearish sentiment to some extent. But the market soon developed a steadier tendency and that too under the lead of groundnut and groundnut oil. After easing from Rs 32.40 to Rs 29.50 (per 10 kgs) groundnut oil recovered sharply to Rs 33.25 by the week-end; groundnut ready Coromandel variety which had declined from Rs 78 to Rs 73.50 was up again around Rs 78.75 (per 50 kgs). Fluctuations in linseed oil and castor oil were confined to a narrow range and they followed the trend in groundnut oil.

Oilseeds futures also rallied after a further early setback. Castor April which had eased from Rs 105.12 to Rs 102.25 early in the week improved quickly to Rs 106.75 and linseed April which had been marked down from Rs 122.75 to Rs 120.25 recovered to Rs 123. Profit-taking and modest bear pressure pared some of the gains near the week-end. Cottonseed January moved irregularly between Rs 65.50 and Rs 63. The turnover in futures was rather poor. Speculative activity in the official market shrunk considerably because of the heavy margins.

The measures taken by the Forward Markets Commission to curb speculative activity in NTSD contracts in groundnut and groundnut oil consist of margins on all purchases with specified free limits for genuine consumers like vanaspati manufacturers and dealers, the setting up of panels of buyers and sellers and restricting the duration of delivery

contracts to not more than 45 days. The margin has been fixed at Rs 1000 a tonne in groundnut oil and Rs 500 a tonne in groundnut in Bombay and at Rs 750 a tonne for oil and Rs 375 a tonne for groundnut in Gujarat. Purchases of groundnut effected by crushers and vanaspati manufacturers and purchases of groundnut oil by vanaspati manufacturers will be exempted from the payment of margin provided such purchases do not exceed their four weeks' average requirements calculated on the basis of actual consumption during the preceding season (October 1964 to November 1965).

Similarly, purchases of groundnut oil by dealers will be exempted from payment of margins provided such margins do not exceed their four weeks' average requirements calculated on the basis of actual purchases from upcountry markets which resulted in delivery during the previous season. While allowing such exemption the stocks held by the party and the outstanding purchases under ready delivery contracts will be taken into account along with the purchases under non-transferable specific delivery contracts. The Commission has also laid down that no association recognised for groundnut and groundnut oil will be permitted to conduct any NTSD contracts providing for delivery beyond December 31 unless it introduces a system of panel of buyers and sellers and allocates its members in the appropriate panels so as to conform to their normal function in the trade. Moreover the duration of the NTSD contract will not henceforth exceed 45 days.

While it is quite natural for the trade and industry to resent any measure which restricts its freedom of operations, the Commission's decision to control strictly business in NTSD contracts will be widely welcomed. At a time when the country is faced with acute shortage of edible oils, speculative activity must be checked in every possible manner. Whether or not it will help to bring down prices is another matter. Prices are bound to move up when a commodity is in short supply. But if speculators are allowed a free hand they are bound to exploit the situation to the detriment of the general public interest.

Although recent rains are likely to benefit the rabi crops, the overall supply position of vegetable oils as also of foodgrains will remain tight and the authorities will need to take firm action in order to ensure equitable distribution of limited supplies and also to prevent a runaway rise in prices. New Delhi

will be well-advised to ensure that actions taken by the various States restricting the movements of goods outside their boundaries do not accentuate scarcities and thereby increase mass discontent.

MONEY AND BANKING

Stringency Reappears

CREDIT conditions in the Bombay short term money market displayed divergent trends during the week to December 1. While the market continued easy during the earlier part of the week conditions towards the close were distinctly firm. At long last the busy season seems to have arrived with the demand for funds increasing every day. With income tax dues payable during the next few weeks there seems to be a run on the market. Demand from upcountry centres is reported to be good. The rate of interest, which was 4 per cent during the earlier part of the week, moved up to 5 per cent on Tuesday and further to 6 per cent on Wednesday.

Scheduled bank deposits during the week to November 19 improved from Rs 2811.57 crores to Rs 2817.28 crores. Credit advanced by banks, however, declined by Rs 2.22 crores to Rs 2020.98 crores. Borrowings from the Reserve Bank were higher by Rs 18 lakhs at Rs 2.47 crores. There was a marked improvement in balances with the Reserve Bank from Rs 101.55 crores

to Rs 112.17 crores. Cash in hand improved slightly by Rs 43 lakhs. Investment in government securities at Rs 858.26 crores shows an increase of Rs 59 lakhs. The credit-deposit ratio was 71.74 per cent compared to Rs 71.96 per cent the week before.

The Statement of Affairs of the Reserve Bank reveals a decline in active notes from Rs 2661.48 crores to Rs 2646.35 crores during the week ended November 26. This decrease and a small increase in total note issue, from Rs 2674.81 crores to Rs 2676.18 crores, were absorbed in notes held with the Banking department which increased to Rs 29.83 crores. Foreign securities increased by Rs 2.42 crores to Rs 75.05 crores but balances held abroad declined from Rs 12.17 crores to Rs 9.90 crores. Rupee securities at Rs 2363.03 crores were lower by Rs 2.42 crores. Rupee coins increased from Rs 102.98 crores to Rs 104.34 crores.

Deposits of the Central Government advanced slightly by Rs 98 lakhs to Rs 80.15 crores. State Government deposits were higher as well at Rs 6.84 crores by Rs 31 lakhs. Scheduled bank deposits at Rs 104.44 crores showed an increase of Rs 2.52 crores. Loans and advances to governments moved up from Rs 127.16 crores to Rs 138.38 crores. Advances to scheduled banks were marginally lower by Rs 84 lakhs at Rs 1.58 crores. Investments declined substantially from Rs 212.52 crores to Rs 194.19 crores.

BUSINESS NOTES

Delhi Cloth and General Mills

FAIRLY satisfactory progress has been recorded in the year to June last by Delhi Cloth and General Mills in its various units engaged in the manufacture of diverse products such as textiles, sugar, confectionery, chemicals, vanaspati, artsilk fabrics, caustic soda, P V C resin, tyre cord, etc. The company continued its policy of modernisation and renovation of textile units. In order to meet the increasing demand for mixed yarns, 18,000 additional spindles are being installed at the Hissar Textile Mills. Poor crop conditions, coupled with heavy diversion of available supplies of cane to the gur and Khandari industries, affected the working of the sugar factories. The distillery and confectionery sections, however, did well. The production capacity of the Daurala Confectionery plant is being increased. The chemicals plant in Delhi worked satisfactorily. The vanaspati unit faced problems of availability and high cost of oil, but the rate of output was well maintained.

The Rajasthan Vinyl unit, which had its first fully year of operation, worked satisfactorily; the performance would have been still better but for the heavy power cut for the major part of the year. The rayon tyre cord plant was commissioned in the beginning of 1965, and its products have been well received by tyre manufacturers. Notwithstanding adverse conditions, the company maintained its position in respect of textile exports. P V C resin was also exported during the year.

Despite all-round rise in costs, the financial results show advance in sales from Rs 42.38 crores to Rs 48.27 crores and in gross earnings from Rs 3.84 crores to Rs 4.35 crores. But the improvement is more than wiped off by the increased provisions for depreciation and development rebate, the former requiring nearly Rs 69.50 lakhs more at Rs 3.10 crores and the latter about Rs 6.80 lakhs more at Rs 1.02 crores. Even though there is a saving of Rs 11 lakhs in taxation which claims Rs 16 lakhs, the balance profit is only Rs 6.53 lakhs compared to the previous year's Rs 21.37 lakhs. The unchanged distribution of 17 per cent on the equity capital demands Rs 74.68 lakhs (Rs 74.40 lakhs) and that on preference capital Rs 10.50 lakhs (Rs 8.23 lakhs). The shortfall in the balance of profit is to be made up by a sizeable

withdrawal from reserves. What, however, is more significant from the shareholders' point of view is that gross retained profit, after taxes, provisions and proposed dividends, is higher at Rs 3.34 crores as compared to Rs 2.75 crores last year. Also, looking back one finds that over the five-year period ended June last, fixed assets (net after depreciation) have risen from Rs 6.81 crores to Rs 18.73 crores, share capital from Rs 4.11 crores to Rs 5.76 crores and reserves from Rs 6.33 crores to Rs 9.68 crores, lifting the net worth from Rs 10.44 crores to Rs 15.44 crores.

Orient Paper

THE existing capacity of the Brajraj-nagar unit of Orient Paper Mills is to be increased by 11,600 tonnes with the installation of balancing equipment, besides carrying out the modernisation and renovation programme. The Amlai Paper Mills having a rated capacity of 48,000 tonnes of paper per annum was commissioned in the record period of about two years from the date of arrival of the first consignment of imported machinery at the site. The paper machine and some other ancillary units went into trial production in February last, and the pulp section was partially stated in June. Normal production is expected shortly after overcoming the usual teething troubles.

During the year ended March last, the production and turnover of paper and board were nearly the same as in the preceding year, but there was further increase in the wage bill, power and fuel, general expenses, etc., with the result that gross earnings dropped from Rs 1.74 crores to Rs 1.19 crores. Of this, development rebate reserve alone requires Rs 1.15 crores; last year it had taken up only Rs 0.75 lakh. Depreciation charge demands Rs 91.97 lakhs (Rs 50.40 lakhs), and for this purpose Rs 89 lakhs have been withdrawn from general reserve. The tax liability is nil (Rs 47 lakhs), but for payment of usual dividend on preference shares and at Rs two a share on equity capital the company has to resort to transfer from dividend equalisation reserve. Of the proposed dividends, 63 per cent will be exempt from the tax.

New Standard Engineering

FAIRLY encouraging progress has been reported by New Standard

Engineering in the first half of the current financial year ending March next. As against sales of Rs 132.7 lakhs for the corresponding period in 1964, the sales this year were Rs 156.4 lakhs. The highest sales were for structural works, which increased by over 45 per cent. Foundry sales were better more than 99 per cent. The sales of textile machinery at Rs 57.1 lakhs were over 18 per cent more than those of the corresponding period in the previous year, but since then there has been a stagnation in the textile industry. Although the only manufacturer of blow room machinery in India at present, N S E has on hand blow room equipment worth Rs 20 lakhs which has as yet not been lifted by the mills. The extremely tight credit conditions and the surplus unsold stock with the mills have given rise to these conditions. But the stocks are expected to be lifted in a couple of months, as the company has secured deferred term facilities from I D B I.

The new machinery and equipment for the foundry at Goregaon has been practically set up and is expected to be completed by March next. The Goregaon foundry specialises in large castings and has recently commenced castings of 20 tonne anvil blocks for the Massey-NSE hammers. The company will shortly undertake single castings of upto 30 tonnes a piece. The prototype of the company's new line of manufacture, trimming presses, has already been completed, and the regular manufacture of 200 tonne, 120 tonne and 60 tonne trimming presses in collaboration with B and S Massey of the U K will shortly begin.

Bharat Ball Bearing

BHARAT Ball Bearing is continuing negotiations for technical collaboration for the manufacture of roller bearings. Meanwhile, the company's existing products are well received in the market, and in spite of difficulties of raw materials and untrained labour, production has been increasing steadily. In the fifth year ended June 1965 the company has produced encouraging results: sales have risen from Rs 33.88 lakhs to Rs 1.02 crores and gross earnings from Rs 8.53 lakhs to Rs 17.15 lakhs. This outcome has enabled the company not only to provide Rs 9.06 lakhs for depreciation and wipe off the brought forward loss of Rs 3.92 lakhs but also clear arrears of preferential dividends upto end-June 1964 absorbing Rs 3.77 lakhs.

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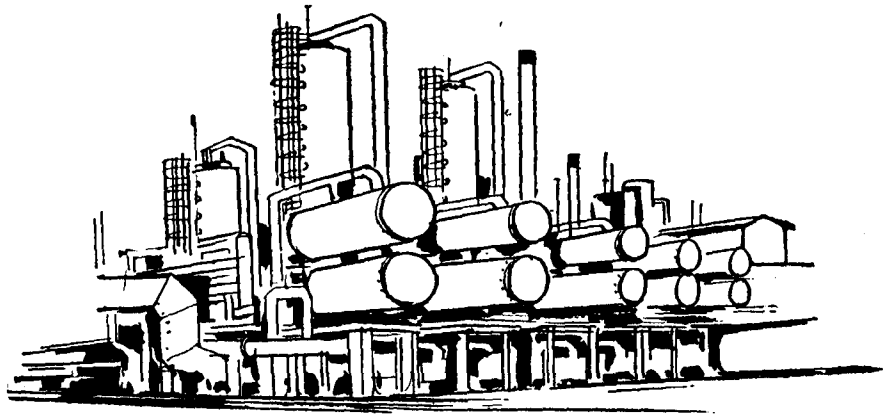


Coastal Shipping
COASTAL shipping continues to be in the doldrums in spite of the 10 per cent increase in coastal freight rates from August last; the increase in the excise duty on oil bunkers and other increases such as in wage bills and in stevedoring costs have largely offset the advantage accruing from the

sanctioned increase. The annual report of Great Eastern Shipping for the year to June last, however, gives an impression that the government may soon grant exemption from levy of excise duty on oil bunkers and may also agree to a freight rate structure which would cover cost and ensure a minimum margin to the coastal operators.

It is stated that some time ago a shipowners' delegation called on the Finance Minister and placed before him their problems and difficulties. The Finance Minister is said to have agreed to consider the waiver of excise duty altogether in respect of oil bunkers supplied to coastal ships on the same lines as those applicable to Indian Air Lines.

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DA 65/446

CURRENT STATISTICS

RAILWAY WAGONS LOADED

(In terms of 4-wheelers¹)

	Broad Gauge			Metre Gauge		
	1965-66 Apr-Sep	1964-65* Apr-Sep	Percentage Variation over 1964-65	1965-66 Apr-Sep	1964-65* Apr-Sep	Percentage Variation over 1964-65
	(1)	(2)	(3)	(4)	(5)	(6)
Revenue Earning Traffic						
Coal and Coke for Public (including Non-Government Railways)	963,392	836,621	+15.2	148,186	140,286	+5.63
Grains and Pulses	235,603	234,128	+0.63	208,311	218,174	-4.52
Oilseeds	24,301	26,326	-7.69	27,105	28,268	-4.12
Cotton Raw	11,200	8,586	+30.4	11,535	7,537	+53.0
Cotton Manufactured	2,542	4,786	-46.9	645	813	-20.6
Jute Raw	30,294	20,652	+46.7	27,604	20,513	+34.6
Jute Manufactured	3,550	3,484	+1.89	2,942	2,632	+11.8
Sugar	28,898	27,741	+4.17	32,163	30,133	+6.74
Sugarcane	2,354	240	+880.8	48,504	14,305	+239.1
Cement	133,839	114,487	+16.9	108,108	98,152	+10.2
Iron and Steel						
(a) Pig Iron	24,131	25,426	-5.09	4,971	4,222	+17.7
(b) Others	195,125	208,114	-6.24	33,841	34,572	-2.12
Tea	5,944	5,199	+14.3	8,098	8,690	-6.81
Metallic Ores						
(a) Manganese Ore	32,716	30,580	+6.98	7,104	8,679	-18.2
(b) Iron Ore	340,654	321,000	+6.12	62,033	52,016	+19.3
(c) Others	17,649	17,526	+0.70	5,808	5,066	+14.6
Limestone and Dolomite	146,020	117,376	+24.4	45,164	40,182	+12.4
Miscellaneous Full Wagons	973,151	936,489	+3.91	694,477	702,417	-1.13
Miscellaneous Smalls	192,735	172,617	+11.7	147,985	137,819	+7.38
Non-Revenue Traffic						
Railway Coal and Materials						
Coal for Home Line	137,177	136,859	+0.23	135,694	129,691	+4.63
Coal for Other Government Rail- way and Manufacturing Units	261,651	247,047	+5.91	27,709	23,959	+15.7
Other Stores	133,102	140,531	-5.29	115,071	108,281	+6.27
Total	3,896,028	3,635,815	+7.16	1,903,058	1,816,406	+4.77

* Revised figures.
Source : Ministry of Railways (Railway Board).

ELECTRICITY PRODUCTION AND DISTRIBUTION

(Monthly averages or calendar months)

	Electri- city Gene- rated (Million kwh)	Electricity Sold (In million kwh)							
		Domes- tic	Commer- cial	Indus- trial	Public Lighting	Traction	Irriga- tion	Public Water Works	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
65 July	2,668	189.9	117.0	1,539.2	25.1	44.7	138.9	61.5	2,116.3
June	2,629	187.9	118.1	1,521.3	24.9	46.1	139.1	61.0	2,098.4
May	2,620	188.7	116.3	1,534.6	24.8	45.6	127.1	39.7	2,096.8
April	2,511	152.4	112.9	1,464.2	23.3	44.8	123.4	57.4	1,978.8
March	2,568	180.2	112.2	1,495.0	23.8	42.8	123.4	50.5	2,027.9
February	2,347	165.8	104.6	1,376.6	21.3	36.5	111.9	47.9	1,864.6
1964 July	2,446	171.7	105.7	1,433.8	24.6	66.3	122.1	64.0	1,988.2
1964	2,372	165.5	103.2	1,369.7	23.5	51.0	113.4	50.8	1,877.1
1963	2,066	151.2	88.8	1,228.7	20.6	61.0	95.0	47.0	1,692.3
1962	1,789	148.7	92.4	1,050.8	21.0	55.0	72.7	41.1	1,481.3
1961	1,590	127.8	74.1	947.9	16.8	42.1	70.9	37.8	1,317.4
1956	801	78.5	44.4	437.5	10.0	33.9	26.3	27.0	657.5

Source : Central Water and Power Committee, Ministry of Irrigation and Power.

JUTE INDUSTRY
Production and Stocks of Gunnies

('000 Tonnes)

	Production						Stocks (At the end of the period)					
	Hessian	Sacking	Carpet Backing	Cotton Bagging	Others	Total	Hessian	Sacking	Carpet Backing	Cotton Bagging	Others	Total
1965												
August	45.0	47.5	7.6	2.7	7.8	110.6	45.1	52.7	21.3	2.8	8.0	129.9
July	46.9	51.9	7.7	6.8	5.3	118.5	45.1	51.3	20.0	4.2	7.5	128.9
June	42.3	51.7	7.5	6.7	5.4	113.6	42.1	50.4	20.2	5.2	7.6	125.5
May	41.4	51.2	7.8	6.6	5.6	112.6	40.8	47.1	19.6	5.7	6.8	120.0
April	42.8	51.1	8.1	6.4	5.9	114.3	41.9	47.2	18.7	6.7	7.6	122.1
March	45.5	51.8	8.7	6.3	6.7	119.0	47.9	41.9	19.0	7.3	7.6	123.7
1964-65*	526.6	574.3	97.1	49.8	72.5	1,320.3	42.1	50.4	20.2	5.2	7.6	125.5
1963-64*	533.8	495.5	95.5	49.0	75.3	1,249.1	45.2	45.2	21.4	5.9	8.6	126.3
1962-63*	514.9	531.8	64.8	41.3	65.4	1,218.2	32.4	47.2	6.2	5.1	5.3	96.2
1961-62*	414.3	508.5	32.1	45.1	69.0	1,069.0	24.8	39.1	2.6	6.3	7.5	80.3

*July-June

Source: Indian Jute Mills Association, Calcutta.

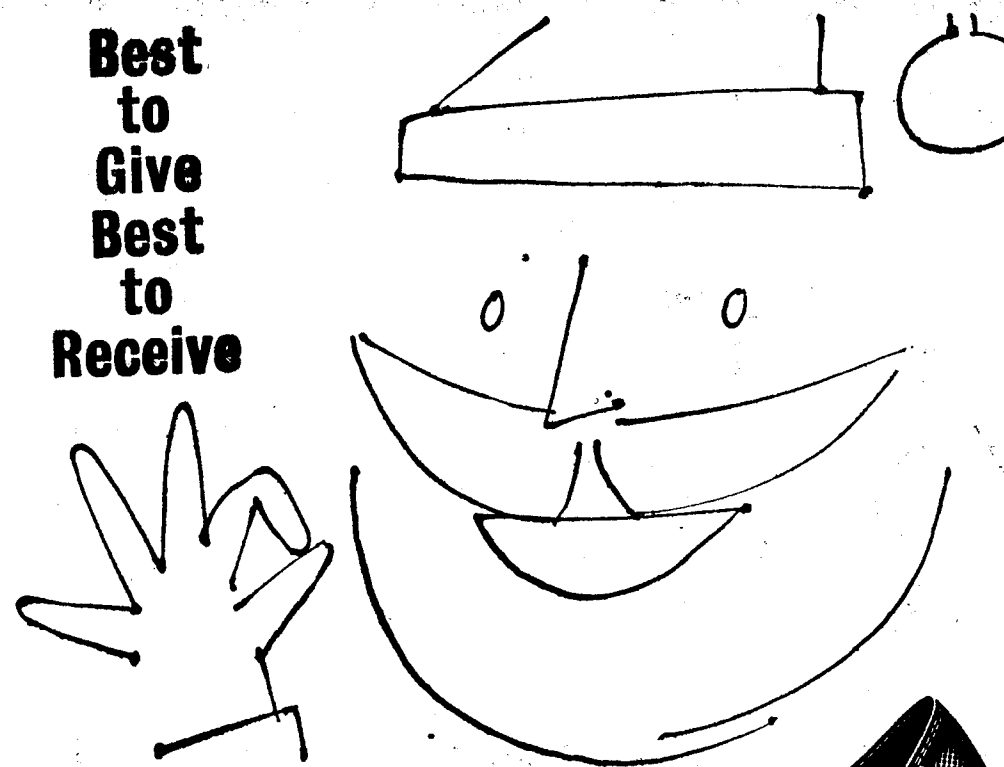
BANKING RETURNS

	(Rs crores)			
	Nov 26	Nov 19	Oct 29	Nov 27, '64
Reserve Bank				
1 Note Circulation	2646.35	2661.48	2612.40	2422.46
2 Rupee Coins	104.34	102.98	103.87	105.41
3 Deposits				
(a) Central Govt	80.15	79.19	56.85	60.14
(b) Other Govts	6.84	6.53	6.67	6.34
(c) Banks	104.81	107.37	111.21	96.77
(d) Others	208.23	210.16	204.78	144.82
4 Foreign Securities	75.05	72.63	72.63	85.46
5 Balance Abroad	9.90	12.17	11.37	8.01
6 Rupee Securities	2363.03	2365.44	2335.44	2146.13
7 Investments	194.19	212.52	114.04	118.44
8 Loans and Advances to Govts	138.38	127.16	129.45	38.86
9 Other Loans and Advances	171.02	170.56	169.77	158.63
Scheduled Banks				
1 Aggregate Deposits (net)	2817.28	2811.57	2802.86	2548.40
Demand (net)	1387.82	1377.02	1380.53	1272.77
Time (net)	1557.21	1564.17	1554.10	1375.89
2 Cash in Hand	69.57	69.14	66.89	66.18
3 Balances with the Reserve Bank	112.17	101.55	96.14	96.59
4 (2) + (3) as % of (1)	6.45	6.07	5.82	6.39
5 Borrowing from Reserve Bank	2.47	2.29	3.22	1.24
(a) Against Usance Bills and/or Promissory Notes	...	...	...	...
(b) Others	2.47	2.29	3.22	1.24
6 Advances	1773.91	1777.77	1782.87	1453.54
(a) State Bank	436.98	438.75	436.40	321.80
(b) Others	1336.93	1339.02	1346.47	1131.74
7 Bills Discounted				
(a) Inland	174.64	172.46	158.27	187.28
(b) Foreign	72.42	72.97	76.70	74.71
(c) Total	257.06	245.43	234.97	261.99
(i) State Bank	26.62	25.66	23.97	22.23
(ii) Others	230.44	219.77	211.00	239.76
8 (6) + (7) as % of (1)	71.74	71.96	71.99	67.32
9 Investment in Govt Securities	858.26	857.67	864.85	831.53
10 (9) as % of (1)	30.46	30.50	30.86	32.63

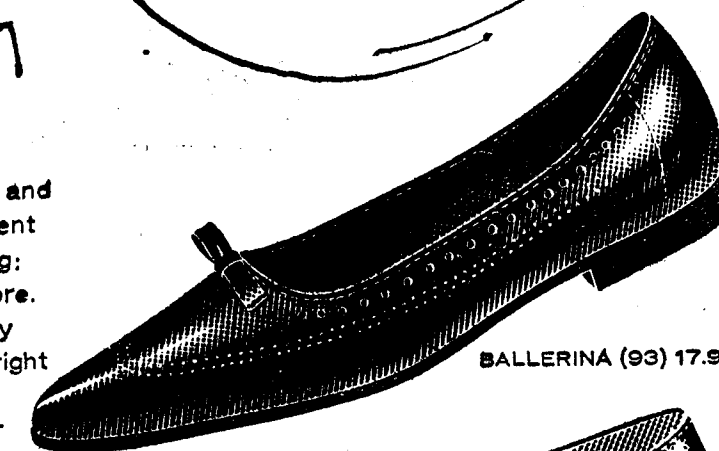
INDEX NUMBERS OF WHOLESALE PRICES

	(Base : 1952-53-100)			
	WEEK ENDING			
	6-11-65	30-10-65	9-10-65	7-11-64
Groups and Sub-Groups				
<i>Food Articles</i>	172.2	170.7	170.1	163.2
Cereals	147.9	146.9	148.4	140.2
Pulses	172.8	169.0	168.0	176.9
Fruits and Vegetables	168.7	165.7	162.2	187.1
Milk and Ghee	163.3	169.6	174.5	147.0
Edible Oils	258.4	248.2	233.2	203.5
Fish, Eggs and Meat	197.7	192.3	196.6	167.3
Sugar and Gur	165.8	158.2	158.3	202.4
Others	198.1	199.8	195.2	180.1
<i>Liquor and Tobacco</i>	136.1	135.8	135.8	134.1
Tobacco	133.8	133.5	133.5	132.0
<i>Fuel, Power, Light and Lubricants</i>	150.6	150.2	149.9	144.7
<i>Industrial Raw Materials</i>	199.0	192.5	188.5	161.3
Fibres	163.1	161.9	157.9	143.3
Oilseeds	269.9	254.1	247.5	196.0
Minerals	129.3	129.3	129.3	101.6
Others	138.6	138.6	139.7	134.4
<i>Manufactures</i>	148.7	148.6	148.1	138.6
<i>Intermediate Products</i>	174.4	172.8	171.4	154.2
<i>Finished Products</i>	144.5	144.7	144.2	136.0
Textiles	141.1	141.7	141.8	134.7
Cotton	139.5	139.8	139.4	137.9
Jute	141.2	143.2	144.2	124.8
Woollen	192.3	192.3	192.3	169.2
Silk and Rayon	139.3	138.4	138.5	132.0
Metal Products	187.2	187.2	187.2	169.5
Chemicals	128.8	128.9	127.4	120.4
Oil cakes	252.2	247.3	240.7	199.5
Machinery and Transport Equipment	136.0	136.0	135.6	127.5
Others	128.7	128.7	128.7	127.8
<i>All Commodities</i>	168.1	166.3	165.2	155.6

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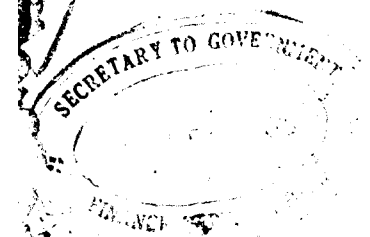
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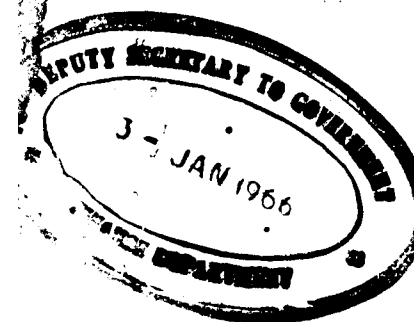
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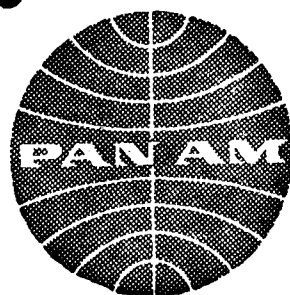
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THE ECONOMIC WEEKLY

Vol. XVII No 50 Dec 11, 1965

EDITORIALS

With Only P L 480 1807
Foreign Exchange Crisis 1808

WEEKLY NOTES

Socialist? Who, India? — Gaul-
lism: Beginning of the End
— Idle Machines and Mate-
rials — U K: Crystal Gazing
— Bleak Prospect for Exports 1809

CAPITAL VIEW

Too Much Secrecy 1812
— Romesh Thapar

LETTER FROM SOUTH

Governor's Politics 1814

BOOK REVIEW

What Do We Know about
Growth?
— Ashok V Desai 1815

SPECIAL ARTICLES

Andhra's Plan for 1966-67 1819

The Jats of Northern India:
Their Traditional Political
System
— M C Pradhan 1821

Pattern of Land Concentra-
tion
— P S Sharma 1825

BUSINESS NOTES

Rayon Industry's Prospects
— Indian Rayon—Premier
Automobiles 1829

AROUND BOMBAY MARKETS

Further Decline 1831

CURRENT STATISTICS 1833

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With Only PL 480

IN less than ten days the Food Minister has made four major statements in the two houses of Parliament, answered numerous questions by Members and presented a detailed report on the food situation prepared by his Ministry without, however, succeeding in creating any confidence that the food crisis is being effectively tackled. In all the Food Minister's pronouncements the emphasis has been on the wonderful things he is going to do to increase production next year and in the years after, while what the country has been wanting to know from him is what precisely he is proposing to do to meet the immediate situation arising from the crop failure this year. The most ingenious "crash programmes", even ones which will miraculously double the production in a single year, are irrelevant just now.

Subramaniam's effort to focus public attention on agricultural programmes for the future is partly intended to sidetrack criticism of the Government's many sins of omission and commission which have brought us, after three Plans and a vast investment in agriculture and allied services, face to face with a countrywide famine. Partly, also, the brave and loud talk about self-sufficiency by 1971 is for the consumption of the US Administration which has made it clear that from now on PL 480 assistance will depend on the Indian Government's ability to carry conviction that it is taking effective steps to increase agricultural production within the country. But a third reason for the Food Minister's reticence about measures to meet the immediate food problem is probably that he hasn't many in mind.

Over the past several months the country has been periodically told that the Government is engaged in preparing a "national food budget" which will be the basis of steps to distribute equitably available food supplies, both internally produced and imported. When this budget will be finally ready one does not know, but it is plain enough that so far precious little progress has been made. To begin with, the Food Ministry hasn't an idea even of the extent of the fall in production this year. Within about a month, the Food Minister has revised his estimate of the shortfall in the kharif crop from 3 million tonnes to "over 8 million tonnes". The latter figure was mentioned in the Minister's statement in the Lok Sabha initiating the food policy debate on December 1; the Food Ministry's survey, presented to Parliament only the day before, had put the figure at "between six and seven million tonnes". In addition, there is the much higher figure of about 14 million tonnes which one gets by adding up the States' estimates, prepared no doubt with the objective of either, in the case of the surplus States, retaining as much of the production within the State as possible, or, in the case of the deficit States, wheedling the maximum supplies from the Centre—which, incidentally, speaks volumes for the spirit in which the different "tribes" of the Union approach a vital national question.

If there is a confusing plethora of estimates of the shortfall in production, about the quantum of foodgrains in Central and State Government stocks there is a discreet silence—and for good reason. The Government has been talking about, discussing and debating the need to procure as much of the internal production as possible since well before the 1964 kharif season. The Rs 100-crore Food Corporation has also been functioning now for more than a year. Yet it can be said without the slightest risk of being proved wrong that the stocks with the Centre and the States today—in spite of last year's bumper crop and six million tonnes of imports and this year's half a million tonnes-per-month imports—are not adequate to meet even a part of the demand which will arise if the decision, about the only one, to which the Government has committed itself, viz, to introduce rationing in cities with populations of over one lakh and in selected industrial areas, is to be implemented. No wonder, then, that with less than a month to go for the deadline for introduction of rationing, the Food Minister admitted in the Lok Sabha on Tuesday that "for diverse reasons" some of the States were still fighting shy of rationing.

For the Government's failure to procure enough grain to meet its responsibility of saving large numbers of people from starving it will not do to blame

the hoarding producer or trader. That, at a time when a food crisis was being shouted about from the rooftops, including by the Food Minister, producers and traders would want to hang on to whatever stocks they could lay their hands on was not unexpected. The Government was supposed to face this problem squarely. Nor can it be said that the Government's stocks are what they are because there have been no opportunities to buy up more. The Food Ministry's survey reveals that following the Indo-Pak hostilities there was a significant improvement in market arrivals of both rice and wheat as a result of which there was an unseasonal decline in the wholesale prices of cereals. Did the Central and State Governments take advantage of this fortuitous spell of dishoarding to buy up the grain that arrived on the market? They did not. In Punjab, for instance, the price of paddy was allowed to fall below even the minimum sup-

port price—only then did the State Government bestir itself to make some purchases and that too just to "protect the interests of the farmers"! Will the Food Minister explain why the Government let slip through this excellent opportunity to buy up some rice, in respect of which the situation threatens to be really desperate in the coming months?

Subramaniam is entitled to declaim that he will not allow considerations of national prestige to stand in the way of asking for American food to save the poor from starving. But it would have been easier to appreciate his touching humanism if it were true that before sending out the SOS to Washington the Government had done everything to make the best use of internal production so as to reduce the gap to be filled in by charity from abroad. This it has failed to do, completely and miserably.

Foreign Exchange Crisis

THE reported postponement of the Aid-India Consortium meeting and also of the visit of the World Bank team—both, on present indications, indefinitely—and the Finance Minister's projected trips abroad in quest of bilateral aid lend a new twist to the foreign exchange "crisis" in India. Whether these represent any re-appraisal, agonising or otherwise, of the extent and inevitability of our foreign exchange dependence remains to be seen.

We have been living with a foreign exchange "crisis" for the last eight years and the present phase itself is three years old. This alone should give rise to suspicion that the present crisis is being exaggerated. Take, for instance, the situation that has prevailed since April 1965. Apparently, it has been the Government's policy not to issue import licences except against foreign credits available. Assuming that this has been done (and, considering the horse-trading for which our bureaucrats are well-known, one is not sure of this), one would expect that the present should mark a favourable turn in our foreign exchange reserves position.

First, aid committed as on March 31, 1965 was Rs 3,577 crores, of which the amount utilised as on the same date was Rs 2,100 crores. This meant that aid of Rs 1,477 crores (including PL 480 and rupee payment

arrangements) was in the pipeline as on March 31, 1965. Much of this aid would be tied to projects; and much of it would be of a capital nature, the utilisation of materials (non-project) aid being much faster. However, the pipeline should last a considerable time—at least a year. Second, of our current earnings, only a part is committed to automatic use for imports—mainly earnings against export promotion schemes. The balance should be available for priority uses.

As against this, despite the fact that the present phase of foreign exchange tightness commenced in mid-1962, there had been no effective tightening of imports. Besides shipments on the way, there must have been a large quantity of import licences issued prior to April 1965 which must have continued to be used up. On this basis, it can be assumed that the effect of import curbs since April 1965 would begin to be felt on imports only now; as much is clear both from import trends during April-September 1965 and the recent admission of the Finance Minister that revenue from import duties is likely to commence falling below estimates.

The significance of imports in our total industrial production is marginal, though specific industries (superphosphate, cables, tyres and tubes, rayon yarn) are more vulnerable. However, industry, being wiser than the

Government, has generally carried large inventories, particularly of imported goods, in view of the uncertainties of import-licensing policy. The impact of reduced imports on industrial production is likely to be felt, at the earliest, after March 1966. (Incidentally, the reduction in inventories of imported goods should release a substantial portion, perhaps Rs 100 crores or more, of bank credit, and, to that extent, the credit stringency expected in January-February 1966 may never materialise.)

Given the above considerations, subject to defence imports, India's foreign currency reserves should improve in the following months. However, with an uncertain foreign aid situation, there is need for a selective import policy to maximise its impact on the Indian economy. For example, a concentration on imports of copper, sulphur, rock phosphate, rubber, fertilisers and alloy steel would appear to be most beneficial today. In the present crisis there would be justification for using another exchange-saving device, namely, a ban on all remittances to foreign investors. The Industrial Policy Resolution explicitly subjects such remittances to the exigencies of the foreign exchange situation.

However, it is time that the Government also tried to look beyond its nose. First, it is necessary that a long-term policy on the import of indigenously produced or producible commodities should be laid down, providing for a total ban on the import (including import against rupee payments, foreign credits and export promotion schemes) of such commodities after, say, two or three years. The immediate candidates for such a ban are rayon and paper pulp, caustic soda, mild and alloy steel, fertilisers, newsprint, all textile machinery and similar other items. This would enable entrepreneurs to take definite steps to manufacture these items and consumers of these goods to encourage their indigenous production (rather than, as at present, devoting their energies chiefly or solely to obtaining import licences from Delhi).

Second, it is necessary that we draw up a detailed plan on the implications of the foreign aid cut. After all, the amount of foreign aid promised by the Consortium group fell from \$1,295 million for 1961-62 to \$1,027 million (the "stopped" aid) for 1965-66, and the net aid, after allowing for repayment and interest payments, has

fallen still more steeply. With political differences with donor countries, future aid is still uncertain. At present, our exports are at the rate of Rs 800 crores, and payments due on existing external debt are likely to be at the rate of Rs 150-200 crores per year in the next five years. This would leave free foreign exchange earnings of Rs

600-650 crores. If the country were forced to live within these earnings how would she arrange her planning and her import budget? The recent controversy between the Finance Minister and the Food Minister on the exchange allocation for fertilisers has shown clearly the conflicting demands on limited foreign exchange reserves

Weekly Notes

Socialist? Who, India?

THE Monopolies Enquiry Commission has not, as inspired scoops would have us believe a few weeks ago, found that "there are no monopolies in India in the accepted meaning of the term". Quite the contrary. Setting about its task in textbook fashion it has made a study of 100 selected products to find that in 65 of them "a high degree of concentration exists in the sense that the share of the three top producers of a particular product is more than 75 per cent of the total production". As for concentration of economic power over the economy as a whole—what the Commission calls countrywise concentration—it finds that the top 75 business groups, the total assets of companies under whose control is not less than Rs 5 crores, account for 44 per cent of the paid-up capital of all companies in the corporate sector and for 47 per cent of their assets.

These are not startling revelations. R K Hazari's painstaking research into ownership and control of corporate enterprise had showed a high degree of concentration of power. And about concentration in particular industries the Commission draws its results from data regularly collected by the Office of the Director General of Technical Development. But while these facts may not be as commonly known as they might have been but for the tendency of "that section of the press that is under the control of big business" to "present too rosy a picture of the performances and practices of big business", it has been plain enough all along that the very logic of planned development of a predominantly private enterprise economy could not but lead to greater concentration. Rightly does the Commission mention among the main causes of the growth of concentration of economic power "the Government's programme of planned development which necessitated a system of indus-

trial licensing, control of capital issues and regulation of imports, as well as exchange control in the face of a difficult balance of payments position". Predictably, "big business groups with better resources found themselves in a more advantageous position to deal with the controls and to start new ventures than the smaller man who often found these controls too formidable to overcome".

No doubt R C Dutt is right to say in his minute of dissent that "planning and controls are by themselves neutral". Whether or not they result in the growth of concentration depends on the overall purposes conditioning their operation. In India a major such purpose has been to foster capital formation in the private corporate sector. If companies and business groups are to be important sources of capital formation, their powers and privileges have to be increased, not diminished. As D R Gadgil pointed out fully ten years ago in a note to the Panel of Economists, the fundamental inconsistency of our industrial policy has been that it has sought, on the one hand, to lean on modern private enterprise for capital formation and, on the other, to set itself the goal of preventing concentration of wealth and economic power.

It is quite pointless, then, to talk of the need to reduce concentration of economic power. Even if the Congress did not take a single rupee for its election funds from business groups, the Government will not be one jot more able or willing to curb the power of these groups. The financial support that it extends to the ruling party is more an expression of the power of big business, less its cause. The fact is, concentration of economic power involves control of large resources and also of large areas of production and those who have such control are in a position to influence policy in a large measure—including the decision whether or not

and the need to make hard choices. Rather than taking *ad hoc* decisions, it is desirable that we ask ourselves clear questions and take decisions based on full calculation of the necessary consequences. This is a task which Asoka Mehta and the Planning Commission should immediately address themselves to.

to curb concentration of economic power!

When the Monopolies Commission was set up the question was raised why such a commission was necessary in India. Joan Robinson, writing in the July 1964 Special Number of this journal, had asked: "Does a 'socialistic' society accept the view that private enterprise is the ideal economic system provided only that competition prevails?" But the point is, this is not a "socialistic" society. At any rate the Monopolies Commission clearly takes that view. It holds that "concentration of economic power has helped the economic betterment of the country" and that it "may be relied upon to make an important contribution to industrial development in the crucial years to come".

The Commission's task, then, is the limited one of doing something about the "widespread dislike for big business among the masses, disturbing the mutual goodwill among large sections of the community". Other capitalist countries have faced the same problem and the Commission can do no better than take a leaf out of their books. The United States has her Federal Trade Commission and the United Kingdom her Restrictive Practices Court and Monopolies Commission. Let us now have our own Monopolies and Restrictive Trade Practices Commission!

Gaullism: Beginning of the End

THE French political pattern has been a highly individual one. The right-left cleavage which emerged all over Europe in the latter half of the nineteenth century also found a reflection in France, but it did not mesh with the opportunist-idealist camps so closely as it did in other countries. France has for long had Rightist ideologues and Leftist opportunists: both Poujade and Mollet have a tradition behind them.

Thus, the French left and right are identified by their professions rather than by character and class, and their political parties have lacked cohesion. The tendency towards "one view, one party" was further accentuated by the electoral system introduced just after the war which, to reduce the influence of communists, favoured small parties.

But while keeping the communists out was an objective that attracted wide support, the need for executive authority and continuity was no less strong. The ephemeral rule of splinter parties which characterised the Fourth Republic was tiresome. France longed to be rid of it, and de Gaulle's first mandate was to remove it. True, only de Gaulle could have presided over the funeral of the Fourth Republic, for such a priestly role could only be bestowed on a national figure, and no one could become a national figure by strength of reason. Mendes-France might have given France a more solid and less arbitrary constitution if he had been allowed; but he could not be allowed, for there was no charisma about him. People want to think of their country in terms of a family; de Gaulle fitted into this family, Mendes-France would not, even as the family doctor. Only about de Gaulle could one say without fear of incongruity: he assumed power, and he gave France a constitution.

A constitution, however, which removed the need for de Gaulle. For the Fifth Republic simply must have an executive President; and since he would stay for seven years, the Republic is safe — unless it is overthrown. In all referenda up to the one on constitutional changes in 1962, over 60 per cent voted for de Gaulle, because the alternative was grim. With the new constitution, however, the alternative was Mitterrand, or Lecanuet, or Tixier-Vignancourt, and many people found this quite exhilarating. By insulating the executive authority from party opposition, de Gaulle has brought France back to its old political pattern. If there is any surprise in the results of the ballot of December 5, it is that 44 per cent still do not disperse into their erstwhile political coteries and prefer to vote for de Gaulle.

This is an important portent for the second ballot, for there will be no political issues in it: it will be a ballot on de Gaulle. So it is more likely than not that it will repeat the results of the earlier referenda.

The immediate prospect, therefore, is quite unexciting. De Gaulle does not like to share power; so his confrontation with the EEC is likely to continue, and it seems improbable that the EEC will go over to majority voting next year, and if it does, that it will on the more substantial issues. De Gaulle is likely to keep up mobility in foreign policy, but it is difficult to see what political dividends this will bring, for neither Western Germany, Russia nor China considers France important enough for her national interests.

The interesting possibilities lie further in the future; for like Nehruism, Gaullism will die with its progenitor. Then there will again be scope for the right to play against the left in France; and if the new constitution leads to the emergence of larger political parties, politics might again become important in a way it has not been for a quarter of a century.

Idle Machinery and Materials

THE speculative element influences decisions about how much inventory to hold not a little. In a situation of shortage inventories would be higher than in circumstances of easy supply. Of imports, since there is perpetual shortage, there is a case for stocking up as much as you can. These proclivities do not always emerge from statistics of inventories carried by industries as a whole; it is to the stock figures of individual enterprises that we have to turn. Those who can get the finance and can bear the cost of it and those who can get the import licenses will stock up.

Public sector undertakings are evidently no exception to this pattern of behaviour. In their case, if anything, the financial burden of carrying excessive inventories seems to matter even less and the prospect of being hauled up before Parliament should shortage of this or that material cause a break in production is apparently a strong inducement to carry as large inventories as possible. The figures of inventories which can be culled from the Finance Ministry's latest report on the working of public undertakings are really revealing. In the aggregate at the end of 1963-64 inventories carried by the 22 undertakings classified as "running" were equal to the value of 11 months' production. Hindustan Steel held inventories equal to nine months' production and the other 21 equal to 14 months' production.

The largest component of inventories held by public sector undertakings is raw materials, stores and spares which account for 70 per cent of all inventories. Raw materials, stores and spares with the 22 running concerns amounted to 14 months' production. Hindustan Aircraft and Indian Telephone Industries had stocks which on the basis of the year's consumption represented production requirement of 30 months and 24 months, respectively. Stocks of raw materials, etc., carried by Bharat Electronics and Fertilisers and Chemicals were sufficient to meet 15 months' production needs. Stocks held by Hindustan Shipyard represented 13 months' consumption, while those of Fertiliser Corporation, Hindustan Antibiotics, National Instruments, Praga Tools and Garden Reach Workshop were equal to 12 months' requirements. And, finally, to take the most ridiculous instances: 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, or roughly stocks equal to four years' consumption! In the case of Travancore Minerals stocks amounted to Rs 5 lakhs whereas the year's consumption was just Rs 0.3 lakhs.

In addition to imposing an avoidable heavy financial strain on the undertakings themselves, idle stocks of raw materials, stores and spares represent waste of scarce resources which could have been put to productive use elsewhere. The latter consideration has now assumed particular significance in respect of imported materials in view of the drastic curtailment of imports. The report that the Government has set up a cell for controlling inventories in public undertakings has, therefore, come not a day too soon. The cell is expected to induce these undertakings to reduce inventories to minimum levels and direct the surpluses released to units in need of them. The considerable possibilities in this direction should be quite clear from the statistics quoted above.

Along with the reduction of inventories another task which calls out for urgent attention is that of achieving optimum utilisation of construction machinery and equipment used by various projects at the construction stage and subsequently left to lie idle. In the absence of any arrangements to transfer such machinery from one project to another, new projects flitely

place orders abroad for machinery even though similar equipment may be lying idle, and probably getting spoilt through disuse and poor maintenance, with some other project.

One way of tackling the problem would be to create a central pool which will lease out items of machinery to projects for as long as they need them and then take them back. In fact, some such scheme has been under the Government's consideration for the last two years or even longer. It is to be hoped that along with the cell to control inventories, the Government will also take necessary action to create a suitable agency for keeping equipment commonly needed by different projects circulating.

UK: Crystal Gazing

Our London Correspondent writes:

A SERIES of economic predictions on the outlook for the British economy have recently been published and, although there are small differences in emphasis, the general consensus seems to be that the rate of growth of the British economy in 1966 will continue at a slow rate of around 2 to 3 per cent — below the target outlined in Brown's National Plan and below the level of growth achieved by other industrialised countries.

The main organisations who have undertaken these forecasts are the National Institute of Economic and Social Research, the London and Cambridge Economic Service, the Business Economists Group and the Common Market economists in their Report on the "Economic Situation in the Community".

The National Institute has now built for itself quite a reputation for economic predictions. Its latest report is slightly more optimistic than the quarterly forecast it published in August. In its earlier report, it predicted snowballing stagnation during the coming year, but its latest report maintains that while there will be a slow-down in economic output in Britain next year, there will not be a recession. Output will probably rise slowly at a rate of about 2 per cent in 1966. The National Institute has also revised its estimate of the likely figures of unemployment. In their August review they suggested that in the attempt to right the balance of payments, Britain might well be faced with unemployment amounting to some 500,000. The Institute now be-

lieves that although unemployment will rise, it will not be above 2 per cent in the fourth quarter of 1966, as it had suggested earlier. A figure of approximately 1½ per cent would probably be nearer the mark.

The London and Cambridge Economic Service, which published its own report before the National Institute report came out, also predict a 2 per cent growth in the UK economy in 1966. A similar rate of expansion was also predicted by the Business Economists Group which met in London last week. While the Institute believes that the gross domestic product in the fourth quarter of 1965 is 1½ per cent higher than it was in the first half of 1965, the Business Economists believe that gross domestic product has stagnated.

The Common Market economists predict that Britain's rate of growth, which should reach about 3 per cent this year, is bound to decline next year if Britain's programme to re-establish equilibrium in external payments is fully realised. "At all events, some slackening of business in the United Kingdom is highly probable for the simple reason that the industrial investment cycle should, in any case, be entering upon a less expansionary phase".

Bleak Prospects for Exports

THE Business Economists Group is more pessimistic than either the National Institute or the London and Cambridge Economic Service. It differs mainly in that it makes much lower estimates for public spending. The Institute, which has had an excellent forecasting record, as far as Government expenditure is concerned, anticipates a higher rate of spending than do the Business Economists. While some economists keep asking why the Government's deflationary policies are taking so long to work, the Institute believes that the measures taken are already beginning to bite, and as evidence, points to the levelling off in personal consumption. The Institute also believes that private investment will decline and is inclined to treat the latest Board of Trade estimates of a rise of 5 per cent in manufacturers' investment intentions, as being unduly optimistic, although, of course, they believe that public investment will make up for the shortfall in private investment.

Perhaps the most depressing feature of the latest National Institute Review is that relating to Britain's ba-

lance of payments. Here, the Institute makes a slightly less optimistic forecast than it made three months ago. It now feels that there "may not quite be a basic balance in the second half of next year". It fears that a small deficit may result in the second half, instead of the surplus the Government has been confidently predicting. The main reason for this more pessimistic viewpoint is that the Institute now assumes no further drop in import prices. This slightly less optimistic view seems to be borne out by the statement by Callaghan in the Commons debate on the import surcharge last week.

The Institute is also rather pessimistic about the progress made so far in tackling the really basic issues which face the British economy. "The problem of combining an improving balance of payments with a faster growth rate does not, as yet, seem much nearer a solution — particularly when the improvement has to be such as to enable Britain to repay some £900 millions of debt in the next four years or so". If Britain is to cope with this problem, the Institute believes that it must either check its propensity to increase imports, or make exports more competitive, or do both.

In these circumstances, it might perhaps be interesting to examine how British exports have been faring. Recent figures published by the Board of Trade, show that Britain's performance as an exporter of manufactures in 1964 was a good deal worse than that of the rest of the major industrialised countries of the world. While British exports of manufactures in 1964 increased by only 5 per cent compared with 1963, Japanese exports rose by 23.4 per cent, US exports by 18.3 per cent, and German exports by 14.5 per cent. It is in the field of engineering goods that Britain has fared worst. UK engineering exports, half her total exports, rose by no more than 1 per cent in 1964, compared to the 14 per cent rise recorded by the main manufacturing countries in aggregate. "This rate of growth roughly in line with an average annual increase of some 4½ per cent over the past decade, was smaller than the 6½ per cent increase achieved in 1963 even though world demand was growing more rapidly in 1964 than in 1963". Since world trade is expected to be less buoyant in 1965, a further slowing down in UK exports is to be expected.

Although imports have not risen very greatly this year, the slower rise, according to the Institute can be fully explained by a combination of the effects of the surcharge, last year's good harvest and the lower figures for stockbuilding. For all these reasons, unless something more dramatic is done to expand British exports, the outlook for the economy is bound to be vulnerable.

The Business Economists Group,

CAPITAL VIEW

Too Much Secrecy

Romesh Thapar

ARE we growing up? I hope so. Chinese violations of cease-fire positions in Nathu-la and Thag-la have not generated the kind of embarrassing pressures which the GOI was compelled to succumb to in 1962. The fire-eaters of those days now adopt a patient and supposedly wise posture. This is not the result of some special magic exercised by the GOI. We are becoming a wee bit more practical about violations of disputed frontiers and realise that careful calculations have to be made before responses are formulated.

Living with the world's longest ever cease-fire line — at a cost of anything from Rs 4 to 5 crores per day — is not a situation made to order. The Prime Minister has thought fit to describe the Chinese operations as an attempt to colour the background to the Soviet-sponsored Tashkent summit meeting between India and Pakistan. Perhaps, he is right. But it would be a grave mistake to imagine that the Chinese do not intend anything more than 'needling'. It is possible that Peking may decide to re-occupy the disengaged zone along the Himalayan front on the plea that India has refused to settle the question of boundaries and is quietly infiltrating into this 'disputed area'. This would be the Maoist way of declaring that the Colombo proposals are dead.

Army men, more confident than before of meeting Chinese moves, are naturally anxious that their tactical freedom be ensured. While it is true that for the moment Parliament has accepted the Prime Minister's argument that military moves cannot be made a subject of public debate, we who observe the scene in the Capital wonder what would happen if the Chinese decided to push deeper into

however, takes a somewhat more optimistic view of Britain's foreign trade. A report drawn up by a special working party of 13 economists from leading U.K. companies, suggests that Britain's export performance will improve over the next twelve months to a point where international payments balance. This forecast of course has been based on the assumption that world trade continues to expand at about the same rate as in 1965,

that the import surcharge is reduced in the second half of 1966, and that investment allowances are strengthened during the year. It also assumes that monetary policy will be less restrictive and that fiscal policy will be broadly unchanged. Many of these assumptions, are, however, open to question, and one is forced to the conclusion that the Business Economists' Group is perhaps a little too optimistic about export prospects.

the disengaged zone. The Prime Minister and his colleagues need to be more coherent about explaining the implications of defending a sprawling frontier. It is not enough to talk tough. We must think tough. And the starting point of this toughening up is to get public opinion accustomed to the idea that effective defence often involves the giving up of undefendable territory in order to hit the enemy where it hurts. This understanding just does not exist among the politicians. It has to be drilled home in the interests of political stability in times of crisis.

It is unfortunate that the Prime Minister did not utilise his statement on the present situation in NEFA to explain these matters. His description of the 1962 decision as a mistake shows that he himself has yet to understand the choice that confronted Jawaharlal Nehru in those days. In October 1962, it was not clear that the Chinese would attempt a major push into NEFA. After the first assault, a withdrawal to the foothills would have given the Chinese their full claim line. The attempt to defend a position as far north as possible was correct, but the attempt to treat Se-la as a fixed bastion was disastrous. Plans should have been formulated for a fighting withdrawal to more favourable terrain in the event of the enemy out-flanking and cutting off the position. Mobility and flexibility are two qualities which the Chinese adventurers respect.

Again, for the same reasons, the secrecy which blankets the details of the campaign in West Pakistan prevents the education of public opinion. Nor does the Defence Minister help matters when he makes bland statements in Parliament to the effect that we knew what there was to be known

of the Ichhogil defences and the fortifications in the Sialkot area. This strange obsession to keep us uninformed about past events, even about the NEFA debacle in 1962, is most unhealthy. In this context one wonders whether the members of the National Defence Council have been properly briefed on the lessons learned from two armed collisions. Indeed, those who argue that U.S. Embassy personnel in the Capital probably know more about the details of these collisions than members of the Emergency Committee of the Union Cabinet might not be so wide off the mark!

Members of Parliament are aware of this sorry state of affairs, but have been persuaded to remain silent "in the interests of national security". This cult of self-censorship, now generally practised by publicists and commentators, is a miserable betrayal of their responsibilities and cannot be dressed up in patriotic clap-trap. It is buttressed by the official 'guidelines' offered as a mental straight-jacket to newspapermen and accepted without a whimper by them. The leading elements of the GOI may for the present rejoice in the conformism they have established but conformism in a basically democratic society is known to crack suddenly. And, then, the deluge.

We are being kept in the dark about almost everything. You can visit the power levers in Delhi and locate almost every possible interpretation of India's present situation, including the rather emphatically worked out opinion that the crisis is being exaggerated to facilitate the acceptance of unfavourable aid terms and to blunt the leftist opposition to a sell-out. This mass of conflicting opinions, however, finds agreement at several

points: that next to nothing is being done internally to assess our agricultural and industrial potential, to mobilise and organise it effectively; that urgent agricultural and industrial input demands, beginning with fertiliser production, will be exploited by western suppliers to open up the Indian economy for a deep penetration; and that the 'new orientation' of GOI policies is already taking place without fanfare and publicity, imperceptibly. If the Bechtel fertiliser deal is through, as report would have it, and on terms rejected earlier, then the 'new orientation' has certainly been launched.

Judging the mood of the Senators and Congressmen from the USA, and of foreign businessmen, who have suddenly adopted a more optimistic tone on India's future prospects, it does appear that commitments are being made which have yet to be publicly recorded. If this is an unfair comment on what is believed to have been going on behind-the-scenes, then the optimism is inexplicable. At this moment, our state cannot by any stretch of the imagination exude optimism — unless, of course, we are viewed as a potentially profitable 'take-over'.

Apparently, assessments of this sort are being made in various capitals of the world, particularly in Moscow and Washington. While it is true that mechanical ideological tests need no longer be treated as valid, political analysts will not be convinced of India's self-reliant posture unless the concessions now being envisaged are counter-balanced by a more solid immediate and perspective control over the direction of economic development. If concessions are necessary to ensure vital agricultural and industrial inputs, it is equally necessary for the State to take a firmer organisational grip over banking and foreign trade. Moreover, the public sector, dominant in key sectors, must be protected against the erosion which might take place as *ad hoc* commitments are made by a government increasingly functioning on the advice of senior bureaucrats.

A flexible internal economic policy, based on clear perspectives, is only possible on the basis of a continuous probing of the situation. An informed government and an informed public opinion are a guarantee that private lobbies will not have their way. The Planning Commission was designed to play this role. Today, this machine is in the doldrums. And soon it may

be put into cold storage. This is a development which is causing much uneasiness in political circles still able to think.

Another session of Parliament is ending, but we do not seem to have moved nearer to understanding what we have to do to survive the trials of 1966. A government which refuses to inform, which changes its statistics from day to day, which fails to lead, remains unchallenged. This is the reality which we have to contend with. The alarms on our frontiers, our hopeless dependence on foreign food

and aid, the apathy which paralyses the GOI, our incapacity to get down to the jobs which need to and can be done, have become a part of everyday living—and are, unfortunately, accepted as such. Until this mood changes, no challenge will crystallise.

Tailpiece: The Chanda Committee on Mass Communication Media has delivered itself of another profound judgment after months of investigation. Its 'consensus' is that Television is a highly sophisticated medium very different from broadcasting and cannot be developed as an adjunct to it!



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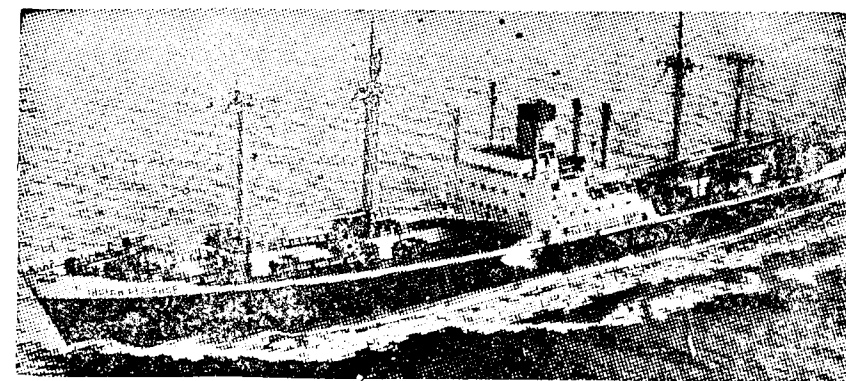
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Governor's Politics

SINCE Kamaraj's recent visit something is afoot in Kerala. The Congress desire somehow to get back into the saddle remains a constant factor making for instability. What is new is that some quite mischievous attempts are being made to translate this desire into a damaging reality, regardless of the cost to Kerala. The most shocking part in all this is that of Governor A P Jain. He has now publicly declared his intention to return to active political life. The infighting in UP is probably calling irresistibly. So he would like to wash Kerala off his hands well before 1967 to enable him to contest either for Lok Sabha or the UP State Assembly. This personal ambition spurs on his natural partisanship for the Congress.

In Jain's view the situation now and in the next few months offers many advantages to the Congress which may not remain, at least in their present dimensions, till early 1967. The image of the Congress on a national scale is brighter than it has been for some time, thanks to the conflict with Pakistan and the Chinese and their withdrawn ultimatums. There is a feeling that if the nation is in danger and its vital stability is to be guaranteed, then the only party all over the country which can ensure this is the Congress. The elections in Kerala, if held soon, could be presented as a sort of vote of confidence in this, at present, only possible shape of national unity.

Similarly, there could not be a worse time to hold the elections, in his view, for the Left Communists, the biggest anti-Congress force in the State. There are very few, indeed, who would question the patriotism of E M S Namboodiripad and his colleagues but there are many who would wonder at his political attitudes and remain sceptical as to whether he has the united backing of his party. The acknowledgment by him of the letter of his party State secretariat criticising his stand and the dismissal of his private secretary have raised a great deal of dust in the State. Perhaps it could not be done, but if Namboodiripad had stuck firmly to his original statement on Pakistani aggression and based his agitation on the resolution passed by his party's Kerala State Committee in the middle of September, all the present embarrassment could have been easily avoided.

The further calculation of Governor Jain is that the Left Communists will not have the same manoeuvrability as they had early this year. Adjustments with the Muslim League would be extremely difficult, the SSP is much cooler towards the Left Communists than some months ago and the dissident Congress has shown itself more blatantly reactionary and anti-Communist than even the official one. Finally, the selective arrests and releases of the Communists have damaged their party apparatus more than the sudden swoop late last December.

The key to the situation, in his view, is the reconciliation between the two Congresses. And the central figure here is Mannath Padmanabhan. Hence it was that Kerala witnessed the disgraceful spectacle of its Governor going all the way to the octogenarian Nair chieftain's home to receive his donation to the National Defence Fund. What was even more sickening was the tribute paid by Jain to Mannath. He called him the "Gandhi of Kerala" since he had done for Kerala what the Mahatma had achieved for the whole country. A greater insult to Gandhiji could not have been conceived. Everybody knows that Mannath was a toady of the British as well as of the Maharajah and that he is a proclaimed communalist on behalf of the upper-class Nairs. Never, even by mistake, has he done anything that would help the modernisation, advance and deliverance of the Malayalees. Yet for bringing him round no limits on lying sychophancy were observed.

Governor Jain's strategy is well thought-out but it can be quite easily upset. Even today the Left in Kerala can come back to power if only it unites. As elsewhere in India, the people of the State have a wise resilience about them. When it comes to the defence of the country they are quite willing to rally behind the Government and to give it all necessary support. But when it comes to internal politics then the parties are judged according to their programmes, personalities and work insofar as the level of choice has been reached. The defence of their own needs of living quite obviously become matters of paramount importance. In the State the Congress has not been able to offer either advance or stability and the only force that can give both is the United Left. Kerala is the one place where a viable

progressive alternative to the Congress has arrived politically. If this can be projected challengingly, Jain's calculations will be upset.

Further, if Left unity is systematically rebuilt and consolidated the grand electoral coalition planned by the Congress leadership will be difficult to bring into being. The dissident Congress is not going to easily walk back into the parent body. Too many vested interests have developed. The official Congress is not so much more powerful than the rebels as to make the latter surrender unilaterally. If the Left rival proves its powerful existence this obstinacy of the dissident Congress will increase to the point of demanding a coalition rather than a merger — a coalition, moreover, on the basis of a clear demarcation of areas of influence. This might itself prove an impossible hurdle for the two Congresses, based as they are on a criss-cross of caste and regional affiliations. If the two Congresses are unable to come to some kind of organisational understanding, then other parties are unlikely to be responsive to the call for the grand crusade for the Restoration. Response apart, the Muslim League is in an unenviable position. Its hold has weakened somewhat in what were its former impregnable fortresses in Malabar. Alliance or adjustment with it would prove nationally embarrassing for the Congress, especially in the heartland of Uttar Pradesh where the Jana Sangh is on the offensive. It cannot find an ally nor can it do without one.

The prospects for Left unity are not too bad, either. The core of that unity is the rapprochement at the level of action, not of ideology or grand political strategy, of the two Communist parties. As at present this should not be too difficult to achieve. Despite the overwhelmingly better performance at the polls, the Left Communists have declared their readiness for an electoral pact. With the Muslim League out of the way, the Right Communists have no difficulty in giving a positive response. Indeed, Left unity has been achieved at the all-India level on the basis of some sort of charter of demands. This could find flesh and blood in the Kerala election battle. The possibilities are good. What is needed is a drive to get moving immediately rather than wait for the date of the poll. The lack of this drive is the dark lining in the silver cloud.

What Do We Know about Growth?

Ashok V Desai

Economic Growth in France and Britain, 1851-1950 by Charles P Kindleberger; Harvard University Press, 1964; pp xii+378; \$8.95.

LITERARY economics can best deal with bivariate relationships. Descriptions of relationships between three variables border on inelegance; more variables are impossible to handle. One can still manage if the partial relationships are additive — if the relation of one variable to another is independent of and additive to the relation of a third to that variable. In this case the marginal relations are bivariate. The achievement of marginal analysis is that it made possible the verbal treatment of multi-variate relationships. Its limitation is that it is often wrong.

Kindleberger takes bivariate theory at its own literary, qualitative level and shows that almost all of it is contradicted by some phenomena or other in British and French economic history of the last century. He chooses the hypotheses from those actually put forward by historians of the period, but his selection covers virtually all the theory of development that is taught today. The student of theory should read this book, not merely for the dose of scepticism it conveys, but also to learn the skill with which it brings facts to bear on theory.

Economics and History

How good is the book as history? Kindleberger denies being an economic historian, for "the badge of an economic historian is won by working with primary sources, not in making syntheses of already synthetic materials" (p 1). The value of this criterion might be questioned; it might be argued that the work of historians would gain in worth if it had more sweep, imagination and explanatory force. But such a debate would be academic, for the aspects of economic historians that are brought to light by Kindleberger are their tendency to make sweeping generalisations and their disrespect for or lack of skill in looking at facts. The difference between economic historians and Kindleberger does not lie in the depth to which they dig into facts, but in their inclination to suspend judgment: economic historians tend to be much more devout.

The quality that a layman associates with a good historian, rightly or wrongly, is literary style. This is per-

haps what attracts Kindleberger to history, for he recognises among social scientists "the lack of a felicitous prose style, with its possibilities of irony and paradox, which makes the subject so enjoyable in *belles-lettres*" (p 88). Maybe literary self-indulgence was one of the factors that led him to treat France instead of Germany. Judged by literary standards, Kindleberger's book is much more pleasurable to read than average economics; and he is master of economy. He also shares the historian's penchant for putting the choicest bits in footnotes. But he has less concern than a historian for flow and coherence. His interest is in theory-hunting, but he does not pause to finish off each theory. Once he sees it lying on its back, he loses interest and goes on to the next theory. This leads to a certain abruptness of transition; it leaves the reader breathless. The book is racy, but lacks finish.

Coal and Steel

The book begins with an outline of economic growth in the two countries and ends with an appendix on statistical data. It can be divided into four sections, dealing with factors of production, questions of organisation, sectors and industries, and philosophical questions.

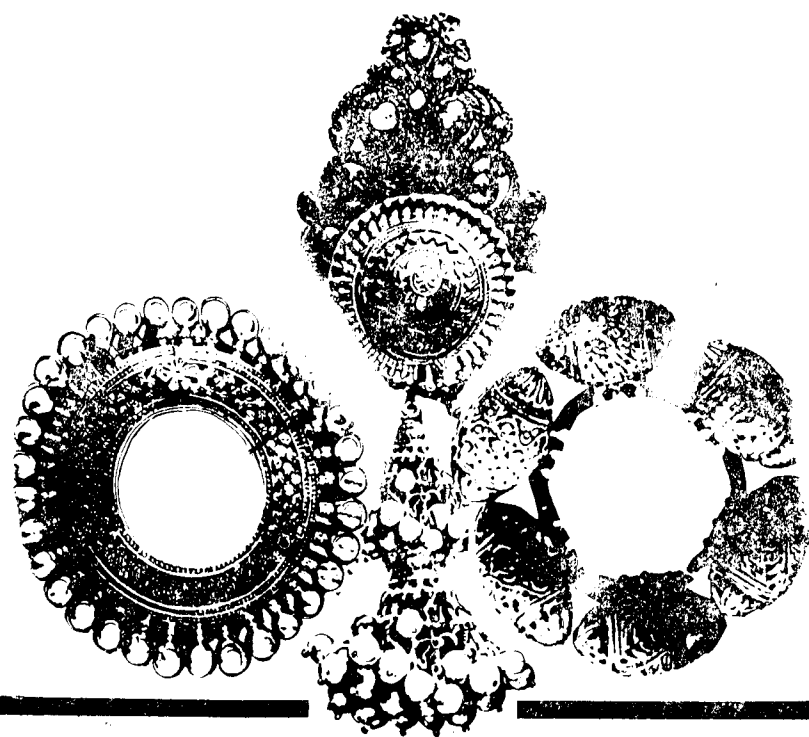
The chapter on resources is mainly devoted to a rebuttal of two arguments: that the growth of French industry was inhibited by the high cost of coal, and that the British steel industry lost ground as a result of technological changes in the last quarter of the nineteenth century. Coal, Kindleberger argues, could have been imported by France, and its costs were high owing to high tariffs and underdeveloped transport, both man-made factors. This is correct as far as it goes, but is probably not the whole story. French protection was comprehensive and relied almost entirely on tariffs; it must therefore be expected to permit a higher general level of domestic prices and to reduce both imports and exports. This is Weiller's view, and Kindleberger seems to agree with it (p 280). But if that were the case, the protection given to coal industry as well as the high price of coal might have been illusory: the dif-

ference between the home and foreign prices of coal might not have been any greater than for commodities in general. Kindleberger does not say whether this was so or not.

Borrowing and Lending

Kindleberger takes capital chiefly to mean loan finance. Even in this sense, capital would be of interest if industrialists were indifferent between internal and external finance and lenders between loans to industry, governments and railways. But they were not; preferences between different kinds of finance and investment were even more marked in the nineteenth century than they are today. And for some reason there was, in all west European countries, a large volume of saving by people who were not directly managing industry. Whether they were people who had made money from family firms and then liquidated them, or had amassed wealth by serving the state or selling powers it conferred on them, we do not know; their savings are, however, an indubitable and conspicuous phenomenon. In Germany there were institutional innovations — banks, real estate companies, mortgage banks — which channelled these savings into industry, land development and buildings; institutions in France and Britain channelled the savings into international investment and state loans. This had nothing to do with relative rates of return, which were higher in home industry. Kindleberger would perhaps agree with this; in fact, he gives some interesting examples of parochial preferences for particular forms of investment. And yet he concludes:

"More savings insistent upon finding an outlet in domestic industry would have been better than the existing amount or less, unless by some chance the reduction in demand for consumption goods would have blunted investment incentives. But this is true only in the sense that more of anything is better than less in a world of positive prices. The supply of savings was adequate. It is possible to blame the greed of the financial community in France, though not in Britain, but it would still be necessary to explain why



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more opportunities for big profits were not forthcoming on the domestic front". (p 68)

The implication, that savings would have flowed into domestic industry if profits had been high enough, can be disputed. Intermediary institutions could have diverted savings into domestic industry even at existing profit levels; the story of British and French foreign investment is more often one of folly and disappointment than of high and secure returns, if we except politically insured investments like those in Indian railways. And even if it were a matter of profit levels, profits in industry would have been higher if the savings had been consumed or if the state had taxed them away and spent them on public works or war.

Sociological Determinants

The chapters on social determinants, entrepreneurship and technology are among the most interesting, not least because they contain more personal comment.

Kindleberger voices the doubts that arise in economists' minds regarding sociological determinants of growth. There are doubts regarding causality: "Is the public school responsible for Anglo-Saxon repression, or vice versa?" (p 105) The explanations are of a *post hoc* nature: because French economic growth was slow, one discovered or imagined all sorts of traits in French character to explain it; and when the performance suddenly improved after the last war, the explanatory traits also changed. "If national character can change overnight, and in particular respects, how far can it be used to explain historical events?" (p 111).

Kindleberger examines the Pitts-Landes thesis which attributes the slow growth of French industry to the dominance of aristocratic values in business dynasties, and offers what seem to be weighty rebuttals. The behavioural traits — "hesitation about innovation, high rates of saving, maintenance of liquidity" — could be explained by reference to the business environment and without bringing in values. Further, caution and conservatism were displayed by firms other than family firms.

The chapter on scale and competition is somewhat chaotic. While the author ends other chapters on a sceptical note, he seems to have begun this one without much hope. Perhaps the difficulties of definition are overwhelming: but it might have been

useful to look at the reasons behind merger movements. Many mergers aim to diversify the product-mix or bring together firms with good investment opportunities and those with liquid assets. Such mergers would increase the rate of growth at least immediately. The mere fact of change in concentration signifies nothing.

Structure of Agriculture

In the chapter on agricultural transformation, Kindleberger discusses Clark and Bellerby's view that French agricultural and industrial incomes were roughly the same, and concludes that agricultural wages at any rate were much below industrial. He could have reached firmer conclusions if he had noted that what goes under the name of French industrial wages is mainly craftsmen's wages, which are generally much lower than wages in organised industry. For the latter there are virtually no historical statistics in France.

Since relative wages in agriculture fell from the 1860s right down to the first World War, Kindleberger infers that industrial expansion was not slowed down by labour shortage. Though this evidence is not very strong in itself, the conclusion deserves to be accepted because it would be difficult to find contrary evidence. But the argument of physical labour shortage is too unsubtle: the really interesting argument to investigate is that owing to the small size of farms, the French marketed surplus was small so that the high prices of agricultural wage goods and the consequently high wage costs reduced the profit margins and the investible surplus of industry. This argument requires international comparisons, and is difficult to test because of the lack of profit data: but it needs to be looked into in the French context. The structural reasons for the slow improvement in French agriculture up to 1950 and for the failure of British agriculture to adjust itself to the Great Depression would have become clearer if Kindleberger had dealt with the last twenty years. Small farms in France have preferred wheat to animal husbandry in spite of strong price incentives, while in Britain, the output of beef and milk has gone up remarkably as a result of standardisation and organised marketing.

In the discussion of the relation between Britain's slow growth from 1870 to the first World War and its shift to the export of less highly processed commodities, Kindleberger

broadly follows Saul; but he goes on beyond the war to a new conclusion: that "the overvaluation of the pound sterling in 1924 may have sped British growth in the long run while it was hurting it at the time" (p 278). Earlier, Kindleberger writes, "In retrospect, the stabilization of the pound at par seems to have been inevitable, given the history of one hundred years of the pre-eminence of sterling. Economic discussion had little to do with it. The independent roles of the government, and of economic analysis, were in reality narrow. As on so many occasions, the task of economic analysis was a priestly one, to justify what was taking place for deep-seated reasons rather than to determine the direction of movement" (pp 206-207). There could hardly be a more severe judgment on economists, and in the context it seems unjustified.

Question of Response

Devaluation in 1925 could well have speeded structural change in Britain. Britain lost markets for staple products because of the growth of industry in underdeveloped countries, and would not have won them back by devaluation. On the other hand, it would have increased exports of engineering and metal goods. And economists did not play an entirely priestly role: there were eminent and vocal heretics.¹ The unfairness of the judgment becomes clear if we apply it to present-day Britain, which in this respect is exactly where it was forty years ago. The only opponents of overvaluation of the pound today are to be found among economists. Let not the sins of bankers and politicians be visited on economists.² It is more to the point to say that the exchange rate might not be frightfully important, and that "it is not the foreign trade that leads to growth — any stimulus can do it if the capacity to transform is present or can be drawn out of dormancy" (p 287). But even this is not very illuminating unless we can recognise and manipulate the "capacity to transform".

This "capacity to transform" is the heart of the matter. As Kindleberger puts it, "objective conditions count less for economic development than the nature and extent of response to them" (p 308); and all his positive comments are variations on this theme.

This problem of response is very perplexing, because one does not know how to go about solving it. All those who have something to say on it seem

to assume a priestly role. There are the doctrinaire views that the capacity of a society to transform depends on geographical factors, and that it is the same in all societies. Some people back education as the prime factor, forgetting that the requirements of education both as a consumer good and as an industrial input depend on the average real income. Others go and measure the strength of the "motive for achievement" in different societies, again mistaking covariation for causation. None of this gets one very far: one wants something less partial and more operational.

Kindleberger seems to think that the response depends a great deal on the nature of the organisation — its size, flexibility, power, distribution, etc. He gives instances of technical improvements which were not introduced because the resulting economies were external to the institutions which would have to invest (pp 143-147, 247). Larger, more integrated firms might have introduced the improvements; but as Hirschman might point out, large firms would have internalized the diseconomies also. And they might harbour inefficient departments by not making departmental cost calculations or adopting a let live attitude. There is little one can say at the level of generalities.

Besides, organisations shape in the image of their leaders. Technical progress on the Great Western Railways between 1830 and 1954 was concentrated in the regimes of two managing directors, Brunel and Churchward (p 138); and the difference noted by Kindleberger in returns to investment in British and French nationalised industries (p 160) has much to do with the top leadership and the chances given to it by the governments.

So the problems to think about are, how to create organisations that can be easily split up or amalgamated, how to take decisions regarding their size, how to choose their leaders, how to devise chains of authority so as to give the leaders freedom of manoeuvre, and what rules of financial management would be conducive to innovation and growth. Kindleberger does not tackle them, perhaps because the economic historians whom he takes as his text did not notice them, or because the historical information threw no light on them, or because it is difficult to make confident generalisations about them. But the difficulty does not alleviate the need. Whatever the level of generality at which one might tackle them, these

problems are the most urgent ones for economic development.

Notes

¹ Kindleberger would deny Keynes the role of a heretic because he wrote an article in the *Nation* supporting the return to parity. Keynes was much less devoted to his own views than most of us, and he can easily be accused of inconsistency; but I don't think he could be said to have played a "priestly" role regarding the return to gold.

² Kindleberger might feel like re-

versing this in the context of "Economic Consequences of the Peace" in which Keynes says, "the economist was profoundly ironic at the expense of the four statesmen and politicians and, on many matters of substance and colour, wrong" (p 202). The question of German reparations was a political one, and one's position on it depends largely on personal prejudice. Personally, I regard "Economic Consequences of the Peace" as a rare achievement, being one of the two readable books with an economic bearing that I have read.

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Andhra's Plan for 1966-67

(From a Special Correspondent)

THE blue-print of Andhra Pradesh's Plan for 1966-67 as finalised in discussion between the representatives of the State Government and the Planning Commission in the third week of November involves an outlay of Rs 79.25 crores — a few crores less than what the State Government had asked for. Of this Rs 50 crores represents the quantum of Central assistance and Rs 29.25 crores the outlay by the State Government. The State Government expects to find Rs 22 crores out of this amount from next year's revenue receipts; so additional resources of about Rs 7 crores have to be found during the year. Tentatively in their talks with the Planning Commission the State's Chief Minister and Finance Minister had agreed to raise additional resources of about Rs 4 crores. It has now been decided that this amount should be raised by revising the sales tax structure in the State. A Bill has been made ready to implement the decision.

Vital Project

Out of the total approved outlay for the first year of the Fourth Plan the most important single project that will consume a large part of the proposed outlay is Nagarjunasagar. In fact a major portion of the outlay in the State Government's annual plans during the whole of the Third Plan period has been on Nagarjunasagar. It has been repeatedly emphasised that the earlier this project is completed the greater will be the national benefit in the vital sphere of food production. However, what the Planning Commission has agreed to allocate for the project during 1966-67 is only Rs 8.5 crores and this will form a part of the central assistance of Rs 50 crores.

The allocation is doubtless meagre and inadequate. It does not meet the repeated demand of the State Government for more substantial assistance for the project. The hope, however, is that later in the year, as the execution of the project gains momentum and as the situation vis-a-vis the emergency gets clarified and also as the prospects of the continuing availability or otherwise of food supplies under PL 480 from America and under arrangements with other countries become clearer, the Centre will take a closer and more sympathetic look at

the question of raising the allocation for the project. This, it would seem, is unavoidable in view of the fact that the accelerated execution of the project is essential also in the national context.

In the meantime, the obligation rests on the State Government to complete the construction of the dam and the canals to the requisite length to facilitate provision of irrigation facilities to 5.75 lakh acres by June 1966. While progress in these directions is reported to be satisfactory, the existence of roadblocks, such as the provision of long term credit to the would-be beneficiaries to prepare their lands for cultivation, to construct field channels and bunds etc., cannot be overlooked. Their removal, therefore, should receive high priority; and it is hoped, that the implementing agencies will not permit the apparent intractability of some of these difficulties to obstruct the completion of the programme.

Emphasis on Agriculture

When "defence orientation" of Central as well as State plans is the oft-repeated slogan, the agricultural schemes in Andhra Pradesh's 1966-67 plan assume particular significance, as the State is called upon to play an important part in increasing the food production in the country and contribute to the success of the national food policy. With the Rs 4.9 crore allocation for minor and medium irrigation, execution of schemes in this category should be expedited, especially minor irrigation schemes of the lift irrigation variety, repairs to minor irrigation tanks and others. Other agricultural schemes include development and supply, to which prompt attention is imperative, of new strains of paddy, maize, bajra and others and supply of fertilisers, pesticides and other essential aids. Fertiliser supply, on which augmentation of production so greatly depends, has not shown any noticeable improvement so far, despite assurances of its availability for the emergency food production programme between now and March next. The latest information indicates that only 1.75 lakh tonnes of fertiliser out of the estimated requirement of 6 lakh tonnes has so far been made available.

A gratifying aspect of the 1966-67 plan is that the outlay on power schemes has not been slashed substantially. The Rs 32 crore allocation for power is no doubt less by Rs 6 crores than what the State Government had provided, but on the whole it has not come out badly inasmuch as all the essential schemes in that sector now in progress have been taken care of. Not only will work on the Srisailem hydro-electric project proceed uninterruptedly but preliminary work on Lower Sileru project will be taken up as scheduled. Provision has been made for both of them, as also for the extension of Ramagundam thermal scheme and the completion of the Upper Sileru hydro-electric scheme. It is to be hoped that alternative arrangements will be made to substitute part of the essential equipment for the last mentioned project, impounded by Pakistan. The execution of the electricity schemes will have to be linked up and dovetailed to extension of power supply to the rural areas, with the accent on making power available for agricultural purposes on a priority basis. For rural electrification, an amount of Rs 3 crores is proposed to be spent during 1966-67 and 200 more villages will be electrified, thus bringing the total number of villages electrified in the State to 5,580.

Industry Gets a Pittance

There is reason for disappointment with the outlays agreed upon for some other sectors — especially industries, which receives a pittance of Rs 2.9 crores. Tempering the disappointment is, however, the consideration that establishment of new large-scale or medium-scale industries in general now involves a demand on foreign exchange resources which may not be available, except for the import of essential industrial raw materials, machinery and maintenance parts, besides of course defence equipment. The limited allocation for industries during 1966-67 should, therefore, prompt private entrepreneurs to set up a network of small-scale industries besides utilising existing installed capacity to the maximum extent. It should, at the same time, induce the State Government to give a fillip to such industries by providing all possible assistance to

entrepreneurs to step up production in directions for which indigenous raw materials and equipment are available. In any event, it is the State Government's declared policy to leave the large-scale industries sector to the Centre and the medium-scale industries sector to private entrepreneurs, restricting its operations to the provision of essential aids to industrial development like power, water, land, transport and communication facilities.

In social services, the allocation of Rs 9 crores during 1966-67 should be made to go as far as possible to ensure that no essential and basic programme like primary education, family planning or extension of rural water supply is starved of funds. Of particular importance is the maintenance of the tempo of primary and technical education and to combine progress in these spheres with improvement in the standards of instruction and extension of the programme of training teachers and technicians. Far too much time has already been lost in bringing the benefits of education to the masses of the people and to the growing generation of boys and girls. Andhra Pradesh stands pretty low in the list of States in respect of literacy. Furthermore, in the context of the national emergency which is a testing time for the nation as a whole, nothing is so important as to create among both young and old an awareness of their obligations and responsibilities as citizens. To this end unremitting attention to the extension of primary and adult education facilities is essential, taking care all the time that facilities in the primary education sphere should aim at establishing an equilibrium between boys' and girls' education.

Family Planning, a Failure

Whatever Plan programmes are, or may be, implemented, there looms in the background the frightening spectre of population increase, which in Andhra Pradesh has been in the neighbourhood of 1.8 per cent per annum. This means a progressive increase in the number of mouths to be fed, a larger number of children to be cared for, educated and provided the essential amenities for health and well being and a larger number of persons in course of time to be cared for under welfare schemes and so on. This should warn the State Government against relaxing its efforts to strengthen and energise the family planning programme to keep the birth-rate

under check. There has been a deplorable lack of imagination and competence in this State, as in others also, in devising methods and processes of educating the people on family planning, especially in the context of national development and the need to correlate propaganda and publicity for limiting population growth with food production. All efforts have yielded limited results so far. Official agencies entrusted with the responsibility for making a success of the programme and non-official agencies which have undertaken to help in that direction and receive substantial grants therefor, have failed to deliver the goods, except probably in the form of words.

Between maximisation of dividends from the different development programmes approved and included in the State's 1966-67 Plan and their effective implementation there is close inter-relationship even as there is close inter-connection between effective implementation and the efficiency of the administrative machinery. Two factors

which impede growth in administrative efficiency are the absence of purposeful inter-departmental co-operation and co-ordination in all spheres and in particular in increasing food production, and the general inefficiency of agencies like panchayat raj institutions, co-operatives, voluntary agencies like family planning organisations and other social welfare bodies.

The supreme importance of eliminating these deficiencies and drawbacks and of improving the functional efficiency of various institutional agencies is most readily accepted in theory but equally readily ignored in practice. Hope now centres on the recommendations of the Andhra Pradesh Administrative Reforms Committee, which is expected to prescribe appropriate remedies to these long-standing ills. If the Committee's report answers this requirement, its labour and the public funds spent on it would be justified. If it does not, its labours will be only one more exercise in futility like those of the many earlier bodies entrusted with the same task.

The Jats of Northern India Their Traditional Political System

M C Pradhan

This article describes the traditional political system of the Jats of Northern India based on the khap and the sarv-khap Panchayat system.

An attempt is also made to examine the impact on this traditional system of the social and political changes brought about by the new agencies of development and the new political set-up of Gram and Adalat Panchayats.

[For reasons of space this article is printed in two parts. Part one, below, discusses Jat kinship structure and the bhaichara system of land tenure and the traditional law of inheritance of the Jats and describes the history and structure of khap Baliyan. Part two will examine the functions of the different agencies of the traditional political system and the impact on them of contemporary social and political change. Ed.]

THE Jats are an ethnic group. They are at present divided into three sections, namely, Hindu, Muslim, and Sikh. The Hindu section does not have sub-castes but only clans. In northern India, particularly in the districts of Meerut, Muzaffarnagar, Saharanpur and Bijnor, which come under the revenue division of Meerut, each clan has a compact geographical area of its own. The villages inhabited by a clan are organized into a clan council, and the area under its jurisdiction is called the *khap*. Each clan has a headman who is called Chaudhry, and a Wazir who is called minister or secretary. Both the offices are hereditary. The clan Chaudhry is also the head of the *khap* Panchayat. The Wazir looks after the affairs of the Panchayat and keeps minutes of the cases decided by the *khap* council. Most of these *khaps* belong to the Hindu Jats. But some of them also belong to other castes like the Gujars, Rajputs, Tagas or Tiyaagi Brahmins, and one to Muslim Pathans. Some clan areas (*khaps*) of the Jats contain the Muslim section of the Jat population, which embraced Islam in the latter part of the 18th century. There are no Sikh Jats in Meerut Division.

Khap Baliyan

The various *khaps* of the Jats, as well as of other castes, are organized into a council of all the *khaps* of Meerut Division, called the *sarv-khap* Panchayat. This article describes the traditional political organization based on the *khap* and the *sarv-khap* Panchayat system of Meerut Division, and the effects of the social and political changes brought about by agencies of planned change and of the introduction by the government of a new political set-up of Gram and Adalat Panchayats (village committee and justice committee) upon the traditional political system.

For the purpose of analysis I have taken one of the clan areas of the Jats, namely, the *khap* Baliyan of the Jats of

Kashyap *gotra* in Muzaffarnagar district, as a focal point of study.¹ The Kashyap clan inhabits a tract of 84 villages covering an approximate area of 288 square miles. In all these villages the Jats are numerically important. They are in possession of most of the agricultural land, having driven out other castes from the land when they first came from Punjab late in the 12th century and conquered the present area. The villages of the *khap* Baliyan are multi-caste and multi-communal in composition, and are situated near one another which gives geographical compactness to the clan area.

Other castes like the Water-carrier, Carpenter, Black-smith, Chamar, Sweeper, Weaver, and some Muslim castes living in *khap* Baliyan, have also organized their caste councils on the same lines and having the same villages as those of the *khap* under their jurisdiction (cf Oscar Lewis, "Village Life in Northern India", University of Illinois, 1958; pp 26-31). Formerly, these caste councils came under the jurisdiction of the *khap* Panchayat of Baliyan, but now they function, more or less, independently of the *khap* Panchayat. The decisions or resolutions of the *khap* council now no longer become automatically binding upon the other castes of the *khap* area unless they are also adopted by the respective caste councils. But inter-caste disputes are still referred to and decided by the *khap* council, which will be discussed in detail later.

The history of the *khap* Baliyan, and indeed of the *sarv-khap* Panchayat forms a notable part of the Jat culture of Meerut Division. Various *khaps* and the *sarv-khap* Panchayat have written historical records going back several centuries. The chief historical sources are: (1) the chronicles of *khap* and the *sarv-khap* genealogists or bards giving detailed account of important historical events in which these organizations

took part; (2) royal mandates of Mughal emperors issued to various *khaps* from Akbar's time (1556-1605) to that of Muhammad Shah (1719-1748); (3) personal accounts left by Wazirs and Chaudhries of various *khaps*; (4) recorded minutes of *khap* and the *sarv-khap* Panchayat meetings from 12th century onwards; (5) letters of historical figures like Sada Shiv Bhau, the Maratha general and the hero of the third battle of Panipat against Ahmad Shah Abdali (1761), Nana Sahib Dhondur Pant, and so forth, written to these organizations for military help to fight the invaders and the British respectively; (6) and, finally, the *sakha* or oral account in verse of the settlement of a clan in its present place of habitation and the foundation of a *khap*. These historical records are available with the Wazir and the Chaudhry of the *khap* Baliyan, and the hereditary leaders of other *khaps* or clan areas of Meerut Division.²

Historical Background

According to the *sakha* of the Jats of *khap* Baliyan, a branch of the Kashyap clan (*gotra*) migrated from an ancestral village of Mehla, Gurgaon district in the Punjab, to the present area sometime in the second half of the 12th century. Territorial expansion, colonization or conquest of the villages which now comprise the *khap* Baliyan continued till the first quarter of the 16th century. It stopped at the establishment of Mughal rule in northern India, when law and order were established for a long time to come.

For defence, internal administration, and conquest, each *khap* had a militia. The leader villages of *khap* Baliyan, namely, Sisauli, Shoran, Pur-Baliyan, Harsauli etc, were the military strongholds. Several other villages of *khap* Baliyan were conquered by the *khap* militia at the beginning of 14th century.

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The *sarv-khap* Panchayat, according to local belief, was organized in 7th century by emperor Harsha in his last quinquennial assembly at Prayag (modern Allahabad). But from the written historical records it is evident that the various *khaps* of Meerut Division were organized into the *sarv-khap* Panchayat as early as 13th century.

Besides functioning as adjudicative bodies and institutions of social control, the functions of the *khap* and *sarv-khap* council during the mediaeval period were to defend the *sarv-khap* area from foreign invasions and to preserve internal co-operation between different clan areas so as to maintain military solidarity. For example, at the time of the invasions of Timur (1938), Babur (1526), Ahmad Shah Abdali (1761) and so forth, the armies of various *khaps* fought against these invaders. Each time the decision to defend the *sarv-khap* area was taken in a Panchayat meeting in the interests of common defence and freedom.

From Akbar's time (1556) various *khaps* were granted autonomy in judicial matters, and their hereditary leaders were recognized by the Delhi Court as the leaders of the respective *khaps*. This recognition came from a mandate of emperor Akbar issued on the 8th Ramzan, 987 Hijri or in 1578. The mandate was issued to Chaudhry Pacchumal of Shoron village and Chaudhry Ladsingh of Sisauli, the Wazir and the headman of *khap* Baliyan respectively. Other *khaps*, namely, *khap* Salaklain (Jats of Tomar clan), *khap* Kalaslain (Gujars of Bhatti clan), *khap* Daiya (also Jats), and *khap* Gathwala (Jats of Lal clan), are also mentioned in the mandate.

Impact of British Rule

Sometimes during periods of political unrest or revolt, certain Delhi kings such as Ibrahim Lodi (1517-1526), Muhammad Shah (1719-1748), and a few others, asked the Wazir of *khap* Baliyan and also of other *khaps* to provide military help to crush a revolt or to expel the rebels from the kingdom, or to keep peace within the *khaps*. Such help was provided by the *khaps* but only after it was decided in the meetings of the *sarv-khap* Panchayat; and the conditions on which the proposed help was to be given were discussed and agreed upon by the representatives of the various *khaps*. The political and military weakness of these rulers was exploited by the leaders of the *sarv-khap* Pan-

chayat to their own advantage. Thus, though the *khaps* and the *sarv-khap* Panchayat could not always succeed completely in defending the freedom of the area, they did succeed in getting some concessions in the field of internal autonomy, religious freedom, and freedom from various kinds of taxes levied on the Hindu population by the Delhi kings. The success of these efforts can be seen from a mandate of emperor Akbar. The text of the mandate is as follows:

"By the present *firman* [mandate] certain community Panchayats in India who during the reign of the Sultans [of Delhi] were charged certain taxes before my reign, are now being exempted from such taxes. Every community Panchayat has my permission and is free to carry out its traditional functions in my reign. Both Hindus and Muslims are equal in my eyes. So I give freedom [of action] to these Panchayats. The *jazia* [religious tax levied on the Hindus] and other royal taxes are waived.

"Issued in the reign of emperor of India, emperor Akbar, 11th Ramzan, 989 Hijri [1580]. *Firman* issued by the grand Wazirs Abul-Fazal and Raja Todar Mal".

The *khaps* of the Meerut Division, under the banner of the *sarv-khap* Panchayat, took a notable part in the Indian Mutiny of 1857 against British rule and fought the British armies. The revolt was crushed and important leaders of the various *khaps* who had taken part in the revolt were sentenced to death or imprisonment. They have now become martyrs and their names are still remembered. In 1957 all these *khaps* commemorated these martyrs by holding Panchayat meetings of their respective *khaps*.

With the establishment of British rule in northern India, the *sarv-khap* Panchayat fell into disuse. According to native belief it was discouraged by the British administrators for its part in the revolt of 1857. But the *khap* and inter-*khap* Panchayats continued to function, though shorn of their legal privileges or charter granted them by the mandates of Mughal emperors. No formal quinquennial meeting of the *sarv-khap* Panchayat, according to the old tradition, was held during British rule in India. After the independence in 1947 it was again revived in 1950. Since then formal meetings of the *sarv-khap* Panchayat are held every five years. Its work and resolutions will be discussed later.

The introduction of a new system of administration and the institution of law courts, however, brought another setback to the *khap* and the *sarv-khap* Panchayats, and reduced their political effectiveness to some extent.

Jat Kinship Structure

The political system of the Jat *khaps* is based upon segmentary kinship groups, namely, the lineage group structure of varying depth spans, and the clan. Various kinship units such as *khandan* or minimal lineage, sub-*thok* or major segment of a maximal lineage, *thok* or maximal lineage, and clan, have corresponding political councils of their own. Both kinship units and their Panchayats are complementary in that both tend to support each other and thus produce social cohesion within the Jat community. A brief description of the principles underlying this complementary interaction between these two aspects of the Jat social organization will show how such social cohesion is achieved and how the total political structure of the *khap* is maintained.

The Jats of Meerut Division are organized into localized, exogamous, patri-clans. Descent is reckoned from the ancestors who first came from the Punjab and settled in their present clan areas. There are other branches of these clans, with the same *gotra* or clan names in Punjab, Madhya Pradesh, and other parts of the state of Uttar Pradesh. These branches of a clan do not come under the jurisdiction of the *khap*-Panchayats of Meerut Division, but marriage is prohibited between them. The hereditary headman of a *khap* (Chaudhry) is not considered the descendant of the clan ancestor but only as the descendant of the leader of that branch of clan ancestors who first came and settled in the present *khap* area.

A clan is segmented into lineage of varying depth spans, namely, *thoks*, sub-*thoks* and *khandans*. Like the clan each lineage segment has a headman who is also called the Chaudhry. But unlike the clan his office is not always hereditary. However, once a lineage headman is elected or unanimously selected by the lineage Panchayat, he cannot be removed from his office during his lifetime.

The depth span of a *thok* or maximal lineage varies from ten to fifteen generations; of a sub-*thok* or major segment from six to ten generations; and of a *khandan* or minimal lineage

from three to five generations, from the living adults. These lineage segments are named after the founding ancestors. The line of descent from a founding ancestor is generally remembered or in case of doubt, which only happens in case of *thoks* having many generations, can be ascertained from the genealogical tables of the bard of the *khap*. The suffix of 'ke' meaning descendants of such and such person is attached to the name of the founding ancestor of a lineage group; and this gives a clear indication which segment is referred to, or whether a segment belongs to another maximal lineage or major segment. After the clan Chaudhry, the headman of *thoks* wield the greatest amount of prestige and political influence. These are wielded in diminishing order by the headmen of sub-*thoks* and *khandans*.

A *thok* is divided into sub-*thoks* or major segments, and a sub-*thok*, in turn, comprises various *khandans* or minimal lineages. A *khandan* comprises various nuclear or joint families.

Like the localized clan, each *thok* or maximal lineage has a compact geographical area of its own in a village, including both residential and agricultural lands. *Thoks* do not extend beyond a village.

The lineage segments are autonomous to a large extent, and freedom in internal matters is jealously guarded by each segment. However, *thoks* or sub-*thoks* can interfere in the internal matters of a member lineage if that lineage segment invites the elders of the higher segments to do so, or when the *thok* leaders feel that they should interfere in the affairs of a member lineage for the sake of preserving the solidarity of the whole maximal lineage.

Land Tenure and Inheritance

The spatial compactness of *thoks* or maximal lineage within a certain area of a village is maintained by two factors, namely, the *bhaichara* (brotherhood) system of land tenure, and the customary law of inheritance of property of the Jats. Under the *bhaichara* system, land is equally divided among *thoks* which consist of the descendants of the founding ancestors or original conquerors, so that all may share alike. In this system, possession determines the measure of each proprietor's right. Where a village is divided into *pattis* (divisions of a village for purposes of revenue collection), the land allotted to each may be held within it according to equally divided

shares among the descendant *thoks* of the original conquerors. This differs from the pure *pattidari* system of land tenure, in which the proprietors hold land severally and fractionally according to known ancestral shares (cf B H Baden-Powell, "Land System of British India", Clarendon Press, 1892; pp 131-132).

According to the customary law of inheritance of the Jats, land — whether ancestral or acquired — cannot be alienated outside the *thok* or maximal lineage; and the natural course of succession cannot be altered for the benefit of non-agnates (cf C A Roe and H A B Hattigan "Tribal Law in Punjab", 1895; p 41). The customary law of the Jats differs from the Mitakshara law of inheritance of the Hindus which is not applicable in the case of the Jats. Thus the spatial compactness of the *thoks* within a village is maintained, and the dismemberment of residential or agricultural lands belonging to a *thok* does not take place. Therefore, like the clan, the ties of kinship reinforce the ties of local contiguity at the *thok* level. The nexus between these two aspects enables the Panchayats of various lineage segments, and also the *khap* Panchayat, to exercise social control within their respective units to a greater degree than would have been possible without the help of the *bhaichara* system of land tenure and the customary law of inheritance of the Jats.

The chief function of the *bhaichara* land tenure is to maintain the egalitarian structure of the Jat society in the economic field. But this concept has also been extended by the Jats to other fields of kinship, social and political relations. For example, the principle of *khap bhaichara* or brotherhood implies that all the castes and communities living within a *khap* are like brothers, and this forms a basis of *khap* exogamy not only for the Jats but also in the case of other castes. Jats of other clans or with other *gotra* names living within a *khap* are also considered as brothers and may not marry within that *khap*. Any attempt to flout this rule quickly brings the *khap* Panchayat into action, and an infringement, which is very rare and of which I could find only one example, is seriously dealt with by the *khap*, Panchayat; and the whole family of the defaulter, or even his *thok* or his whole village, may be ostracised until he has made expiation and has satisfied the Panchayat by giving a fine, a community feast, and a firm

promise not to flout this rule in future. As against other *khaps*, the various castes and communities of a *khap* are regarded as "brothers" and are allowed to participate in the *khap* organization as equals. Thus, on the political level the concept of *bhaichara* provides a rationale for *khap* unity and solidarity.

Structure of the Khap

A *khap* is divided into a number of political units called *thamba* Panchayats. A *thamba* comprises a number of neighbouring villages varying, from *thamba* to *thamba*, from 3 to 20. For example, *khap* Baliyan has seven *thambas*. Each *thamba* has a headman whose office is hereditary, and who presides over the meetings of the *thamba* Panchayat. The headmanship of a *thamba* has no backing of a kinship unit like that of the lineages of varying depth spans, and that of the clan. This is the main weakness of the *thamba* as a political unit. When the *khap* Panchayat lost its legal charter given by Mughal emperors on the advent of British rule in India, the *thamba* Panchayats lost their political power and effectiveness as institutions of social control, and to some extent fell into disuse. This was due to the lack of specific support from any of the kinship units and the corporate group structure of the Jat society.

A *thamba* is again divided into a number of informal *ganwand* Panchayats. A group of 5 to 8 neighbouring villages is called *ganwand*. The same principles of local contiguity, kinship proximity, and ties of social and economic interaction, which are the basis of clan and lineage organization as political units, also support the *ganwand* and the *thamba* Panchayats. But unlike a *ganwand*, a *thamba* for the most part is too big to have close social and economic interaction between its villages in day to day affairs (except where a *thamba* comprises only a few villages, say four or five, and in such cases the *thamba* Panchayat still functions effectively and performs most of the functions of the *ganwand* Panchayat). Otherwise, the sentiment of kinship ties is more fluid at the *thamba* level as compared to a *ganwand*.

The *thoks* of a *ganwand* and a *thamba* are related to each other in the sense that some persons from a parent *thok* of a village may have migrated to a neighbouring village of the *khap* area and founded a new *thok* there. This kinship proximity forms

the basis of these two political units. But the *thoks* or maximal lineages of a big *thamba* do not have such close contact and economic and social interaction as is found between the *thoks* of a *ganwand*, which is generally a smaller unit than a *thamba*.

But the village remains the fulcrum of all the political units of the *khap* Panchayat. The village Panchayat traditionally comprises the heads of the *thoks* and the headmen and leaders of other castes and communities of a village. There was no office of hereditary village headman in the villages of the *khap* Baliyan. Political power lay with an assembly of *thok* and caste leaders. The president of a village Panchayat was chosen at each meeting. Even today the village Panchayats hold their meetings on the same pattern when they function within the traditional framework of the *khap* and the *sarv-khap* organizations.

A village is divided into a number of *thok* Panchayats of the Jats and caste Panchayats of other castes living within the village. The *thok* Panchayats are presided over by *thok* headmen, and the caste Panchayats of other castes by their respective headmen or leaders. Similarly, other kinship segments like sub-*thoks*, *khandans*, and joint families, have their own headmen who preside over their respective Panchayats. Thus there is an elaborate hierarchy of political units from the minimal lineage councils to the *khap* and the *sarv-khap* Panchayats.

These political units belong to two categories, namely, those which are based on the corporate group structure of the Jat society and are supported by the kinship charter; and those which are primarily based upon territorial grouping, and are supported by such principles as local contiguity, kinship proximity, concept of *bhai-chara*, and so forth. Various lineage councils and the clan council belong to the first category; and the *patti*, village, *ganwand*, *thamba*, *khap* (as a general political council of all the castes living within a *khap* area), and the *sarv-khap* Panchayats belong to the second category. On the whole, and particularly since the *khap* lost its legal charter and the change in economic and political conditions in the country, the kinship-based councils tend to be more effective and show more political solidarity than the territorially based Panchayats. But the suggestion is only tentative, for there are important exceptions and it

also depends upon the circumstances of a social situation. For example, the *sarv-khap* Panchayat, a Panchayat of neighbouring *khaps*, and also a *khap* Panchayat, may command more influence and political power than any kinship based councils whether of a clan, *thok*, sub-*thok*, or of a *khandan* or minimal lineage.

(To be Concluded)

Notes

- 1 The fieldwork was carried out from August 1958 to July 1959 and again in December 1962 in Muzaffarnagar district, in connection with a doctoral dissertation which was submitted in November 1961 to the University of London. I am indebted to the late Robert Redfield for a travel grant of the Ford Foundation given by him to cover my expenses from London to India and back. I am also indebted to the School of Oriental and African Studies, University of London, for giving me two educational grants during my course of study in London.
- 2 The collection and translation of the recorded historical materials on *khap* Baliyan and the *sarv-khap* Panchayat was mainly done in Shoron and Sisauli villages, where such material is kept by the Chaudhry and the Wazir of *khap* Baliyan. The translation of mandates of Mughal emperors from Persian to English, and of other historical material from Hindi to English, was done by me.
- 3 A formal meeting of the *sarv-khap* Panchayat is held every five years only, according to tradition. To

this meeting the heads and leaders of all the *khaps* and of other castes of Meerut Division must be invited. The meetings of this Panchayat are informal when it meets to decide cases or disputes among *khaps* or caste groups. A meeting of four or five *khaps* is also called *sarv-khap* Panchayat.

There is no separate local term for the major segment of a maximal-lineage. Sometimes it is referred to by the Jats as *thok* and sometimes as *bara-khandan*. To avoid confusion between the terms *thok* (maximal-lineage) and *khandan* (minimal-lineage), I have termed it as 'sub-*thok*'.

Satisfactory Progress by Hindustan Construction

A VERY satisfactory growth in turnover and earnings has been reported by Hindustan Construction in the year ended August last. The current year's prospects too appear equally pleasing; the company secured new contracts worth Rs 23.68 crores in the year 1964-65 and worth Rs 2.85 crores after the close of the year. It is intended to sell the company's holding in Vikhroli Metal Fabricators to Premier Construction at the break-up value.

The 1964-65 results show increase in work bills from Rs 19.31 crores to Rs 21.09 crores and in gross profit from Rs 3.43 crores to Rs 4.86 crores. Even though the necessary provisions have chopped off bigger slices, equity earnings of Rs 1.19 crores are nearly a half better than the preceding year's Rs 82.95 lakhs. The dividend, stepped up 10 points to 60 per cent, therefore, enjoys a thicker cover.

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Pattern of Land Concentration

P S Sharma

In this article land concentration ratios have been worked out to measure the relative disparity in the distribution of cultivated area among cultivating households, using data collected by the 1961 Census.

A study of the distribution pattern of households and area over 11 size-classes of holdings reveals that about half of the total cultivated area is worked by about 12 per cent of cultivating households with holdings above 15 acres. At the other end 57 per cent of the households with holdings less than 5 acres cultivate 16 per cent of the total cultivated area.

In the second part of the article correlation co-efficients between productivity and land concentration ratios have been calculated for 20 crop regions, five State zones and for the country as a whole. Whatever significant associations are observed between per acre productivity and land concentration are all negative, thus confirming the findings of the Farm Management Studies that the bigger farms have relatively lower productivity.

ONE of the ways to study the pattern of concentration of land among cultivating households is to find out the relative distribution of cultivating households and cultivated area among the various size groups of holdings. This is statistically reflected by the levels of land concentration ratios. Concentration ratio is a statistical measure of the relative disparity in the distribution of two related characteristics. It is a statistical measure of the departure of the given distribution from the line of equality. The smaller the difference between the line of equal distribution and the given distribution of the related variables, the lesser will be the levels of concentration. In this paper land concentration ratios have been worked out to measure the relative disparity in the distribution of cultivating households and cultivated area. If the distribution of cultivating households and cultivated area over various size classes of holdings is exactly identical, the concentration ratio will be zero. If these two distributions are infinitely uneven, concentration will be unity.

In 1961 Census, each cultivating household is co-terminus with an individual holding. No joint operational holdings have been considered. In case of joint operational holdings, the share of the respective households has been taken as equivalent to the area of that holding. Under 1961 Census,

1 The cultivated area has been estimated on the basis of arithmetic/geometric mean fixed for each of the 9 size classes (except 50+) on the basis of actual area and households especially tabulated for about 150 tehsils, spread out in various regions of India. For size class 50+, the actual size for a tehsil was taken to indicate the level in a district. The cultivated area included net area sown plus current fallows.

the cultivating households and cultivated areas have been grouped under 11 size groups of holdings: less than 1, 1-2.4, 2.5-4.9, 5-7.4, 7.5-9.9, 10-12.4, 12.5-14.9, 15-29.9, 30-49.9, 50+ and unspecified. The total cultivating households at all-India level have been estimated to be 48.2 million accounting for 369 million acres of cultivated area¹ giving an average holding size of 7.7 acres.

The State-wise distribution of cultivating households and cultivated area is given in Table 1. This shows that Uttar Pradesh alone accounts for about one-fifth (9.5 million) of the total cultivating households, followed by Bihar with 5.8 million households accounting for another 12 per cent. Maharashtra with 3.7 million, Andhra Pradesh with 3.9 million and Madhya Pradesh with

4.3 million households, each separately accounts for about 7 to 9 per cent. States like J and K with 0.5 million and Kerala with 1.0 million each account for about 1 to 2 per cent only. As regards the distribution of cultivated area, it is found that as in the case of cultivating households, Uttar Pradesh also ranks high from the point of view of cultivated area. However, the relative proportion of area (13 per cent) is less than the proportion of households (20 per cent). As against this, Maharashtra and Madhya Pradesh with 8 to 9 per cent cultivating households account for 12 to 13 per cent of the area indicating that the average holding size is higher in these States. Also in Gujarat, Rajasthan and Punjab, relatively smaller proportion of households have a higher

Table 1: Distribution of Cultivating Households and Cultivated Area

State	Cultivating Households (lakhs)	Cultivated Area including Current fallows (lakh acres)	Households (Per Cent of Total)	Area (Per Cent of Total)
Jammu and Kashmir	4.9	18.7	1.0	0.5
Punjab	16.7	225.3	3.5	6.1
Rajasthan	26.2	411.1	5.4	11.1
Uttar Pradesh	94.8	492.7	19.7	13.4
Madhya Pradesh	42.7	451.2	8.9	12.2
Bihar	57.9	278.2	12.0	7.6
Orissa	24.2	126.5	5.0	3.4
West Bengal	30.6	125.6	6.3	3.4
Assam	15.0	71.0	3.1	1.9
Gujarat	18.9	229.8	3.9	6.2
Maharashtra	37.4	487.5	7.8	13.2
Andhra Pradesh	39.9	315.4	8.1	8.6
Mysore	25.0	264.8	5.2	7.2
Kerala	10.1	19.4	2.1	0.5
Madras	32.5	149.0	6.7	4.0
Union Territories	6.3	24.8	1.3	0.7
All-India (excl NEFA, Goa, Daman and Diu)	482.2	3,691.0	100.0	100.0

Note: Estimates made after inflating the 20 per cent sample.

proportion of area. Reverse tendency has, however, been observed in Bihar and West Bengal. In the rest of the States, more or less equal proportions of households and area have been observed.

A study of the relative distribution pattern of households and area over 11 size classes at all-India and State levels reveals that in rural India about half (50.69) of the total cultivated area along with 12.44 per cent households are located under large sized holdings (15 acre +) and another one-third of area and households under medium sized holdings (5-15 acres). Only 16.18 per cent of the area along with 57.34 households are located under small sized holdings. The preponderance of cultivated area relative to households under large sized holdings is also observed in many of the States like Punjab (65 per cent), Rajasthan (74 per cent), Madhya Pradesh (56 per cent), Gujarat (67 per cent), Maharashtra (69 per cent), Andhra Pradesh (55 per cent) and Mysore (59 per cent). In the rest of the States, per cent area under large sized holdings varies between 16 and 33 barring Kerala (13 per cent) and J and K (10 per cent). As regards medium sized holdings, it is observed that in the States which are having relatively significant proportions of area under large sized holdings, the household proportions are in excess of area proportions. Reverse tendency, viz, area proportions exceeding household proportions, has been observed in the rest of the States located in Central (excepting Madhya Pradesh), Eastern and Southern India (excepting Mysore).

The disparity in the proportion of households and cultivated area over various size classes reflects the level of concentration ratio with respect to the distribution of area. In seeking an explanation for the particular level of concentration ratio, two aspects have to be borne in mind (a) the disparity in the relative distribution of households and area over various size classes; (b) the disparity in households and area proportions in that holding size where a significant proportion (50 per cent +) of the cultivated area is located. The overall concentration ratio for cultivated area could be explained with the help of these two indicators. If one is interested in knowing the relative levels of concentration of households as against area, then the (b) indicator mentioned above would be replaced by the disparity in area and households proportions in that holding size where a significant pro-

portion (50 per cent +) of households is located.

In this context if one glances through the levels of land concentration ratios as given in Table 2 for 15 States, it is observed that Andhra Pradesh shows the highest overall concentration ratio (.6076) and Assam, the lowest concentration ratio (.4326). The relatively lower level of concentration is observed in Assam because quite a significant proportion of cultivated area (47 per cent) is located under medium sized holdings, where the ratio of household-area proportion is 0.61:1. Another 36 per cent of area is located under small sized holdings where the ratio of household-area proportion works out to 1.911:1. Compared to the other States, the relative inequality levels in the distribution turns out to be of a lower order in Assam. In large sized holdings, the relative inequalities are higher compared to Andhra Pradesh in this sized class, yet since an insigni-

ficant proportion (17 per cent) of area is located under large sized holdings, this has not affected the over-all concentration ratio. In Andhra Pradesh, however, since a significant proportion of area (55 per cent) as against 14 per cent of households is located under large sized holdings and since in this size class, the relative levels of inequality are higher than the levels under medium sized holdings and small sized holdings, this has inflated the concentration ratio. Other concentration ratios can be followed with the help of this example.

II Productivity and Land Concentration

Theoretically, one would expect a positive relationship between the productivity level and land concentration. This is because higher the land concentration ratio, higher will be area proportion concentrated in relatively

Table 2: Land Concentration Ratios

States	Household-Area proportion			Land Concentration Ratio	Land Concentration Ratio Rank	Percent of Area under Significant Size Class
	SSH	MSH	LSH			
1	2	3	4	5	6	7
J and K	1.71	0.50	0.17	.4348	14	46 (MSH) 44 (SSH)
Punjab	5.30	1.50	0.47	.4650	13	65 (LSH) 30 (MSH)
Rajasthan	6.25	1.81	0.41	.5486	4	74 (LSH) 20 (MSH)
Uttar Pradesh	2.43	0.69	0.22	.5063	10	44 (MSH) 28 (SSH)
Madhya Pradesh	4.27	1.20	0.36	.5101	9	28 (LSH) 56 (LSH) 35 (MSH)
Bihar	2.53	0.59	0.17	.5739	3	39 (MSH) 33 (LSH)
Orissa	2.31	0.65	0.19	.5004	11	43 (MSH) 29 (SSH) 28 (LSH)
West Bengal	1.99	0.53	0.17	.4914	12	45 (MSH) 37 (SSH)
Assam	1.91	0.61	0.19	.4326	15	47 (MSH) 36 (SSH)
Gujarat	5.08	1.43	0.41	.5228	7	67 (LSH) 26 (MSH)
Maharashtra	5.58	1.45	0.40	.5450	5	69 (LSH) 24 (MSH)
Andhra Pradesh	3.93	0.94	0.25	.6076	1	55 (LSH) 30 (MSH)
Mysore	4.05	1.23	0.33	.5408	6	59 (LSH) 30 (MSH)
Kerala	1.55	0.24	0.06	.5896	2	60 (SSH) 26 (MSH)
Madras	2.16	0.58	0.17	.5221	8	38 (MSH) 34 (SSH)
All-India (excluding NEFA, Goa, Daman and Diu)	3.54	0.91	0.25	.5789		51 (LSH) 33 (MSH)

SSH- small sized holdings; MSH- Medium sized holdings; LSH- Large sized holdings.

larger sized holdings and since the productivity levels should be higher in large-sized holdings due to economies of scale, higher material inputs and better management, the two are likely to move in the positive direction. Under Indian conditions, however, as the Studies on Farm Management and 1961 Census data have shown, the relatively bigger farms are associated with relatively lower productivity and as a result, the land concentration ratio and productivity levels have a negative relationship. This negative relationship exists because of the following factors:

- Higher land concentration ratios are associated with higher proportion of area under large sized holdings.
- The area under large sized holdings are relatively inferior in quality of land.
- The large sized holdings are constituted of many small parcels of lands which in turn are situated at distances from each other. In fact, each of these small plots are small sized holdings, and, therefore, from operational point of view, make large scale efficient cultivation difficult and perhaps un-economical too.
- Relatively higher pressure of workers in small sized holdings enable them to use their land and other associated resources more intensively and thus perhaps get higher per acre gross production. In the case of bigger farms relatively fewer hands are perhaps not able to utilise their resources properly due to difficulties of supervision, management and control. These difficulties are particularly felt in hilly and mountainous areas where distances between plots are difficult to traverse and, therefore, for operational convenience, the far flung plots are given on lease to tenants for cultivation. Also relatively higher proportion of hired workers among total workers in large sized holdings tends to deflate the productivity levels as the hired workers are supposed to work less quantitatively and qualitatively as compared to family workers.
- Recent surveys and studies have shown that relatively large farmers are of late assuming the role of traders and speculators and are in a position not only

Table 3: Zero Order Correlation Co-efficients of Gross Value Productivity Per Acre and Land Concentration Ratios

Crop-zone/State-zone (1)	No of Districts (2)	r (3)
Crop Zones		
Rice (irrigation upto 10%)	23	-.19
Rice (Irrigation between 11 and 25%)	13	.22
Rice (Irrigation above 25%)	18	.57**
Predominantly rice	54	.19
Rice-wheat (irrigation upto 15%)	14	-.77**
Rice-wheat (Irrigation above 15%)	15	.14
Rice-jowar	16	-.24
Rice-ragi, Rice-barley	24	-.12
Rice-maize, Rice-gram	23	-.15
Rice-oil-seeds, Rice-fibres	20	.07
All rice combinations (excluding predominantly rice growing districts)	112	-.05
All rice growing districts	166	-.07
Wheat-gram	26	-.46*
Wheat-jowar	17	.18
Wheat-maize, other wheat combinations	19	-.24
All wheat-growing districts (excluding those already covered under rice combinations)	62	-.35**
Jowar-Bajra, other jowar combinations	29	.17
Jowar-Cotton	22	.46*
Bajra combinations	18	.03
All Jowar-bajra combinations (excluding those covered under rice and /or wheat combinations)	75	.38*
All India	303	.24**
State Zones†		
Northern Zone	54	.04
Central Zone	91	.05
Eastern Zone	56	-.41**
Western Zone	42	.39**
Southern Zone	60	.04

* Significant at 5 per cent level of probability

** Significant at 1 per cent level of probability.

† Northern Zone: Jammu and Kashmir, Punjab and Rajasthan

Central Zone: Uttar Pradesh and Madhya Pradesh

Eastern Zone: Bihar, Orissa, West Bengal and Assam

Western Zone: Gujarat and Maharashtra

Southern Zone: Andhra Pradesh, Mysore, Kerala and Madras

Table 4: Partial Regression Co-efficients of Per Acre Composite Productivity on Land Concentration Ratio

Crop Zone /State Zone	No of Districts	Partial Regression Co-Efficients (Rs/acre)	Standard Error
1	2	3	4
I Predominantly Rice	54	70.5125	166.0809
II Rice Combinations (Excl. I above)	112	-147.5711°	71.6704
III All Rice and Rice Combinations	166	- 76.0040	68.0077
IV All Wheat Combinations (excl Rice-wheat)	62	- 340.1375°	168.5153
V All Jowar-Bajra Combinations	75	- 61.3761	58.0456
VI All India	303	- 82.2003**	46.5637
VII Northern Zone	54	- 220.8283***	135.8845
VIII Central Zone	91	- 96.0280	97.0914
IX Eastern Zone	56	- 295.6477**	139.8392
X Western Zone	56	- 153.3375	152.9580
XI Southern Zone	60	- 64.2603	118.7034

° Significant at 5 per cent level of probability.

** Significant at 10 per cent level of probability.

*** Significant at 20 per cent level of probability.

to withhold their own marketable surplus but also are able to mop up the surplus in their adjacent areas in order to make profit during the slack season. The implications of this trend have to be carefully studied. But if this trend implies that the big farmers are not investing their agricultural surplus for capital intensification in agriculture, and are trying to shift gradually their occupational class among traders and speculators and thus are tending to drift gradually towards urban and semi-urban occupations leaving cultivation of land under the supervision of their tenants and hired farm hands, then the agricultural productivity is bound to suffer. This aspect requires closer study.

The above factors may differ from region to region in their intensity, content and form. But, broadly speaking, they are in operation in various types of holdings.

The correlation co-efficients between productivity and land concentration ratios have been worked out for 20 crop regions, 5 State zones and for all-India (Table 3). Among crop regions, rice (irrigation above 26 per cent), jowar-cotton and all-jowar bajra combinations are having significant positive 'r', being of the order of .57**, .46* and .38**, respectively. Crop regions like rice-wheat (irrigation upto 15 per cent) (-.77**) wheat-gram (-.46*) and all-wheat (-.35**) are having negative 'r'.

* Significant at 5 per cent level of probability.

** Significant at 1 per cent level of probability.

growing districts have significant negative 'r'.

The implications of positive and negative associations in various crop regions have to be understood. A positive association implies that higher concentration ratios and higher per acre productivity are going hand in hand and that, therefore, inequalities in the distribution of land as reflected by concentration ratios are to be welcomed. A study of the areas where these associations have been observed reveals that in the irrigated rice deltas it is the availability of regulated water supply that perhaps explains the positive association. Again the positive association in dry jowar-bajra areas is perhaps due to higher labour inputs which lead to intensive utilisation of land and associated resources.

The association between productivity and land concentration could perhaps be better understood with the help of multiple regression equations by including land concentration ratio as one of the independent factors. A study was carried out by taking per acre productivity (y) as the dependent variable and rainfall (X_1), irrigation (X_2), farm size (X_3), land concentration ratio (X_4), area under pure tenancy (X_5), agricultural workers per acre (X_6), area under small sized holdings (X_7), area under mixed tenancy (X_8), and hired workers as percentage of total agricultural workers (X_9), as the independent variables. Thus the function fitted was a simple linear function and may be written as:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9$$

On the basis of this function, the productivity coefficients with regard to land concentration ratios were worked out. These are given in Table 4.

This table shows that whatever significant associations have been observed between per acre productivity and land concentration ratio have all been negative. The negative partial regression co-efficient is observed in 112 districts having rice as the major crop. In these areas, a unit increase in land concentration ratio, other things remaining the same, will bring about a reduction of Rs 147.6 in per acre productivity. Similarly, in all wheat growing districts (62 in number), the association is again significantly negative at 5 per cent level and here one unit increase in land concentration ratio will bring about a reduction of Rs 340 in productivity. This negative pattern is also observed at the all-India level in 303 districts and is significant at 10 per cent level. Here 1 per cent increase in land concentration ratio will bring about a reduction of Rs 82, keeping other factors constant. Again, in the Eastern zone, this negative pattern has been observed and this is significant at 10 per cent level.

These conclusions, with all their limitations, point to the fact that further increase in the inequality of land distribution cannot be permitted. Also since existing inequality is exerting a dampening effect on per acre productivity, there is a case for reduction of inequality in the distribution of land. Looked at in this way, the various land ceilings provided for in different land reforms Acts are necessary and should be expeditiously implemented.

BUSINESS NOTES

Rayon Industry's Prospects

A SCHEME of export promotion and issue of import entitlement has been evolved by which the rayon industry would be able to import adequate supplies of raw materials out of its own foreign exchange earnings so that the present dependence on imports from the US under the AID programmes can be done away with. Under this scheme, the Association of Man-Made Fibre Industry has been given recognition on a par with STC and Rayex Private Ltd so that the Association will be able to import not only raw materials required by its members but also synthetic yarns. These yarns, being in great demand, can be sold to weavers at a reasonable profit to cover at least part of the loss incurred in the export of synthetic fabrics. All the same, imports of raw materials under this scheme will involve a certain increase in the cost of raw materials. Consequently, the industry will have to increase the prices of rayon and synthetic yarns made by members of the Association to cover these increased costs. The government has appreciated the justification for such an increase in the price of rayon yarns. Murarji J Vaidya, Chairman, Indian Rayon Corporation, believes that unless some other unexpected and unfavourable events occur, there is every prospect of the rayon industry being able to carry on its production programme.

In his Chairman's statement circulated to shareholders, Vaidya conveys some of the confidence that the industry has gained after impressing upon the government its role and usefulness as producer of an important raw material for the weaving sector. He has based his confidence on two factors: first, the reduction in the excise duty should improve profitability and, second, demand for rayon filament is keeping ahead of the expansion of the industry.

Presenting a picture of the world rayon situation, Vaidya says that total production of man-made fibres in the world in 1964 increased by 14 per cent to 11,309 million lbs as compared to 9,921 million lbs in 1963; total cellulosic (i.e., rayon and acetate) fibre and filament production rose by 7.8 per cent to 7,256 million lbs as compared to 6,278 million lbs; the share of all man-made fibres in world textile fibres production increased to 28

per cent as compared to 26 per cent. The share of rayons and acetates in world production of man-made fibres is even now 64 per cent in spite of the great increase in the production of other synthetic fibres.

Vaidya is convinced that rayon is not a neglected fibre nor is it in any way out of fashion. On the other hand, with the improvement in the standards of living of people all over the world, particularly in under-developed countries, rayon is enjoying higher demand, because it is the cheapest textile yarn available. Of course, other man-made fibres and yarns are also making good progress, but that is not in any way prejudicial to rayon.

This buoyant world situation is also reflected in increasing production of rayon yarn in India. The production of rayon filament yarn in 1964 was 35.29 million kg as compared to 32.25 million kg in 1963, showing a rise of approximately 21.5 per cent. It may, however, be noted that the target of 60 million kg of rayon production set for the Third Plan has still not been achieved.

Indian Rayon

The working of Indian Rayon in the year to June last shows that production progressively increased and reached the installed capacity of 5.2 tonnes of viscose rayon yarn per day in May 1965, as compared to an average production of about four tonnes per day in the preceding year. Total sales of yarn, waste, chemicals, etc., were more than trebled, from Rs 45.45 lakhs to Rs 1.53 crores, but the outcome was a loss of Rs 31.39 lakhs as against a profit of Rs 3.67 lakhs previously. As before, no provision has been made either for depreciation or for development rebate reserve.

This outcome is attributed to the company not being able to run the plant to full capacity during the major part of the year, the higher incidence of excise duty and higher interest charges.

Premier Automobiles

SATISFACTORY progress has been recorded by Premier Automobiles during the year to June last in the volume of production, the indigenous content of products and operational efficiency. The total num-

ber of cars and trucks manufactured reached the record level of 15,043 units. Fiat car production, in which foreign exchange shortage constitutes a serious handicap, increased from 325 to about 500 units a month after the stamping plant at Kalyan went into operation sometime in the middle of 1964-65, and can be increased to over 700 units a month subject, however, to the availability of foreign exchange for those components and raw materials which are not available in the country. With the utilisation of its next foreign exchange allotment, the company hopes to attain indigenous content of 94 per cent in the case of commercial vehicles and 81 per cent in the case of cars.

After utilising the three million dollar loan from AID, the company decided not to import additional dyes and jigs and other tooling required by Kalyan plant for manufacturing the remaining body panel component of the car for which licences had already been issued. Instead, the company decided to make them in its factory in order to save foreign exchange. The tooling for more than three-fourths of these body panel components of the car has now been completed and put to work; the tooling for the remaining components is expected to be ready within a short time.

To help the company tide over the foreign exchange difficulty in importing Fiat components, the Italian associates, Fiat S P A, has offered a loan of £200,000. Representations have been made for price adjustments to cover increases in costs, such as of bought-out components and of raw materials prices and wages, but the government has not yet acceded to the company's request.

The year's financial results show a marked improvement: sales have advanced 41 per cent to Rs 9.81 crores and gross earnings 52 per cent to Rs 2.38 crores. After providing a much higher depreciation (Rs 1.16 crores against Rs 0.77 lakhs) and development rebate Rs 60 lakhs (Rs 17 lakhs) and without providing for taxation, which required Rs 33.50 lakhs last year, there is a net profit of Rs 61.66 lakhs against Rs 29.07 lakhs. After making other provisions, the available surplus stands at Rs 45.61 lakhs, as against Rs 20.77 lakhs previously. The dividend raised by a point to five per cent demands Rs 37.42 lakhs, and is well covered.



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AROUND BOMBAY MARKETS

Further Decline

Thursday, Morning

DALAL STREET last week was forced to beat a further retreat under persistent selling pressure both from bulls and bears. Much of the selling was in the nature of 'distress' selling by bulls who had been sitting tight for long in the hope that prices would some day stage a good technical rally if nothing else; these hopes have been completely belied. There was nothing particularly disturbing in the week's news to unsettle the market sentiment. The market could, in fact, have derived some comfort from the thought that some good might come out of the proposed Tashkent meeting between the Prime Minister Shastri and President Ayub.

Equities continue to drift lower and lower as investors' confidence is being further undermined by the steady deterioration in the economic situation and continued political uncertainties. Official utterances on the economic situation have created a psychology of crisis and added to the stock market's despondency. Of course, the crisis is not just psychological. Many industrial units are being forced to suspend or curtail their production due to scarcity of essential spares, components and raw materials, imported as well as indigenous. Under-utilisation of capacity is bound to push up industrial costs still higher which is sure to have its impact on profitability and possibly also on the dividend paying capacity of many units.

While industry's profit margin is being squeezed by mounting costs, rising cost of living is making it increasingly difficult for individuals to save for fresh investment. Economic distress is increasing fast and if allowed to grow unchecked for long it might easily disturb industrial peace. Neither the economic situation nor the political situation is conducive to the revival of investors' confidence. It is difficult to think of measures which could boost the morale of the capital market without restoring health and vitality to the economy. While New Delhi seems to be fully seized of the disturbing trends in the economy there is little evidence that adequate steps are being taken to bring about quick economic recovery. In the circumstances it is difficult to take an optimistic view of the outlook for equities. A technical

rally is perhaps about all that one can look forward to in the near future.

COTTON

The Big Gap

DESPITE reports of favourable weather conditions, in some of the cotton growing areas, especially in Surat, Broach and in the South, the 1965-66 cotton crop continues to be placed around 52 lakh bales against 57.5 lakh bales in 1964-65. With imports likely to be about 5 lakhs less due to the anticipated shortfall in P L 480 and global imports, the total reduction in the availability of cotton in the current season is expected to be of the order of 10 to 11 lakh bales compared to the previous season. Such a shortfall can be made good only partially by drawing on the previous season's carry-over of 23.72 lakh bales.

Therefore, in any case, there will remain a big gap between the total available supplies of raw cotton and the industry's normal requirements. It is quite obvious that cloth production will suffer substantially and very possibly the industry will have to pay higher prices for the raw material than in the previous season. How high, it is difficult to say because that will depend on the trend of cloth off-take and the general state of the textile industry.

Since the industry is at present faced with the problem of stock accumulation, reduced availability of cotton might not be regarded as a matter of any serious concern. In fact, there are quite a few observers who are inclined to regard the power cut and shortage of cotton as a sort of blessing in disguise. But the prospect of resolving the so-called crisis of stock accumulation, when cloth production is already running far behind the Plan schedule and cloth prices are ruling around their all-time high, through a reduction in cloth production is far from pleasing, to say the least. It is one thing to have to put up with shortage of even an essential item of daily life, but to regard a cut in production as a good solution to the problem of stock accumulation created largely by factors other than a decline in effective demand, is quite a different matter.

Conditions in cotton market did not show any noticeable change last week. The spot market continued to display a subdued tendency with extremely limited turnover and futures also drifted lower in sympathy with the continuing easiness in the spot material. The weakness has been more pronounced in Bengal Deshi because of the virtual absence of overseas demand. Export sales registered till the first week of December totalled only 59,627 bales as against 1.30 lakh bales in the same period last year. It bears repetition that despite the recent sizable decline, cotton prices are still well above the previous season's ceilings and that prices would not have registered even this much decline but for the peculiar difficulties of the cotton textile industry, financial stringency and political uncertainty.

There have been reports that New Delhi is considering the imposition of some more curbs on cotton such as restrictions on the movement of cotton from certain zones for limited periods, widening the scope of statutory survey and requisitioning on a selective basis. The new measures are intended to reinforce the present regulatory measures and to ensure a steady flow of cotton supplies to the textile mills at reasonable prices. The tight supply position does hold out the prospect of prices being pushed up appreciably in course of time. But the Government would do well to restrict its regulatory measures to the minimum when it does not have the ability to enforce them effectively.

OILSEEDS

Bulls Turn Cautions

PROSPECT of better rabi crops—mustard and rapeseed, linseed and castorseed—following recent beneficial rains in most of the oilseeds producing areas have affected the general trading sentiment in the oilseeds market. Bulls have ceased to be aggressive and at least for the time being they seem anxious to reduce their commitments at higher levels. The turnover in futures has shrunk considerably which is partly due to the imposition of heavy margins. After keeping steadier on short covering induced mainly by the strength in groundnut oil, oilseeds futures de-

veloped a sagging tendency near the week-end. Castorseed April and linseed April which had rallied to Rs 106.50 and Rs 123 earlier in the week eased to around Rs 102.75 and Rs 120.75 which were only slightly higher than the previous week's lowest levels. Linseed oil and castor oil also shed all their early gains. Groundnut oil which had recovered further from Rs 32.50 to Rs 35 (per 10 kilograms) receded to around Rs 33.60. In the preceding week, however, groundnut oil had been marked down to Rs 29.50 from its mid-November high level of Rs 37.50.

Only bulls who had been gambling on ideas of a failure of the rabi crop were uneasy over the recent rains which will prove very beneficial to the standing crops. But since rabi sowings have been rather poor because of inadequate rains at the sowing time, the total output of rabi oilseeds is unlikely to reach the previous season's level even if the weather continues to oblige until the harvest is ready. The overall supply position of vegetable oils will remain very tight in the current season because of the substantially smaller groundnut crop. Prospects of securing edible oils from the US under PL 480 seem quite dismal. In the circumstances, there is little chance of any significant fall in vegetable oil prices even though they are standing at very high levels. Little comfort can be had from the fact that prices have registered a moderate setback from the mid-November ridiculously high levels. The supply position of edible oils being what it is, the Government and the market authorities will need to be very vigilant in order to prevent prices from being pushed to new high levels in course of time. It is, however, quite possible that oilseeds prices may remain subdued for a while. Short-term fluctuations in prices are always difficult to predict. More so when the various States continue to impose all sorts of restrictions on the movement of goods outside their boundaries.

Export activity is confined to groundnut extractions and cottonseed cakes. Fairly large business is reported to have been put through in groundnut extractions recently with East European countries. Business with the UK has been relatively small. Recent restrictions in the movement of oilcakes outside certain States and even districts have caused considerable confusion and uncertainty in the minds of manufacturers and exporters.

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CURRENT STATISTICS

Economic Growth in ECAFE Region

Annual Growth Rates of Real Gross National Product and Per Capita Product

(Per cent)

Country	Gross National Product					Per Capita Product				
	1950-60	1961	1962	1963	1961-63	1950-60	1961	1962	1963	1961-1963
Burma	6.1	-0.7	3.6	5.2	2.7	5.1	-2.7	1.5	3.0	0.6
Ceylon	4.1	2.9	2.3	—	2.6*	1.4	0.2	-0.4	.....	-0.1*
India**	3.6	2.6	2.4	—	2.5*	1.6	0.3	0.1	...	0.2*
S Korea	4.6	3.5	2.2	5.8	3.8	2.5	0.2	-1.1	2.4	0.5
Malaya	3.9	6.0	5.8	—	5.9*	0.7	2.8	2.5	...	2.6*
Pakistan**	2.4	6.5	3.1	7.1	5.6	0.5	3.8	0.5	4.4	2.9
Philippines	5.8	5.8	4.4	4.8	5.0	2.3	2.5	1.2	1.5	1.7
Thailand	5.6	4.0	4.3	8.1	5.5	2.5	1.0	1.3	5.0	2.4

* 1961 and 1962 only.

** Net national product.

Annual Growth Rates of Agricultural Production

(Per cent)

Country	Total Agricultural Production				Average Annual Rate	
	1961	1962	1963	1964	1960-63	1964
India	8.3	1.5	-3.0	4.7	2.2	2.8
Pakistan	4.4	6.4	-2.0	9.5	2.9	4.5
Indonesia	3.7	-4.3	3.7	0.7	1.0	0.9
Oceanic Asia and Free Ports	6.5	1.5	3.0	—	3.7	2.7
Continental South East Asia	7.1	3.0	9.4	4.6	6.5	6.0
Northern Continental Countries	6.3	4.7	-4.5	5.9	2.0	2.9
Developing ECAFE Region	6.8	1.8	-2.0	4.4	2.8	3.2

Annual Growth Rates of Manufacturing Production

(Per cent)

Country	1961	1962	1963	Average Annual Rate 1960-63	1964 Jan-Sept
Developing ECAFE Region	7.4	7.7	10.7	8.6	8.1
India	5.8	7.0	8.0	6.9	8.2
S Korea	4.3	16.4	13.4	11.2	3.1
Pakistan	6.3	5.9	6.3	6.2	6.1*
Philippines	6.3	5.9	6.3	6.2	6.1
ECAFE Region	12.4	9.7	11.3	11.1	16.4
Australia	-6.9	13.0	4.9	3.3	19.1
Japan	19.9	10.3	9.8	12.8	19.6
New Zealand	4.4	5.0	...	...	...

* January-June.

Annual Growth Rates of Exports and Imports

(Per cent)

Country	Exports					Imports				
	1961	1962	1963	Annual Rate 1960-63	First-half 1964	1961	1962	1963	Annual Rate 1960-63	First half 1964
India	4.5	1.3	10.9	5.5	10.4	-1.3	-2.0	-7.2	-3.5	4.8
Pakistan	1.8	-0.5	17.0	5.6	6.9	-1.8	15.0	20.5	10.8	15.1
Indonesia	-6.7	-13.5	2.8	-6.0	4.7*	38.3	-18.5	-22.4	-4.4	43.0*
Oceanic Asia	-5.7	5.3	9.7	2.9	0.7	-0.5	3.9	6.7	3.3	5.5
Continental South-East Asia	5.4	0.1	8.9	5.1	5.3	0.8	8.2	8.3	5.7	2.2
Northern Continental Countries	1.6	16.3	-1.4	5.3	43.9	1.3	-3.5	13.7	3.6	-9.6
Developing ECAFE Region	-2.0	3.3	8.2	3.1	7.4	1.7	1.3	3.8	2.2	5.4
Australia	18.4	0.9	18.9	12.4	14.4	-11.5	8.1	9.6	1.6	16.9
Japan	4.5	16.1	10.9	10.4	20.3	29.4	-3.0	19.5	14.5	21.3
New Zealand	-11.5	1.2	13.9	2.6	16.9	14.1	15.9	20.6	5.0	6.6

* First eight months for exports and first five months for imports.

Source : "Economic Survey of Asia and the Far East, 1964", United Nations.

CENTRAL GOVERNMENT REVENUE

(Rs lakhs)

Revenue Head	September 1965		April-September	
	1965	1964	1965-66	1964-65
(1) Customs	4890	3273	25339	19962
(2) Union excise (Excluding cess on salt, rubber, coal iron ore)	7264	5934	40542	35829
(3) Corporation tax	4312	4204	9711	9033
(4) Income tax	2159	2475	7820	7616
(5) Estate duty	26	34	264	156
(6) Wealth tax	56	22	221	102
(7) Expenditure tax	6	—	11	1
(8) Gift tax	11	8	52	45
(9) Opium	52	42	143	155
Total	18776	15992	84103	72899

BANKING RETURNS

(Rs crores)

Reserve Bank	Dec 3	Nov 26	Nov 5	Dec 4, 64
1. Note Circulation	2679.12	2646.35	2653.46	2472.97
2. Rupee Coins	101.84	104.34	101.57	102.08
3. Deposits				
(a) Central Govt	133.22	80.15	50.61	86.30
(b) Other Govts	4.02	6.84	12.30	5.49
(c) Banks	109.22	104.82	106.26	91.99
(d) Others	211.00	208.23	214.33	144.57
4. Foreign Securities	75.05	75.05	72.63	85.46
5. Balance Abroad	10.13	9.90	11.07	11.39
6. Rupee Securities	2393.03	2363.03	2375.44	2186.13
7. Investments	165.41	199.66	134.40	121.97
8. Loans and Advances to Govts	174.58	168.26	169.81	72.52
9. Other Loans and Advances	199.57	186.87	185.14	192.42
Scheduled Banks	Nov 26	Nov 19	Oct 29	Nov 27, 64
1. Aggregate Deposits (net)	2824.32	2817.28	2812.54	2532.86
Demand (net)	1327.05	1318.47	1317.50	1199.25
Time (net)	1497.27	1498.80	1495.04	1333.62
2. Cash in Hand	68.68	69.57	70.21	65.46
3. Balances with the Reserve Bank	101.99	112.17	111.46	95.43
4. (2) + (3) as % of (1)	6.04	6.45	6.46	6.35
5. Borrowing from Reserve Bank	1.65	2.47	3.00	0.83
(a) Against Usance Bills and/or Promissory Notes	—	—	—	—
(b) Others	1.65	2.47	2.00	0.83
6. Advances	1776.56	1773.91	1780.52	1449.85
(a) State Bank	438.51	436.98	434.87	323.03
(b) Others	1338.05	1336.93	1345.65	1126.82
7. Bills Discounted				
(a) Inland	171.87	174.64	161.48	191.14
(b) Foreign	71.78	72.42	76.48	70.73
(c) Total	243.65	247.06	237.96	261.87
(i) State Bank	23.75	26.62	24.78	23.45
(ii) Others	—	—	—	—
8. (6) + (7) as % of (1)	71.53	71.74	71.77	67.74
9. Investment in Govt. Securities	866.58	858.26	857.34	838.88
10. (9) as % of (1)	30.68	30.46	30.48	33.12

FOREIGN TRADE

Value of Merchandise

(Rs crores)

	Imports	Exports	Balance of Trade
1965			
September	122.60	70.79	-51.81
August	115.35	67.29	-48.06
July	119.63	61.53	-58.10
June	145.73	67.22	-78.51
May	108.29	61.69	-46.60
April	96.06	56.44	-39.62
1964			
September	108.14	72.82	-35.32
1964-65	1,262.12	838.70	-423.42
1963-64	1,222.75	793.24	-429.61
1962-63	1,131.48	685.32	-446.16
1961-62	1,091.63	660.58	-431.05
1955-56	774.25	608.90	-165.35

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

INDEX NUMBERS OF WHOLESALE PRICES

(Base : 1952-53-100)

Groups and Sub-Groups	WEEK ENDING			
	20-11-65	13-11-65	23-10-65	21-11-64
Food Articles	174.7	174.0	169.7	164.0
Cereals	149.4	148.9	146.6	140.8
Pulses	174.6	174.3	168.8	179.9
Fruits and Vegetables	195.6	190.0	162.5	205.6
Milk and Ghee	160.2	161.5	170.9	146.6
Edible Oils	262.3	267.9	242.2	209.5
Fish, Eggs and Meat	198.0	200.1	192.6	175.4
Sugar and Gur	170.8	160.6	159.1	192.3
Others	200.7	199.3	195.2	176.3
Liquor and Tobacco	136.1	136.1	135.8	135.8
Tobacco	133.8	133.8	133.5	133.8
Fuel, Power, Light and Lubricants	150.7	150.9	150.1	144.8
Industrial Raw Materials	200.4	199.7	190.3	165.9
Fibres	171.0	165.2	159.4	144.4
Oilseeds	265.3	269.2	250.7	206.8
Minerals	129.3	129.3	129.3	101.6
Others	138.9	139.0	139.6	134.2
Manufactures	150.5	150.3	148.4	139.4
Intermediate Products	177.3	178.2	172.1	155.8
Finished Products	146.1	145.7	144.5	136.7
Textiles	143.3	142.7	141.7	135.8
Cotton	140.8	140.8	139.9	130.8
Jute	146.3	143.8	142.9	124.6
Woollen	192.3	192.3	192.3	169.2
Silk and Rayon	140.5	140.5	138.1	131.8
Metal Products	187.2	187.2	187.2	169.5
Chemicals	129.0	129.2	128.7	120.3
Oil Cakes	258.6	258.6	244.3	201.6
Machinery and Transport Equipment	136.5	136.1	136.0	127.9
Others	128.7	128.7	128.7	127.8
All Commodities	170.1	169.6	165.4	156.0

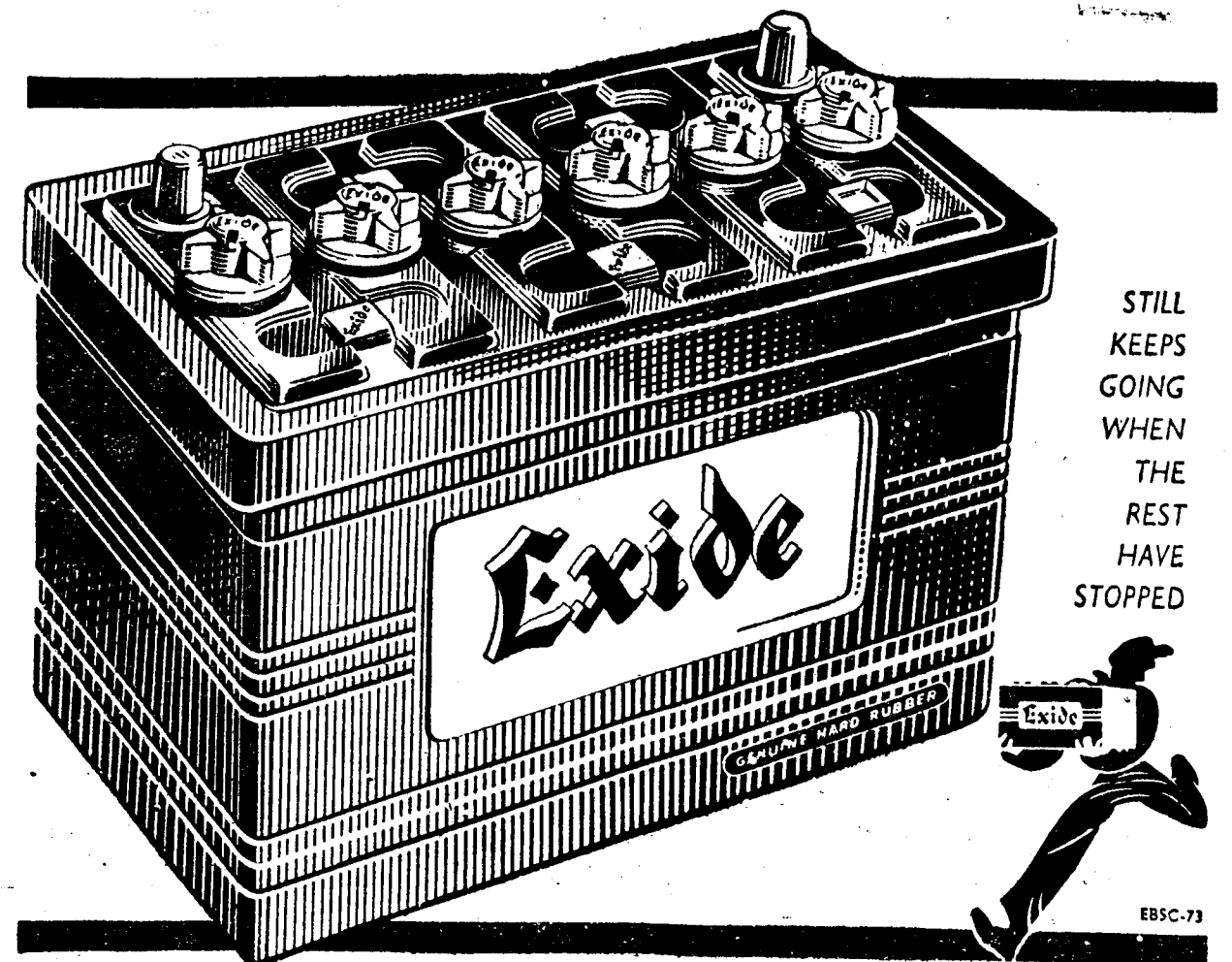
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MONOPOLIES COMMISSION'S REPORT
DRUG PATENTS AND NATIONAL INTEREST
ARE TAX CREDITS RELEVANT?

VOLUME XVII NO 51

DECEMBER 18, 1965

SEVENTY-FIVE PAISE

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THE ECONOMIC WEEKLY

Vol XVII No 51 Dec 18, 1965

EDITORIALS

- Are Tax Credits Relevant? 1837
Bokaro, How Much Longer? 1838

WEEKLY NOTES

- World Bank and Haldia —
Calcutta Not Given Fair
Chance — Small Drug
Maker in a Quandary —
Price of Scientists —
Trumps Played Out 1839

FROM THE LONDON END

- What Future for the Aircraft
Industry? 1841

SPECIAL ARTICLES

- The Great Escape: Concentra-
tion Good, Monopoly
Justiciable 1843
— R K Hazari
Patents Bill Retains Drug
Patents: National Interest
Demands Their Abrogation 1849
— S S Sokhey
The Jats of Northern India:
Their Traditional Political
System — II 1855
— M C Pradhan

FROM THE CHAIR

- Delhi Cloth and General Mill 1865
Scindia Steam Navigation
Company 1867

BUSINESS NOTES

- Alkali and Chemical —
Ashok Leyland — John
Oakey and Mohan — West
Coast Paper 1869

AROUND BOMBAY MARKETS

- Dalal Street at New Low 1871

Are Tax Credits Relevant?

THE gazette notification of December 12 merely elaborates on the tax credit scheme for investment in equities announced on December 24 last year and given effect to in the Finance Act, 1965. The salient features of the original scheme remain. There are some further attempts at closing a few possible loopholes, and a couple of concessions regarding purchases from underwriters or from another party. The details also specify the manner and processing of applications for tax credits.

The tax credit still applies to initial issues of equity capital by industries that fall under the first schedule of the Industries (Development and Regulation) Act, which amount to not less than Rs 20 lakhs and which have been made on or after December 24, 1964. The issue has to be declared eligible by the Controller of Capital Issues. The investor in such issues—who may be an individual or an Hindu undivided family—is entitled to a five per cent tax credit on the first Rs 15,000 invested, a three per cent tax credit on the next Rs 10,000 invested, and a two per cent tax credit on the next Rs 10,000 invested. On an aggregate investment of Rs 35,000 he would thus get an annual tax credit of Rs 1,250. Being entitled to this for the year of subscription and for the three following years, he would thus get a total rebate of Rs 5,000 on an investment of Rs 35,000. If the investor purchases the equities from an underwriter, he will get the credit for the period remaining out of the four years from the time of purchase by the underwriter. Also, if an investor purchases the equities from another investor, the credit will be apportioned between them according to their respective share of the four-year period.

The grant of tax credit on purchase from an underwriter (the earlier scheme had provided only for credit on inheritance of the eligible equities on the death of the original investor), or from another investor, are added incentives, welcome in themselves, provided of course that the transferability does not in the present state of the stock markets lead to frequent switches. For, the purpose of the incentive is to help the stock market hold, and easier transfers by definition go against this aim. The ceilings and sums involved in the tax credit indicate that it is aimed at encouraging the relatively small investor who would fall within the Rs 35,000 investment limit. A total tax rebate of Rs 5,000 on this is certainly more sizable than the gain from tax credit schemes formulated earlier for exports and later for production increases. But is it large enough? It is difficult to answer this merely by relating it to the yield pattern or the gestation period of the company. In any case, a system so related would be rather cumbersome to operate.

What does seem doubtful about the present tax rebate scheme is its adequacy as a measure in the face of the persistently falling equity values on the stock market. The small investor has suffered the most from this collapse. Would a 14 per cent gain over a four-year period compensate for the capital losses and the loss of confidence that he has suffered even on the "safer" shares by now? For the small investor such capital losses are especially weighted because investment in equities is his hedge against inflation. It is interesting too that since last December, when the outline of the scheme was first announced, the response to new issues has by no means improved and today it is still negligible. It is the loss of hope with the persistent fall in the share market since the end of 1962, except for very brief periods of improvement, not the size of the present gain, nor the apparently complicated procedure (which is not as complicated as some comments have made out), that may eventually decide the fate of the present scheme.

The sustained decline on the share market has often been attributed to the toughness of the fiscal and monetary measures. So simply put, the picture is misleading. For, it is likely that it is not so much the present toughness as the former leniency towards the stock exchange boom of the early 'sixties, alternated now by sudden and extreme stringency that account for today's unrelieved decline. Share values were rising steeply at that time, and measures such as a rise in Bank Rate, bigger margins on

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Weekly Notes

the stock exchange, credit restriction and selective credit control for stock exchange purposes, were steps that did not come on time. Today they have come with full force with severe credit restrictions, the successive rises in Bank Rate, and the tax on bonus issues which hits at the investor's capital gains calculations. Sentiment is low, but the normal methods of introducing buoyancy in the market to counter that are still not available. These could be, it has been suggested for instance, larger advances against shares left as security with banks, or easing of the tax on bonus issues.

The question is, do the authorities want to inject such life into the stock market, though this evidently is the motivation behind the tax credit on new equities? The general burden of taxation cannot be blamed for the present state of affairs. Those resources are needed for planned development. And what is more significant, the profits and the dividends paid by companies have still been showing a rising trend. The occasional case of lower dividends is the exception rather than the rule, as for instance the fall in the payment by sugar companies following the land ceiling order by the Maharashtra Government.

Still, savings need to be siphoned into investment in the various concerns. When the Finance Minister hinted that he could do without the stock markets, he obviously had institutions such as the LIC, the Development Bank and the Unit Trust in mind. These certainly could provide sizable alternative sources of finance. Being able to set off insurance premia as expenditure for income tax purposes, the exemption of the Unit Trust from double taxation, unlike other investment trusts, and similar measures, would make investments through these institutions attractive. But the stock market does on the other hand provide a more direct method of choice for the investor, affords him greater manoeuvrability and promises, in optimistic conditions, comparatively better returns. The period of buoyancy of the early 'sixties, it must not be forgotten, was the period during which much fruitful new industrial investment took place.

Since the economy, despite being planned and controlled, leans heavily on modern private business for capital formation, there are two further points to reckon with. First, the relevance of controlling prices on the soaring commodity markets, since

higher commodity prices, by pressing on costs and profit margins of final manufactures whose market prices are often Government-controlled, depress the investment market and the invest-

Bokaro, How Much Longer?

THE danger of further delays in Bokaro is not entirely over. Acceptance of the Russian project report has to be communicated within two months but a number of decision bottlenecks appear obvious. The cost of the project is significantly higher than was anticipated earlier though it was known that the capital cost may be high till the final projected capacity is reached. Costs, unfortunately, do not stay constant with the passage of time; in any event, the Russians, no less than others, are susceptible to bargaining. The cost issue does tend to get clouded by the noisy fears of Andhra that Visakhapatnam might go by default as a result of over-spending on Bokaro. The talk in some quarters of inviting global tenders, however, is utterly irresponsible: the Russians do not participate on that basis and, placed as we are, time is infinitely more valuable than a few crores of rupees. What is required is more steel and more of particular varieties in the quickest possible time; the number of steel plants it should come from is an entirely subsidiary matter. Negotiations for Bokaro have to be based on the intrinsic merits of Russian designs and quotations; they cannot proceed on the hypothesis that resources have also to be kept aside for Visakhapatnam.

A greater cause of worry is that the Russian credit is for Rs 100 crores only while the foreign exchange component is significantly higher. Some of the balance might come from the additional credits and trade arrangements which Russia has promised to consider but full cover is not in sight. Free foreign exchange would be required for some imports specifically for the plant and for payment of royalty on the I.D. process, and indirectly for the fulfilment of targets of procurement from domestic sources which are expected to provide about 35 per cent of the total value of plant and machinery. This sorting out should be facilitated to some extent by the de-freezing of aid from Consortium sources.

The reported moves to introduce aluminising in place of galvanising and to provide for the use of acids other than sulphuric acid are in the right

ment motive. And secondly, the need perhaps, in the circumstances, not to rob private industry of a direct, potentially buoyant source of investment.

direction. Unless import substitution is built in wherever possible into the plant, there would be avoidable drain of foreign exchange in the course of operations. These changes, too, might tend to delay the execution of the project for no indication of them had been given earlier to the Russians.

With the project report and designs in hand, it should be possible now to proceed with the tapping of domestic sources of equipment. The exploration carried out so far has been perfunctory. Sending out questionnaires is no substitute for sustained location of capacity, indication of delivery schedules and mobilisation of technical assistance within the country to maximise import substitution. Instead, much time and energy are being spent on the issue of Dastur vs Others for the consultancy contract.

That a few more consultancy firms have come up since Dastur did the spade work on Bokaro is an entirely welcome development but their existence and competence are not strictly relevant. Moral commitments (which are being mentioned as if fulfilling them is an act of charity) apart, Dastur has been identified with Bokaro and is wholly Indian-owned and staffed. Inviting tenders for the award of consultancy would, for one thing, cause intolerable delay; for another, it does not eliminate the question of choice which in this matter is not a question of the fees alone. The Russians would be handling the consultancy for their part of the work and Bokaro Steel itself would be looking after some of the domestic portion. The residue is not so large as to justify the employment of more than one consulting agency. And this agency has to be a unitary organisation, not a consortium, if the intricate task of procuring equipment and parts from something like 500 different enterprises within the country has to be carried out expeditiously. A consortium of uneasy claimants, at least one of whom has been actively lobbying against Dastur at political levels, will not work; it could tarnish the reputation of Indian consultancy, apart from endangering the schedule of the project itself.

World Bank and Haldia

Our Shipping Correspondent writes :

THE World Bank seems to have once again irked the Government of India by its advice. The Minister for Transport, Raj Bahadur, informed newsmen on Tuesday that the Government took exception to certain suggestions made by the World Bank because they impinged on the Government's authority. Apparently the suggestions that have upset the Government so much are about the administration and accounting systems to be followed at Haldia. The World Bank wants the Haldia port to be separate from the Calcutta port. The Union Government does not know what it wants, but as the Calcutta Port Commission wants to have Haldia firmly under its thumb, the Government is unwilling to agree to the World Bank's suggestion for independence.

Without going into the merits of the problem the first point to consider is whether the Bank has exceeded the norms governing the relationship between it and its debtors. The administration of a port is of course the business of the Government but this does not mean that the Bank has no right to make suggestions. The Bank is a lender and any lender has the right to make suggestions to ensure that his funds are utilised in the best manner. The normal banker concerns himself primarily with the safety of his funds and therefore limits himself to making suggestions which will ensure this safety, but it is a well-known fact that American banks have always taken a far wider interest in their borrowers and have certainly felt themselves at liberty to advise on the management of a project to which they are substantial creditors even when they are fully satisfied with the security of their funds.

The World Bank may think its case for interference to be even stronger; the safety of its funds depends on good administration by the Government for it does not rely on ordinary securities; it relies much more on political considerations and on its assessment of a government's ability. In India's case the Bank has made substantial loans on scarcely evaluated projects and as not all the projects have been uniformly commended by their success, the Bank has increased its vigi-

lance, not always to the resentment of the Government which has in the past often been grateful for this free and competent watchdog. The trouble is that the Bank's relationship with the Government seems to fluctuate with the Finance Minister in saddle: the last one did not think himself much of an economist and was therefore glad to have the Bank's assistance; the present one does not think he needs any one to tell him how to run the economy. The rest of the Government takes its cue from the Finance Ministry and not many Indian Ministers have yet developed enough maturity to discern advice from a foreigner which will genuinely improve the working or implementation of a project from advice of the other type. The Bank however is unlikely to forgo its privilege of giving advice as a creditor. The sooner we learn the hard fact that if you don't want advice, don't borrow, the better.

Calcutta Not Given Fair Chance

AS for the project itself neither the Government nor the Bank has performed creditably. The Government has never quite known what it wants except that it wants something and the Bank has never known whether the Government should have it or not. In the teams of officials that have come from the Bank to evaluate and consider this project not one has been able to express clearly what the Bank's view is of the project. Every now and again some mighty man of that organisation comes here and assures everyone that the project is through, only to be followed by another team to evaluate the project. Not that a decision on the project is easy. The present writer has been a consistent opponent of it on the grounds that if the Indian Government wishes to spend Rs 30 crores on ports it could do it in many better ways. Indeed, it could spend it all on Calcutta to much greater advantage. The more general view, and incidentally that of the Port Commissioners of Calcutta, is that the Hooghly must have a port at the mouth of its estuary because Calcutta can never be turned into a proper deep draft port. This is perhaps the more reasonable view, but one can still argue that the need for a port on the mouth of the Hooghly can only be determined after enough money has

been spent to restore Calcutta to its former vigour. It is still the considered view of this writer that the protagonists of Haldia do a great disservice to Calcutta and this view is shared by many who have spent their lives serving that great Port.

The Port Commissioners' views are born of despair that nothing can be done for Calcutta. Therefore, like school girls wanting a new pen in order to write better, the Commissioners want a new port away from the historical problems of Calcutta. Yet if this is so, why all this objection to having a different administration? Surely the logic of a new port is that Calcutta cannot be improved; the despair can only stem from a lack of confidence in Calcutta's present set up. Would it not therefore be better to have a new administration? Although why the World Bank is insisting on this is another mystery. Surely, they know by now that however new the pen the school girl will be the same?

Small Drug Makers in a Quandary

THE revised import policy for drugs and pharmaceuticals has now been published. Established importers were till now allowed to import about 200 items of essential drugs and medicines falling in list III of Appendix 19 of the Red Book. This list has now been drastically cut and only 47 drugs will be allowed to be imported. Licences already issued to established importers against their consolidated quota for the year 1965-66 will also be valid only for import of these 47 drugs.

The impact of this restriction will mainly fall on the small manufacturers. The 125 or so big manufacturers have their actual users' quotas, but the 2,700 smaller ones depend mainly on established importers for their raw materials. They are bound to be hard hit under the new dispensation. In fact, the impact is already being felt. If manufacturers intend to continue their normal manufacturing programme, they will have to buy the raw materials at enormously high prices. The only materials available now are either those imported against export incentive licences which are sold at 300-350 per cent premium or those smuggled. Smuggling is very likely on the increase since the risk involved in smuggling costly drugs is perhaps less

than that in smuggling of gold and the margin of profit definitely higher.

The raw materials supply position in the pharmaceutical industry is deteriorating fast. Some of the essential vitamins and steroids and many other chemicals have completely disappeared from the market. The solution suggested by the Government has not enthused the industry much. The DGT D has prepared a substitution list of chemicals and raw materials and has circulated it among the big manufacturers asking them to produce these items indigenously as soon as possible. It is not difficult for the indigenous manufacturers to start producing these in our country with the available technical personnel and know-how. But the difficulty is that to prepare these intermediates and pharmaceutical chemicals, we need many basic chemicals and solvents which are not available. Moreover, there is the time factor: even if we start now it will take some time to come to the stage of actual industrial production, depending on indigenously available equipment and plant.

This is another glaring instance of short-sighted planning. The sudden restriction of imports completely upsets the development programmes as well as the normal production schedules of pharmaceutical units. Demand for essential drugs and pharmaceuticals, on the other hand, has been going up very rapidly in recent years. With such buoyant demand it would not be surprising if the important drugs soon went underground, to be sold in the black market.

Price of Scientists

A LARGE proportion of our scientists who go abroad for training stay there. A similar problem has long existed in East Germany. East German scientists are trained at home, except for a few who go and do research in the Soviet Union at a late stage in their training. There has nevertheless been an outflow of scientists, mainly to West Germany and the United States. The Berlin wall has probably had the least deterrent effect on the emigration of top scientists, for east-west meetings are unavoidable nowadays in many sciences.

The first reactions to the problem of loss of scientists came very early. Around 1955 scientists' salaries were raised to levels comparable to those of the top political functionaries. A young scientist could expect to earn at least 3,000 Marks a month right from the

beginning, and if he was very good he could get a salary up to 8,000 Marks. The top scientists — perhaps twenty of them — got 15,000 Marks.

The real value of these salaries is much greater than its rupee equivalent at the official exchange rate. Among other things, the income tax rates are much lower in East Germany — the highest rate is around 25 per cent. And the prices of consumer goods, especially luxuries, are lower. A three-room flat in Unter den Linden, the main street of East Berlin (which is perhaps better known by its temporary name, Stalin-Allee) costs 60 to 90 Marks a month; an equivalent flat in Bombay would cost Rs 800 at least. The prices of cars, refrigerators, radio sets, hotel rooms, restaurant meals, etc., are between a fifth and a half of those in Bombay.

At such low prices there is naturally a scarcity of many consumer goods, from cloth down to cars; and the most valuable of scientists' privileges are not so much financial ones as the rights to jump queues. They get houses and cars more quickly, they are among the few who go to the best holiday resorts, and provided their children have the minimum qualifications they have no difficulty in getting a place in universities. Their career is also not dependent on their membership of the communist party; many prize this privilege because it enables them to avoid time-wasting meetings, the need to be loudly conformist and to jump on to the right bandwagons in time.

With these privileges, the material sacrifice involved in leaving East Germany was greatly increased; this had a deterrent effect on the emigration of scientists in the middle levels. What emigration takes place now is from among the top scientists. Partly this is because they get more chances, but they take the chances mainly because of political interference in the running of scientific institutions. The cost of political interference is, however, the last thing politicians could do anything about.

Trumps Played Out

A Correspondent writes:

THE fact that India is a bigger country did affect the outcome of the twenty-two days' war; Pakistan's reserves were much more tightly stretched than India's and all she could do at the end was to fight from entrenched positions on static fronts. It was just her luck that India also chose to fight on those

fronts and that Pakistan's ammunition did not run out.

But India's bigger size seems to be playing an even more important role in recent days. For wherever the sympathies of the big powers lie, their interests would be more hurt by antagonising India than Pakistan. This is the only explanation of Pakistan's lack of diplomatic success. For all the oratorical and lobbying skills of her foreign minister, Pakistan failed to get a mention of self-determination or of earlier resolutions in the Security Council resolution of September 20. It failed to get multi-power mediation on Kashmir, and no major power has shown any warmth for its arbitration proposal.

With his visit to Washington, Ayub Khan seems to have played out his last trump. He could expect to have certain leverage with the United States owing to the central position of Pakistan and to the American air bases; but it apparently failed altogether to move Johnson. If Ayub Khan stayed put he might expect economic aid to flow again soon; and military aid might be resumed when aid to India was resumed. By putting pressure on bases he could have forfeited these promised benefits and gained nothing vis-a-vis Kashmir.

So he goes now to Tashkent, disarmed, empty-handed. He has even further muffed matters by giving the impression that he is being pushed reluctantly to Tashkent by Johnson. From his experience over Kutch and Kashmir, Shastri has little reason to trust Ayub Khan; perhaps the internal political situation leaves Ayub little reason to trust himself.

What will these people do in Tashkent? What can they do? Even though Shastri does not stick to his condition that the talks must not be over Kashmir, his best tactic would be to carry a great many little proposals of release of seized goods, resumption of traffic, a trade agreement, freer monetary transfers and movement of people, another meeting after a few months and so on. The more he proposes the better, for it will reduce the time devoted to Kashmir over which there is no room for give-and-take, and it will give more choice to Ayub Khan who must be very hard-pressed at home. There is much reason for us to begin a rapprochement by however tiny steps; the hostility of Pakistan neutralises much of our military and political power internationally.

FROM THE LONDON END

What Future for the Aircraft Industry?

A YEAR ago the Government appointed a Committee, under the Chairmanship of Lord Plowden, to consider what should be the future place and organisation of the British aircraft industry. The findings of this Committee are now being studied by the Government. The majority of the members of the Committee have recommended that the Government itself should take a majority financial interest in the two major U K airframe groups — the British Aircraft Corporation and the Hawker Siddeley Aviation. It also proposes that the two major aeroengine groups — Rolls Royce and Bristol Siddeley — should remain in the private sector and should be amalgamated. However, a minority of members are against the Government taking over the two major airframe groups and would favour instead a non-controlling shareholding, while one member (Aubrey Jones, now Chairman of the National Board for Prices and Incomes) is opposed to the Government acquiring any financial holding at all. The general view of the minority is that it would be a great mistake for the Government to acquire the declining assets of the British Aircraft Corporation. They also argue that companies owned by the Government would give shareholders no good reason to remain in these companies.

As is only to be expected, considerable controversy will be aroused by the majority recommendations of the Plowden Committee, which would, in effect, mean that the Government would be invited to take steps which would amount to nationalising another major industry — the first industry to be nationalised since the Labour Government under Attlee nationalised the steel industry. While most people believed that the Plowden Committee would suggest some element of public ownership of the British Aircraft Corporation, which is in financial difficulties, the fact that it has gone as far as to recommend a holding of more than 50 per cent as well as to suggest that the same treatment should be meted out to Hawker Siddeley, has been in the nature of a bombshell. It is perfectly true that the Labour Party in its election campaign suggested, apart from nationalisation, a much closer working between the private and public sectors. Among

the suggestions made were co-operation with private firms who needed support to develop new projects and action to help industries (which were not pulling their weight) to become more efficient.

Nothing to Do with Socialism

The arguments of the Plowden Committee, however, have nothing to do with socialism. The list of the members of the Committee, including such men as Barran, the Managing Director of Shell International Petroleum, and William Penny, makes it quite clear that none of them are doctrinaire socialists. Their main reason for suggesting a controlling Government interest is that they feel the two companies need help badly and cannot get it from private sources. The gist of the argument is that since the State pays the piper it should call the tune. Well over half the earnings of the two companies comes from Government aviation contracts. Since the Government is the industry's biggest customer, major projects cannot be financed without State backing, and in these circumstances, a majority financial holding seems only reasonable.

In their own defence, the two airframe companies concerned may well point out that it is because the British Government has in the past been a very capricious customer that their future has been jeopardized. B O A C, the Government-owned State airline, has always insisted upon aeroplanes designed to meet their own special needs but aeroplanes which no one else wanted and so could not be sold abroad, thus restricting the market to a very small and not profitable one. Apart from the Canberra and Viscount (which were produced for British European Airways), custom-built British planes have not commanded much favour abroad. They might also point out that the other airframe company in which the Government has already taken an interest, Short Brothers and Harland of Belfast, has not made very great progress.

The fact remains that the main difficulty with the British aircraft industry lies in the fact that the national market is too small for profitable operation. It is for this reason that the Plowden Committee comes out strongly in favour

of co-operation with Continental countries, particularly France, as the basis for all future major aircraft development. This sort of plan would result both in cost saving and a wider market. The fact remains that only on the basis of joint European co-operation could any country in Europe provide suitable competition to the US aircraft industry which at the moment has the field virtually to itself.

The case with regard to the aeroengine groups is much simpler. Both Rolls-Royce and Bristol Siddeley are doing well and require no special help. Bristol Siddeley engines have a good future. Rolls-Royce also has few problems, and since it has been decided that the Phantoms are to be fitted with new Rolls-Royce Spey engines, their order books will give rise to little concern.

The Plowden Committee is bound to face the Labour Government with an awkward decision to make at this particular time. With its parliamentary majority down to two it is unlikely to want to take a major decision on what the Opposition could easily construe as yet another attempt of the Government to appear as the Party for nationalisation. Of course, the Government could get out of this awkward predicament by using the same argument as was used about the steel nationalisation bill, namely, that the programme for the current parliamentary session is already heavily overloaded and that it will, therefore, not be possible to discuss such matters as the takeover of the two major airframe companies in Britain. It, therefore, appears unlikely that any major decision can be taken until after the General Election when, if the Labour Party is returned with a large majority, it can tackle this controversial subject.

In the meantime, the Government must hammer out some policy with regard to its co-operation with the private sector. When is it right for the Government to assist an industry which is in trouble, and will Government assistance really help to make the industry viable? The question has already arisen with regard to the shipbuilding industry, and the Government is now in the process of providing assistance to the Fairfield shipbuilding yard on the Clyde which is in difficulties. This could well be the beginning of public ownership

or joint enterprise on a selective basis. One of the reasons for the Government's interest in this Clydeside yard is that if the company has to close down more than 5,000 people will lose their jobs in Scotland, where even now the unemployment rate is exceptionally

high. The Geddes report which is to be published in the new year will provide some recommendations for the shipbuilding industry, and the Government has already announced plans to assist the computer industry. For those in Britain who believe that once the

dead hand of State ownership comes down on an industry no progress can be achieved it might be well to point out that the French aircraft industry, which is in the main nationalised, has been able to produce the record-breaking Caravelle.

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The Great Escape

Concentration Good, Monopoly Justiciable

R K Hazari

The report of the Monopolies Commission cannot be treated with the indifference (or amusement) which was extended to the report of the Mahalanobis Committee. Too many undertakings have been given about implementing its recommendations and a draft bill is incorporated in the report.

However, the only charitable interpretation possible of the general approach and recommendations of the Monopolies Commission is that it proved unequal to the task of reconciling the opposing logic of capitalism and socialism.

Those who had felt that the Commission should never have been set up in the first place have been proved right.

THE report of the Monopolies Commission* has three merits. It has been completed on schedule and released quickly to the public without prolonging its existence or that of its establishment. The Commission has essayed, though with very limited success, the task of improving efficiency and business practices in a sheltered market through regulatory processes. And the principal deficiencies in its approach and recommendations have been made up in an able and comprehensive minute of dissent by, of all persons, a senior civil servant. It also marks a departure from the tradition of high power commissions: *obiter dicta* take the place of reasoned and documented analysis, the Commission's interpretation of recent history is unbalanced, the report is shoddy by any (leave aside Cambridge) standard, and there is no summary of conclusions and recommendations. Even those who expected little from this Commission have reason to be disappointed.

The Commission was supposed to bring its ripe wisdom to bear upon some of the basic problems of a semi-planned mixed economy. That it has failed to do. The Majority chose either to wallow in British precedents or to refrain from the effort to reconcile the justifiable areas of concentration and monopoly with the socio-economic objective of broad-based economic power. They became victims of the implicit compulsion to frame legislation which, if at all seriously intended, can deal with monopolistic practices only, and a prey to the common irrational feeling that the judiciary can deliver the goods for which politicians and bureaucrats have proved inadequate. This faith in the

judiciary, which some other countries repose in the army, is touching indeed; the Santhanam Committee whose recommendations seem to have coloured what little thinking the Commission did, shared this faith, which only proves that the age of faith is not over.

Terms of Reference

The main purpose behind the appointment of this Commission was never clear. By the time it took over the boiling pot from the Mahalanobis Committee on Distribution of Income and Wealth, public attention was already diverted to other more elemental issues. There was, perhaps, a serious intention to clear private traffic lanes but the implications of this process in the light of an increasingly sheltered market, a growing public sector and proliferating weeds of administrative regulation were not fully understood. Nobody, however, bargained for the substitution of judicial processes (ie, unforseeable delays) in place of administrative bungling and indiscretion which are by now foreseen and reasonably discountable factors.

The Commission appointed in May last year consisted of Justice K C Das Gupta of the Supreme Court (Chairman), G R Rajagopaul (Legal Draftsman), K R P Aiyangar (former Chairman of the Tariff Commission), R C Dutt (Chairman of Company Law Board), and I G Patel (Chief Economic Advisor). Its terms of reference were as follows:

(a) to inquire into the extent and effect of concentration of economic power in private hands and the prevalence of monopolistic and restrictive practices in important sectors of economic activity other than agriculture with special reference to

(i) the factors responsible for such concentration and monopolistic and restrictive practices;

(ii) their social and economic consequences, and the extent to which they might work to the common detriment; and

(b) to suggest such legislative and other measures that might be considered necessary in the light of such enquiry, including, in particular, any new legislation to protect essential public interests and the procedure and agency for the enforcement of such legislation.

It was further authorised to report on any other matter bearing on any aspect of the national economy or functioning of the private sector and financial institutions as well as to look into concentration in the ownership of newspapers.

The terms of reference, thus, clearly distinguished between concentration of economic power, on the one hand, and monopolistic and restrictive practices, on the other. The Majority confounded both these phenomena under 'concentration of economic power' and decided to handle only the latter on the ground that what it describes as country-wide concentration has proved beneficial* so far and would remain so in future.

"The concentration of economic power has helped the economic betterment of the country. Even today our industrial development is far behind that in the western world or in Japan. But what little development there is owes much to the adventure and skill of a few men who have in the process succeeded also in becoming 'big business', thus concentrating in their hands a great portion of the economic power controlling and directing the production and distribution of national wealth and income. It is fair also to state that after concentrating power in their hands these men have gone on often to push forward development of further industries, which has been"

* Report of the Monopolies Enquiry Commission 1965, vols I and II. Price Rs 6.50 or 15s 2d or \$2.34. The listed prices are consistent with the Commission's devotion to petty detail.

DUNLOP MANUFACTURE INDIA'S FIRST EXTRA LARGE OFF-THE-ROAD TYRES

In the race against time to complete various projects on schedule, giant earthmoving vehicles are being used in increasing numbers throughout the country. The extra large size tyres required for these vehicles were hitherto imported, costing the country valuable foreign currency.

Dunlop have now undertaken for the first time in India the manufacture of Extra Large Off-The-Road tyres in sizes 24.00-25 and 26.5-29 for these massive earthmoving vehicles. Weighing nearly half a ton each and standing over six feet high, these tyres are made to the highest international standards.



➤ **YET ANOTHER DUNLOP FIRST**

to the advantage of the country. It is also generally agreed that concentrated economic power has been responsible for the greater part of the not very high capital formation in the country. Huge profits were often earned so that even after the distribution of high rates of dividends good surpluses were left. These were utilised to add to the industrial capital, whether by way of issue of bonus shares or in the shape of reserves or by investment in fresh ventures.

"Although complaints were not infrequently heard that dynastic control of big business has sometimes kept professional managerial talent from coming into its own, it is fair to say that big business has generally been able to supply over the years considerable amount of managerial skill of high quality, so that production has been high, profits have been good and failures comparatively few in number.

"It is important to note that big business has been able to attract and obtain foreign collaboration and such collaboration has helped the starting of many industries specially by supplying the essential machinery and technical know-how. As we have already stated when discussing the factors responsible for concentration of economic power, foreign business concerns are not likely to extend similar collaboration to small units.

"From its past records in the development of industries and the special advantage it has in starting and keeping up capital intensive industries as also the bright chance of obtaining helpful foreign collaboration, it is reasonable to expect that concentrated economic power may be relied upon to make important contribution to industrial development in the crucial years to come."

This confidence in big business has greater empirical justification than the commonly held belief in the extra-territorial benefits of judicial processes. Beyond that one is constrained to remark that the Commission should have had the benefit of more tangible and analytical evidence before getting swept off its feet. This is all the more remarkable because it has not hesitated to outright condemn resale price maintenance (Report, pp 129, 162, 178-79, and section 28 of the draft bill, a condemnation which at least one of the signatories to the Majority does

not recollect), presumably because it has been so treated in U K recently after acute controversy. The Commission has produced no evidence, apart from its "anxious consideration of the problem", to establish that resale price maintenance is *per se* against the public interest. In a word, the Commission has chosen, for reasons nowhere documented or elaborated in its report, to give an unqualified good certificate to concentration and to create a semi-judicial agency in the name of policing private sector traffic, which would add a new dimension to over-extended administration of industrial planning, or what goes under that label.

Analysis of History

In the Commission's analysis, technological economies of scale lead to control of large amounts of capital and the limited supply of managerial skill has proved a fruitful source of concentration of economic power. From this it delves into history and comes up with a few gems. On the basis of a deductive interpretation of history, unalloyed by a check on facts, it comes to the conclusion that war-time expansion and transfers of companies from British to Indian control around 1947 'necessarily' caused an increase in concentration. Less exalted minds, bogged in detail, might find it difficult to understand how a less than 20 per cent expansion of industrial production between 1939 and 1945 during which period a number of new Indian groups came into prominence at the expense to some extent of British groups specialising in stagnant tea, coal and jute, and the subsequent transfer of several British companies to Indian control would 'necessarily' cause an increase in concentration. Judicially oriented high power commissions, one understands, do not look into such niceties. Nor, in spite of the economic expertise at their disposal, do they care to observe that the demands of planned development itself, not merely food scarcity and hoarding and machinery imports, necessitate substantial trimming of imports.

For many years, Government spokesmen vehemently denied that concentration had increased and was probably increasing. The Commission, one wonders how, takes growth of concentration as a proved fact, though its own catalogues of 'product-wise' and 'country-wise' concentration relate only to March 1964. I refuse to believe that my modest effort, completed in 1961,

in studying one aspect of these problems has borne this fruit. The Commission refrains from offering any proof of its hypothesis that concentration has increased over the period of planning. That need not restrain observers from asking how the Commission started with this hypothesis.

It gives five main reasons, nevertheless, for the increase in concentration:

- (1) Big business could raise capital easily and there was less risk of their industrial licences remaining unutilised. (Did the Commission look into the list of unutilised licenses between, say, 1955 and 1960, when Government began to revoke unutilised licenses, to evaluate this risk?).
- (2) Licensing authorities have been inclined to favour the larger groups on account of their proved competence and greater resources. The Commission found no evidence of prejudice against the larger groups, rather the country. "We are convinced that the system of controls in the shape of industrial licensing, however necessary from other points of view, has restricted the freedom of entry into industry and so helped to produce concentration". It is implied, as emphasised in Dut's note of dissent, that licensing alone prevented smaller men from taking up big projects and raising more money than they actually did.
- (3) Foreign collaborators have tended to favour the larger groups.
- (4) The advantage which big business has over smaller people in obtaining assistance from banks and other financial institutions is another factor.
- (5) Import restrictions and exchange have played their part.

Product-wise concentration is bound to arise and to continue for some time in every new line of production. In some cases, the supply of raw materials and/or the size of the market is limited. The law of patents has also played a role.

Product Catalogue

The Commission then proceeds to make a catalogue each of the two brands of concentration uncovered by it. The product-wise catalogue is based upon data provided by the Development Wing. The Commission itself makes no effort to define 'product' or to look into the possibilities of substitution. The emphasis is on ratios, high, medium,

low and nil; these can be handled with reasonable safety by supervisory and clerical staff. When the share of the three top producers is 75 per cent or more, the ratio is high, between 60 and 75 per cent it is medium, and between 50 and 60 per cent low. Where the share is less than 50 per cent, "the concentration may be considered to be nil". There is no reference to price leadership with a much smaller share of production or to local monopoly. Of the 100 products "specially selected in view of their importance to the ordinary consumer", two-thirds have high concentration, 10 medium, 8 low and 17 nil. These, incidentally, include infant milk food, corn and wheat flakes, biscuits, chocolate, refrigerators, tooth paste and talcum powder.

Group Catalogue

For country-wise concentration, the Commission defines a business group as comprising "all such concerns which are subject to the ultimate and decisive decision making power of the controlling interest in the group*—the group master." It has tried to ascertain the substance of control and has not gone merely by legal technicalities. The Commission does not follow the concept of "outer circle" which, it alleges, "has found favour with some authorities". The innocent reader is left to find out what this concept is, why it found favour with somebody whether authority or nonentity, and why the Commission could not countenance it. It could not avoid coming across companies under joint control, which it decided to exclude from the list of companies in various groups. Consequently, Associated Cement and its affiliates are treated as a separate group, without any mention of their joint control by Killick, Shapoorji, Tata and Khatau. Parenthetical references are made to the Tata interest in Macneill & Barry, the Bajoria interest in Soorajmall Nagarmull and British India Corporation, the links between Wallace and Vissanji and between Walchand and Kilachand. The Shapoorji interest in Nowrosjee Wadia is attributed to interlocking of directorates when it is known to exceed 40 per cent of share capital. There is no reference to the Indian holding in Jardine Henderson.

The Commission looked into financial journals, but it does not seem to have

* Any resemblance between this definition and what appeared in my article in *The Economic Weekly* of November 26, 1960 is a pure coincidence.

come across the fact that Binny and Macneill & Barry are both subsidiaries of the Inchcape group. There are interesting references to close associates of the Birla group.

The group catalogue includes 75 groups and gives the number of companies (excluding banks), their share capital, assets (balance sheet totals?), turnover, industrial classification and role in product concentration. As of end-March 1964, these 75 groups had 1,536 companies which accounted for 44 per cent and 47 per cent of the share capital and assets, respectively, of all non-government non-banking companies. The Commission has refrained from giving the ratios for the two top groups, Tata and Birla, but a little calculation of its own data give a ratio of about 12 per cent for them—which excludes the groups which are closely related with Birla, and the Tata interest in ACC, Macneill & Barry and several other companies. That even a Commission is not immune to the dangers of cataloguing is obvious from the fact that Thapar's Crompton Parkinson (Works) is described as Crompton Engineering Co (p 111).

Definitions

The Commission has found instances of monopolistic exploitation of consumers and restrictive practices. These two are distinguished on a rather tenuous basis. A *monopolistic practice* is "every practice whether it is by action or understanding or agreement, formal or informal, to which persons enjoying monopoly power resort in exercise of the same to reap the benefits of that power and every action, understanding or agreement tending to or calculated to preserve, increase or consolidate such power". *Restrictive practices* are defined to mean practices other than those pursued by monopolists which obstruct the free play of competitive forces or impede the free flow of capital or resources into the stream of production or of the finished goods into the stream of distribution at any point before they reach the hands of the ultimate consumers, e.g., horizontal fixation of prices, vertical fixation of price and resale price maintenance, allocation of markets, discrimination between purchasers, boycott, exclusive dealing contracts and tie-up arrangements. Within the limited time at its disposal, the Commission could secure only illustrative examples of these practices but it believes them to be widespread.

What are the consequences of concentration? The common man in India, according to the Commission, regards concentrated economic power as wholly evil, a belief which it does not share, but which it regards serious enough to disturb "the mutual goodwill that is the *sine qua non* of a happy community". Its recipe for harmony is a lengthy appreciation of the past, present and future role of concentration and big business (quoted above), tempered with a realisation of certain evil effects, the most serious of which is the emergence of monopoly, control of publicity media, and keeping out of small business. As regards misdirection of investment resulting from concentration, which the Commission should have investigated, it was unable to study the matter. Unlike other matters, which it did not study in any depth, it has not made any comments on this issue.

General Recommendations

General Recommendations

Having found nothing to justify dealing with country-wise concentration, the Majority's general recommendations are, briefly,

- (1) Self-discipline by political parties, i.e., rejection of assistance from business houses,
- (2) Removal of corruption from administration,
- (3) Liberalisation of licensing since it cannot be abolished and preference in favour of small business without sacrifice of efficiency,
- (4) Insistence on proper distribution of goods imported under licenses,
- (5) Higher imports to stimulate efficiency,
- (6) Countervailing action by public sector through public units to prevent monopoly, and,
- (7) Promotion of small industries and preferential Government purchases from small units, strong consumer cooperatives and organised consumer resistance.

It considers the regulation of inter-company investments and loans with a view to dealing with concentration as wholly outside the scheme and purpose of the relevant sections of the Companies Act. This is not accepted by the dissenting member. The proposition was rejected by Government many years back.

Since rapid industrialisation is bound to bring with it greater concentration of economic power which would give rise to monopolistic conditions and practices, the principles of legislative policy have to be:

- (1) We need not strike at concentration of economic power as such but should do so only when it becomes a menace to the best production (in quality and quantity) or to fair distribution;
- (2) To accomplish this a constant watch must be kept by a body independent of Government to see that big business does not misuse its power;
- (3) Monopolistic conditions in any industrial sphere are to be discouraged but without injury to the public interest;
- (4) Monopolistic and restrictive practices must be curbed except when they are conducive to the common good.

A permanent Commission should be established primarily to look into restrictive and monopolistic practices which are to the common detriment. The proviso is not all that qualified, at least so far as resale price maintenance is concerned because, as stated earlier, this practice has been condemned *per se*. The Chairman of the Commission is to be chosen from Supreme Court Judges or Chief Justices of High Courts. The minimum age for members should be 50.

Expansion and Mergers

All restrictive practices would have to be registered with a Registrar and the documents concerned would be open to public inspection. Trade practices would be deemed to be against the public interest if they unreasonably increase the cost or price of goods or unreasonably reduce or limit competition or limit or prevent the supply of goods to consumers. A judicial investigation by the Commission would follow on the reference of a *prima facie* case either from its Director of Investigations or direct from Government. If the Commission gives a verdict of no detriment, nothing further would be done. If the practice is found to be against the public interest, it can issue an order to discontinue the practice. This order would be mandatory (not a recommendation to Government, as Dutt suggests on the British pattern) but subject to *unqualified* Supreme Court review on appeal. Punishment would be only by fines; "in the circumstances of our country", imprisonment is not considered feasible. Special provisions have been recommended to deal with hoarding, cornering and profiteering; it is pro-

posed to empower the Commission to cancel the licenses of those who refuse "to sell at the usual rate".

As regards monopolistic practices, the permanent Commission would be empowered to give a verdict on reasonable prices, regulation of production or supplies and prohibition of agreements against the public interest. When the Commission enquires into the conduct of any undertaking in this connection, Government would be debarred from investigating its management under section 15 of the Industries Development and Regulation Act and *vice versa*. (This is, incidentally, the only provision which allows specific relaxation of other procedures of industrial policy.) It can examine the structure of an industry in order to combat inefficiency and obsolescence. Mergers and take-over bids involving undertakings with assets exceeding Rs 1 crore which lead to acquisition of one-half or more of the market for a product or service would need prior clearance by the Commission, which would appraise the proposal on grounds of higher productivity, lower costs and better quality. Similarly, any 'dominant undertaking' (assets exceeding Rs 1 crore and having one-third or more of the market) proposing to expand by 25 per cent or more would have to get the Commission's approval (Patel and Dutt have dissented from this recommendation). Interlocking directorates in competing businesses outside the same group are to be prohibited (relatives and other associates are not debarred). All dominant undertakings and all companies with assets exceeding Rs 5 crores would be required to file with the Commission annual returns of organisation, business, conduct, practices, management, costs of production and connections with other undertakings according to prescribed rules. The Commission would also look into the implementation of patent law.

Press and Managing Agency

This merciless delegation of powers is not softened by any recommendations to dilute controls elsewhere. The unstated hypothesis is that judicial processes would work where the executive arm has failed.

So far as country-wise concentration is concerned, this is all a case of diversification and both are necessary evils in the economic interests of the country. "We believe that by proper use of licensing and other powers vested

in Government under the existing laws, Government can effectively prevent the growth of country-wise concentration wherever it is to the common detriment. We do not consider it necessary to vest the Commission with any power in this behalf".

The press and managing agency system are dealt with summarily. The Commission finds that a large segment of the press is controlled by big business, and that newspapers are prejudiced in favour of business, especially big business (though some papers have exposed business malpractices). By its own twisted logic, however, it considers the "essence of the matter" to be that "any attempt to curtail big businessmen's control over newspapers which impedes the exercise of fundamental right (by big business) must be ruled out", but attempts should be made to encourage more independent journals.

The Commission has made no recommendations for abolition or control of the managing agency system because it is part of the blessings of concentration, its abolition would have no marked effect on concentration since its place would be taken by some other system of group management, and action in this field has to consider not just concentration of economic power but also the effect on industrial progress "which is hardly possible for this Commission to undertake". Other matters which the Commission handled somewhat less casually have, presumably, no effect on industrial progress. ...

Note of Dissent

It is hardly surprising that, in their evidence before the Commission, spokesmen of the Associated Chambers suggested this kind of approach and that since the publication of its report, the Federation of India Chambers of Commerce and Industry has expressed its dissatisfaction with the proposed adoption of one more set of controls. Members of the Associated Chambers are interested mainly in jute, coal, tea and cotton, none of which have high product-wise concentration or expect a high rate of growth. FICCI has reason to be disturbed because its members are relatively more monopoly and growth oriented, and administrative or judicial delays hurt them much more.

In a lengthy well-reasoned note, Dutt has dissented from the approach

and most of the recommendations of the Commission. He is more tolerant of monopoly than concentration. Dutt feels that the harmful effects of "real" concentration of economic power have been seriously under-estimated, that the causes of concentration are basically different from those enumerated by the Majority, that planning is neutral in the growth of concentration, and that it is possible in some ways to strike at further concentration without endangering growth.

Dutt regards the managing agency system as an instrument, not a cause, of concentration. The alleged shortage of managerial talent cannot be one of its main justifications for such shortage is to be expected; the system has made no attempt to meet the shortage. This instrument has to be dealt with to the extent concentration has to be discouraged. As regards the Majority's contention that licensing and controls have helped concentration and implicitly the assumption that the growth of concentration would have been curbed in their absence, "There is no assurance that...the larger established industrialists would have had to yield their places to new entrants". If this expectation did exist, there would be no justification for anti-trust and monopoly laws in other countries or for many of the Majority's recommendations. He feels that the Commission should have recommended the extent and manner of using planning and controls to curb concentration.

Control over Resources

Without denying the significance of financial links between political parties and industrialists, he asserts that the influence of big business over politicians and administrators arises from their control over resources, production, employment, investment, growth and the press. Together with their command over unaccounted money, this power inevitably leads to malpractices. As for the contribution of concentration to economic betterment, bigness of individual industrial units should be distinguished from over-all concentration "which involves inter-linking of companies for purposes of control and does not necessarily contribute to greater efficiency of any of the individual units so inter-linked, (and) has no effect on the quantum of surplus". It does not follow from the Majority's argument that the quantum of managerial skill available would have been less if there had been less of concentration; rather the contrary

is possible resulting from the denial of opportunities to persons unattached to privileged families.

Dutt feels that it would be undesirable to restrict the growth of individual units till they receive the full benefits of economies of scale. Dominance in any particular industry does not by itself give power to a firm to influence the national economy as a whole, which comes from country-wide concentration. To the extent that dominance in individual products and industries is inevitable and economies of scale are desirable, it is necessary to set up a machinery which can deal with the monopolistic and unfair trade practices which are likely to arise therefrom.

Demarcation of Areas

At the same time, proliferation of large groups into different industries should be permitted only on a balance of advantages. Since a certain level and some growth of concentration might be inevitable, certain steps are necessary to provide safeguards against their harmful effects. Dutt favours some kind of demarcation of areas of concentration:

"It is possible, for instance, to reserve new units in conventional industries where the rate of growth envisaged is not very high for the new entrant or the small man. For certain other industries, where the rate of planned development envisaged is higher, but which still (do) not enjoy a very high degree of priority, established entrepreneurs of moderate means can be encouraged. For still other industries, such as Fertiliser, Aluminium, etc, which enjoy high priorities and which are also highly capital intensive, reliance will have to be placed on the well established entrepreneurs, even though such reliance may add to the concentration of power."

He also suggests that the public institutions which hold large blocks of shares in companies should take a more active interest in the management of these companies to help diffuse economic power "at least to the extent of preventing a greater concentration of such power than their shareholding justifies in the hands of a comparatively few persons". (He does not, however, specify the nature and extent of this more active interest.) And the State must play an active part in countervailing the power of big business, particularly in basic industries.

This report cannot, unfortunately, be treated with the same indifference (or amusement) as was extended to the Mahalanobis Committee. Too many undertakings have been given about implementing its recommendations, and a draft bill is incorporated in the report. The issues and problems raised by it might be of somewhat marginal significance in the over all immediate context—a view which the Commission does not accept—but having been raised, they have to be taken into account. Personally, I did not see the need for setting up this Commission last year and feel there is little justification for setting up a permanent Commission in the near future. Insofar as the problems of concentration are amenable to regulation, they have to be dealt with through the general economic policy and administrative mechanism of Government. Political corruption cannot be eradicated by outlawing corporate donations; they are at least over the counter. No amount of exhortation from judicial authorities would improve the moral tone of the community so long as the political and financial stakes are high and there is money around to play on them. Public opinion against monopolistic and restrictive practices can be mobilised only when effective action is taken to improve production and to reduce the influence of big business on the implementation of development policies. Turning a blind eye to concentration and summoning petty industrialists and traders to the witness box for charging a few paise more than the "usual rate" is hardly the right way to mobilise public opinion. The only charitable interpretation that one can place on the approach and recommendations of the Monopolies Commission is that it proved unequal to the difficult task of reconciling the opposing logic of capitalism and socialism. That reconciliation is the obligation of intellectuals.

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Patents Bill Retains Drug Patents National Interest Demands Their Abrogation

S S Sokhey

The registration of drug patents for process only and the endorsement of the patents with the words 'licences of right', which are among the major changes proposed in the Patents Bill introduced in Parliament in the last session, will in no way break the monopoly of the patentee and his licensee under present Indian conditions. They will continue to exploit the suffering of the Indian people to extract high profits.

Our national interest in this sphere demands nothing short of complete abrogation of patents. The fear that this will discourage research in the country is baseless; on the contrary, it will stimulate research by opening out a whole new field for Indian scientists in developing known processes into fully workable forms.

For fast development of the Indian drug industry to supply the population with the widest range of essential drugs and pharmaceuticals at low prices, along with the abrogation of patents it is necessary to go back to the original Soviet plan for the drug industry submitted in 1956.

WHILE introducing the new Patents Bill, T N Singh, Union Minister for Industries, rightly referred to the special provisions in regard to drugs and invalid foods. Truly, drugs are things apart, as they deal with the alleviation of human suffering and saving of lives and, therefore, they require a treatment different from other items. With the introduction of the life-saving drugs like sulphonamides, antibiotics and hormones and insecticides, like DDT, a new era in the history of medicine has begun. These life-saving drugs have become an essential tool in the practice of medicine. But the high prices at which they were and are sold, put them out of the reach of most of the Indian people and even public hospitals cannot afford to use them adequately.

Earlier Decision Reversed

This had caused the Government a great deal of concern. It conducted extensive investigations and consulted leading scientists and technologists of the country. In August 1963 the Cabinet had taken the decision to make inventions in drugs and foods non-patentable in the forthcoming Bill, both as regards process and product. This I was told by Jawaharlal Nehru. But early in 1964, it was represented to the Government that if we ceased to register patents for drugs, though it might not very much affect us in the manufacture of drugs because we did not need much aid, it would psychologically upset manufacturers in other fields, whose aid and know-how we badly needed.

This argument has no validity. All the important firms know that different countries make patent laws to suit their own needs and they are

accustomed to this practice. It was sheer pressure tactics. But our Government yielded and decided to retain the drug patents with minor modifications. The life of the patent was reduced from 16 years to 7 years, the royalty was fixed at 2 per cent and the patents were to be only for process. Now, when the Bill is actually presented to Parliament, the life of patents is extended to 10 years and the royalty raised to 4 per cent. The patents will still be for process only, and they would be endorsed with the words "licences of right". The Union Minister believes, as he said in his speech, that these new provisions will make medicines readily available to the public on reasonable competitive prices and domestic production and development in the field of drugs will not be hampered by monopolies, while a reasonable return would be ensured to the inventors and the cost of research would be met. It is obvious that vested interests have again exerted enough pressure to make the Union Minister entertain these false hopes, in spite of all evidence to the contrary. The only thing that his legislation will achieve will be to maintain the monopolies and enable them to make huge profits at the cost of the Indian people who will have to continue to pay high prices for their drugs.

Persistent Demand for Abrogation

Soon after our liberation, year after year, the Pharmaceutical and Drug Research Committee of the Council of Scientific and Industrial Research, Government of India, on which were represented the important agencies engaged in research on and the manufacture of drugs both in the public and private sectors, passed resolutions asking Government to abrogate drug patents. The

Committee in 1958. (when the representatives of foreign drug firms and their Indian collaborators had not yet captured PAMDAL, Pharmaceutical and Allied Manufacturers and Distributors Association Ltd, which has since conducted extensive misleading propaganda in their commercial interests) once again passed a resolution to stress their demand that the Government abrogate drug patents. They represented to the Government that "for the further progress of drug research and drug production and for the development of drug industry in all its aspects in India, the patent laws constitute a great hindrance in the exploitation of many processes". The committee, therefore, strongly recommended "that immediate steps should be taken to abrogate the patent laws as applied to drugs and pharmaceuticals". They sent the resolution through the Director-General, Council of Scientific and Industrial Research, to the Governing Body of the Council over which Jawaharlal Nehru presided.

A Hindrance to Research

The significance of the remark that the patent laws constitute a great hindrance to the exploitation of ordinary processes for production and research is realised if we recall that when during world War II the British Government itself had to take up manufacture in a large way, it appointed a Cabinet Committee to look into the patent system. This committee came to the conclusion that patents are now taken by big enterprises largely to pre-empt a field of research and thereby prevent others from doing research in it. Thus the patent system, they thought, stifled research. They recommended that, to meet this evil, patents should be abro-

gated or held only by Government. The British Medical Council insisted that this action must be taken at least in the case of patents for drugs.

The one-man Committee of Justice Rajagopala Ayyangar appointed in 1958 to conduct an enquiry to see if our Patents Act was conducive to national interests came to the conclusion that although the patents system in India had been in existence for 100 years it had failed to serve its objective which was to benefit the trade and industry of this country and the system had been generally detrimental to the national economy. Even this conclusion is very much of an understatement, when it is applied to drug patents. In spite of this, Justice Ayyangar recommended the continuation, in a modified form, of patents as, in his opinion, patents stimulated research.

Patents Do Not Encourage Inventions

Shortly after the report of Justice Ayyangar, the report of the American Senate Committee, presided over by the late Senator Kefauver, was published. This Committee had made an exhaustive investigation lasting for two years into the working and practices of the drug industry, the first investigation of its type ever carried out in modern times.

The Committee held numerous public hearings at which the leading drug manufacturers of the United States gave evidence and had their full say. The Committee's report throws a flood of light on the practices of the manufacturers and how they exploit drug patents to rigidly control the market to make excessive profit—at more than double the rate of those made by US manufacturing industries as a whole, including oil, steel, automobiles and chemicals. The report flatly controverted Justice Ayyangar's view. The Committee said "The conclusion would appear to be warranted that in this industry the mere existence of patent protection is not a guarantee of invention, nor its absence much of a barrier".

This is borne out by the fact that though the United States started giving full patent protection for drugs in 1790, that country made no outstanding discovery until the last 20 years. Since then inventions in drugs have been due to factors other than the patents. The great drug breakthroughs of modern times, such as insulin, vitamins, the first sulpha drug (Sulphanilamide), the first antibiotic (penicillin) and the first tissue culture live virus vaccine (polio

vaccine) were made in public laboratories by scientists who were not working for monetary gains and did not take out patents.

The existing laws and even the amendments proposed in the new bill, as I shall show below, confer monopoly rights on the drug patent holders in that only their products can be sold in the market and at prices fixed by them. Until recently they have used this monopoly to mercilessly exploit the protected market over half a century to extract enormous profits, but they had shown no desire whatsoever to put up any drug plants in the country. The Government's Pharmaceutical Enquiry Committee found as recently as in 1954 that no drugs were made in India and said that "the drug industry in India may be considered to be non-existent". The situation was no better in 1956. The Soviet Expert Committee invited by the Government of India surveyed the whole field and came to the same conclusion.

India: The Victim of Patents

A large proportion of our drugs came from the United States and even now those made in the country are produced in collaboration largely with American firms from penultimate compounds imported from USA and sold at about the same price as the imported drugs.

The Kefauver Committee cites India as an example of the disastrous effect of patents on the prices of drugs. It says: "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."

Thus not only large sums of money were drained out of India, but the high prices put life-saving drugs beyond the reach of most of our people.

This exceedingly unsatisfactory situation had to be met. In 1955 the Government of India's attention was drawn by me to a very effective, inexpensive and friendly way of solving the problem. The Soviet Union was approached and in 1956-57 offered India free technical assistance and know-how and a loan of 80 million roubles (old) on easy terms which made the loan almost a free gift, to put up four large plants to give India a fully integrated drug industry to make the country entirely

THE ECONOMIC WEEKLY

free of foreign imports of its requirements of intermediate chemicals, synthetic drugs, vitamins, antibiotics and hormones. These plants were intended to be completed and functioning by the end of 1960, to supply the country more than three times the amount of drugs we were then importing and with a capacity to treble their production. This would have saved the country over 60 crores of rupees in foreign exchange a year and made drugs available to the hospitals and public at very low prices.

But the vested interests, largely the members of PAMDAL and its foreign bosses holding patent rights which were making cent per cent profit on their imported drugs, used the good offices of the Development Council which lacked any adequate knowledge of the practices of the drug manufacturers to see that the agreement with Soviet Union was not signed or at least the signing was delayed. Consequently, the agreement was not signed till June 1962 and even then in a mutilated form. The basic plant which was to produce to begin with 94,600 tons of raw chemicals and 33,200 tons of intermediate chemicals with arrangements to increase its production several fold, from which drugs were to be made, was left out and handed over to a German firm which has now refused to build it. Then again, the plant which was to have made 2,400 tons of 65 synthetic drugs and vitamins with facilities to increase the capacity of its production several fold was cut down to 800 tons of 20 drugs and hormone plant was left out. Worse still the synthetic drug plant is being installed at Hyderabad where the plant will find great difficulties in getting rid of its chemical effluent; so even this small plant has no future.

Powerful Friends at Court

During the time the signing of agreement with the Soviet Union was delayed, the foreign patent holders, mainly American firms, saw that their lucrative market was in danger, they on the basis of their patents, hurriedly obtained licences from their friends in court to start a number of plants in collaboration with Indian parties or on their own and thus ruined the Soviet-integrated project.

They had truly powerful friends at Court. When Morarji Desai went to USA in 1958, the leading American technical journal *Chemical and Engineering News* (November 24, 1958 p73) printed a photograph of Morarji Desai with the caption: "Much negotiating took place between government and

THE ECONOMIC WEEKLY

company men before Merck's Indian venture got a green light". The article under it said, *inter alia*, "Merck's entry in Indian pharmaceutical makes friends, future profits and helps sideswipe Soviets ... Drug officials started ... looking at India about two years ago, just as the Russians began a big push to have India freed from the dependence on Western chemicals and pharmaceuticals. Soviet engineers, loans and all else needed would be provided if the Indians would take USSR help and build the state-owned industry ...

"Fortunately for the Free World, Merck and other US and Western drug and chemical firms have not been idle since ...

"Merck's efforts have helped in part to stall this Soviet offensive; however, Knoppers fully admits that eventually some products in this area will be produced using Russian knowledge and aid. But the original Soviet offer, which was all-embracing (and somewhat obsolete technologically, some say), is shelved, and the *Indian Pharmaceutical Industry will not be a government monopoly*" (italics mine).

The plants so started by the foreign patentees still make drugs largely from imported penultimates but not from raw materials, and sell them at almost the same price as the previously imported drugs, and make huge profits. According to the Reserve Bank of India *Bulletin* (November 1964) these foreign firms had since 1958 invested Rs 5 crores and had by 1964 already taken out of the country Rs 4.9 crores in foreign exchange in the form of royalties, charge of technical aid and profits. This drain will continue to increase over the years.

Drug Prices Exorbitant

The present drug prices are admittedly exorbitant and this was brought to light during World War II in the early 1940's when sulphathiazole came on the market. The drug was imported and sold in India at Rs 800 a pound from chemists' shops. It was a great new invention in medicine. But the high prices charged kept this wonderful drug out of the reach of the Indian people. The young brilliant chemists at the Haffkine Institute under my direction took up the matter to see whether the drug could be produced cheaper. They were successful in inventing a new process other than the process patented under which the drug was being sold and obtained a patent of their own. They were provided with the necessary pilot plant, the first of its kind in India, and they started producing it at

Rs 17 a pound in semi-commercial quantities and that too from imported intermediate chemicals. The Institute started supplying this drug at Rs 20 a pound to the hospitals in Bombay as no element of profit was involved. This was the first instance that brought to our knowledge that drugs were being sold at prices much higher than the cost of production.

Later the Kefauver Committee established that the drug companies sold their products roughly at about 17 to 20 times the cost of production. To give an example: tetracycline (sold under different brand names) cost the makers 47 cents for 16 capsules of 250 mg each. These 16 capsules of tetracycline as well as those of Chlorotetracycline and Chloramphenicol were sold to chemists in the United States at the uniform price of \$5.10 with a suggested price of \$8.50 to the consumer, while the same 16 capsules were sold at \$1.19 to chemists in Argentina which not only does not grant drug patents but also controls drug prices. The representatives of the American firm admitted before the Committee that they made a profit even at that sale price. The same 16 capsules which now perhaps cost the makers even less than Rs 2 are being sold in India at Rs 20.

Factors Underlying High Prices

Since the Kefauver Committee was an official committee it could and did obtain detailed statements of accounts of 22 leading drug firms of the United States for the year 1950. Their "output worth \$2.3 billion cost the 22 producers less than one third of this amount to manufacture; the industry's gross margin on drug operations alone came to no less than 67.9 per cent of sales. 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 costs of production, research and administration and all other expenses." Be it noted that the whole amount invested on research was no more than 6.2 per cent and yet research is blatantly cited as the principal justification for high drug prices.

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 costing about \$15,000 each a year to visit physicians. This wasteful expenditure compares ludicrously with \$200 million which the USA spent in that year on all its medical schools.

The Union Minister of Industries, while introducing the bill, attached a great deal of importance to the proposal to grant in future drug patents only for the process and not for the product. It is believed that new processes could be developed to make the same drug and thereby prevent the patentee from establishing a monopoly. This provision is taken from the Patent Laws of developed countries with highly developed chemical industries where experience and facilities exist for developing new processes. But even there this is not usually done because commercial firms do not invade each other's territory; they resort to finding alternative molecular modifications.

Licences of Right

In our country the situation is very different. Since our chemical industry is still in its infancy, we have to build our drug industry on the basis of known processes. There is no alternative and this is the only right policy to adopt. In this regard we must keep in mind the very valuable advice which P M S Blackett, Nobel Laureate, gave us in a public lecture in Delhi in 1963. He stressed that we should not waste our talent and resources to find new technologies, we should build up our industries on processes known to the developed world till we catch up with them. The patent specifications for known process can be readily obtained for a very small charge from any country where the specifications have been filed. The patent specifications never reveal all the details of the process, yet there is enough information for Indian talent to work on and develop complete processes. This has several advantages; in the first place one does not have to pay royalty at all and secondly it gives a chance for Indian scientific and technical talent to develop. After all the most important asset of the country is highly developed talent. So we must make every effort to build our industry on the basis of known processes. If we use any foreign patents, we can always make *ex-gratia* payments to foreign patentees when necessary.

The endorsement of each drug patent with the words 'Licences of right' implies that any one interested in the exploitation of the patent shall be



DA 65/401

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entitled to get a licence for it from the patentee. This of course will make the obtaining of licences easy but the Indian firms will still have to go to the patentee to obtain the licence. Because the Indian firms often lack knowledge of chemical technology, they are bound to go to the patentees for their know-how, and thus become dependent on them. Indian firms find it cheap to carry out the processes under the patentees' instructions and do not employ any highly trained scientific staff and thus give no chance to Indian talent to develop. When foreign firms start their own plants or in collaboration with Indian firms, matters are even worse. The foreign patentees control every thing and the Indian collaborator merely carries out the process under the supervision and direction of the foreign patentees.

What is equally bad is the fact that since the Indian licensee depends on the foreign patentee for the know-how the latter uses all the pressure at his command to see that the licensee sells the drug at the same exorbitant price as the patentee himself. Indian firms are unfortunately not averse to making high profits. Furthermore, when one Indian firm has taken out a licence to manufacture a drug, another Indian firm is not likely to take another licence to make the same drug. This will cut out all competition. The 'Licences of right' like the process patent would not, therefore, cut out the patentee's monopoly to sell the drugs at exorbitant prices.

Misleading Propaganda

Pamdal has been carrying on misleading propaganda to establish that the high prices are due to high cost of production in spite of the clear findings of the Kefauver Committee to the contrary. They mention a few factors which increase the cost of production in India, such as the high price of indigenous intermediate chemicals and their low quality, loss of solvents due to high temperature, high cost of imported equipment and production of drugs in numerous plants in small quantities. Whatever importance one may be inclined to attach to these factors, they certainly do not raise the cost of production twenty-fold or even ten-fold. However the fact remains that it was Pamdal and its foreign bosses who prevented the Soviet-aided integrated project from going through under which intermediate chemicals would have been produced in very large quantities in one plant and, similarly, all the synthetic drugs would also have

been manufactured in one large plant. Therefore, it is Pamdal and its friends who are guilty of having created the present unsatisfactory situation. Obviously, it is absurd that in the 1960's chemical drugs should be made in hundreds of small plants.

Then again, Pamdal is talking a great deal about the research laboratories that foreign firms have started in India and the huge expense they incur on them. This, of course, is also a misleading statement. The amount of money being spent on drug research in India, as in the United States, is relatively small as compared with the expenses incurred on sales promotion and profits. Anyhow, the so called research laboratories have not invented any new drugs that one has ever heard of.

Then again, Pamdal asserts that the prices of drugs produced under patents are not higher than the prices of non-patented drugs. This is contrary to evidence. Not only are the prices of drugs produced under patents 17 to 20 times the cost of production, as indicated above, but what is worse still is that the sale prices of drugs produced under patents are kept undiminished for years. For instance, the prices of broad spectrum antibiotics, Aureomycin, Chloromycetin, Terramycin and Tetracyclin, which are produced under patents and which cost the makers only 47 cents for 16 capsules of 250 mg each, were kept unaltered from 1951 to 1960 at \$5.10 to the chemists and \$8.50 to the consumer in USA; only recently was a small reduction of 10 per cent effected. 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. Similarly, numerous molecular modifications of sulphadiazine and sulphamerazine, of which patents have now expired, are selling at more than 10 times their prices.

Abrogation, Only Solution

From what I have said above, it is perfectly obvious that the registration of drug patents for process only and the endorsement of the patents with the words 'Licences of right' would in no way break the monopoly of the patentee and his licensee under the present Indian conditions. They will still continue to exploit the suffering of the Indian people to extract high profits.

The other point that the Minister

makes, the need to reward the inventor, arises from utter ignorance of the present position of the drug industry. Scientists are employed by private enterprises or public laboratories, and in order to get their jobs they are required to write off their right to any inventions they may make in favour of the employer. In the modern times because of the necessity of putting up big plants, no inventor has the means to start a plant of his own; such endeavours have become too expensive for individual research scientists. Therefore, the question of rewarding the inventor does not arise; the enterprises make all the money through their sales. Furthermore, as I have said above, research is a very insignificant part of the total cost of production.

The only possible solution of our problem is to abrogate drug patents altogether. I stress that it would in no way hinder research in the country; on the contrary, it will stimulate research by opening out a whole field for scientists to develop known processes into a fully workable form. The principle of non-registration of patents has already been established in the Bill by making inventions in the field of atomic energy non-patentable.

More Plants in Public Sector

The next step would be to go back to the original Soviet plan and put up with Soviet aid the large plant for intermediate chemicals which the Soviet experts had designed. The present organic chemicals plant being put up is inadequate to meet our requirements. The Antibiotics Plant put up at Rishikesh and the Surgical Instruments Plant in Madras will make us completely independent of the import of antibiotics and surgical instruments. But the synthetic drug plant being put up at Hyderabad is not even a ghost of the plant originally planned. And because of its location, it has no future. Therefore, a new drug plant, bigger even than the one planned in 1956 should be set up with Soviet aid in the public sector at some sea-coast town, to make all the needed essential drugs, vitamins and hormones. And until this plant is built up, if there are no patents, we will be free to import our requirements from the cheapest sources not only for Government use but also for sale to our people by chemists. If they are imported from the Soviet Union, Czechoslovakia or Hungary, not only is their quality fully guaranteed but, also, we pay for them in rupees. Anyhow under the Drug Act

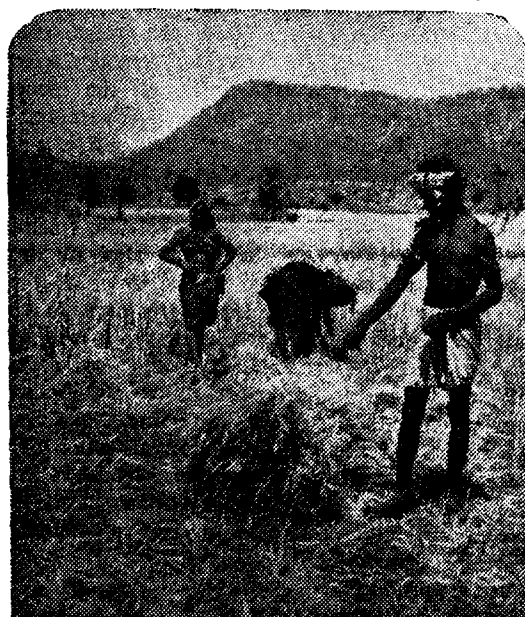
the Controller of Drugs does ensure that the quality of drugs sold is good.

The State plants will not in any way interfere with the functioning of the existing private drug plants; the latter are small enough to become an-

cillary to the big synthetic drug plant. However, the State plants must be run under competent scientific management on sound business lines but on a non-profit making basis. Drugs are obviously the one commodity which should

not be exploited to make large profits, as is being done at present. That the drug industry makes profits at a much higher rate than any other industry was shown by the Kefauver Committee.

EACH IS VITAL TO THE OTHER



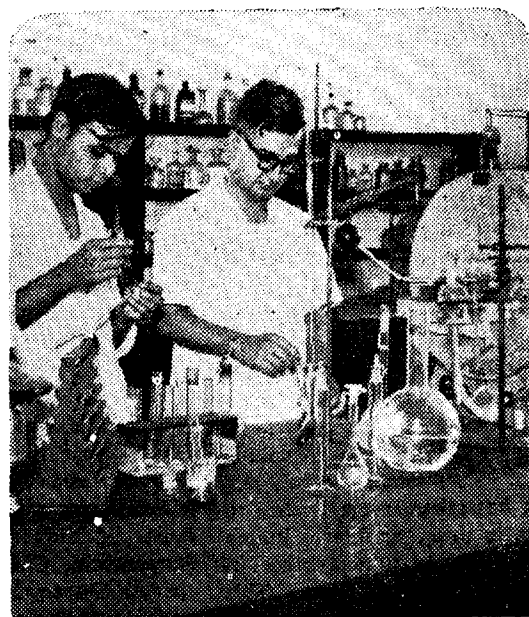
A farmer works hard on his land. Yet hard work alone will not coax the land to yield more. For that he requires fertilisers, chemicals and implements which are made by various industries. Indeed, today agriculture cannot remain divorced from industry, for the two are too closely inter-linked. If we are to increase our food production, both industry and agriculture will have to develop side by side. Agriculture going it alone is retarded. Indeed, today agriculture cannot remain divorced from industry, for the two are too closely inter-linked. If we are to increase our food production, both industry and agriculture will have to develop side by side. Agriculture going it alone is retarded.

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The Jats of Northern India Their Traditional Political System—II

M C Pradhan

Social and political changes do not seem to have had much effect upon the traditional political system of the Jats of Northern India, based on the khap and sarv-khap Panchayat.

A person who comes to occupy a status position outside the traditional system strives to consolidate it by acquiring the status roles within the traditional system. To do this he has to live up to the social norms dictated by it. Thus he upholds adherence to the traditional system and reinforces its authority. The prestige and political ascendancy of such persons is used by the traditional Panchayats to command allegiance and exercise social control within the Jat community and, to some extent, in inter-caste relations.

[The first part of this article appeared last week.]

THE functions of various political units of *khap* and the *sarv-khap* Panchayat fall into three categories, namely, adjudicative, legislative, and executive. The *khap* council and its various political units now, for the most part, do not have legislative functions because they have no legal sanction or authority as they enjoyed earlier under their legal charter. Then the *khap* Panchayat could frame rules and regulations to be obeyed not only by the Jats but also other castes and communities of the *khap* area, and their infringement was punished by the *khap* Panchayat which was supreme in internal matters. Several instances from the historical records of the *khap* Panchayat of Baliyan and from the minutes of the Panchayat meetings can be cited where certain rules of conduct for inter-personal, inter-group, and inter-caste relations, rules guiding land revenue collection, and general policies of social welfare for the people, were framed and executed by the *khap* Panchayat. However, the *khap* Panchayat and its units now function only as adjudicative bodies, and executive bodies in so far as the implementation of their decisions is concerned, by virtue of what may be called the traditional charter. The *sarv-khap* Panchayat still functions as a legislative body when it meets for its formal session every five years since its revival in 1950. (See the resolutions of the *sarv-khap* Panchayats below). An informal meeting of the *sarv-khap* Panchayat of neighbouring *khaps* may also function as adjudicative and executive bodies when they judge cases of infringement of resolutions adopted in the formal meetings of the *sarv-khap* Panchayat or decide to implement these resolutions in the various *khaps* of the area or when they decide cases and disputes between persons, groups or castes, and implement their decision on the parties concerned. Executive power, particularly in implementing the sanctions passed by a Panchayat, is

generally used in extreme cases of default or flouting the social norms by a person or a group, and its success depends upon a strong public opinion behind the decisions of the Panchayat.

A council of higher political units may be summoned if a smaller unit is not successful in settling an issue. Among the territorially based councils, a *khap*, an inter-*khap*, or a *sarv-khap* Panchayat, is considered more effective than lineage, *patti*, village, *ganwand*, and *thamba* Panchayats. To make a council effective and successful important persons like the headmen of maximal lineages and the leaders of villages, *ganwands*, *thambas*, *khap* leaders, and sometimes also of the neighbouring *khaps*, are invited to attend the meeting and to act as judges or mediators. With their judgement and experience and also because of their prestige and political influence, they are considered in a better position to put forward such proposals as may lead to the settlement of a dispute or to implement the decisions of a Panchayat.

Primary Functions

The primary functions of the councils of various lineage segments are to maintain unity and solidarity within their respective groups, and to remove or at least to keep in check the forces of schism which are inevitable in the relations between their members. Thus the lineage Panchayats settle disputes between the members of various kinship groups and strive to keep peace and goodwill between them. Sometimes matters of common interest are also discussed in these council meetings and a common line of action adopted. The cases decided by a *khandan* or minimal lineage council generally deal with quarrels over the partition of joint family property, misuse of borrowed agricultural implements, the priority in use of irrigational resources and with cases of personal aggrandisement, in-

timidation by a member against another, breach of promise, theft, refusal to pay back a loan, and other kinds of misbehaviour. These disputes mostly arise between brothers, step-brothers, parallel cousins or members of joint families of a minimal lineage.

These conflicts may also be present at the sub-*thok* or major segment level, though with lesser frequency than at the minimal lineage level on account of the fact that the partition of property takes place mostly at the minimal lineage level thereby reducing the chances of jealousy or bad blood between the members of a sub-*thok*. A sub-*thok* Panchayat thus performs the same functions as the *khandan* Panchayat. But sometimes a sub-*thok* council may also take decisions on matters of common interest and adopt a particular line of action. One of the major segments of Shoron village, for example, decided to discontinue the service of the *khap* genealogist on the grounds that he gave false evidence against a member of that segment in a court case on account of which the member lost his claim to some property.

The *thok* or maximal lineage Panchayat is the most powerful and effective of all lineage councils. On account of kinship factors and local contiguity an individual is largely dependant upon his *thok* for economic, social, and political support. It is not easy for an individual to acquire prestige and political influence without the support of the members of his maximal lineage. The *thok* Panchayat functions to maintain unity and solidarity among its constituent segments and decides cases and disputes among them. It has power to use certain positive and negative sanctions (to be described later), which are not the prerogatives of other lineage councils. For example, in cases of ostracism or "dropping the *huqqah*" of an individual by a Panchayat, the assent of his

thok is essential before the decision can be carried out.

The secondary functions of the lineage councils are, for example, taking decisions whether to sell sugar-cane to factories or to crush it in the village itself; whether to sell the finished products of sugar-cane to a particular market; whether to offer voluntary labour for building a village road; whether to support a certain faction in a *ganwand* or the *khap* Panchayat; whether to support a candidate in the Gram and the Adalat Panchayats. There is a tendency for political unity among lineages against other segments. Personal and factional differences within a *thok* or a sub-*thok* are patched up for the time being and the members unite under an external threat to the prestige, solidarity or freedom of their segment.

The village Panchayat acts mainly as an adjudicative body to decide cases or disputes between maximal lineages or between the members of various castes. The primary function of a village Panchayat is to maintain unity and solidarity within the village (which is based, as far as the Jats are concerned, upon common ancestry and kinship proximity) by exercising social control over various kinship units of the Jats and over other castes so as to keep the forces of conflict and dissension in check and to promote peace and goodwill. Among the secondary functions of this political unit may be mentioned, for instance, raising a fund for the *khap* Chaudhry (working on the resolutions of the *khap* council) to improve his economic condition, making an application for converting the village into a township, commemorating the martyrs of the *khap* who laid down their lives in 1857, deciding to play host to a *khap* or a *sarv-khap* Panchayat meeting, discussing and deciding a matter of common interest and adopting a certain line of action.

The *ganwand* Panchayat functions only as an adjudicative body to decide cases or disputes between members or groups of the neighbouring villages. The primary function of this political unit, like that of others mentioned above, is to maintain the ties of goodwill and to check conflict, which are necessary for close co-operation in economic and other matters between the neighbouring villages. The feeling of kinship proximity between the parent *thoks* or maximal lineages and the subsequently founded *thoks* in the villages of a *ganwand*, together with sentiment of common descent, proximity

of the villages and the personal relationship among its members form the charter of the *ganwand* Panchayat. These factors are also at work (though to a lesser extent for reasons already discussed above) and form the charter of the *thamba* Panchayat. Though the *thambas* were originally carved out only for the administrative purposes of a *khap* Panchayat, when it came to have legal privileges and autonomy in internal matters during the medieval period, the basis for dividing a *khap* into a number of *thambas* was the same in that maximal lineages of a *thamba* are related to one another in the same manner as those of a *ganwand*.

Inter-Caste Disputes

A dispute between two *thoks* or villages may be decided in a *ganwand* Panchayat, but if a dispute or a case is of a serious nature or if it is felt by the people that more important persons should be present at the council meeting, a formal *thamba* Panchayat may be called by its headman. Sometimes a prolonged dispute within a *thok*, between *thoks* or between members of two different castes, may also become an object of concern to the lineages or the elders of the castes involved. In such cases, the *thok* headmen of the villages concerned and the leaders of other castes hold a Panchayat and strive to settle the dispute in the interests of goodwill and neighbourly relations among the maximal lineages or with the other castes of a *ganwand* or a *thamba*. Disputes regarding agricultural lands or the extension of boundaries into the fields of another person who may belong to another village, disputes over the use of agricultural facilities, harrowing of crops by cattle, cases of personal or group aggrandisement and cases of breach of social norms are decided by these political units. But the *ganwand* and the *thamba* councils also meet to decide matters of common interest like commemorating the anniversaries of *khap* heroes, raising funds to help the *khap* Chaudhry and preserving peace and goodwill among different religious communities during religious riots.

The primary functions of the *khap* Panchayat are to decide cases and disputes between maximal lineages, castes or villages under its jurisdiction, to punish cases of adultery, incest and breach of social norms, and to maintain unity and solidarity of the clan and also among other castes living in

a *khap* area. But the *khap* council also functions as a political unit of higher appeal from its constituent political units. Disputes which could not be settled by lineage, village, *ganwand*, or *thamba* councils are referred to this Panchayat. A dispute could also be taken to this council if an aggrieved party feels that it has not received justice at the hands of a previous council. In such cases the *khap* Panchayat can override the decision of any of its political units. Sometimes, in the interests of preserving peace and amity within a kinship or a territorial unit, the *khap* elders and leaders may decide to call a meeting and try to settle the dispute.

Intra-caste disputes are also taken to the *khap* Panchayat. Either of the disputing parties may approach the *khap* Wazir with a request to summon the Panchayat. But in these cases the *khap* council mostly comprises the leaders and influential persons of the caste concerned; though at the request and with the consent of both the parties, some influential Jat persons and sometimes leaders of other castes also may be invited to act as judges or mediators. Otherwise it remains an intra-caste affair. If it is an inter-caste dispute, the *khap* Panchayat may consist of members of the disputing parties and such persons as are invited by the parties to act as judges; and here even if the Jats are not involved, some influential Jats are always invited to the meeting to lend more prestige so as to make the decision effective. The *khap* council meetings are presided over either by the Wazir or the *khap* Chaudhry; and the decision of the Panchayat is recorded by the Wazir in the *khap* register of records together with the signatures of the council members who acted as judges and the signatures of the leading members of the disputing parties. Thus the *khap* Panchayat also functions as an institution of social control for castes other than the Jats, though most of them may have their own caste councils modelled after the *khap* council of the Jats.

The secondary functions of the *khap* Panchayat are: promoting social welfare schemes such as female education, opening schools and colleges within the *khap* area, and asking people to raise funds for these institutions, promoting religious harmony between communal groups—as during the days of communal unrest in northern India during 1947–8—, propagating against excessive expenditure on

marriages, in giving dowry, etc, and persuading the people to save the money and spend it on education of children, on improvement of agriculture, and on religious rites. Certain functions of the *khap* Panchayat which it had during the medieval period, eg collecting land revenue, keeping an army and police force for the purpose of defence and internal administration, etc, have now fallen into disuse. But it has at the same time taken on certain new functions as mentioned above.

A serious dispute within a *khap*, between *khaps* or their members, may be decided either by a council of neighbouring *khaps* or by the *sarv-khap* Panchayat. The procedure for calling such a meeting is the same as in the case of a *khap* council. The Wazir of a *khap* is approached and he, judging the seriousness of the dispute or the difficulties involved in its settlement, invites the respected and influential persons from the neighbouring *khaps* or from all the *khaps* of Meerut Division, intimating to them the date and the venue of the proposed meeting. The meeting is generally called at the house of the party which is at fault or has infringed a rule. Persons selected to act as judges or mediators at the council meeting are known for their honesty, neutrality, fair play, tact and sense of justice. The reputation of an individual for these qualities is built up gradually over a period of years, and by his behaviour in council meetings, by his opinions and by his ability to settle a dispute, he gets the opportunity for being invited from one important Panchayat to another of increasing significance.

Cases decided by a council of neighbouring *khaps*, or an informal *sarv-khap* Panchayat may fall into any of the following categories: Marriage disputes arising out of divorcing a girl or maltreatment of her by her husband or parent-in-law; cases of cheating in marriages, eg, showing one girl to the bridegroom's parents and then marrying another with a defect, asking a heavy dowry and demanding a continuous flow of presents from the girl's parents after marriage under the threat of maltreating her if such a flow stops; and cases of breach of other social norms. Now breach of the *sarv-khap* Panchayat resolutions adopted in 1950, 1956, and 1963, which will be discussed later, are also discussed at such meetings. Most of these cases may also be decided by a *khap* Pan-

chayat. Serious disputes between maximal lineages, clans or castes, villages of two different *khaps*, or between *khaps*, are also decided either by a council of neighbouring *khaps* or by an informal meeting of the *sarv-khap* Panchayat.

The Sarv-Khap Council

The *sarv-khap* council is a representative body of all the Jat clans and of the *khaps* of other castes of the Meerut Division. It does not have a hereditary headman or Wazir or secretary. The president of the council is elected at each meeting. The Wazir of *khaps* Baliyan acts as the secretary at the Panchayat meetings, and records its minutes and decisions. The membership of this council is now voluntary, but during the medieval period, it seems, all the *khaps* were under the jurisdiction of this council. Now only those *khaps* or castes which attend the meetings of the *sarv-khap* Panchayat and agree with the decisions and resolutions passed by it are bound by them. The *sarv-khap* council does not have any administrative power over the other *khaps*. Its executive powers are also limited in that they can only be exercised with the consent of those *khaps* which have agreed to implement its decisions within their clan areas. In its informal meetings, the *sarv-khap* Panchayat mostly functions as an adjudicative body, and the implementation of the decisions is either left to the *khaps* concerned or to a committee of influential persons constituted with the consent of the *khaps* to see to their implementation. The legislative functions of the *sarv-khap* Panchayat are mostly confined to its formal quinquennial meetings. But during the medieval period when faced with extraordinary circumstances like a foreign invasion or political or economic turmoil, a formal meeting of the *sarv-khap* Panchayat could also be called which could formulate certain rules or regulations for the people of the area. This is borne out by the minutes of the *sarv-khap* council meetings of that period. The authority under which the *sarv-khap* council has been functioning for centuries is mainly traditional and it has not had any legal charter such as was granted to various *khaps*. This traditional authority is based on its role in defence of the *sarv-khap* area in the past. Now it has become a moral force which is hard to flout even for a *khap*.

The primary functions of the *sarv-khap* council are the same as those of a council of neighbouring *khaps*. The

functions it came to acquire during the medieval period, eg, keeping an army for defence and maintaining internal autonomy of the area, demanding political recognition for the *khaps* from rulers at Delhi, etc, have now disappeared. But it has now taken on certain other functions such as working for schemes of social and economic welfare of the people. These new functions have strengthened the traditional belief of the people in the *khap* and the *sarv-khap* councils.

To convene a formal meeting of the *sarv-khap*, a council of five or six *khaps* is held to decide the date and the venue for the meeting. A *khap* may offer to play host. Then a working committee consisting of important leaders from various *khaps* is set up to raise subscriptions from the *sarv-khap* area and to send invitations to headmen and leaders of the *khaps* and also of various castes to participate in the meeting and, finally, to make necessary arrangements for food accommodation and other conveniences for the delegates and for holding the council meeting. A steering committee is also instituted to decide the agenda of the meeting and to finalise a list of topics which is put before the general meeting for discussion and passing of resolutions. But the delegates are also free to put forward any resolution they wish to before the council meeting. Speeches are delivered elucidating the aims and purposes of the resolutions and the desirability of adopting them. Then those who do not agree with this or that resolution deliver their speeches. Finally, the resolutions are put to vote one by one. Voting is by show of hands. If a resolution is passed by an overwhelming majority, it is considered as adopted, and the one which cannot muster enough support or which do not have an overwhelming majority, fall through. A resolution may not be binding upon those *khaps* or castes which were not in favour of it. After the resolutions have been adopted, the leaders of those *khaps* and castes who were in favour of them come to the dias one by one and take an oath to implement the resolutions in their respective *khaps* or castes.

A working committee is set up consisting of the leaders of various *khaps* and castes to canvas and enlist support for the resolutions by touring the villages of the *sarv-khap* area, and to persuade the people to accept and implement the resolutions. After the meeting of the *sarv-khaps* council is

over, the leaders of various *khaps* and castes may also hold meetings of their respective political units in which the *sarv-khap* council resolutions are again adopted with a view to emphasise their importance and to persuade the constituent political units such as *thoks*, *ganwands*, and *thambas*, etc, to accept and implement the resolutions.

If the resolutions have been accepted by a *khap* or a caste council it may punish any infringement of them in its Panchayat. In more serious cases of default, the matter may be referred to the *sarv-khap* secretary who then summons a Panchayat meeting of four or five *khaps*, and the defaulters are fined, warned or admonished for flouting the resolutions. Other sanctions may also be passed against the defaulting persons or groups, but the implementation of these sanctions is again left to the *khap* or the caste concerned, and only on its suggestion a committee of influential persons may be set up to see the sanctions implemented. The secretary of the *sarv-khap* Panchayat keeps himself in touch with the efforts of the committee and after it has successfully carried out its task the secretary makes a note of it in the *sarv-khap* Panchayat register of records. If the sanctions passed by a Panchayat is not successful because of the intransigence of the defaulter, a bigger Panchayat of more influential persons and leaders of a larger number of *khaps* is called at the doors of the culprit. They refuse to eat or drink (by the tradition it is the duty of the person at whose house the Panchayat is assembled to provide food and other hospitality) till he has accepted the decision of the council and has carried out the sanctions to the satisfaction of the council members. It becomes very difficult for a person or a group to ignore such an assembly of persons. Moreover, if the Panchayat goes away from the house of the defaulter without accepting food and water from his hands the prestige of such a person is mortally affected and other persons, groups and even his service castes may discontinue social and other relations with him till he complies to the sanctions passed by a Panchayat and expiates himself by giving a community feast in which the same council members must be invited. If, however, the Panchayat has failed to bring a person to book it may ostracise him, his whole *thok*, village, and even the whole *ganwand*, (if it is found that these units are siding him or are helping him in other ways) till such time as when the defaulter has

carried out the directions of the Panchayat and the leaders of other units have apologized and asked to be forgiven for their conduct. During ostracism, which is almost always temporary among the Jats, eating, smoking, marriage, and other kinds of interaction are prohibited with the person concerned and also with such units as may have helped him. Over a period of years these restrictions become unbearable and then the defaulter and those who have been helping him try to reach a settlement with the Panchayat. After they have either paid a fine or tendered an apology or given an undertaking (with a straw under the teeth signifying humility) not to go against the wishes of the Panchayat, they are pardoned and are allowed to enjoy the usual privileges of the caste. There are a few cases in which such extreme decisions were taken to ostracise a *ganwand*, and once the whole of the *khap*, in recent years. The normal relations of commensality and marriage were established after several years and then only when the defaulters in the *ganwand* case had apologized and paid the fine, and in the inter-*khap* dispute between Baliyan and Desh when a rapprochement had been reached between the two.

First Formal Meeting

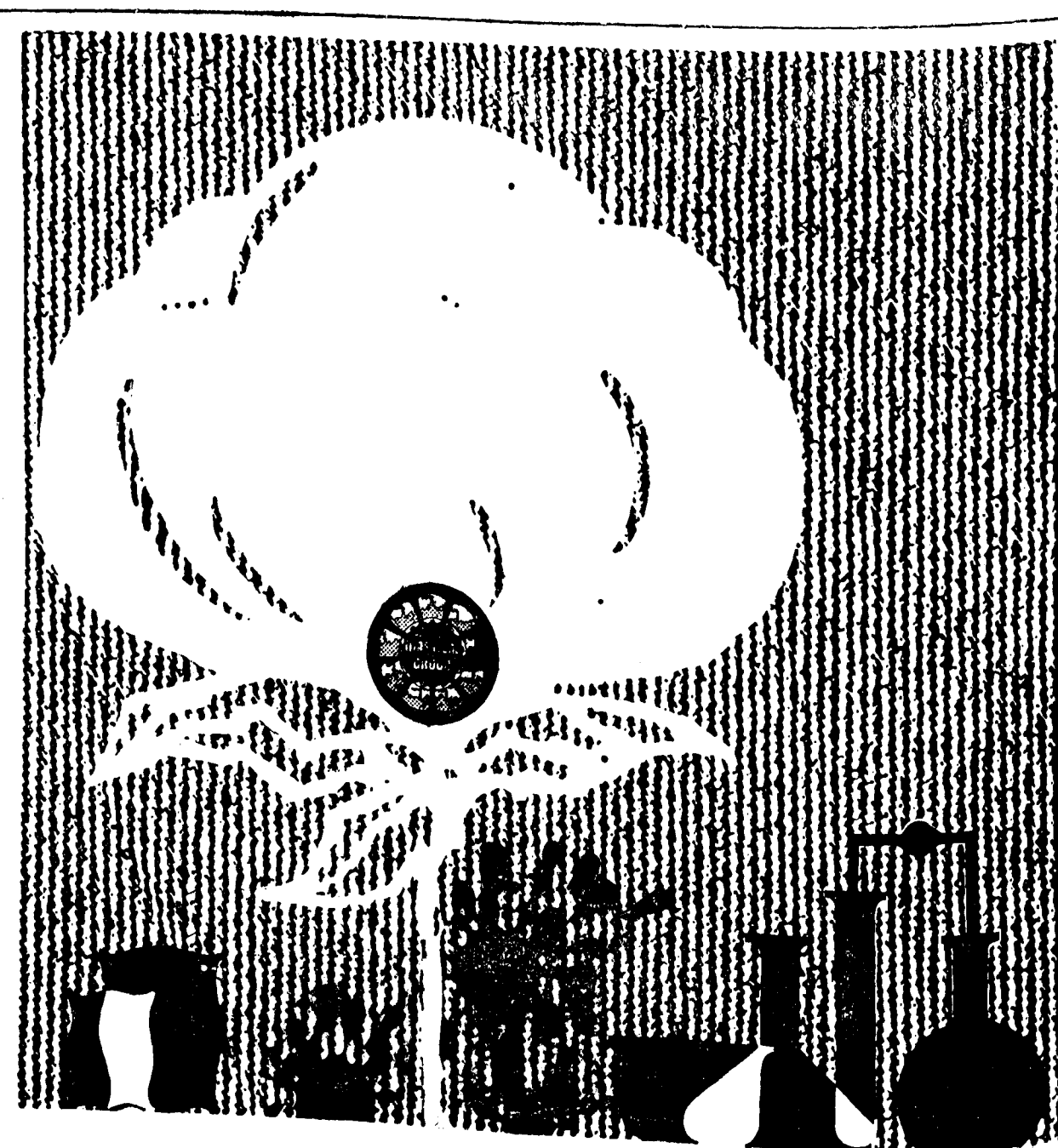
The following case will make the procedure and the functions of the *sarv-khap* Panchayat explicit. It relates to the first formal meeting of the Panchayat held in 1950 after a period of one hundred years. It will also show the influence this council has had upon the Jats as well as other castes of Meerut Division since its revival:

The meeting of the *sarv-khap* Panchayat was held in Shoron village, *khap* Baliyan, and was attended by hereditary leaders of all the 18 *khaps* of Meerut Division and also by the leaders of other castes and communities. The headman of *khap* Kalaslain (of Gujar caste) was elected as president of the meeting, which lasted three days. Speeches were given by several leaders from various *khaps* eulogizing the past history of the *sarv-khap* Panchayat, the aims behind its revival, and its importance for the welfare of the people. Then followed discussions and speeches on the 14 resolutions put up before the general meeting. These resolutions had been framed earlier by the working committee of the Panchayat. They were:

(1) People should not incur heavy expenditure on daughters' mar-

riages, particularly on extending hospitality to the grooms' parties.

- (2) Display of ornaments by groom's father at the time of 'the ceremony of welcome' held at the bride's house should stop.
- (3) Not more than five persons should accompany a marriage party.
- (4) No relations should be invited by a bride's father at the time of her marriage, except her maternal uncle (mother's brother), for this custom entails heavy expenditure which the bride's father can ill-afford.
- (5) The feast of *mandha* (final feast before the departure of the marriage party) should be discontinued.
- (6) The engagement ceremony should be performed only with one rupee and the old custom of incurring heavy expenditure on this ceremony should be discontinued.
- (7) The groom's father should not present more than 3 *tolas* (weight measurement for precious metals) of gold and 50 *tolas* of silver ornaments to the bride. The bride's father should not give more than one *tola* of gold and 25 *tolas* of silver ornaments.
- (8) Only 5 items of clothes and 5 of kitchen ware should be given in dowry.
- (9) The boy and the girl should be fully satisfied with each other before the marriage takes place. After the marriage, the husband should not leave his wife.
- (10) The marriageable age for a boy should be 25 years, and for a girl 16 years. Child marriages should be stopped.
- (11) In the *bhat* ceremony (when presents are given by the bride's mother's brother to the parents of the bride) not more than 50 rupees should be given in cash and presents of cloth and kitchen utensils should be discontinued.
- (12) The custom of sending presents to daughter's husband's place on every festival after marriage should be discontinued.
- (13) In the ceremony of *gauna* (when the bride goes to her husband's place for the second time after marriage) only five items of cloth and one set of bedding should be given by the girl's father. All other presents in cash or kind should be discontinued.
- (14) Other malpractices now prevalent in marriage ceremonies



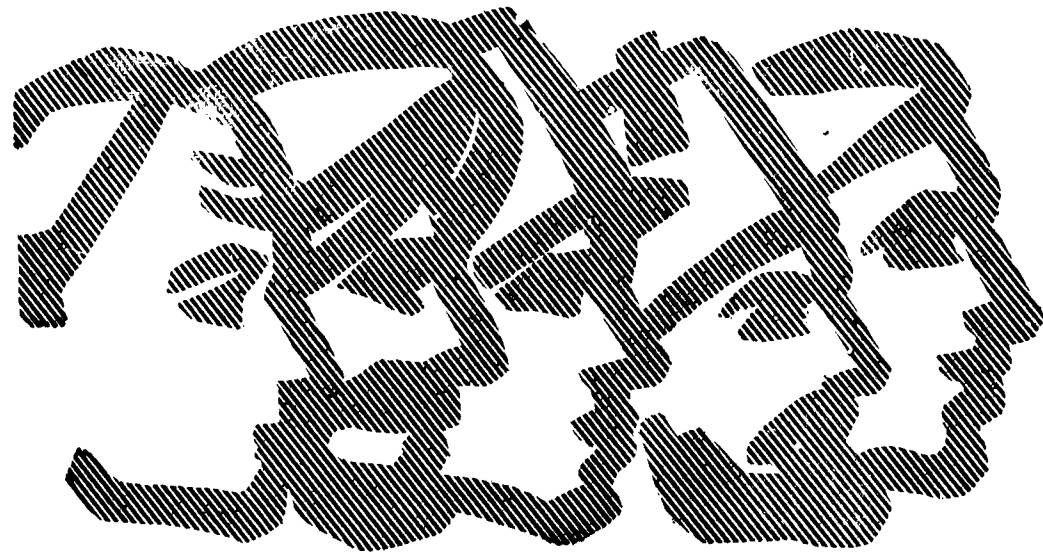
GROWING BIGGER EVERY DAY

That's us. Always trying to do a little better than yesterday. Always doing it. Textiles, jute, dyes and chemicals. These are the interests we have today. Tomorrow? The possibilities are endless. The future is wide open.



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should also stop; and the money thus saved should be spent on education of boys and girls and for religious causes.

All these resolutions were passed by the general assembly and were adopted. Members of all the *khaps* came to the dais one by one and pledged their support for the resolutions and also promised to implement them in their respective *khap* areas. Leaders of several other castes also pledged their support and promised to implement the resolutions within their castes.

These resolutions have had a profound effect upon the people of Meerut Division. Some of the resolutions such as those about marriageable age of boys and girls, limit on the number of relatives to be invited in marriages by the bride's father, or the limit imposed on presents and expenditure incurred on the *bhat* ceremony are not strictly followed. But the other resolutions are being strictly followed by quite a number of *khaps* and the infringement of these resolutions brings swift punishment from the *khap* or inter-*khap* Panchayat. The defaulter is generally made to pay a fine and give a firm promise that he would not break the resolutions in future. The fine thus realized is donated by the Panchayat to the school in the locality to which the defaulter belongs or towards building such a school if the village has none. From the register of records of the *sarv-khap* Panchayat kept by the Wazir of *khap* Baliyan, it is evident that *khaps* and councils of neighbouring *khaps* have punished a number of persons who have infringed one or the other of these resolutions. During my fieldwork I came to know that these resolutions have been effectively implemented and are being strictly followed by the Jats as well as by certain other castes of such *khaps* as Baliyan, Salaklain or Desh, Chogama, Gathwala, Kalaslain (of Gujar caste), Badanu and so forth. Information about breaking a rule by a person may be given either to the *khap* leaders or the Wazir of the *sarv-khap* council who, after verifying the complaint from the respected persons of the village of *ganwand* to which the defaulter belongs, calls a Panchayat meeting either of the *khap* or council of neighbouring *khaps*, depending upon the seriousness of the breach or the status of the defaulter.

The 1950 meeting of the *sarv-khap* Panchayat was also attended by several Jat leaders from the Punjab. And it had such a profound effect upon them that after their return they can-

vassed for a meeting of the *khaps* of their state which ultimately led to a meeting of several *khaps* in the town of Beri, on January 31, 1951. The prominent leaders of the *sarv-khap* Panchayat of 1950 were also invited to this meeting. In this Panchayat the 1950 resolutions of the *sarv-khap* Panchayat were adopted.

Resolutions Taken Seriously

The second meeting of the *sarv-khap* council was held in 1956, again in Shoron village of the *khap* Baliyan. I attended the meeting. The same resolutions of 1950 were put up before the general meeting for discussion with a view to finding out their impact upon the people. It was established from the speeches of leaders from different *khaps* and castes that these resolutions had done quite a lot of good in removing malpractices of too high dowry, unnecessary expenditure in marriages, leaving the wife after marriage and extortion of money and presents from the wife's father or maltreatment of the wife. One Jat leader in his speech assessed the amount saved by the Jats and such other castes as Rajputs, Gujars, Ahirs, Tiyaagi Brahmins, Blacksmiths, Carpenters, Goldsmiths, Muslim Jats, and Weavers of the *sarv-khap* area at Rs 750,000,000 during the five years between 1950 and 1956 through economizing in marriage ceremonies and related expenses. And this, according to him, was due to the resolutions of the first formal *sarv-khap* Panchayat. This showed the effectiveness of the council as an institution of social control and its popularity with the masses. However, it was felt that in some areas of Meerut Division the resolutions were not being followed strictly. Therefore, it was decided that these resolutions should again be passed and adopted by the second Panchayat meeting, and fresh pledges for their implementation should be taken from the leaders of the *khaps* and castes. This was done and the 1950 resolutions were adopted again and fresh pledges taken. The second *sarv-khap* council also passed some other resolutions of minor importance, but its main task was to infuse of fresh sense of dedication to the resolutions of the first formal Panchayat and to propagate for their acceptance by certain *khaps* or castes which had not yet seriously taken up their implementation within the areas of their jurisdiction. In this the second *sarv-khap* Panchayat succeeded to a great extent.

The third quinquennial meeting of this body was held on March 2, 1963 in Baraut (a town in *khap* Salaklain of the Jats of Tomar clan, in Meerut district). The president in his speech before the general meeting eulogized the role of the *sarv-khap* council in maintaining and propagating the cultural tradition of the country and its devotion to the cause of social welfare of the masses and to defending the freedom of the country as was borne out by its past history. He said that in the difficult period of national emergency created by the Chinese attack on their country the eyes of the nation were fixed on the farmers who had to produce more food so that the country could be strong enough to defend itself; and in this task the *sarv-khap* council and its leaders could render valuable service by persuading the farmers to make the country self-sufficient in food. He also expressed the hope that in its present meeting the Panchayat would be able to put forward before the public a constructive programme of economic and social development and would be able to implement it with the dedication which had characterized its functioning from ancient times.

The resolutions put up for discussion and adoption before the general meeting are of topical interest because they indicate the present trends in the *sarv-khap* council, the thinking of its leaders, the effect of the Panchayat resolutions upon the masses and their relevance for the political processes of today within the various *khaps* and castes of Meerut Division. The resolutions finally adopted by the Panchayat are:

- (1) The Panchayat should contribute its mite towards the defence of the country in the wake of the Chinese aggression by persuading the people to donate to the national defence fund, helping the government in building a village volunteer force and in army recruitment and persuading the farmers to grow more food.
- (2) The Panchayat should continue to work towards the implementation of the resolutions of the two earlier Panchayats of 1950 and 1956. These resolutions have done quite a lot of good in removing malpractices in marriage ceremonies and customs prevalent among the castes and the communities of the *sarv-khap* area.
- (3) The Panchayat should strive to remove caste distinctions and barriers.

- (4) The Panchayat should promote better educational facilities and better management of educational institutions. It should also raise funds towards building a girls' college. But co-education in schools and colleges should not be encouraged.
- (5) Cows should be protected (from slaughter) and production of milk and *ghee* (clarified butter) should be increased in villages.
- (6) People should be made conversant with the history of the *sarv-khap* Panchayat so that they may know the importance and the role of this organization in the life of the people from old times to the present day and follow its resolutions.
- (7) Two military colleges should be opened, one in Baraut and the other in Bulandshahr district. The Panchayat should persuade the government to undertake this task and should also raise contributions from various *khaps* towards the financing of these colleges.
- (8) A working committee should be set up to implement these resolutions.

I have not been able to visit the field recently to assess the impact of these resolutions on the people of the various *khaps* of Meerut Division. Nor has it been possible to know how far the working committee has been able to implement the new resolutions adopted at this Panchayat meeting. But it was bigger and more important than the two earlier meetings of the *sarv-khap* council held in 1950 and 1956, both with regard to the number of delegates and the topics on the agenda of the meeting. The resolutions indicate that since its revival the Panchayat has taken upon itself the responsibility of tackling with social and economic problems facing the people of the *sarv-khap* area, and to some extent the nation as well and is thus trying to widen its influence among the masses. Moreover, the resolutions on national defence passed by the Panchayat indicate that its leaders still consider it as their duty to defend the country against foreign invasion which was one of the important functions of the *sarv-khap* Panchayat in mediaeval times. The Panchayat's contribution to defending the country could not, of course, take the same form as in earlier times, like raising an army from different *khaps* and fighting the invader directly.

By and large the leadership of the *sarv-khap* council still functions

within the traditional thought pattern as can be seen from the resolutions mentioned above. Rather than accepting a political ideology and programme of social and economic development from the 'rightist' or 'leftist' political parties functioning in the country, the Panchayat is grappling with these problems in the traditional manner with a 'peasant-outlook' as it were. This is born out by resolutions 2,4,5, and 6 mentioned above. On the one hand, the *sarv-khap* Panchayat stands for schemes of social welfare and change (resolutions 2,3,4, mentioned above); on the other, it also acts as a check on certain other social changes like co-education in schools and colleges and urbanization and westernization and the ideas that go with them.

Sanctions, Negative and Positive

This sophisticated and largely attended meeting of the *sarv-khap* Panchayat (its proceedings were broadcast by the All India Radio, and were also covered by the Nav Bharat Times of March 2nd and 5th, 1963, and by other newspapers), passing bold resolutions on problems having an all-India bearing, may seem a far cry from the informal lineage Panchayats in different *khaps* with parochial interests in the Jat villages: it may also seem at first that there is no connection between these two political institutions. But a closer look at these political processes will show that these two units form a chain in the political continuum. For the same structural and organizational principles, viz, kinship proximity and local contiguity at village and *khap* level, the concept of 'brotherhood' (*bhaichara*), and so forth, are at work at the *sarv-khap* level also. And the resolutions are primarily addressed to the people of the various *khaps* and the caste Panchayats of other castes. Here the *khap* leaders, at least in the case of the Jat clans, will only be able to implement these resolutions by the active support of the headmen and leaders of *thoks*, sub-*thoks*, and *khandans* of minimal lineages. It is these lineage councils, together with the *khap* Panchayats, which see to the implementation of the *sarv-khap* Panchayat resolutions.

The sanctions exercised by various units of the Jat political system, may be divided into positive and negative sanctions. Positive sanctions promise economic, social, or psychological rewards to an individual. Negative sanctions are those which may inflict punishment, penalty or ostracism for the breach of norms of the society.

They are negative in the sense that they can be applied only to penalize or punish but not to reward. (R T La Piere, "A Theory of Social Control", McGraw Hill, London, 1954).

Positive sanctions are used not by the Panchayats but by the society or social groups and their use is closely related to an individual's actions and behaviour in relation to the lineage groups to which he belongs and to those with whom he comes in contact in face-to-face relationships. But sanctions like total extermination of an individual, economic intimidation, wilful harm to a person's property or, conversely, economic reward are unknown among the Jats and are not used by the Panchayats. Formerly such physical sanctions as beating or whipping of a defaulter were common but now they are rarely used by the councils. Permanent expulsion or ostracism of an individual was rarely practised if at all, and is now totally absent. But temporary expulsion signified by 'dropping the *huqqah*' (withdrawing the right of a person to eat or smoke with other members of his caste) is common, though resorted to by the Panchayats only in extreme cases of default. And then, to be effective it must have the active support of the *thok* or maximal lineage of the offender. Thus the exercise of this sanction is the privilege only of the *thok* or the *khap* Panchayat. Fines and economic restitution of an aggrieved party are common and can be used by any unit of the Jat political system.

A curse is considered one of the most effective sanctions. The faith in a curse, particularly when uttered by Panchayat members, is very strong and a curse is considered infallible. Several cases could be cited where a curse uttered by a Panchayat against the persons who have flouted its decisions has come true. A typical case is that of a person in Shoron village in *khap* Baliyan who, on the advice of his elder brother, got married in *khap* Salaklain. But this was against the resolutions of his own *khap* which had banned marriages between Baliyan and Salaklain on account of some dispute between the two *khaps*. The *khap* council tried to persuade the two brothers not to break the ban, but it failed to persuade them in spite of two or three meetings of the *khap* Panchayat. The elder brother of the person concerned was the headman of a *thok* of Shoron village. On account of party politics within the *khap*, with the backing of his maximal lineage, the headman succeeded in marrying his brother against

the ban. After the marriage, a meeting of the *khap* Panchayat was held and a curse was uttered by the council members that there will be no male issue from this marriage to carry on the family name. This incident happened more than twenty years back but there has been no male child born till now. The person concerned is now about seventy years old (this was his second marriage); the only son from the first marriage had died at the age of eighteen before the second marriage took place. According to the villagers there is now not much hope of a son. The curse of the Panchayat had had effect.

A curse may be uttered by any political unit from a minimal lineage to a *sarv-khap* Panchayat when all other means of social control have failed. It is the last, but not the least, of the effective sanctions at the disposal of the Panchayats. The belief in the efficacy of the curse and the strong fear of it strengthens the moral element in social relationships and checks unethical or anti-social conduct. The process of education and urbanization, it seems, has not affected this belief and it is fairly common among educated and urbanized Jats serving in the Indian army, government or civil service and also among college students.

A Panchayat may also ask an individual to take an oath of good conduct in future. This practice is supported by the common belief that if an individual breaks his words of honour or a promise given before a Panchayat, he loses his respect in the eyes of others.

For certain religious and moral lapses an individual may be asked by a Panchayat to undergo expiatory religious rites such as going on a pilgrimage, taking a purificatory bath in the river Ganges or giving a communal feast. Others may be forbidden to eat or smoke with him until he has performed these rites. In some cases he may also be asked by a *khap* or *sarv-khap* Panchayat to tour the villages of his *khap* and ask to be forgiven by the leaders of those villages. In such cases the Panchayat appoints a committee of two or three respectable persons who are asked to accompany the defaulter on his tour to the villages and to see that he carries out the decision of the council. Generally, this sanction is accompanied by temporary expulsion of the person from the caste. The caste councils and the *khap* Panchayats of other castes also use these sanctions.

Impact of Economic and Political Changes

The Jat community as well as other

castes of Meerut Division have experienced certain economic changes brought about by the introduction of irrigation facilities and of sugar-cane as a cash crop, by the growth of the competitive market economy and the growth of industry and towns. These factors have produced economic inequality among the Jats. Those who have gained wealth now aspire for leadership or office within the traditional political system, as headmen of lineage groups and as judges or council members in Panchayat meetings and also for office in the new government instituted political set-up of Gram and Adalat Panchayats (village committee and justice committee respectively).

Traditional System Not Weakened

Those who are more well-to-do than others may even stand for the state legislature or the parliament. For such status roles as are outside the traditional ones, an individual need not follow the traditional values demanded by the society. Such persons, if they are unable to achieve a position of leadership or office within the traditional political system, may turn against it; and then it becomes difficult for a Panchayat to control their behaviour. Those who come to hold office as president of a Gram Panchayat, a judge on the Adalat Panchayat, a member of the Zila Parishad (district committee), or member of the state legislature by virtue of their economic or political influence, may also be elected as the heads of *thoks* and sub-*thoks* or to such other status roles within the traditional system as are not strictly hereditary. This is because the belief in the traditional authority and value system of the Jats, as moulded by their kinship and political structure, has not changed much in spite of education and urbanization. Education among the Jats is increasing fast on account of the keen interest the community is taking in education by raising funds for schools and colleges. But the traditional values, ideology, and thought patterns of the Jat society are not undermined by the dissemination of education, in spite of its broadening of outlook which is used to rationalise and to reinforce the traditional value system based upon the kinship and the political system of the society. This happens because the Jats are still tied to the land which cannot be alienated outside the *thok*, a factor which maintains the corporate group structure of the society. Moreover, because of the introduction of the cash crop of sugar-cane and the increase in

land prices on account of irrigation facilities resulting in substantial increase in agricultural output and its market value, an individual has high economic stakes in his ancestral property. And those Jats who are serving outside their villages in army, civil service and other jobs like to return to the villages after retirement to settle down there. I did not come across even one case where a Jat had sold his property in his native village and had settled down in a city. On the other hand, many cases could be cited of senior army officers, government servants, etc, who have come back to their villages after retirement and now lead wealthy agriculturists' lives. These values and interests uphold the kinship and the political system of the Jat society under the conditions of change.

A person who has come to occupy a status position outside the traditional system strives to consolidate it by trying to achieve the status roles within the old system. To do so he has to live up to certain social norms dictated by kinship and the political ideology of the certain social norms dictated by the community; and in doing so he upholds the belief in the traditional system and thus reinforces its authority. The prestige and political ascendancy of such persons is used by the traditional Panchayats to command allegiance and exercise social control within the community and, to some extent, in inter-caste relations as well.

Social and economic changes do not seem to have much effect upon the traditional political system; nor is the system showing any signs of disorganization. The Jats, as well as other castes, still believe that "five *panches* (council members) sitting in a Panchayat are like five gods". This epitomises the ethos of the Jat community. The council members entrusted with the task of settling a dispute or making a decision are considered sacred. This belief not only protects them against any harm from the litigants for the decisions they may give, decisions which are morally binding upon the parties concerned and could only be broken at the pain of incurring a curse by the Panchayat which is considered infallible, but also compels the *panches* to conduct the affairs of the Panchayat with justice, equity and good conscience.

Such structural and organizational principles as *khap bhaichara* (brotherhood), *khap* exogamy, kinship organization and sentiment, corporate group structure of the society and the settlement pattern of the lineages and the

clan remain very much the same. They still seem to uphold and reinforce the traditional authority and the political system in more ways than one.

The Gram and the Adalat Panchayats introduced by government function at village and inter-village level. The Gram Panchayat has certain economic and political advantage over the traditional village council by virtue of the legal authority invested in it by government statutes. It can act towards village-wide goals with more effectiveness than the traditional village Panchayat. But the success of the Gram Panchayat in any undertaking depends largely upon the co-operation of maximal lineages and major segments of the Jats without which it remains ineffective. Other castes like the Carpenters, Blacksmiths, Sweepers, Chamars, Water-carriers, etc, are still largely dependant upon the Jats by virtue of their having most of the agricultural resources. These castes also support the decisions of the leaders of maximal lineages. Thus the Gram Panchayat can hardly get the majority of its members for an undertaking if it is not supported by the Jat *thoks*. It is also largely controlled by inter-

thok politics and relations between various lineages of a village. The traditional village council still functions independently of the Gram Panchayat.

The Adalat Panchayat is an adjudicative body comprising four or five neighbouring villages and decides cases and disputes between the members of these villages. It has become a rival institution to the *ganwand* and *than.ba* Panchayats. But the villagers do not place much faith in the Adalat Panchayat, consider it a hot bed of politics and intrigue and do not take their disputes to it. They still prefer a *thok*, *patti*, village, *ganwand*, or *thamba* council for their disputes; for in these Panchayats they can have a say in the selection of the council members, which they cannot be sure of in an Adalat Panchayat. The new political set-up of Gram and Adalat Panchayats has not yet established itself in the thought patterns of the villagers. Finally, the new set-up has a restricted scope and frame of reference as compared to the traditional political system which has much wider functions in the social, political and cultural fields. The new political set-up has taken over some of the for-

mer's functions, like the administrative and adjudicative powers at village and inter-village level, but it leaves out other fields of activity in which the *khap* and its political units and the *sarv-khap* Panchayat remain as effective as possible under the changing conditions.

Above I have discussed briefly the relation between the Jat kinship structure, concept of *bhaichara* (brotherhood) system of land tenure and the customary law of inheritance on the one hand, and the traditional political system of the Jats on the other; the history and the functions of the political system from medieval times to the present day; and the impact of certain processes of change upon the political system. Other aspects like the techniques of propaganda, implementation of Panchayat decisions, the effectiveness of the *khap* and the *sarv-khap* councils in regulating conduct within the Jat community as well as other castes, the maintenance of political dominance of the Jats (within their clan areas) over other castes and the present trends of the political system could not be discussed here.

(Concluded)

FROM THE CHAIR

Delhi Cloth & General Mills Co Ltd

Speech of the Chairman, Dr Bharat Ram

THE following is the Speech of Dr Bharat Ram, Chairman, Board of Directors, Delhi Cloth & General Mills Company Ltd, delivered at the 77th Annual General Meeting of the Shareholders of the Company on December 14, 1965 at Bara Hindu Rao, Delhi-6:

Ladies & Gentlemen:

It is indeed a pleasure to welcome you all to this 77th Annual General Meeting of your Company. Since we last met, a number of events and developments have taken place in our country. Our food situation, which has a vital impact on the general economic situation, was extremely serious, on account of natural causes; and we had the unfortunate experience of an armed conflict with our neighbour, Pakistan. The combined effect of natural factors and the actions of our neighbour on the economic situation of our country has been extremely serious, and ominous clouds still hover around us. However, the situation has its brighter aspect also. The conflict with Pakistan has forged a sense of unity in our people which is matched only by the bravery and valour of our Jawans. The difficulties on the agricultural front have made us acutely aware of the necessity of developing internal resources and standing on our own legs. I am, therefore, optimistic that the difficulties with which we are faced will do us some good in the long run, for they will lead us to greater efforts in all spheres of activity. I have no doubt that there is plenty of talent in the country, and the present situation will bring to the fore the latent capacities of our people. If we can take lessons from our past mistakes, particularly in the field of economic policy, it would be all to the good of the country.

We are extremely fortunate in having, at this juncture, the leadership of Shri Lal Bahadur Shastri, who, by his calm and unperturbable demeanour, steered the nation to the defence of its integrity and honour, and I pray that God may spare him for a long time to guide the destinies of our country.

The major economic problems of the country have been with us for some time, and the present conflict has only accentuated them. Food is

certainly the most crucial problem facing us. Nature has not been kind to us this year, but I would not blame Nature alone. Even in the years of good rain-fall, in the recent past, we have hardly produced enough food for ourselves, and 6 to 8 per cent deficit has always been with us. Although there has been a great deal of talk about importance of agriculture, it has not received the same kind of concentrated attention and administrative talent, as has been attracted by schemes of more spectacular character. We have often talked of giving the highest priority to agriculture; but talk alone will not yield results. Immediate steps need to be taken to render help and assistance to those who are in a position to increase the production of fertilisers, pesticides, irrigation facilities etc. The best talent in administration, both at the Centre and in the States, has to be made responsible for achieving the required results. The fact that our yield per acre in most agricultural commodities is very low should, in one sense, give us the confidence that we would be able to produce more, not only to meet our own requirements but also to increase exports of some agricultural commodities.

The second problem which the country faces is the shortage of foreign exchange. Many industries are having to curtail production for want of raw materials and components. This again may be a blessing in disguise. One can already see a greater effort in import substitution. Yet a good deal more can be done if there was a well organised effort. I would only suggest that we give greater priority to the utilisation of existing capacity in preference to new and long range capital intensive schemes.

Apart from foreign exchange resources, there is the problem of internal rupee resources, the supply of which has been made so scarce that some concerns have had to close down on account of lack of working capital. Our policy makers should recognise that in a country such as ours, where a predominant sector of the economy remains outside the pale of monetary policy, monetary controls alone can have only peripheral effects on prices. This has been repeatedly demonstrated, and particularly by the recent

trends in production and prices.

In the sphere of agriculture particularly, our credit policies have little effect on prices. On the other hand, excessive stringency in the policy of finance for the legitimate requirements of industry and business can only inhibit operations. There is need for re-consideration of the present banking and credit policy of Government.

The increase in bank rate has had, and will continue to have, a depressing effect on the capital market. In sympathy with the bank rate, the deposit rates of companies have also risen, and dividends on equity have become less attractive for the investor. It is not surprising that in this situation, the state of the share markets is what it is today, and that fresh investment is not taking place. In the light of our need for industrial development, it is essential that an entirely new look be given to our taxation structure and financial policies. For the last 15 years, we have experimented with controls and regulations. These may have served some limited purposes; but the time has come when courage should be taken in both hands to allow freer play to economic forces. In order to persuade people to invest, two things are necessary: firstly, the expectation of reasonable capital appreciation, and secondly, the hope of a reasonable return on investment. New projects do not yield much return in the first few years, and the investor looks forward to capital appreciation for recompense. Taxes on capital gains, including the entire value of bonus shares, act as a great deterrent to investment in new projects. I have no doubt that if the rate of taxation on capital gains from equity shares is prescribed at a level lower than that for unearned income, it would be a great incentive for investment. Piecemeal and small concessions such as have been announced recently, are not likely to yield substantial results. A bold approach is required in respect of tax policies.

Apart from the high rate of taxation, there is the problem of lack of stability in tax policies. Of late our tax structure has been subjected to so many novel ideas and experiments that investors do not really know where they stand. The feeling

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of insecurity is enhanced when retrospective effect is given to new tax measures, not only in respect of rates but also in respect of the basis of taxation.

While on the subject of taxation, I would like to refer to the recent announcement of Government for attracting Foreign Exchange held by Indian nationals abroad, and also for subscriptions to Gold Bonds. Earlier, a scheme to facilitate voluntary disclosure of undisclosed incomes was also announced. There may be good reasons for these decisions; at the same time, I must say that when Government is prepared to allow concessions to those who have not disclosed taxable income earlier, it must also think in terms of reducing the burden on the honest tax payers. In the long run, if dishonest practices have to be stopped, there must be a premium on honesty, and not dishonesty.

I have briefly stated some of my views on the general economic situation, and some Government policies. I must here express the hope that we will learn from our past experience and take a more practical view of problems now.

Coming now to your Company's affairs, you will observe from the Balance Sheet in your hands, that while the gross profits have gone up from Rs 384 lakhs to Rs 434 lakhs, the net profits have declined. As I said last year, this phenomenon is a reflection of the Company's continued investment of large amounts of money in new industries, entailing a heavy initial depreciation and development rebate.

The textile industry, as a whole, is passing through difficult times. Some units have already closed down, and others have reduced production. It is fortunate that the textile units of your Company have maintained satisfactory performance in spite of increased costs of raw materials, stores, wages etc. The exports of the Company have also continued to be satisfactory.

The position in respect of your textile mill in Pakistan is however very uncertain. We have no contact with the factory presently, and I understand that control of the unit has been taken over by the Custodian of Enemy Property in Pakistan.

There has been a certain amount of loose talk about the Company donating a large amount of money to the Pakistan Defence Fund. Our position has been made clear

in the press, and also by the Finance Minister in the Lok Sabha. We have no knowledge of what is happening to the factory in Pakistan, nor how much money has been extracted from it for any purpose. We have filed a claim with the Custodian of Enemy Property in India in respect of this unit, and I hope that the Government will arrange for a suitable compensation to be given to the Company for this loss.

You will be glad to know that your Directors have recently re-named the two units in Kota as Shriram Vinyl & Chemical Industries and Shriram Rayons. These two units have had their share of operational problems during this last year. A 60 per cent power cut has been imposed in Rajasthan, seriously affecting the caustic soda and carbide plants. Steps have been taken to send stand-by turbines from Delhi and also to acquire diesel generating sets from abroad. Shri-

ram Rayons, which started production in 1965 is now facing the problem of supply of pulp, which is imported. The shortage of power and pulp are likely to affect the working at Kota this year also, and the management is taking all possible steps to meet the problems.

The sugar units of your Company have also suffered due to shortage of cane. However, it appears at present that the working of the sugar factories would be better this year as cane supplies are better than they were at this time last year. The Chemical and Vanaspati units of your Company have worked satisfactorily.

In the end, I would like to record our sincere appreciation of the wonderful work of all our workers and staff whose efforts have enabled us to achieve such good results during the year in spite of so many problems.

Note: This does not purport to be a record of the proceedings of the annual General Meeting.

The Scindia Steam Navigation Co Ltd

Statement of the Chairman Shri Dharamsey M Khatau

THE following is a summary of the speech of Shri Dharamsey M Khatau, Chairman, The Scindia Steam Navigation Co., Ltd., made at the 46th Annual General Meeting of the Shareholders on Wednesday, the 15th December 1965, at Patkar Hall, Bombay-1:

In his Statement made at the 46th Annual General Meeting of the Scindia Company, held on 15th December 1965, Shri Dharamsey M Khatau, Chairman, referred to the critical period of the country had recently passed through and observed that our achievement so far had clearly shown to Pakistan and the world outside that any further infiltration or encroachment of our territories would not be tolerated. It was of immense value, he said, that under the worthy leadership of our Prime Minister the people had 'discovered' their capacity to stand united against an external foe and that the present crisis had awakened us to the importance of standing on our own legs in regard to all our essential requirements. Paying his homage to the men in the Armed Forces and the civilians who gave up their lives or otherwise suffered in defence of the country, Shri Khatau said that, as in the past, Scindia's entire resources were at the country's service.

Economic Solution

Commenting on the state of the country's economy, Shri Khatau observed that due to the difficult foreign exchange, position, our imports had been severely restricted and our exports had also declined on account of the surcharge imposed by the U.K. — our biggest Market abroad — on their imports for reasons affecting their own economy. The trade between India and the U.S.A. had also become virtually stagnant. This situation, he said, was bound to worsen further in the event of any drastic curtailment in our existing foreign exchange facilities or delay in reaching firm decisions thereon. Regarding the planned development of Shipping, Shri Khatau observed that in spite of considerable expansion of our National tonnage since Independence, we were still not able to cater for a substantial share of our Overseas trades. He, therefore, pleaded that future expansion should be so planned that at least 50% of our bulk cargoes and an increasing share in the liner trades are carried in our ships. A ma-

jor difficulty in this respect was our growing shortage of foreign exchange. For their Coastal services, Shipowners had to purchase such second-hand ships as were offered. As they had no choice in the matter of age of such vessels, Shri Khatau pressed for restoration of full development rebate of 40% instead of the present rates of 30% for ships not more than 7 years old and 20% for older ships.

New Ships

During the year under review, Shri Khatau said, two new ships had been delivered: JALAKALA, built at Visakhapatnam and RUKMAVATI built in the U.K.; also two 12,000 d.w.t. 16 knots second-hand vessels had been purchased. Two fast Cargo ships were on order from the Hindustan Shipyard and three 15,000 d.w.t. fast Cargo ships were under construction in the U.K. He added that the Company's unremitting efforts to keep its fleet young and efficient had fairly succeeded.

At the very beginning of the present conflict, Shri Khatau continued, two Scindia ships (SARASVATI AND JAL RAJENDRA) together with cargoes on board had been impounded by Pakistan; Scindia's assets in Pakistan worth about Rs 25 lacs had also been taken over by the Custodian of Enemy Property in Pakistan. The impounding of these ships would adversely affect Scindia's Coastal and Overseas services. Arrangements had, however, been made in the U.K.-Continental trades to operate separate services to and from India to and from Pakistan and to enable Indian Lines to lift correspondingly additional cargoes between India and U.K.-Continent to compensate them for the loss of their share in the Pakistan trades.

Referring to the Company's Overseas services, Shri Khatau said that the cargo carried and freight earnings had shown improvement over the previous year as a result of additional services provided in certain trades, freight increases made last year, and rationalisation of berthings in the U.K. Continental trades; but the advantages accruing from these measures were considerably offset by rise in operational costs and serious berthing delays to ships in Indian ports; delays suffered by Scindia ships during the year came to 1485 days out of which 1006 days

were in Indian ports, which is nearly double the corresponding delays suffered in the preceding year. In the interest of maintaining the efficiency of Overseas services, Shri Khatau urged that the allocation of cargoes to Indian Lines by Government as the biggest importer should be on the basis of sailings provided by the Lines.

Referring to the U.S. Government's policy to reserve 50% of "Aid" cargo for their Shipping and the pressure brought on them by American Shipowners to reserve upto 100% of such cargoes for U.S. Flag vessels, Shri Khatau apprehended that if such a proposal were to be accepted, Indian ships would be wholly deprived of U.S. "Aid" cargoes. He hoped that our Government would take a firm stand and secure equal participation for Indian Shipping in the movement of "Aid" cargoes to India, as, in substance, such cargoes were no different from commercial cargoes both had to be paid for. Shri Khatau also urged very strongly that while negotiating bilateral trade agreements with different countries, utilisation of Indian shipping services on a 50:50 basis should be insisted upon.

Coastal Freights

The 10% increase in Coastal freights as from 1st August 1965, Shri Khatau said, fell far short of the shipowners' demand based on operating costs which had further gone up; about 50% of this increase was taken away by the increase in excise duty on fuel oil. He also referred to inadequacy of discharge facilities at several ports and Government's hesitant and vacillating policy in regard to quantum and types of Coastal cargoes. These and other questions had been examined by a Committee of the National Shipping Board and Shri Khatau pleaded for speed at every subsequent stage in considering the Board's recommendations. He also urged the setting up of a special machinery for examining continuously the variations in operating costs of Coastal shipping and recommending adjustments in freight rates as and when necessary.

Regarding the War Risks Insurance Scheme introduced by Government as from the 20th September 1965, Shri Khatau hoped that the Government would find it possible to provide necessary cover at reasonably low rates.

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Subsidiary Companies

Regarding the working of Subsidiary Companies, Shri Khatau said that the Scindia Workshop Ltd., had shown a profit of Rs 13,714/- as against a loss of Rs 1,86,860/- in the preceding year, and that its activities would be diversified by taking up the manufacture of McGregor Hatch covers, Topping Winches, Fibre Glass Life Boats, Davits,

etc. Regarding the B.S.N. (1953) Ltd. he regretted that despite strenuous efforts no progress had been made in realising the amount due from the State Government for 1962-63 and onwards.

Concluding his Statement, Shri Khatau expressed his gratitude to the Government of India and in particular to the Transport Minister, Shri Raj Bahadur, Transport Secretary, Dr. Na-

gendra Singh and Chairman of the National Shipping Board, Shri Raghunath Singh for their encouragement and assistance to Indian Shipping. He also conveyed his sincere thanks to the Shippers and Consignees — here and abroad — for their continued support to the Company's services and appreciated the devotion to duty of the Management, Officers and Staff and Agents at various ports.



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BUSINESS NOTES

Alkali and Chemical

FURTHER good progress has been recorded by Alkali and Chemical Corporation in the year ended September 30 last in its various manufacturing units. Both the polythene units were operated at full capacity throughout the year. All units producing rubber chemicals are now operating at full rate, and an application has been made to the government for permission to increase capacity. Production of caustic soda continued at the maximum. There was a substantial increase in technical BHC and liquid insecticides production as compared with the previous year.

A new unit for the production of hydrochloric acid was commissioned and production increased. A further unit is expected to come into operation in 1966. Alfloc formulation was, however, lower due to the restricted supplies of raw materials. Liquid chlorine sales were also lower due to the conversion of larger quantities of chlorine to hydrochloric acid to meet market demands. New resin and paints plants have been commissioned and capacity over an extended range of products has been increased. Production rose despite recurring raw material difficulties. The company has secured services of Imkemex (India) Ltd, a registered export house, and exports were raised to over Rs 50 lakhs in the year.

Improved raw material availability made possible full utilisation of plant capacity and, as a result, sales were pushed up sharply from Rs 8.66 crores to Rs 12.79 crores, and gross earnings from Rs 1.80 crores to Rs 3.42 crores. Of this, depreciation has claimed Rs 89.97 lakhs (Rs 68.20 lakhs) and development rebate reserve Rs 17 lakhs (Rs 38 lakhs), leaving a pretax profit of Rs 2.35 crores, over three times the preceding year's Rs 73.68 lakhs. The tax liability, including Surtax of Rs 14.51 lakhs, demands Rs 1.11 crores as against only Rs 11.67 lakhs. Besides, Rs 5.68 lakhs have been provided for taxation in respect of a previous year. For the second year in succession, total dividend is stepped up five points, this time to 25 per cent requiring Rs 77.50 lakhs compared to Rs 62 lakhs a year ago. The usual dividend on preference capital takes away, as before, Rs. 2.02 lakhs. Transfer to general reserve is lowered from Rs 10.37 lakhs to Rs 8.07 lakhs but that to dividend equalisation reserve is as much as Rs 31 lakhs (nil).

Looking back over a period of 10 years, one finds that the company has made impressive progress. In this

period, fixed assets have risen from Rs 2 crores to Rs 12.41 crores, sales from Rs 1.88 crores to Rs 12.79 crores and gross earnings from Rs 40 lakhs to Rs 3.42 crores. Income before taxation and transfer to development rebate reserve as a percentage of total net assets employed in business has increased from 10.7 to 17.8. After paying dividends at the rate of 80 P per share on an equity capital of Rs 62 lakhs in the first two years of the decade, these were gradually raised to Rs 2.50 a share payable on a capital of Rs 3.10 crores for all the subsequent eight years.

Ashok Leyland

SATISFACTORY progress is being made by Ashok Leyland in implementing its new programme of manufacturing heavy duty chassis. The construction of buildings for the machine shop is well advanced, and these should be soon available for occupation. Meanwhile, the assembly of the new range of vehicles has already begun and the order book is fully taken up. There is, however, a sting in the latest report from the company. It says that the year 1965-66 has begun with a serious powercut, the adverse effect of which is already reflected in the output of chassis from the works. The directors, however, hope that the set-back in production on account of the powercut and the uncertain conditions due

to the emergency will be of a temporary nature and that in the later part of the year conditions will considerably improve enabling achievement of the target of performance.

The financial results for the year to September last show sales turnover up from Rs 17.38 crores to Rs 20.24 crores and gross earnings from Rs 2.42 crores to Rs 2.59 crores. After making necessary provisions and writing back an excess provision of Rs 0.24 lakh, there is left a disposable surplus of Rs 1.06 crores to compare with the previous year's Rs 83.54 lakhs. The cover for the dividend raised by a point to 10 per cent has, thus, looked up from 1.68 times to 1.92 times. The balance sheet at the year-end shows capital almost unchanged at Rs 5.52 crores and reserves up from Rs 1.36 crores to Rs 1.45 crores. The net block stands at Rs 5.14 crores (Rs 5.17 crores).

It may be noted that these results reflect the unsettled conditions in the closing months of the year due to the outbreak of hostilities between India and Pakistan.

John Oakley and Mohan

APERCEPTIBLE improvement has been recorded by John Oakley and Mohan in the third year ended June last. Both the plants (waterproof and glue bond) worked satisfactorily, and a new range of products was introduced. These were well received by manufacturing units. More important, the quality of products is being further improved. The technical manager of the

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company's collaborators, John Oakey and Sons Ltd, of the UK, stayed at the plant for three months for this purpose.

The financial results show sales up from Rs 16.33 lakhs to Rs 22.10 lakhs and gross profits from Rs 1.93 lakhs to Rs 2.98 lakhs. After making increased necessary provisions, however, the surplus is halved to Rs 0.48 lakh. This is transferred to general reserve.

West Coast Paper

THE pioneering effort of West Coast Paper in having undertaken plantation work needs to be applauded. The company had been doing extensive and intensive plantation of fast growing varieties of tropical woods like eucalyptus, hybrids, paper mulberry etc, in addition to the species of bamboo not usually grown in Dandeli forests near which the factory is located. The total land under plantation since the scheme was taken in hand is 36,584 acres—5,316 acres for woods and 31,248 acres for bamboo. Meanwhile, the Mysore government has sanctioned extraction of 60,000 tonnes of bamboo from the forest outside the

company's area at a royalty of Rs 7.50 per tonne.

The company acts as technical collaborator to Andhra Pradesh Paper Mills, and has also invested Rs 66 lakhs in its share capital. Another Rs 34 lakhs are being invested therein. The State Government has also agreed to invest a similar amount. A P Paper Mills has revised its plans to increase production right from the beginning to 100 tonnes a day, primarily to utilise the extra in-built capacity in certain sections of the mill. The extra in-built capacity with some balancing equipment will enable the mill to expand at a much cheaper cost at this stage and will also make the project more viable.

During the year ended June 30 last, West Coast again set a new record of production at 32,535 tonnes, an increase of 2,322 tonnes over the previous year. As a result of continuous improvement in the process, the cost of production was reduced despite further rise in prices of chemicals, packing materials, salaries and wages and transport and other services. Net sales increased from Rs 4.44 crores to Rs 4.58 crores and gross earnings from

Rs 1.49 crores to Rs 1.61 crores. Because of the increased tax liability, however, the improvement has been nearly erased, and equity earnings are only a shade better (Rs 41.18 lakhs against Rs 40.50 lakhs). The cover has slipped slightly from 2.08 times to just under twice, as the dividend is raised by a point to Rs 14 a share.

Looking back over the past five-year period, one finds that the company has shown creditable performance. In this period, production of paper has increased from 25,771 tonnes to 32,535 tonnes, net turnover from Rs 3.84 crores to Rs 4.58 crores and gross profits from Rs 1.06 crores to Rs 1.61 crores. At the same time, equity dividend distribution has risen from Rs 11.25 lakhs to Rs 21 lakhs, following increase in the rate from Rs 7.50 to Rs 14 a share. The company's financial position has been gaining strength year by year; gross block has risen from Rs 5.87 crores to Rs 6.63 crores and net block stands at Rs 4.06 crores. The paid-up share capital has remained unchanged at Rs 2.40 crores, but retained earnings have advanced from Rs 80.09 lakhs to Rs 179.75 lakhs and net worth from Rs 3.20 crores to Rs 4.20 crores.

Dalal Street at New Low

Thursday, Morning

THE stock market continues to present a picture of unrelieved gloom. In spite of the fact that equity prices have been declining since long and heavy bull liquidation over the past few weeks has considerably improved the technical position, the market has been finding it extremely difficult to stage a worthwhile rally. Dalal Street's performance last week was not much different from that in the preceding week. Short covering induced mainly by technical considerations did impart some steadiness but the rally was very feeble and near the week-end the market was again forced to seek a new low level with several shares in the forward as well as in the cash list striking new lows for many years. Among other things, trading sentiment near the week-end was unsettled by the Stock Exchange Board's directive requiring bears to lodge their shares with the clearing house or produce the banker's certificate in order to seek exemption from the margins at the turn of the settlement. The modification in the margin rule is likely to push up 'badla' rates which in turn will discourage bullish activity.

The US Administration's decision to supply immediately 1.5 million tonnes of wheat, release of \$50 million for purchasing fertilisers, modifications in the national defence remittance scheme enabling a much wider participation in it and better prospects for rabi crops because of the widespread winter rains—all these failed to produce any significant impact on market psychology. This was mainly because of the growing tension on the northern borders as a result of more frequent clashes with the Chinese troops. The stock market has not been much enthused over President Ayub's offer at the United Nations asking India to sign a no-war pledge with Pakistan. Few observers are inclined to be optimistic about the outcome of the forthcoming Tashkent meeting.

Though the decline in prices has pushed the average yield on equities to around 8.8 per cent, fresh investment support remains conspicuous by its absence because of the economic and political uncertainties. Prospects of a marked and sustained recovery in equity prices cannot be regarded as encouraging in face of the growing strains on the economy. The continuous decline in stock market activity has led to a sharp fall in the price of the mem-

bership card which is reported to have changed hands recently at Rs 15,000—the lowest for many years.

COTTON

Futures Rally

THE Vidarbha/MP Vinnar March contract which had been marked down to Rs 887.25 per 3 quintals on December 14 was up again at Rs 894.25 the next day thereby making good all the ground lost earlier in the week. Short covering and renewed bull support which produced the week-end rally were inspired mainly by the release of November figures of mills' production and stocks. Despite a rise in cloth output from 377 million yards in October to 407 million yards in November, stocks with mills have declined from 703.5 million yards to 670.5 million yards. Likewise, yarn output has risen from 154 million lbs to 165 million lbs, and stocks have come down from 71.2 million lbs. to 60.4 million lbs. Obviously there has been a considerable improvement in off-take and because of the seasonal factor this trend is likely to be maintained for some time.

If cloth off-take remains good and stocks with mills decline, the industry can certainly be expected to evince a keener interest in the purchase of raw cotton. This should check any further big fall in cotton prices, particularly when the supply position of cotton is known to be very tight. Conditions in the spot cotton market have continued to be rather subdued, reflecting essentially financial stringency and the mill industry's difficulties. Despite a substantially smaller crop, arrivals this season have been fairly good because of the general reluctance on the part of growers and merchants to accumulate stocks. The prevailing high prices of cotton—the decline over the past few weeks notwithstanding—the high cost of financing stocks and political uncertainty—all these factors have been discouraging piling up of stocks.

The US Administration's decision to supply immediately foodgrains and release \$50 million for purchase of fertilisers has raised hopes of cotton imports under PL 480. If India is able to secure a good quantity of cotton under PL 480, it would ease the supply position here and make it possible for the textile industry to secure its raw material requirement within the statutory ceilings without any official inter-

vention. The export performance continues to be disappointing because Japan, India's main customer of Bengal Deshi, is still unwilling to offer prices which would make business around the current levels possible. Sales registered up to December 10 total 62,497 bales.

OILSEEDS

Easier Tendency

THE oilseeds market last week displayed an easier tendency on ideas of improved outlook for the rabi crops because of the widespread rains in nearly all the important oilseeds producing areas. Sentiment was also aided by optimistic reckoning of prospects for securing substantial quantities of soyabean oil as well as mutton tallow from the US under PL 480. The recent US decision to supply 15 million tonnes of wheat to India on an emergency basis along with the release of 50 million dollars for purchase of fertilisers are regarded as indications of a positive change in the US attitude towards India's pressing needs. Informed sources are inclined to the view that since the US is having a record soyabean crop, it might not be difficult to secure about 1.5 lakh tonnes of soyabean oil and about 70,000 tonnes of mutton tallow. The outcome of the Union Food Minister's visit to the US will be awaited with keen interest. Needless to say that if the rabi crops turn out to be reasonably satisfactory — production in any case is not expected to exceed last season's output — and domestic supply is augmented through imports of soyabean oil and mutton tallow, the overall supply position of vegetable oil will improve and thereby prevent a big rise in prices from the current high levels. As against the current price of about Rs 3,300 per tonne of groundnut oil, the price of soyabean oil works out to around Rs 1,700 per tonne.

Prospects of improved supply led to considerable bull liquidation in castor and linseed futures during the week. Castor April eased from Rs 103.62 to Rs 99.75 — the lowest level for many weeks. Linseed April moved down from Rs 121.50 to Rs 118. Near the week-end, however, castor recovered to Rs 102.25 and linseed rallied to Rs 119.50. The recovery was caused mainly by short covering though modest bull support was also reported. Groundnut oil which had eased from Rs 33.50 to Rs.



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31.50. recovered to Rs 32.60 (per 10 kgs). Linseed oil eased from Rs 29 to Rs 27.75 and castor oil Commercial was down by about a rupee per 10 kilograms.

It was on November 16 that vanaspati manufacturers last announced an all-round big increase in the prices of their product. This was the second time that prices had been raised within a fortnight. The price of vanaspati had then been fixed on the basis of an average price of about Rs 3600 per tonne of groundnut oil. Since the middle of November groundnut oil has all the time been available at substantially below Rs 3,600 a tonne. And yet the vanaspati industry has not bothered to reduce its prices. Could it be that the vanaspati manufacturers have not purchased groundnut oil in quantity during the past four weeks. It is most unfortunate that poor consumers should never be able to benefit from the decline in prices.

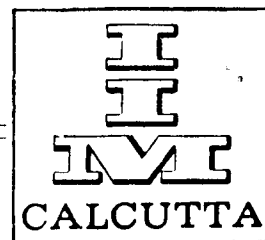
Export houses reported fairly good business in groundnut extractions with the Communist countries mentioned as the chief buyers. The Gujarat Government's ban on the movement of all oilcakes not only to other States but also to foreign countries has caused considerable apprehensions in the minds of solvent extraction manufacturers in Saurashtra. The Karmahom Conference Lines have also been kept guessing whether or not their steamers should call at Saurashtra ports. Cottonseed cake continued to evoke fair inquiry from overseas buyers.

AEI

ASSOCIATED Electrical Industries (India) Private Ltd, the Indian subsidiary of AEI of the UK, has planned to step up production of its electrical pumping sets by 330 per cent and its electric motors by 50 per cent. The manufacturing time for power and distribution transformers is scheduled to be cut down by an average of four months. The company is assisting in increasing steel production capacity by indigenously manufacturing electric melting and heat furnaces for the private and public sectors. At present, 49 electric furnaces are under manufacture on orders from DGS and D.

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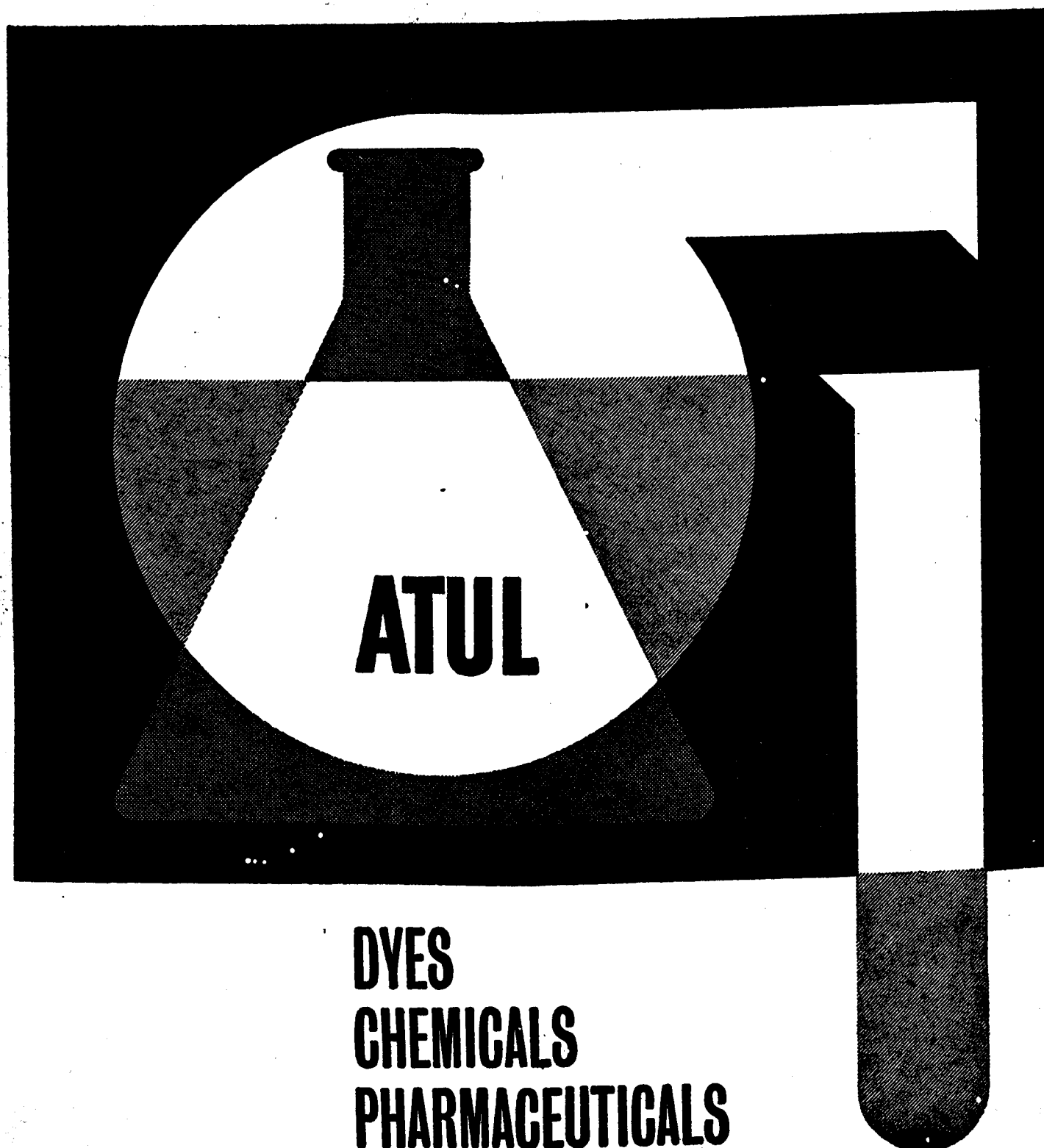
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VOLUME XVII NO 52

DECEMBER 25, 1965

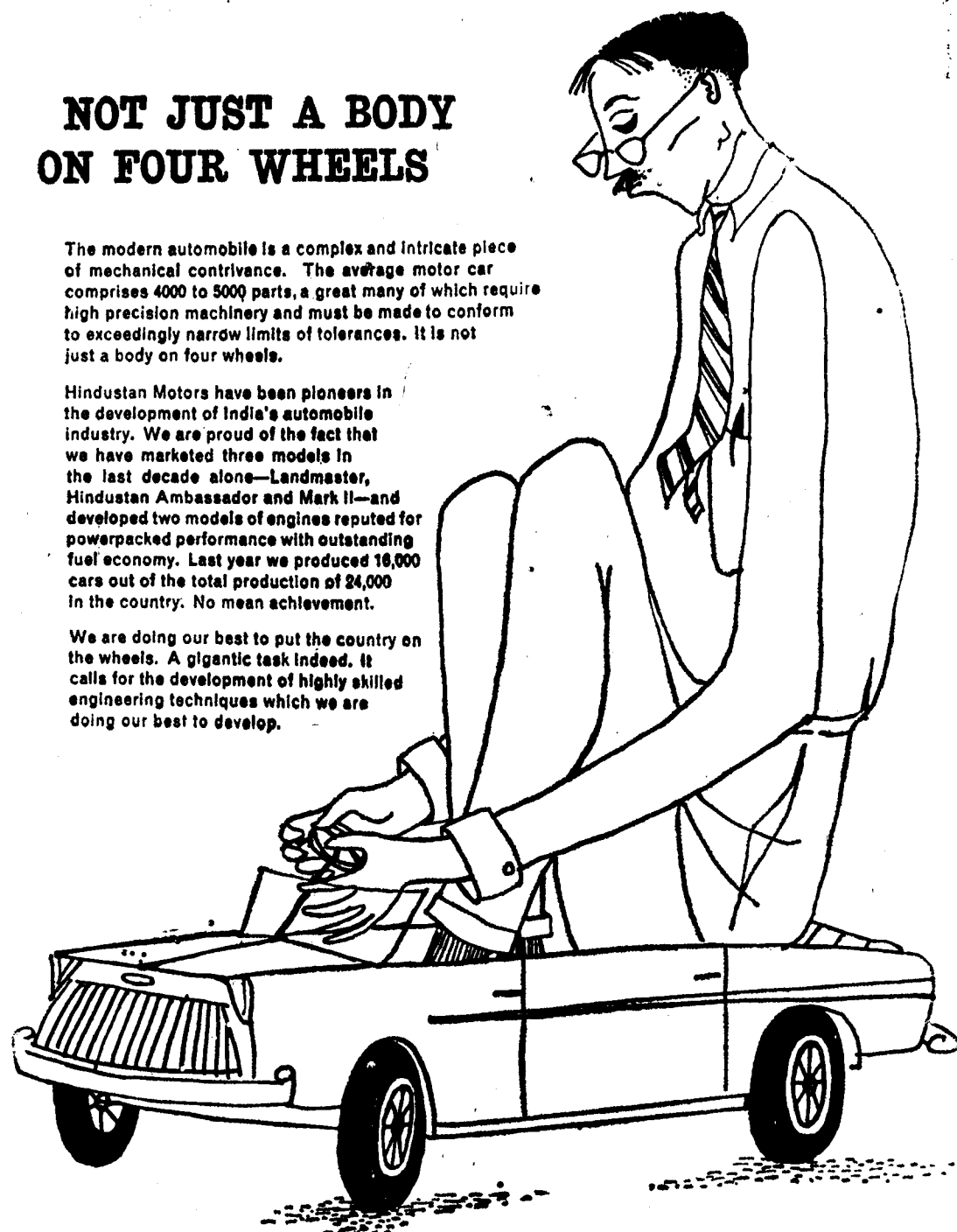
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THE ECONOMIC WEEKLY

Vol XVII No 52 Dec 25, 1965

EDITORIALS

- The 'American' Asian Bank 1873
Fumbling with Decontrol 1874

WEEKLY NOTES

- Yes, There Is a Santa Claus!
— Rhodesia: Oil Embargo,
at Last — The 'Ifs' and
'Buts' — Corporate Performance Improves — If Pakistan, Why Not China? 1875

LETTER TO EDITOR

- Air India's Indian Summer 1878

LETTER FROM AMERICA

- Decline of the Labour Movement 1879

LETTER FROM SOUTH

- Plan Collapse in Andhra 1880

BOOK REVIEW

- The Newars of Nepal
— N G Chapekar 1881

SPECIAL ARTICLES

- Oscar Lange: Complete Social Scientist
— S Ganguli 1883
Notes on the Bergsman-Manne Model and the Uses of Planning Models
— Louis Lefebvre 1889
Kashmir in the Wider Context
— G M Rajpori 1893

AROUND BOMBAY MARKETS

- Impressive Recovery 1894

CURRENT STATISTICS

1896

The 'American' Asian Bank

THE Manila meeting of Ministers early this month, like the Bangkok meeting of the Committee of Officials in September, took another step towards making America the manager of the so-called Asian Development Bank. Commentators writing in American newspapers can hardly conceal their happiness that the Asian Bank is being made secure for American control. The *New York Times* commented editorially on the eve of the Bangkok meeting of officials that the US might have to yield a few points if it was felt that the position of the Western countries in the proposed Bank's charter was too strong. A commentator in the *New York Herald Tribune* has noted with satisfaction that the Bank would be managed by the US. Some Asian countries, it was true, were asking for a greater share in management for Asians but their demand lacked "muscle", so that although called an Asian Bank, it would be really a smaller edition of the US-managed World Bank. The US Senate and Congress had been assured by the State Department that this had been made certain in the Bank's constitution itself—Japan, the only Asian power which had an equal share of equity with the US, could not present a problem since she was not liked by many Asian countries.

Nor is the *Herald Tribune* commentator's confidence misplaced. The charter of the Asian Bank gives the majority votes to the industrial countries led by the US and her associates in Asia like Australia and New Zealand. This charter is now ready for signature on the dotted line by the Ministers of Asian countries.

Why have the Asians done this to themselves? There are at least four clear reasons. First, many of the countries have no appreciation of what they are signing away. Some argue that unless management rights are given to the industrial countries, capital will not come. Simple civil servants from several small Asian countries, asked to draft the Bank charter without being bankers, do not realise how the power of management stands related to voting rights. Officials have been known to argue that since non-Asian countries will have only 40 per cent of the equity, Asians will have the majority vote! They fail to realise that Australia, whom they count as an Asian power, has a large share of the votes which will be used jointly with the US. And then there is Japan, another Asian nation technically, which will inevitably join hands with the US and the industrial countries—as she did so often at the UNCTAD meetings—and not with the Asian countries. Similarly, it is pointed out that the majority of directors and most of the chief functionaries of the Bank will be Asians. In the last analysis, however, what matters is who controls the majority of votes. The Americans understand this well and that is why there is such widespread satisfaction in the US that the Asian Bank has not gone the way of the African Bank, which is designed as a purely African-managed institution—very much to the frustration of the US.

Secondly, the Economic Commission for Asia, which played the important role in preparing the Bank's charter, is just now sadly deficient in technically effective leadership. It is staffed poorly by officials who have no practical experience or understanding of technical matters such as are involved in the establishment of an institution like the Asian Bank. Besides, as pointed out earlier in these columns (September 4, 1965, p 1363), the principal technical personnel involved in the preparation of the charter—the legal adviser, the banking expert, the chairman of the committee of officials which drafted the original charter and who later advised the committee of officials preparing the final draft—were all drawn from countries which could be depended upon to underwrite US interests and the US viewpoint: two of them from the Philippines and the other from Costa-Rica, from the staff of the Inter-American Development Bank. The ECAFE's own staff, weak and with little experience of this kind of work, provided mainly the secretarial services.

Thirdly, and most important, the US is now settling down to a secure position from which to manipulate Asian economic policies, thanks to the gradual emergence on the Pacific sea-board of what may be described as an American Asia. In Africa there is French Africa consisting of all the African countries which are still tied to France's apron-strings, economically and poli-

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tically, and which allow themselves to be "used" by France in the UN, the African Economic Commission and elsewhere to subserve France's foreign policy interests and, when necessary, to subvert genuinely African interests. An American Asia in a similar sense is emerging gradually. Paralleling Sukarno's leftist axis of North Korea, Cambodia, North Vietnam and China, there is the growing right-wing axis of South Korea, Formosa, the Philippines, Thailand and South Viet Nam and, in many matters, Japan, and gradually Malaysia. The smaller of these countries need the crutch of US support to stand up and all of them are anxious not to take any collectively Asian line if that clashes with their short-term national interest. Moreover, with the British licking their own balance of payments wounds and de Gaulle trying to bully the US in Asia through political and other alliances with China rather than by supporting the smaller Asian countries with economic aid, the string of small countries on the Pacific sea-board is left with no choice but to be nose-led by the US.

Finally, the bigger Asian countries like India, Indonesia and Pakistan are preoccupied with internal problems and are unable to offer any leadership to Asia even in terms of ideas, let alone of money, leaving the smaller States to remain happy in a state of voluntary serfdom to the US. The real powers in Asia seem to have settled down into a wasteful negative 'equilibrium' in which the conflicts and suspicions among themselves hold them all down and the little powers are joining hands to make things safe for Western, particularly US, policy interests in Asia. To be sure, an American-managed Asian Bank will produce some useful results in terms of Asian economic growth, but these will be results conceived and supported in the interests of US foreign policy in Asia which will not be identical with the goals and objectives of an Asian long-term economic policy.

The notorious prophecy about Asians fighting Asians in a future war may not have been quite realised yet, but in the economic sphere at any rate the dream of Western policy-makers of creating enough divisions and diversions within Asia so that conflicts of national interests will create a negative balance, seems to be in the process of realisation as is reflected in the structure of the emerging Asian Bank. The western objective today is the same as that which led the British diligently and intelligently to work for the partition of India and to set up Malaysia as a

separate entity to frustrate the larger and the genuinely Asian Maphilindo idea. The break-up of the federation of Indo-China into separate small countries had never pained the Western powers, for these countries would be too small to be really independent and too insecure and suspicious of each other to ever offer a serious problem jointly. In the separateness and insecurity of small nation-States lies the opportunity for the furtherance of Western interests and the Asian Bank is just one more of the kind of projects that are bound to emerge from this hopeless situation which the West has successfully engineered in Asia and which the Asians unfortunately have helped and are still helping to create, being unable to appreciate the larger perspective of a collective Asian interest.

Years ago when the Colombo Plan was produced, British politicians started talking about *South* and *South-East* Asia as though these were two separate Asias. This dream of splitting the continent is gradually being translated into reality by the US. In South Asia Pakistan and India are cancelling each other out in a mutual conflict which it is ap-

parently in the Western interest to foment (and in which some of the Moslem countries of the Middle-East are getting involved as the authors of this divisive policy had hoped they would). In South-East Asia the small countries of the Pacific sea-board are rushing like chicken under America's wing for fear of China, all too ready to accept American economic and military aid projects conceived essentially in American foreign policy interests, but which are being publicised as Asian projects. It is not just an accident that the Economic Commission for Asia holds the majority of its seminars and meetings in Manila, Bangkok or Tokyo or that a nine-nation economic conference of South-East Asian countries, mostly of American Asia, is to be held shortly in Tokyo to weld together these countries' development policies under joint American and Japanese guidance, but with the title of an Asian development plan. Neo-colonialism is scoring many notable successes under the aegis of the UN Economic Commission for Asia and the Far East and the official delegations of the Government of India are, wittingly or unwittingly, lending a helping hand.

Fumbling with Decontrol

DECONTROL is in the air but a consistent and well-defined policy for this purpose has yet to emerge. Free market pricing and distribution have been promised to private fertiliser units licensed upto March 1967 for a period of seven years from the commencement of production. The safeguard here is that the public sector's share of production will be two-thirds till the end of the Fourth Plan and the Government has retained the option to acquire upto 30 per cent of each unit's output at a negotiated price.

In the case of cement, on the other hand, the price has been fixed by voluntary agreement at Rs 16 per tonne higher than the present level and it will remain uniform all over the country; the Government will acquire 50 per cent of the output at a discount of Rs 6 per tonne. The additional amount earned from the increase in price will be put aside in a separate account distinct from the development rebate reserve, which will be utilised exclusively for financing expansion. The distribution set-up will be entirely in the hands of a joint organisation of cement producers, who have agreed upon a code of conduct among themselves to give a fair deal to all the consumers. This experiment will be reviewed at the end of 1966.

In both cases, the policy revision is directed at providing greater incentives for investment. The pace in fertilisers has been forced as much by external pressures as by the urgent need for agricultural inputs. In cement, production at capacity level and the extreme shortage, estimated currently at 3 mn tonnes, caused by the inability of cement producers to find resources for expansion, have induced the government to put decontrol on trial but with a safeguard for compulsory deliveries to government. Rationing of private demand has been left to the market mechanism.

The new policy for fertilisers certainly marks a change from that pursued for the last few years, mainly in that free market pricing and distribution have been conceded. Letting private capital and management into this industry is not inconsistent with the Industrial Policy Statement of 1956, which placed fertilisers in Schedule B, i.e., industries in which the State would increasingly establish new undertakings but private enterprise would also have the opportunity to develop "either on its own or with state participation". The projected demand for fertilisers has now so far exceeded earlier estimates and marketing (as distinct from mere distribution) has assumed

such proportion that it is no longer possible or feasible to maintain the industry as a public monopoly either in production or distribution. Decontrol of steel and cement, which also are key, and generally scarce, development commodities, has in any event taken away what little force there was in the arguments for retaining the present system of controlled distribution of fertilisers.

The terms now being offered to prospective investors in fertilisers are, it should be emphasised, basically different from what Bechtel demanded. For one thing, Bechtel was not itself an investor but proposed to bring in oil companies as investors and these companies insisted on tying up the deal with supplies of crude and, if possible, setting up of refining capacity. For another, the Bechtel offer was a multi-plant package deal, involving a 50:50 share in capital and almost indefinite control over management and procurement of equipment under the new policy. Fertiliser projects would now be treated "on merits" at par with other high priority projects for licensing and

approval of collaborations. One hopes that the possibilities of domestic procurement of equipment and setting of Indian specifications for designs would be fully exploited in spite of opening the doors to foreign investors.

The position as regards cement is on a different footing. Its price was due for an upward revision on account of cost escalation but the opportunity has been taken to wipe the slate clear, for the time being, of inadequate formulas and cumbersome distribution controls. Returns in cement were almost consistently poor as compared with other industries till 1961-62, but since then they have practically equalled the average if not done slightly better. In relation to the general average, dividends have been lower but even then they have absorbed a much larger proportion of the profits after tax, leaving very little for retention. Consequently, it has been difficult for cement units to finance their expansion from internal resources or to raise external funds. A more remunerative price and voluntarily regulated distribution, together with the substantial

tax concessions given over the last two years, should enable the industry to expand rapidly, especially since the foreign exchange component for plant and machinery has been greatly reduced. Just now machinery suppliers are starved for orders.

The acceptance of a code of conduct by producers, is, however, no guarantee against anti-social behaviour which is, to a large extent, inevitable under scarcity conditions and a uniform regulated price. While the black market premium on cement has declined over the last few days, it is unlikely to disappear altogether till supply catches up with demand. Till then, if the market mechanism is to be given a serious trial, some premium would have to be tolerated to the extent of improvement in the distribution arrangements as compared with those presently enforced. The degree of freedom which is being permitted to cement producers is much less as compared with that allowed to steel and fertiliser producers. The risk of profiteering by sections of industry and trade is very real but it may be unavoidable.

Weekly Notes

Yes, There Is a Santa Claus!

WITHOUT the slightest official indication from the Indian Food Minister or from the US President or Secretary of Agriculture or even from an anonymous "official spokesman", Indian or American, the happy tidings have been triumphantly splashed in the Indian press that the United States has offered us 15 million tonnes of grain in 1966, or actually 5 million tonnes more than what we had asked for! This is not the doing of this or that Indian correspondent in Washington trying to get a lift out of the State Department. Such efforts are frequent enough, but this time practically all papers have carried identical reports and the impression is unavoidable that the common inspiration has come from the US Administration itself, albeit unofficially. Why this rush to impress the Indian public with US magnanimity when until now the Administration had given the appearance of following a firm policy of not loosening PL 480 purse-strings until it was satisfied with India's plans for agricultural development? The long-term agreement on PL 480, incidentally, is yet to come; according to reports it

will be signed when the Prime Minister goes to the US in February. But apparently the impression of American munificence had to be created immediately.

It may be that the agricultural development plan submitted by Subramaniam to the US Secretary of Agriculture a few weeks ago has impressed the Administration enough to remove its reservations about India's prospects of achieving self-sufficiency in food. What Subramaniam's plan contains has not been disclosed to the public in India; what has been is that there will be a sharp increase in the financial outlay on agriculture which, judging by past experience, is certainly no guarantee that output will go up correspondingly. That apart, it is not known in which respects precisely the Administration had found India's agricultural planning so far deficient and to what extent Subramaniam's plan has met these objections.

Some obsequies have been made. The most obvious is the new fertiliser policy announced last Friday under which all fertiliser units, including those to be licensed in future, will have full freedom of pricing, sale and distribution for seven years from the

start of commercial production. This is intended to make the field attractive to private investors, particularly foreign collaborators. As Asoka Mehta disclosed at the annual general meeting of the Fertiliser Association of India, these concessions are expected to result in a "substantial" increase in the share of the private sector in fertiliser production in the coming years. It is not known whether the Bechtel deal which was rejected six months ago because the Bechtel Corporation had insisted on majority participation and had wanted to be left free to price its output as it thought fit, will now be revived, but it is clear that the Government's views of what terms and conditions can be offered to foreign investors in fertilisers consistent with the national interest have undergone a sea change since the Bechtel offer was refused. The Food Minister himself is now approaching American fertiliser companies: according to reports, along with his talks with the Administration on food imports he is "scheduled to meet American business interests in the field of fertilisers".

However, a climb-down on fertiliser policy alone has not wrought the miracle of 15 million tonnes of PL 480.

grains. The Administration has other, and more important, reasons. There is the question of blocked US economic aid to India which will come up for discussion when Shastri meets Johnson in February. It has been quite clear that US ire over the Indo-Pak conflict is only one of the factors behind the suspension of aid — in fact it may be more an excuse than a cause. Johnson is using the aid weapon to force Pakistan to reverse her policies towards China. In India's case the same weapon is being used to effect a change of course in economic policies. The next few months will see a clear formulation of the essential prerequisites in terms of policy changes which alone, in the Administration's view, will render India deserving of US assistance. In a general way these demands will be pressed on Shastri in Washington. What better preparation for their eventual acceptance than to begin by softening the Government of India by baling it out of the food crisis and the Indian public by leaving it breathless with gratitude at American munificence which actually exceeds even our own requests.

Rhodesia: Oil Embargo, at Last

Our London Correspondent writes:

WILL Wilson's Rhodesian policy pay off? The Prime Minister's capacity for cliff-hanging survival has continued to amaze most political commentators. Even with his parliamentary majority reduced last week to only one in the parliamentary division on the Territorial Army and the many sins of omission and commission perpetrated by the Government, Wilson continues to ride high in the current opinion polls, and even the most optimistic Conservatives now have to admit that, if necessary, Wilson could remain in office till October of next year and still be re-elected with a majority.

However, with regard to the action he has taken in Rhodesia, it remains open to doubt whether the gamble will pay off. Wilson's Rhodesian policy can certainly give little cause for comfort to the newly independent African countries, and it is perhaps ironic that a Labour Prime Minister should see the day when there would be a walkout of African representatives at the United Nations when he got up to speak. The Africans cannot help feeling that while the British Government is prepared to take tough action in Aden, it is not prepared to use force against white settler rebels who are determined to keep the Africans from possession of their own land. With the unpopular

immigration control act passed by the Government which has given in to pressure from racist groups in the United Kingdom, Wilson's words of warning about the dangers of racial conflict sound a little hollow. Moreover, Wilson has made it perfectly clear that his solution to the Rhodesian problem would certainly not mean majority African rule. He has gone out of his way to explain that he does not believe that there is, in Rhodesia, "an African nationalist movement capable of the responsibility of self-Government".

Very briefly, Wilson's attitude to the Rhodesian crisis can be summarized as follows on the basis of the statement he made in Parliament last week. The use of force against Rhodesia is entirely ruled out. Sanctions must be given time to work, and they must be of such a nature that the Rhodesians will realise that the continuance of sanctions will be much more serious for them than the decision to reverse the Unilateral Declaration of Independence. He also made it clear that there is no intention of taking punitive action once UDI is ended and that the alternative to UDI is certainly not immediate African majority rule. The Rhodesians are free at any time to tell the Governor that they are prepared to hand control back to the constitutional authority, in this case the Governor. Once this is done, there must be some form of constitutional conference and new elections. The problem of restoring constitutional Government to Rhodesia is essentially one for Britain alone to tackle.

The announcement of the imposition of oil embargoes now means that the Rhodesian crisis has entered a new stage. This is the final step that Wilson can take, short of using force, to bring the rebel Smith Government to heel. Oil sanctions take force under two orders which (1) prohibit the import of oil and oil products into Rhodesia, which is regarded as a British territory for which the Parliament at Westminster is the sovereign legislature, and (2) prohibit British nationals from carrying or supplying oil and oil products for Rhodesian use. It is important to realise that the oil embargo is very different in quality from the earlier sanctions imposed by the British Government. The object of these was to try and make conditions progressively difficult in Rhodesia so that the more moderate elements in the country could assert themselves against the Smith regime. Certainly, the action taken so far has not had this effect, and, therefore, the tougher oil embargo has been imposed with the object of bringing the

THE ECONOMIC WEEKLY

Rhodesian economy to a standstill and thus forcing Smith to capitulate.

It is interesting to note that even quite recently Wilson had told the House of Commons that an oil embargo would not have his support unless it was effective and general. Wilson's recent visit to America and his discussions with President Johnson, and the latter's support of oil embargoes, has apparently given Wilson enough confidence to go ahead with this controversial measure. The agreement with America is part of the Wilson line of "inter-dependence" with the United States which, as a result of the recent discussions with the President, will embrace not only British support of the American line in Vietnam, but will involve a sharing of Britain's East of Suez commitments, not only with the Americans, but with Australia and New Zealand as well, and a closer integration with NATO.

The 'Ifs' and 'Buts'

OF course, the vital question is whether the oil embargoes will work or not. If they fail, there will be no alternative to force, and the matter might well be taken out of the hands of Britain.

Whether the oil embargo is really effective or not depends not so much on Britain, supported by the United States, but on the attitude of South Africa and Portugal. Since the pipeline from Beira to Umtali goes through Portuguese territory, unless the Portuguese Government co-operates, it will be difficult to ensure that supplies do not reach Rhodesia through this outlet, even though the pipeline itself is owned by the Lonhro Company which is part British owned. Again, South Africa is in a position to nullify the embargo if it chooses to supply the rebel Government with oil. So far there is no indication of the line which Verwoerd intends to take. On present showing, it looks as if the South African Government will stick to the line of legality it has adopted so far.

At the present moment, there is no talk at all of a naval blockade, which is the only sure way of making the sanctions effective. Immediate action has, however, been taken to stop the British tanker "Staberg", a Norwegian vessel on hire to Shell, which was on its way to Beira. This has now been diverted, but the tanker about which questions were asked in the House of Commons earlier, the "British Security", has already reached Beira for unloading. Rhodesia consumes some 280,000 tons of oil a year, and by diverting the

THE ECONOMIC WEEKLY

"Staberg", some 20,000 tons will now be denied to the Rhodesians. How active the American embargo will be remains to be seen. The American Government is only seeking the co-operation of American oil companies in enforcing the Rhodesian oil embargo.

On the home front, this new move in the Rhodesian crisis could be a heavy strain on the bipartisan policy which is at present being followed in the country with regard to Rhodesia. Not only will this bring sharp reactions from the "kith and kin" element among Conservative members of the House of Commons, but it will also impose severe strains on Heath as leader of the Opposition to keep his party together. It seems that after his discussions with the Nigerian Prime Minister, Alec Douglas-Home is convinced that the African Commonwealth will be seriously affected if Britain does not go ahead with these embargoes. There are certainly elements in the Conservative Party that would be unwilling to see the Commonwealth disintegrate because firm action was not taken against the rebel Government. The Liberals, who have for some time been urging the Government to take stronger action, may support the Government.

On the international front, of course, the main problem is that of Zambia, and the need to see that all possible assistance is given to this country so that it can stand up to the stern measures of retaliation which the Smith Government has already taken in the form of imposing punitive royalties on the export of coal to Zambia which will increase the pithead price by more than five times. Apart from Kariba power, Wankie coal is one of the few Rhodesian exports which Zambia cannot easily secure from other sources. While Britain has now organised an airlift to deliver oil to Zambia, the quantities that can be carried are not really sufficient on a long-term basis, but can at least keep the economy going for some time. However, it is quite out of the question to organise a large-scale airlift of coal. If, therefore, despite the oil sanctions Smith and his party remain in power, Zambia's dilemma will not be solved, and there will be no alternative to the use of force which, through having been postponed, may in the end turn out to be more long-drawn than might have been necessary.

Corporate Performance Improves

CORPORATE performance has improved for the second consecutive year. The Reserve Bank analysis

of finances of 1,333 public companies for 1963-64 and *The Economic Times* quick study of 51 industrial giants in 1964-65 clearly indicate that public companies have done appreciably better than before. In spite of foreign exchange difficulties and rising material and wage costs, utilisation of capacity has gone up and fixed assets and profitability have grown faster than in the first two years of the Third Plan. Tax liability has declined, partly, because of the higher depreciation permitted and, partly because of rebates for selected industries. A larger proportion of the disposable profits has been ploughed back; the decision appears voluntary because the higher appropriation is mainly carried to general, not development rebate, reserve.

In 1963-64, for example, the increase in depreciation provision was twice as large as in the previous year and more than two-thirds of the increase in net profits was retained in business. This trend appears to have been maintained in 1964-65 by the 51 giants at any rate: their pre-tax profits rose by 14 per cent and after tax profits by 21 per cent; 49 out of the 51 recorded an increase in profits after tax; the major part of the increase in profits was retained in business, since dividends increased by less than 4 per cent.

Interest continues to absorb an increasing proportion of gross profits (i.e., profits after depreciation but before interest, managing agents' remuneration and tax); it rose from about 14 per cent in 1960-61 to more than 16 per cent in 1963-64. As a proportion of average borrowings in the year, interest cost increased from 5.7 per cent in 1961-62 to 6.3 per cent in 1963-64, during which year there was a marked shift away from banks towards 'other mortgages' and 'others', i.e., sources other than banks and financial institutions. This trend of

Greetings

We wish all our Readers, Advertisers and Well Wishers a Merry Christmas and a Happy New Year and extend to them the Greetings of the Season.

As the offices of *The Economic Weekly* will be closed for the New Year there will be no issue on January 1, 1966.

BUSINESS MANAGER

higher interest costs and larger borrowings from 'other' sources must have been further reinforced in 1964-65. Capital locked up in inventories and receivables recorded a noticeable decline in 1963-64; simultaneously, there was a slight shrinkage in the importance of trade dues as a source of finance.

In brief, therefore, the last two years for which data are available have witnessed, apart from better sales and profitability, a considerable spurt in gross retention (both depreciation and undistributed profits), a marginal increase in distributed profits, more intensive tapping of sources of finance other than banks and financial institutions, and a significant reduction in inventories and receivables (in 1963-64 at any rate). These are welcome developments, for which fiscal and monetary policies can claim some credit.

If the statistical position is so impressive, why is the stock exchange community not impressed? Political and foreign exchange uncertainties, financial stringency and the steep rise in the structure of interest rates which requires a re-adjustment of equity values and which diverts investment from equities to various forms of deposits, are the main factors discouraging the investing fraternity. Raids by income-tax and other authorities have also caused wide-spread (but well deserved) nervousness. The practical absence of bonus issues and nominal increase in dividend appropriations are other discouraging factors. All these do tend to restrict growth of fresh investment at the same time as fiscal and monetary discipline improves the intrinsic financial position of the private sector. A fresh stimulus to new investment will depend on when the over-all position of physical and financial resources clears up. That in turn hinges upon expectations of achievement in self-reliance and the possibilities of external assistance in the Fourth Plan. In the meanwhile, one can derive some comfort from the pattern of corporate developments in 1963-64 and 1964-65.

If Pakistan, Why Not China?

WHAT did the Prime Minister say at his press conference in Rangoon? According to a report from Reuter published in the *Times of India* of December 23:

"The Indian Prime Minister, Mr Shastri, said here today that there was no third party involved in the

proposal for his meeting with the Chinese Premier, Mr Chou En-lai, for talks on the Sino-Indian conflict. The conference would be similar to his proposed Tashkent meeting with President Ayub Khan of Pakistan."

However, that is not what the Prime Minister said, apparently. A PTI report published in the next day's *Times* reads:

"A spokesman of the Prime Minister's secretariat said here today that a foreign news agency reporting Mr Lal Bahadur Shastri's press conference at Rangoon had attributed a statement to him about his meeting with Mr Chou En-lai which he never made. The spokesman said that a correspondent had asked Mr Shastri if there were any plans for a meeting between him and Mr Chou En-lai on the line of his meeting with President Ayub at Tashkent. The Prime Minister had replied that so far as the Tashkent meeting was concerned, the Soviet Prime Minister had taken the initiative. No proposal for a meeting between him and Mr Chou En-lai had been made. Of course, the Colombo proposals were there which India had accepted and China had declined. The position had not changed since then."

Did the Prime Minister mean that India sticks to her by now somewhat time-worn position that there can be no talks unless China accepts the Colombo proposals or that no proposal, like the Soviet Union's for the Tashkent talks, has been made for an India-China meeting? If Pakistan, why not China?

LETTER TO EDITOR

Air-India's Indian Summer

AIR-INDIA has prided itself as one of the few consistently profitable airlines of the world. For the last two years it has paid interest on the government's loan capital in spite of the moratorium granted up to October 1966. Doubts can, however, be entertained as to how long after 1966 it will be able to show comparable satisfactory results.

In a boom year like 1964 the Air-India has been losing its share of the international traffic. Against an increase in international traffic of 17 per cent in passenger kilometres, 20 per cent in freight tonne kilometres and 6 per cent in mail tonne kilometres, Air-India's traffic increased by 16, 17 and 4 per cent respectively. Its share has thus

slipped in all three fields. Its operating profit fell from Rs 384 lakh in 1963-64 to Rs 362 lakh in 1964-65. Staff salaries have recently been increased after much acrid wrangling; and the recent war with Pakistan must have drastically reduced load factors and increased distances. So a fall in profits is on the cards this year.

There have been two main factors behind Air-India's profits—its favourable position in the traffic around India, which owes much to the pool agreement with the BOAC and Qantas, and the cheapness of its staff. The pool agreement caused a once-fall increase in the profit level, but cannot raise profits progressively. The staff is cheap but it has also become discontented. The recent handling of wage disputes by Air-India has been very ham-handed. It has always given too little too late, and often allowed recourse to arbitration. This is not the best way of maintaining the morale of its staff.

The morale of pilots has also been adversely affected by over-work. Owing to the shortage of pilots there are delays in sanctioning the leave to which pilots are entitled. Air-India often complains about the lackadaisical and obstructive ways of pilots, but it has not shown much care for them. This is especially harmful since pilots are its most valuable asset. Services to London

and Tokyo were curtailed early this year for lack of pilots, which also rendered planes idle and slowed down the expansion of the fleet. Air-India's dependence on the IAF and the IAC for pilots is bad enough and will prove worse in the coming days of pilot scarcity; its neglect of pilots' morale might lame it.

The most serious portent is that Air-India is slipping back on the Atlantic run. This is the most competitive route in the world, the testing ground of airlines. The number of passengers on it increased 29 per cent in 1964-65. Air-India's load factor on this route is lower than that of other airlines. It manages all right in summer when the demand for flights is high, but it does very badly in the off-season when competition is the keenest. And this competition is not in fares; nor is it in advertising on which Air-India so prides itself. It is competition in service, and this is where Air-India is failing. It is not enough to oppose TWA's in-flight cinema in IATA; Air-India must think of an equally good gimmick. Air-India's most serious handicaps are lack of imagination and lack of skill at handling passengers and staff.

AIR TRAVELLER

Bombay
December 22.

LETTER FROM AMERICA

Decline of the Labour Movement

THE American Federation of Labour-Congress of Industrial Organisations (AFL-CIO), America's labour union federation, has just celebrated its tenth anniversary as a united movement. The anniversary convention, which has received national attention, is indicative of the prospects and challenges which the 13,000,000-member federation faces in America's affluent society. It should be noted that the AFL-CIO has the allegiance of virtually all of America's organised workers (except those in unions expelled from the organisation for corruption, such as the powerful teamsters, or for communist influence, such as the Longshoremen's Union) and that unlike the Indian trade union movement, political factionalism has not been a major factor in America.

The anniversary convention attempted to deal with a number of serious problems which face the movement. Despite the fact that the AFL-CIO has huge strike funds and even investments in important sectors of the economy, the movement has all but stagnated in recent years. Its membership has remained static, while the labour force as a whole has increased. Thus, the proportion of unionised workers in the United States has actually decreased in recent years. The AFL-CIO increasingly represents the labour "aristocracy" — workers in skilled trades such as metal work, plumbing, building, etc., — who earn very high wages, sometimes as high as Rs 25 per hour. Poorly paid workers, particularly Negroes and Puerto Ricans, have been all but neglected by the union movement.

The AFL-CIO leadership has been a key element in the stagnation of the movement. The president of the federation, who was recently re-elected for another five-year term, George Meany, is a former plumber from one of the most conservative unions in the entire federation. He has succeeded in exercising a strong influence on the federation during his ten year reign, and has insured that conservative policies have been perpetuated. More progressive elements, under the leadership of the former CIO leader and president of the automobile workers union, Walter Reuther, have not been notably successful in pressing for reforms within the federation.

While the American labour force has undergone substantial changes in recent years, with the proportion of

industrial workers decreasing and the proportion of "white collar" and service workers increasing dramatically. Despite this shift, the union movement has made almost no effort to recruit members from these new areas. Furthermore, the American South has strongly resisted unionisation, being the most traditional and conservative section of the nation. As a result, workers in the South are much more poorly paid than in other parts of the country. The unions, with the notable exception of the teamsters, have not pressed organizational drives in the South, thereby abandoning an entire section of the nation in need of union activity.

One of the most important problems for the labour movement is its relationship to minority groups. While Negroes and other minority groups are now an important segment of the labour force, the unions have been slow to organise them. The more conservative unions, mostly the old "craft" unions (painters, bricklayers, carpenters, etc) actually discriminate against Negroes. Groups like CORE and the National Association for the Advancement of Coloured People (NAACP) have actually held demonstrations against these unions, bringing much embarrassment to the union movement as a whole. The more progressive "industrial" unions (automobile, textiles, steel, coal, etc) have strongly encouraged the civil rights movement and have encouraged Negro membership. The anniversary convention went on record in favour of civil rights and condemned discrimination in unions and in other aspects of American life, but it significantly did not do anything to implement this resolution. As one union leader stated, a resolution without enforcement is really no resolution at all.

American unions have been marked by pragmatism, and have not generally involved themselves much in politics. While the unions have consistently supported the liberal wing of the Democratic Party, and have often provided vital support for the Democrats, they have not played the radical role which unions have in some nations. The American labour movement has become an increasingly conservative force in American politics and both labour and management have consistently played down notions of "class struggle". The debate on foreign policy at the recent convention

is an indication of this fact. The AFL-CIO officially supported the Johnson Administration's Vietnam policies, and effectively cut off debate on the floor of the convention on this issue to avoid "embarrassing" President Johnson. The union movement has generally been extremely "anti-communist" to the point of paranoia, and has often played a reactionary role in the international labour movement.

A short historical note will help place these developments in perspective. The present AFL-CIO, as the name indicates, came from two separate union federations which formally united ten years ago. The AFL, the older of the two federations, consisted of the traditional "craft" unions, the labour aristocracy. The CIO, on the other hand, was formed during the Depression of the 1930s, and consisted of the militant industrial unions with mass memberships, such as the steel, automobile, textiles, and other unions. Many of these unions had fairly radical leaders. With amalgamation, the AFL managed to achieve dominance over the united federation, and its policies prevailed on the national level, while on the local level the CIO union continued to pursue more militant policies. The conservative influence of the AFL and the Meany leadership has, during the past decade, succeeded in influencing the entire movement.

Thus, while the AFL-CIO celebrates its tenth anniversary, the American trade union movement is faced with some of its most serious problems. Its national influence has declined although it is still a powerful force in American social and political life. It has failed, for the most part, to deal constructively with the quiet "revolution" in American technology and the shift in the labour force. It has, generally, not met the needs of Negro workers. Its foreign policy has become tied to that of the government despite much talk of "free" and "independent" trade union movements. The future prospects for the movement do not look particularly bright, particularly in the light of the fact that recent leadership changes have not substantially altered the complexion of the all important Executive Board. All is not lost, however, and there is some hope that the American trade union movement will again assume its role as a primary spokesman for progressive social policy in the United States.

—Philip G Altbach

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Plan Collapse in Andhra

AT an all-India level and in aggregate terms Plan cuts and Plan pause appear somewhat meaningless, especially as it is all put out in aggregate financial terms. The actual disastrous consequences of it all become more apparent when the consequences are felt in the States. Andhra's Plan collapse is a good example.

The Chief Minister's statement on the subject reveals that the first tentative proposals for the outlay in 1966-67 would have been Rs 139 crores plus Rs 19 crores for Nagarjunasagar and Rs 7 crores for Srisailem or a total of Rs 165 crores. Alternately, on the assumption of a 15 per cent outlay for the first year of the Fourth Plan the absolute minimum which the State Government hoped to spend in 1966-67 was Rs 131 crores. After lengthy consultations and with due consideration for the "needs of the emergency" the outlay now accepted by the State Government and legislature is only Rs 79 crores. Even taking the lower figure for purposes of calculation, Andhra's Fourth Plan starts off with a straight 40 per cent cut. The higher figure would give us a 50 per cent slash. The official speech-makers of Brahmananda Reddy have tried their best to disguise this enormous diminution by comparing the 1966-67 outlay with that of the current year and making out that there has been "only" a 20 per cent cut—which is, of course, bad enough.

In preparing the Fourth Plan high hopes had been raised that, unlike the previous three Plans, this time there would be an orientation towards industry. It had been estimated that in the very first year itself something like Rs 16 crores would have been spent on industry and mining. This has been reduced to Rs 2.9 crores or a 78 per cent cut. What is even worse is that most of this is to go in one on another form of subsidy to the private sector, i.e., underwriting of issues, loans and development of Industrial Areas. It never seems to enter the heads of the Ministers or their bureaucratic advisers that the public sector is not meant for the Centre alone. The State Government could well afford to start some industrial enterprises on its own. But in Andhra the Government's penchant is all for denationalising on the one hand and pleading for Central public sector projects on the other.

A small but interesting fact is that

as long ago as December 1960 the Planning Commission had promised to allocate Rs 7.66 crores for Minor Irrigation and Soil Conservation Programmes, provided the State Government spend Rs 21 crores or thereabouts. The State Government did its duty but each time it asked for the Rs 7.66 crores the Planning Commission maintained an embarrassed silence. It appears that the Commission had been bold enough to make this promise without first asking the almighty Finance Ministry and so it is now being told by that redoubtable body to find that money itself! In the meantime the poor Andhra Government is in a fix as it knows that TTK does not take at all kindly to any of the Andhra bigwigs and is quite capable of seizing this opportunity to give vent to his splenetic prejudices. The Chief Minister can only, somewhat pathetically, state that "I hope the Government of India will honour a commitment that had been given nearly five years ago and on which we have already acted all these years."

There is, however, a great deal of misinformed criticism of Andhra's aspirations. Rather lofty expressions of disgust are voiced at the reported offer of the Chief Minister to increase considerably food production in the State provided the Centre takes the responsibility

for the completion of the Nagarjunasagar project and accepts the finding of the Anglo-US consortium about the location of the fifth steel plant at Vishakapatnam. This is termed blackmail. And, why not? Why should the leaders of Andhra ask their people to do their duty by India if the rest of India shows not the slightest sign of doing anything for Andhra? The real tragedy in India is that the Andhra politicians—and here the entire is State united—alone should have to plead for the rapid completion of Nagarjunasagar and the Vishakapatnam steel plant. The real parochialism and complete misreading of the composite nature of the Indian personality is demonstrated in this fact and not in Brahmananda Reddy's pressure. Are we to take it that correction of regional imbalance is now to be treated in the same cavalier fashion as the so-called "Socialism" of the Congress leaders? If this is so, then an explosive situation will be created for which the responsibility will have to be borne by the Central leadership. Andhra has to orientate towards industry and quickly too. This is quite impossible if Nagarjunasagar hangs like a millstone round the neck of the State and if its legitimate hopes about the Vishakapatnam steel plant are dashed. It is quite fantastic to argue that all steel plants have to be in the coal belt.

Andhra's Fourth Plan has got off to an incredibly unpromising start. One can only hope that the Centre will not unduly aggravate the situation.

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BOOK REVIEW

The Newars of Nepal

N G Chapekar

The Newars by Gopal Singh Nepali;

United Asia Publications, Bombay, 1965; pp 476, Rs 30.

THE author of this book, Gopal Singh Nepali, belongs to Nepal, of whose population the Newars form an important section. The facts as stated by him concerning the Newars can be presumed to be unchallengeable. A foreigner is likely to slip into believing a bit of a composite fact as an independent fact. Having the advantage of intimate knowledge of the people, Nepali scrupulously collects facts, analyses them skilfully and interprets them intelligently. The impression one gains on reading this book is that the author has spared no pains in tapping all the available sources, including the results of personal investigation.

In assessing the value of such ethno-sociological studies it must be remembered that there is a mixture of blood as well as of culture in most of our communities. The aggressive nature of man has brought about, though unconsciously, the integration of the multiseptate people of India. The Nayars, a martial race of the extreme south-west, the Kerala of today, march conquering to Nepal, in the extreme north, and settle there. The local people, under subjugation, are tempted to imitate the conquerors by adopting their manners and customs, adding to or modifying their native ones. The conquerors are also anxious to mollify the anguish of those who are hurt by the loss of their status and privileges. Thus there is a two-way traffic in culture and in traditional thinking, both religious and secular. (The English rulers alone were an exception to this as they wanted to impress upon Indians their superiority of culture, religion and learning.)

Prevalence of Polyandry

Another important social effect of conquests from far off lands is that there is always a paucity of women. When people migrate to a distant place, they are mostly men. Polyandry in the mountain regions is, besides, a necessity. It is a check on proliferation. Population must not outgrow food production as the chances of its growth are nil. Gopal Singh Nepali has discovered traces of polyandry amongst the Newars. The wife calls her husband's home her *husbands'* home, suggesting prevalence of polyandry in the past. The former Teheri

state law allowed the wife of the younger brother to be wife of the elder brother as well.

It is a peculiar custom amongst the Newars that a girl is first married to the immortal God Narayana as her principal marriage. It is an ingenious idea the like of which will probably not be found anywhere else. The Newar woman in consequence never becomes a widow. Human wedding loses its sanctity, becoming an act of convenience. Divorce is easy and common. The woman has greater freedom. She is as free as she was before the introduction of the institution of marriage.

The Original Inhabitants?

Are Newars the original inhabitants of India, possibly unconnected with the Vedic Aryas? I am not sure if girls' marriage with the God Narayana has any reference to the Vedic story of a woman being married to several gods such as Savita, Agni, etc. Nor can I say whether the custom was derived from the Veda or whether the Veda echoes the prevailing custom.

The author has referred to Newar women changing their spouse from time to time. Instances of this practice are found amongst forest tribes such as Katkaris and Thakurs. In such situations it is not surprising if aberrant sexual unions go without punitive consequences. Against this somewhat licentious background, it is interesting to find the high reverence in which a girl before puberty is held. She is raised to the status of a Goddess. She is worshipped; even the king pays homage to her. In this context, the temple of Kanyakumari in the South is a further clue that the Newars came from the South. In my book "Himalayanta", I have hinted at the possibility of migration of the Newars from the South, judging by their calculation of time. Their month begins from the new moon day and ends on the last day of the dark fortnight. Quite the reverse is the practice in Upper India, where the month begins after the full moon. The use of betelnut in far off Nepal further supports this view.

Nepali has remarked that the religious beliefs and practices of the Newar are dominated by the desire for material gain, suggesting thereby that the Newars have not progressed beyond the primary stage of life. In early times when people knew only

their immediate environs and when natural resources were undeveloped, their pressing concern was the satisfaction of their basic needs. That was their goal. Religion came into being to help them to achieve that goal. Natural elements and imaginary deities whom they feared most were placated for favours. When man was no longer at the mercy of nature, his mind turned elsewhere and the other-world ideology began to dominate his thinking.

Customs are the store-house of history. Ample material can be culled from such customs as boys eloping with girls, occasional *pratiloma* matrimonial unions, the sale of girls and the sharing of the price by all the relatives of her parents, etc. Instances of such customs can be copiously cited from the "Mahabharata". In fact, the "Mahabharata" will be far better appreciated if read in the light of the picture of these mountain people as ably delineated by Nepali.

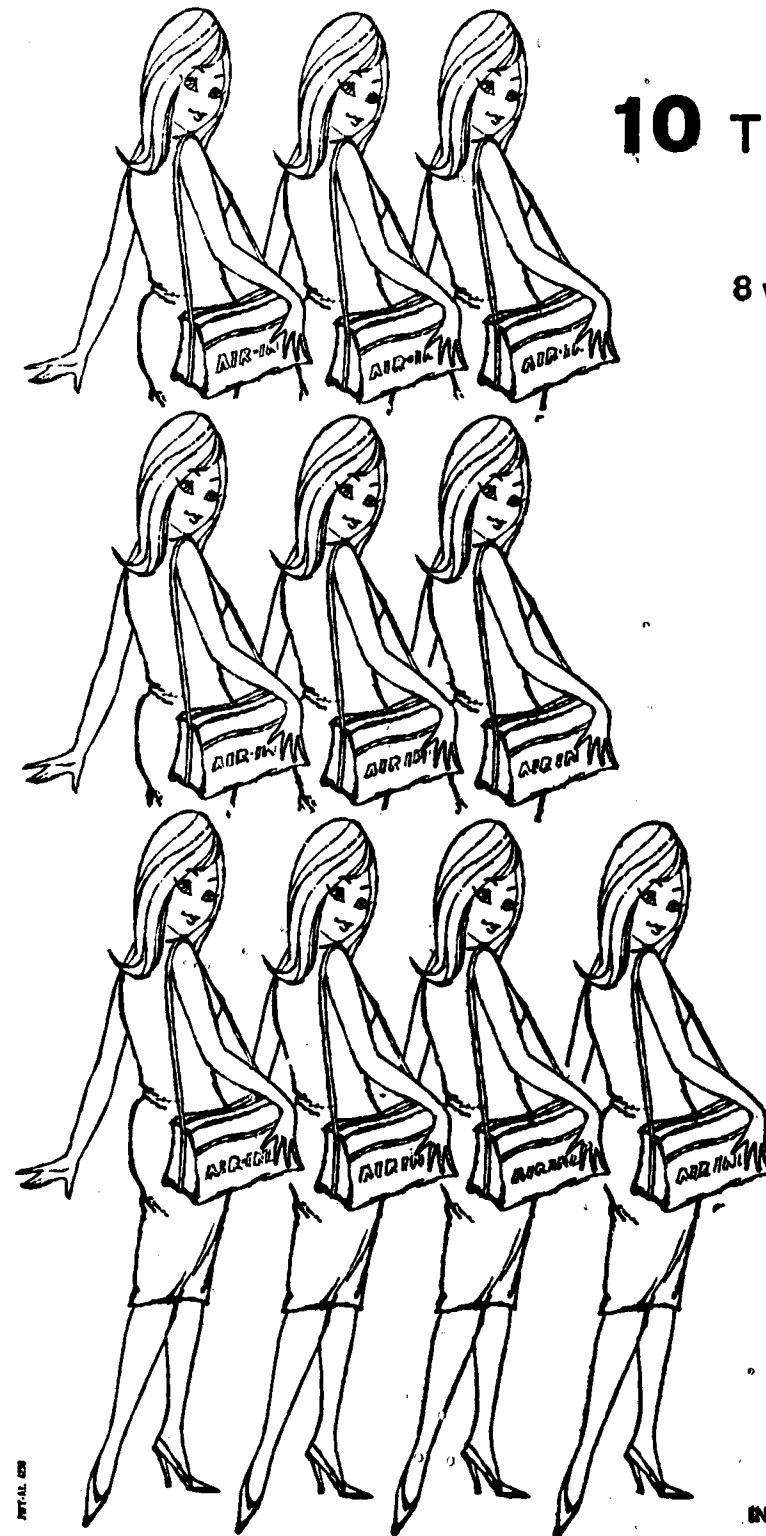
Language Ignored

In my opinion, a chapter on the language of the Newars should have found a place in this book. The language cannot be ignored in an ethno-sociological study of a community. From my scanty knowledge, I have the impression that the Newari language is distinct from Nepali. The latter is the off-spring of Sanskrit, though largely influenced by Gurkha, Hindi, Punjabi and Sindhi. The word *mama* (maternal uncle) is found in many Indian languages including the non-Sanskrit derived Kanarese. Nepali language has that word, but not the Newari. The Newars use the word *pazu* (spelt as *paju* in the glossary). For fire *aga* is the Nepali word whereas the Newars call it *mee*, if I am not wrong. I have noticed that the Katkaris, a forest tribe, use the word *indhana* (a genuine Vedic word) and, what is more striking, they have no other word for fire. The Newars understand by the word *sinha*, not a lion but a horse. When, however, they talk of the sky, they come nearer to Sanskrit. I am told that *akasa* is their word for sky. On the other hand, *surunga* stands for sky in the Nepali language. Maybe it is the corrupt form of *svarga*. Languages and dialects, it is obvious, offer a vast field for research.

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Oskar Lange: The Complete Social Scientist

S Ganguli

Oskar Lange's position in the history of economic thought will remain a unique one.

This is not only because of the vast range of his contributions in economics and other allied subjects, but also because he was not merely an economist. Oskar Lange was a complete social scientist. Though his name is most often associated with a particular model of a socialist economy — competitive socialism where the market mechanism prevails, with a co-operative sector covering the petty commodity producers —, his contribution to the economics of socialism is much broader.

There is one guiding idea in all his writings. It is "the attempt to combine a precise scientific approach to economic study with the needs of social practice, and in particular with the working class movement and socialism" ("Papers in Economics and Socialism" Warsaw, 1962; in Polish).

[My thanks are due to N C Ray, my colleague, and to Prabhat Patnaik and Joseph Peris, our students at the St Stephen's College, Delhi, for helpful comments.]

THE characteristic of a true social scientist are (a) a social purpose (b) a scientific approach and (c) the commitment to put into practice the result of one's enquiry.

Economics is not a neutral science. The purpose of economic enquiry differs between economists. Broadly, the purpose may be either to reveal or to conceal objective reality. There are good grounds for some economists to help to conceal objective reality. History has ample evidence to offer that when the elements of objective economic reality turn out to be such that if revealed, they will be embarrassing to the Establishment, economists, particularly those who are beneficiaries of the system, find it necessary to conceal the reality. Such is the role of the apologists. Whereas the task of the true social scientist is the task of a revolutionary. His task is to indicate the necessity and direction of change for the better. For the purpose of economic enquiry is to contribute to "human happiness".

Approach to Reality

Every economist approaches reality on the basis of a certain set of initial premises which reflect his social attitude. This choice cannot be explained in a simple way. It is not an overstatement, however, to say that the nature of one's relationship with the Establishment has something to do with it. Compare the position of Lionel Robbins with that of Lange. Robbins' "facts of everyday experience" of Britain², which are the basis of his initial premises, are such that they exclude the fact of exploitation of the workers by the capitalists. On the other hand, Lange experienced this—he saw capitalists exploit workers, imperialists exploit colonies. Further, he saw that another man had realised this before him—Karl Marx.

Lange not only made the socialist

ideal the supreme value of his life, but was also an active participant in the movement for the establishment of a socialist society, in the process of its development in his own country and in the international socialist movement.

Lange's was a quest for the totality of economic science, i.e., political economy. As a revolutionary, he could not imagine social progress without a continuous perfection of scientific methods. His scientific attitude and dialectical method of enquiry called for first a study of objective reality as it is and secondly a process of enquiry consisting of further questions being put to the answers he obtained to his initial questions.

Analysis of Capitalism

His interest was first in the world economy as a whole which consists of two main systems, capitalism and socialism, secondly in the socialist system as such and thirdly in under-developed economies.

Lange approached the world economy from the point of view of the emergence of a world socialist system. In regard to capitalism the question was whether capitalism could survive. His enquiries dealt with the laws of motion of the capitalist society and its functions. One of his earliest studies was on "Business Cycles in Polish Economic Life in 1923-27" (in Polish) followed by a study of the role of the state in monopoly capitalism. The necessity of understanding the functioning of the capitalist economy led him to study the market mechanism and in this field he made lasting contributions.² Although it is recognised that his papers on "Say's Law" and "Price Flexibility and Full Employment" are permanent contributions to economics, the social question he was seeking to answer is not always appreciated.

Effectiveness of Price Flexibility

In his "Price Flexibility and Full Employment" the question he sought to answer was how far the trade unions, alleged to be monopolies, were responsible for unemployment in monopoly capitalism. Bourgeois economists alleged that the trade unions were obstacles to the "parametric adjustments". The mechanism of parametric adjustment is based on the concepts of "elasticities" and "flexibilities." Arising out of it, neo-classical economists held that flexibility of prices and wages is a basic condition for the maintenance of economic equilibrium. Hence rigid wages are the source of unemployment. Lange noted a very interesting inconsistency in the attitude of the neo-classical economists, not from the point of view of their social attitude but on theoretical grounds. "The people who insist upon the necessity of keeping money wages flexible, are the same ones who demand a ceiling on money wages to prevent an inflation"³. To examine this question of equilibrium theoretically, Lange used the tools of analysis of the neo-classical general equilibrium theory of Walras and introduced "money", as he had already done in his "Say's Law", into the theory of general equilibrium and showed that only under very special conditions is price flexibility effective. In the changed conditions of the world economy of today the special conditions are not to be found. Thus, Lange blew up, so to say, the neo-classical doctrine from inside by showing the dynamics of its own internal mechanism.

Two points arise out of Lange's demonstration. First, price flexibility did work as a stabiliser during a particular period of history, 1840 to 1914, and even then only for the long run equilibrium and not in the short run. Secondly, after this period the

changes in the capitalist economy "render price flexibility inapplicable under present conditions as a norm of either long run or short run economic policies".⁴ It is not surprising that Milton Friedman finds Lange's proposition that "price flexibility was successful as a long run stabiliser of the economy" damaging to Lange's basic answer to the question. But those who have no vested interest in the capitalist system may not find it difficult to comprehend that a Marxist has to examine two hypotheses. First, in capitalism there is a period of correspondence between forces of production and relations of production, the counterpart of which in the sphere of economic mechanism is the applicability of price flexibility during a particular period, though in a particular sphere, i.e., the long run. Secondly, this correspondence breeds lack of correspondence subsequently, i.e., in the phase of monopoly capitalism when price flexibility does not work. Thus the two main findings of Lange in regard to price flexibility fit perfectly with the requirements of his scientific enquiry.

Socialism and Objective Laws

Insofar as the purely analytical aspect is concerned, Lange's study of price flexibility, particularly his analysis of "stability conditions", will remain a permanent contribution to the study of the price mechanism. It will have its use in the study of the price mechanism even in a socialist economy when there is a market.

The scope of Lange's contributions in the field of socialist economics can be best comprehended if his studies are examined, first, in the context of the totality of the debate, both Soviet and Western, on the economics of socialism and, secondly, in the background of the process of development of socialist societies and generalisations from these experiences. The Bolsheviks as they had to build a socialist economy were directly faced with the question whether there can be an economic science of socialism. The answer given by some like Bucharin and before him by Rosa Luxemburg was that there cannot be any because the proletarian revolution was the last act of political economy. A subject of lively debate in the Soviet Union in the 20's, this was later revived after the Second World War, and was answered by Stalin in his famous booklet on the economic problem. The debate was

resumed in the peoples' democracies in the late 50's. Those who deny the possibility of a science of economics of socialism also consider its absence a necessity and a good thing—that is, a socialist economy is not subject to any objective laws, hence can be consciously guided at will.

Marginal Utility Concept

On the other hand, in the western world the denial of the possibility of an economics of socialism was considered to be a bad thing for the socialist economies. It was alleged by Mises during the 20s that socialist economies could not work as there could not be pricing and hence no rational economic calculation could be made.

It is at this point that Lange joined issue with Mises. Basing himself, as is well-known, on Walrasian apparatus, he demonstrated conclusively that rational pricing is possible in a socialist economy and further that it is possible even in a fully centralised economy. About the group of socialist economists who deny that a socialist economy is subject to objective laws, he stated that "those who do not recognise the necessity of an adequate price system in a socialist economy do not reach up to the great heritage of Marxian doctrine". Thus Lange was to challenge both the groups. In this standpoint one can find the key to Lange's socio-economic study, the types of questions he asked himself and the dialectical method of his pursuit of knowledge of the political economy of socialism.

At the very outset of his academic life Lange asked himself the question, what is the scope and method of economics⁵ — a question he enquired into again and again. In his first study in this direction he found that Marxian economics was unsatisfactory in solving the problem of optimum allocation of resources, although Marx and Engels recognised the existence of and the necessity of a solution to the problem.⁶ The Labour Theory of Value as such is insufficient to provide a normative principle for economic calculation in a socialist economy. This requires the use of Marginal Utility analysis. But insofar as the theory of economic equilibrium is merely a theory of allocation of scarce resources between different uses, it is not even a social science.⁷ In his *Review of Economic Studies* article in 1946⁸ he tried to answer the same question in a developed form. Here he

gave a more sophisticated formulation of the nature of economic rationality, though he was still working on the basis of the Marginal Utility theory with maximisation of utility as the objective function of the consumer. But he introduced the household as the maximising unit. In one of his very last works⁹ he found the most satisfactory answer to this question. He could at last get rid of Marginal Utility to find his maximising solution for the household. On the other hand, he could use the concept of the margin, without that of utility, as a tool of analysis wherever applicable.

Basic Unity in Evolution of Ideas

One can trace a basic unity in the evolution of Lange's ideas. He based his enquiry firmly on the experiences of the development of socialist society. Basing himself, as he did, on the tenets of scientific socialism and various branches of economics and other auxiliary subjects, developing his tools of analysis, and drawing from the study of others he attempted certain theoretical generalisations. This synthesis, the theoretical analysis of the principles of socialist economics, true to his method he offered as preliminary and tentative, to be developed and verified by continuous studies.¹⁰

Scientific socialism is a historical undertaking intended to control social development and to create conditions in which it would be possible to use economic laws in order to obtain intended effects. It is here that political economy acquires a new and creative role. It becomes a source of knowledge at the service of social practice. From being a passive observer of spontaneous economic process, it changes into a source of knowledge serving to direct that process. To fulfil this function, political economy must supply true knowledge i.e., knowledge which is an adequate reflection of social laws operating in the economic process.

"The basis of the scientific treatment of the political economy of socialism is the assumption that there exists in a socialist society objective economic laws".

"A true understanding of economic laws is thus a prerequisite for controlling them and hence the practical importance of Political Economy as a science".

In the socialist social formation, then, economic laws do not cease to operate. A socialist society is also subject to the general laws of social development, laws of historical materialism. Hence development of socialist society takes place through the operation of contradictions. Socialism is not the realisation of the religious ideal of the Kingdom of God, but a new stage in the development of human society which can and must be studied with the methods of Marxist analysis. It is to the credit of Mao Tse-tung that he has shown with emphasis the fact that a socialist society, too, develops through contradictions.¹¹

Lange then goes on to trace the basic contradictions in a socialist society on the basis of historical materialism. These are (a) the interaction between man and nature in the social process of labour, (b) the contradiction between the new forces of production and the old relations of production, and (c) the contradiction between the new relations of production, i.e., the new economic base, and the old superstructure. However these contradictions are non-antagonistic, though there can develop social conflicts. In society there are not only social classes but also social strata which have their economic bases (unlike the social classes which have their bases in the relations of production) in the superstructure of society. "Consequently the contradictions which may arise in the development of socialist society between the requirements of the economic basis and antiquated superstructures, such as methods of management of national economy, political superstructures and others, may also provoke the opposition of vested interests of certain strata, which make a change difficult. But these are not social classes—there are no class struggles".¹² This can be better understood in terms of Lange's analysis of the stages of development of socialist society.

Laws of Socialist Society

There are laws which operate in socialist society as well, as the experience of socialism has shown (they need not operate in an elemental way and can be made to operate in accordance with the human will). Lange distinguishes four types of laws in the socialist mode of production.

First, general economic laws which operate in any socio-economic system,

such as laws of production and reproduction, laws concerning the general features of the organisation of the labour process. These laws establish certain technical balances between material objects.

Secondly, laws specific to the socialist mode of production, determined by the social relations of production which determine the stimuli (or incentives) governing human economic activity. Out of the economic laws specific to a given formation it fashions a single law which determines the entire mode of functioning of that social formation. This is called the *basic economic law* of the social formation as introduced by Stalin¹³ (maximum satisfaction of social needs, unlike in capitalism where the stimulus is the maximisation of profits).

Thirdly, there are laws of an intermediate nature which are not general but specific to more than one mode of production. They operate in several modes of production and express certain common features of these modes, for example, the law of value which is the result of commodity production. In socialist society as commodity production takes place, owing to historical circumstances, the Law of Value continues to operate, though it is not specific to the socialist mode of production.

Fourthly, there is a type of economic laws which are not connected with the socialist mode of production but result from the particular types of superstructure of management of socialist economy and which, therefore, change when the organisational and managerial superstructure changes. "Different methods of managing socialist economy which change historically and also from country to country produce their own particular economic laws. They produce specific economic laws because they produce specific incentives and opportunities of action". To study these laws one has to consider two points, first the relative scope of administrative allocation of goods and of the Law of Value and their consequences, and secondly consequences of different types of remuneration of labour because these are related to the question of incentives in a socialist economy.

Thanks to the social ownership of the means of production there are new opportunities for economic development. This means that the rational use of the means of production in social interest is possible because social ownership of means of produc-

tion makes possible economic planning. Here Lange makes two fundamental contributions to the economics of socialism: first, his formulation of the principle of economic rationality and, second, the statement of the problems of its realisation through the process of construction of socialist society.

Lange answers the basic question—what is the principle of economic rationality, a question which he asked himself some thirty years ago. He found that Mises' assertion that human action is necessarily always rational and that economics is simply rational activity¹⁴ was too narrow and Mises' formulation of the nature and principle of rational activity unsatisfactory. For Mises is unhistorical and his equation of human action with rational action leaves no room for traditional behaviour. Marxist economists so far had a negative answer to this question—that the principle of economic rationality postulated by the neo-classical school as the foundation of political economy was wrong. Lange had to seek a positive answer because economic activity being a part of human activity has to be rational to be most fruitful.

Principle of Economic Rationality

Since human economic activity is conscious and purposive, the science of political economy, if it has to be an instrument of social practice, has to discover not only the economic laws of human behaviour, but also the best method of realisation of given ends¹⁵ by the use of certain means—this is the principle of economic rationality. First, Lange, as opposed to Mises, shows that there is a necessity for a science of rational activity in general because rationality of action is now a common feature of many fields of human action and this gives rise to the problem of discovering what is common to all fields of rational activity. This, however, is not economics as Mises asserts but praxiology, "logic of rational activity". Lange arrives at a new formulation of the principle of economic rationality purely from the formal point of view. The concept of optimum allocation of resources depends on the possibility of quantitative measurement of ends and means. Secondly, he shows that the principle of economic rationality is historically relative (based on historical conditions). He traces the transition of human action from tradition to rational activity based on reasoning, on comparison of means

with ends achieved, i.e., the capitalist society is only partial and confined only to private capitalist enterprise. Private rationality as manifested by the capitalists' profit maximisation motive stands in the way of the realisation of the maximum benefit for members of the community as a whole which is the criterion of social rationality. Rationality from the point of view of the whole economy is possible only in a socialist society because of the social ownership of means of production. Planning becomes the instrument of realisation of economic rationality for society as a whole. Thus the tables are completely turned: in capitalism rationality can only be partial; it is only in socialism that rationality can be realised fully.

Stages of Development

The proper study of Political Economy of Socialism then requires knowledge of objective laws and principles of economic rationality to administer the economy in the best possible way. For this one has to approach a socialist economy not as a static model but in terms of its stages of development which are historically conditioned. It is clear that there must be recognition of necessary stimuli for economic action and a system of appropriate incentives must exist in the organisation and methods of management of a socialist economy. Otherwise there may be two kinds of degeneration, (a) anarcho-syndicalist degeneration where the enterprise ceases to be socially owned, and (b) bureaucratic degeneration, the danger of a new kind of "alienation" of the producer from his product.

The question that needs to be considered is what is the connection between Lange's formulation about objective nature which is not elemental and economic laws and planning. "Planning is the means of subjecting the operation of economic laws and the economic development of society to the direction of human will". First, planning cannot deny the existence of economic laws but requires a knowledge of them to make use of them. Secondly, the extent of reliance on economic laws as opposed to administrative means for the functioning of the economy, i.e., direct intervention by the state apparatus, depends on the historical stage of development of a socialist economy. Basing himself on the experiences of the development of the socialist economies he makes the following

generalisations. The first stage he characterises as a war economy. It is the initial stage of socialist industrialisation which uses certain techniques of a war economy. The very process of transformation, and in addition, in under-developed countries, the need of rapid industrialisation, impose the necessity of high centralisation of planning and management. However, the dialectical character of the development of socialist society is such that the methods which are necessary, and useful in the period of social revolution and of intensive industrialisation become an obstacle to further economic progress when they are perpetuated beyond their historical justification. The greatest obstacle to further progress results from the lack of proper economic incentives in this bureaucratic centralised type of management. Thus in this stage the extra-economic force of the State which played a dominant role in the first stages of the emergence and development of the socialist society needs to be gradually replaced by the operation of economic laws, i.e., by the establishment of proper economic incentives which produce the results desired by the will of the organised society. Does this mean a revival of capitalism as some people misconceive? "By utilising economic means planning makes use of the automatic character of peoples' responses to given incentives". "In a socialist economy the automatic processes are part of the method of realisation of the plan, the conditions establishing incentives are set up by economic policy to produce desired results, whereas in capitalist society these conditions develop in an elemental way". But this development from the first to the last stage passes through a period of transition. He suggests that one important feature of the end of the period of transition and the beginning of the functioning of an established socialist society is the substitution of the methods of administrative and centralised management by development of new methods based on the utilisation of economic laws.

Separation of Management of Economy from Government

Lange's studies in the Political Economy of Socialism show that "he belongs almost entirely to the classical Marxist tradition". He fully vindicates the tenets of historical materialism which he made the *leit motif* of his academic work — a

basis for the acquisition of further knowledge. First the discovery of economic laws by science is necessary to control them and to use them in the interest of the community. Only in a socialist society does man become master not only of nature but also of social conditions. "It is only from this point that men with full consciousness will fashion their own history; it is only from this point that the social causes set in motion by men will have, predominantly and in constantly increasing measures, the effects willed by men. It is humanity's leap from the realm of necessity into the realm of freedom"¹⁵. Secondly, organisational expression of the replacement of extra-economic force by the utilisation of economic laws must be a gradual separation of the management of national economy from the extra-economic activities of the State, i.e., from the exercise of political power¹⁶. The long run perspective of communist society is a gradual replacement of "government of persons" by the "administration of things and direction of production processes" (Engels). This is the substance of the process of "withering away" of the State. For the realisation of this long run perspective it is necessary to prepare institutional conditions such as the process of gradual separation of economic management from political government.

The "Lange Mechanism"

In the light of the foregoing analysis, we can now better appreciate the role of the so-called Lange mechanism. It is clear that the role of the price mechanism is not a permanent feature of socialist economy; the same is true of co-operatives, however much some people now in India may like to regard these features as the hallmarks of the Lange model as an apology for rightwing social democracy. The market mechanism can be used fruitfully in a socialist economy so long as commodity production prevails, and then too for a limited purpose and in a limited sphere within the planned economy. The need for co-operatives arises from the necessity of the allies of the working class and from the lower level of development of the forces of production. With the development of the socialist mode of production all means of production will become social property.

Lange's recent views on the market mechanism in socialist society were very different from those in his 1936

article. This was due not only to his acquaintance with the experience of socialist economies but also due to his theoretical studies, especially in the new branches of knowledge such as cybernetics. Not very long ago in a lecture in London, Lange declared that if he were to write his essay today it would be called "The Computer and the Market, an Essay in Economic Cybernetics". For, it is an interesting point that the process of determining the accounting price (the so-called shadow price) with the help of an electronic computer is also achieved by a process of successive trial and error. Thus, both these mechanisms, the market and control accounting with electronic computers, may supplement each other, putting in a new light the mutual relationship between centralised and decentralised decision models.¹⁷

Insofar as the policy of transition is concerned, his basic position remains the same. This section of his 1936 booklet has not drawn the attention it deserves. "A Socialist Government really intent upon Socialism has to decide to carry out its socialisation programme at one stroke or to give it up altogether." Further, "the Socialist Government must start its policy of transition immediately with the socialisation of the industries and banks in question".¹⁸ In a recent work,¹⁹ Lange repeats this much more strongly. "A revolution which does not take this step is doomed to failure".

Lange and the Second Plan

Although Lange's studies on the problems of under-developed countries are of special interest to us, we can only note here two main points: (a) Lange's association with the formulation of India's Second Five-Year Plan and (b) his studies on the problem of under-developed economies as such.

To suggest that Lange took part in the formulation of the Second Plan will be, to say the least, an over-statement, if not an abuse. The papers that Lange wrote while he was in India are of two categories. One pertains to the general background such as the nature of the fundamental problems of under-developed countries, planning in socialist countries as a standard of reference, and a theoretical study of input-output analysis. The other is the memorandum on the Second Plan submitted to Nehru in April 1956.²⁰ In this paper while accepting the fact that the Indian Government is not a socialist government he clearly expressed his doubts about the possibility of the mobilisation of resources for the realisation of the Plan.

To solve this problem, he suggested certain clear-cut steps such as basic land reforms, allotment of a part of industrial and commercial profits for planned development, nationalisation of banks and at least part of foreign trade, special restrictions on foreign capital and dividends etc. The actual policies pursued by the Indian planners are sufficiently eloquent in their results to deserve discussion here. It seems the "best present from Poland" was accepted but not utilised. This, however, does not close the possibility of misuse of Lange's name.

Lange did find, however, some positive elements in the Indian plan, such as the role of public investment for economic development. This fits with his findings about the problems of under-developed economies.

The "National Revolutionary Pattern"

Lange offered a definition of an under-developed economy: "An under-developed economy is an economy in which the stock of capital goods available is not sufficient to employ the available labour force on the basis of modern techniques of production".²¹ In the present historical conditions, it is not possible for these economies to develop on the basis of the capitalist path. The lever of economic progress must be industrialisation by public investment, through the creation of a powerful public sector and the instrument is economic planning. He also made a characterisation of a new pattern of social development in contrast with both capitalism and socialism. He called this the "national revolutionary pattern" which is establishing itself in countries which emancipated themselves from colonial or semi-colonial dependence.²² In India he finds an example of this pattern.

The national revolutionary pattern, however, is a transitional pattern. "What is happening in India and similar countries is industrialisation by methods of State capitalism, which under certain circumstances can become the starting point of socialist development."²³ But this will not follow automatically. The further course of development will follow from the differentiation between the social classes within the societies. "There are, however, in history examples of countries achieving tremendous economic growth where public investment provided the initial impetus for growth, and which later followed the path of capitalist accumulation. The classical example is that of the economic development of Japan."²⁴

Oskar Lange is dead. Lange, the man, the teacher and the friend of his students and colleagues will be sadly missed by them. As I write these pages, I cannot help feeling that the reader I will miss most is the Professor himself. I visualise him telling me with a smiling face, "Oh, this is what you think of my work... all right. This reminds me of a story...". What the anecdote would have been we would not know, for our beloved teacher is no more.

Lange, the social scientist, however will live through his works ever more. Economics of today and tomorrow is mainly the Political Economy of Socialism. The socialist economists of today and generations to come will get guidance and inspiration from his works. Above all they will take note of his warning "Socialism is not an economic policy for the timid".²⁵ And he was not a timid man.

Notes

- ¹ Lionel Robbins, "An Essay on the Nature and Significance of Economic Science", London, 1946, pp 78-80.
- ² His work in this field has been neatly summarised by K R Bhara-dwaj in *The Economic Weekly*, November 6, 1965.
- ³ "Price Flexibility and Full Employment", Bloomington, 1944, p 90.
- ⁴ *Ibid*, p 85.
- ⁵ "Marxian Economics and Modern Economic Theory", *Review of Economic Studies*, 1934-35.
- ⁶ "On the Economic Theory of Socialism", (ed) B Lippincourt, Appendix.
- ⁷ *Review of Economic Studies*, 1935, p 192.
- ⁸ "The Scope and Method of Economics", *Review of Economic Studies*, 1945-46.
- ⁹ "Political Economy", Vol I, London, 1963, Ch V.
- ¹⁰ In "The Political Economy of Socialism", Polish Institute of International Affairs, Warsaw, 1957, "Problems of Political Economy of Socialism" and "Political Economy", Vol I.
- ¹¹ "Problems of Political Economy of Socialism" p 3.
- ¹² *Ibid*, p 3.
- ¹³ "Economic Problems of Socialism in the USSR", Moscow, 1952.
- ¹⁴ "Human Action—A Treatise on Economics" by Ludwig von Mises, London, 1949.
- ¹⁵ Engels, Anti-Dühring.

- ¹⁶ "The Political Economy of Socialism", Warsaw, 1957, p 12.
- ¹⁷ Lange's last work is "Introduction to Economic Cybernetics" (Forthcoming Polish publication). He had already published "Whole and Development in the Light of Economic Cybernetics" in 1962. His other work was on programming, "Optimal Decision-Making" in Polish in 1964. All these studies

- were the preparations for the later volumes of his "Political Economy" which he could not complete.
- ¹⁸ "On the Economic Theory of Socialism", pp 122 and 124.
- ¹⁹ *Ibid*, pp 39-40.
- ²⁰ In Polish in "Papers on Economics and Socialism", pp 428-35. The original English version was not available to me.
- ²¹ "Essays on Economic Planning",

- Indian Statistical Institute, Calcutta.
- ²² "Patterns of Economic Development and Planning", *Enquiry*, Spring 1965, Delhi.
- ²³ "Political Economy of Socialism" p 34.
- ²⁴ "Patterns of Economic Development and Planning", *op cit*.
- ²⁵ "On the Economic Theory of Socialism", p 125.

Notes on the Bergsman-Manne Model And the Uses of Planning Models

Louis Lefebvre

The process of planning does not consist of searching for some path which takes the structure of the economy as constant and which has no merit other than that, in terms of some historical criteria, it is consistent and feasible. Instead, planning consists of trying to ascertain the benefits and costs of adjusting the supply and demand relationships so as best to approximate the social objectives of development.

This is where the use of planning models is justified: they can be used to analyse the relationship between certain strategic elements of a plan and to study the consequences of changing the assumptions underlying these elements. But since the analysis can be undertaken only at the cost of abstracting from the majority of objectives and constraints, the results must be interpreted from the point of view of their qualitative rather than quantitative significance.

Further, economic plans represent the conciliation of a vast number of political as well as economic constraints with a multitude of frequently contradictory and non-quantifiable social objectives. In a world of imperfect knowledge and uncertainty, the use of planning models is necessarily confined to partial analysis. It would be foolhardy as well as illegitimate to use them for prejudging the strategy of economic development.

IN recent years, in developed and developing countries alike, there has been an increasing awareness of the need for improving the methods of economic planning. In particular, politicians and public administrators want to have detailed prescriptions for a consistent and feasible path toward socially desired goals. The evident public need, coupled with recent advances in growth theory and computational techniques, has motivated a number of economists to search for computable models of economic planning. The Bergsman-Manne paper represents the outcome of such an effort.*

The paper was written before the outbreak of India's most recent military engagement with Pakistan and before the information on the failure of this year's monsoon in India was available. Hence the computations and the authors' judgment as to feasibility are based on information and expectations which prevailed before these most recent emergencies. Clearly, then, it would be pointless to discuss the relevance of the actual numerical results, and I shall confine my comments primarily to the qualitative aspects of the Bergsman-Manne approach.

Economic plans are political documents and as such they are made up of three components: (a) the statement of the social goals; (b) the projection of those patterns of private and public activities which are required for approaching the social goals

and (c) a design of policies aimed at motivating the private and public decision makers (consumers, investors and producers) to act in a way consistent with the projected path. In this sense, the Bergsman-Manne model — as well as any other model I am acquainted with — is not a model of an economic plan, since it is not concerned with either the selection of the social goals or with the design of policies. It is designed to find or to describe a path which is consistent with a limited number of exogenously given social objectives. The latter are stated in the form of desired annual rates of growth for household and government consumption and exogenously specified capital formation.

Derivation of Trajectories

The computations are carried out in two distinct steps. First the sectoral targets (consistent output levels, endogenous investments and imports) are computed for the terminal years of the plans under investigation. Then the sectoral output levels in each of the intermediate years of the plans are determined on the basis of a log-linear interpolation between the terminal and initial plan years. The resulting sectoral time paths are mechanical extensions of the single period solutions for the target years. They are best described as trajectories which have neither a recursive structure nor a necessary internal consistency. Thus the authors do not work with a growth model which would ensure an optimal or even a consistent allocation of resources. Nonetheless — with some limitations which I shall discuss below — by literally bridging the resulting supply

and demand gaps with what they call "shock-absorbers" (unconstrained imports of producers' goods, consumption shortfalls and changes in domestic services) they can trace out a consistent and, on the trajectory itself, feasible time path for each of the sectoral outputs. This procedure does not ensure, however, economic feasibility at the beginning of the plan period. Here the assumption is that whatever the required sectoral rates of growth, the necessary initial productive capacities (capital and investment in progress) are available in each sector. In sectors where production lags and investment gestation periods are significant, this assumption may not be readily defensible.¹

After the derivation of a consistent set of trajectories, the authors (a) compare the computed outputs with the statistical estimates of outputs in the initial year of the period under investigation; (b) compare the domestic savings implications of the alternative computed growth paths with statistical estimates of the economy's current savings; and, (c) trace the behaviour of the "shock-absorbers" over time with particular reference to determining the foreign exchange requirements of the alternative paths. The information thus obtained can then be used to analyse the question of the feasibility of alternative development paths in terms of their particular savings, foreign exchange, and initial capital requirements.² It is in this sense that the authors regard their work as a model for "requirements analysis".

The model was specifically developed in order to analyse the foreign exchange requirements of India's Fourth

* J Bergsman and A Manne, "An Almost Consistent Intertemporal Model for India's Fourth and Fifth Plans", *The Economic Weekly*, Vol XVII, No 47, November 20, 1965.



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and Fifth Plans. For this purpose the authors investigate the implications of two alternative aggregate growth paths over the ten-year period beginning 1965-66. Each of the two alternatives is then considered in combination with three different import substitution policies. The results of the computations can be briefly summarised as follows: (a) with the exception of the initial induced construction requirements, the different growth paths are found to be feasible in terms of the estimated initial capacities, and (b) the foreign exchange costs (measured in terms of balance of trade deficits) of accelerated programmes of import substitution are not only recovered over the ten-year planning horizon but are smaller than those of less ambitious programmes of substitution.

The Results and Structure of Model

These are interesting and significant results. However, since there may be a temptation to look upon planning models as if they could serve primarily *predictive* rather than *normative* purposes, it may be useful to consider some of the qualitative aspects of the relationship between the computational results and the structure of the model. This is all the more important, since the computations were not performed in the context of a hypothetical economy but in the very real setting of the Fourth and Fifth Indian Five-Year Plans which are currently in preparation and under technical and political consideration.

In this connection, we must first remember that the Bergsman-Manne log-linear trajectories are arbitrarily determined and do not represent optimal paths with respect to any objective. The necessary implication is that the efficiency of the trajectories may be improved by injecting some optimising principle. Since in the model the rate of growth of private and public consumption is given — and the focus is on the foreign exchange requirements of alternative import substitution policies — the minimisation of foreign exchange costs of production and investment may provide such a principle. The point is not that optimising models are necessarily preferable; depending on their specification they may or may not be better approximations of the conditions prevailing in the economy than the Bergsman-Manne model.³ The point is that the structure of the model was chosen by the authors not because it provides a better description of the economy than some optimising models — as far as

I know, no tests were performed with alternative models — but because of its computational advantage, which is an arbitrary criterion when it comes to determining a model's relevance. Thus one must keep in mind that more efficient resource utilisation than that in the Bergsman-Manne trajectories could be indicated which then would make the attainment of the targets that much easier. The same comments are also relevant to the efficiency of foreign exchange use: the extreme rigidity of fixed import-output ratios does not permit allocation according to real cost advantage. If some endogenous choice were permitted in the framework of an optimising mechanism, decreases in the implied foreign exchange requirements might be experienced.

Second, the way the technical and demand coefficients are entered may be of importance. We know from the experience of advanced countries that in addition to investment, technological change has a fundamentally important role in bringing about (explaining) economic growth. There is reason to believe that the same must be true — possibly with even greater force — in the case of underdeveloped countries. We might expect this change to manifest itself both in the structure of the input-output tables and in the magnitudes of the capital-output ratios. The Bergsman-Manne computations are based on input-output tables which, save for a shift in the direction of greater reliance on chemical fertilisers in the agricultural sectors, show *no further change* during the period 1970-71 to 1975-76. In addition, the capital coefficients remain constant over the entire ten-year period. Now these may be correct assumptions, but if they happen not to be, then they will have strong implications for the computed savings and foreign exchange requirements. And though no one can accuse the authors — and particularly Professor Manne who has already done important work in India on the effects of technical change on the input-output structure — of ignoring technological change, it would be desirable if the paper itself were more explicit about the underlying assumptions and their implications for the computed results.

Similar observations could be made about the demands coefficients. Though in general the computations do not indicate a major consumption shortfall over the entire ten-year period, the paper is termed "an almost consistent" model because insufficient ca-

capacity in the construction sector could be a bottleneck in the initial years of the ten-year planning period.⁴ In evaluating the significance of this constraint, one has to keep in mind, however, that as much as half of the shortfall in the initial induced investment may correspond to residential house construction. On the one hand, the demand for housing in a country like India can be defined only in the most arbitrary terms, and on the other hand, the supply of housing is relatively easily restricted if that is considered desirable.⁵ Hence the initial bottleneck in construction may be less constraining than indicated by the unexplained findings.

Changing the Norms

When computations with the help of planning models are undertaken with the intention of using them as aids in actual policy decisions, the relevant coefficients must be subjected to scrutiny not only from the point of view of their historical plausibility but also with an eye toward the possibility of changing the norms. The purpose is not to cheat with statistics but to investigate the possibility and desirability of adjusting demand and supply by suitable policy measures.

Of course, every time the norms are adjusted or the constraints are shifted, the implied savings and foreign exchange requirements are correspondingly affected. It is unlikely that the general findings of the paper as to the time profiles of the balance of payments deficits would be very much altered by changes in the norms — though the size of the deficits might be significantly affected.⁶ As to savings, they would be very sensitive to technological change and also to demand restrictions. It would be important to undertake at least some sensitivity analysis to determine the savings implications of variations in the norms, particularly since the average savings requirements as computed by Bergsman and Manne seem to be excessive. Nonetheless, they may be attainable if the recent average savings trends continue over the coming plan periods. However, the road from 15 to 22 per cent is arduous. At the same time, as a matter of relief, the rather prohibitive percentages listed by them as "marginal ratios" cannot be considered to be marginal savings ratios in their generally understood sense. They are the slopes of straight lines which connect points on vertically shifting savings functions and not changes in planned savings (as function of in-

come) with respect to changes in income. The actual marginal rates cannot be determined from the model; a simple geometrical exercise, however, can convince us that if the average savings rates are increased in response to a shift in the savings function, the actual marginal rates must be below the rates computed by the authors.⁷

As mentioned above, the authors do not specify the policy measures needed to implement any one of the alternative programmes computed in their "requirements analysis". Nor do they take a position as to the feasibility or the desirability of any of the alternatives. They are correct in pointing out that the parameters and constraints they work with must not be considered as fixed forever. And, indeed, constraints are not immovable and norms can be changed. For instance, in a country like India, agricultural productivity could be increased if the government would intensify its farm programme. Then, on the basis of some assumptions about how agricultural productivity would be affected, we could estimate the corresponding changes in the norms used in the computations.

Choosing Growth Paths

Thus, resource or input requirements can be reduced not only by reducing targets but also — most importantly — by increasing efficiency or by adjusting the composition of demand. In fact, the process of planning does not consist of searching for some path which takes the structure of the economy as constant and which has no other merit than that in terms of some historical criteria it is consistent and feasible. Instead, planning consists of trying to ascertain the benefits and costs of adjusting the supply and demand relationships so as best to approximate the social objectives of development. And, indeed, this is where the use of planning models is justified: they can be employed to analyse the relationship between certain strategic elements of a plan and to study the consequences of changing the assumptions underlying these elements. But since the analysis can be undertaken only at the cost of abstracting from the majority of objectives and constraints, the results must be interpreted from the point of view of their qualitative rather than quantitative significance.

Before concluding my discussion, I would like to make one further comment about the uses of planning mo-

del for choosing growth paths and strategy. The Bergsman-Manne computations provide us with six alternatives to choose from. By subjecting the model structure and the norms to further changes, we could generate any number of other growth paths, many of which might be as plausible or as relevant as the Bergsman-Manne trajectories. Each path implies a different set of policies and the choice among the alternatives can be made only in terms of some political-economic judgment. Thus, I am in agreement with the authors when they consciously side-step the question of choice. Economic plans represent the reconciliation of a vast number of political as well as economic constraints with a multitude of frequently contradictory and non-quantifiable social objectives. In a world of imperfect knowledge and uncertainty, the use of planning models is necessarily confined to partial analysis. It would be foolhardy as well as illegitimate to use them for prejudging the strategy of economic development.

Notes

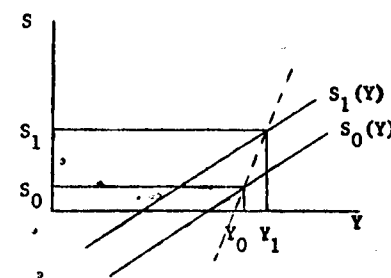
- ¹ To the extent that multiple shift operations can be introduced, the assumption may be less damaging.
- ² Non-feasibility in this context does not necessarily mean absolute impossibility in a technical sense; it may just mean social or political lack of desirability.
- ³ In a normative context, however, optimising models are inherently less arbitrary than non-optimising ones. But this in itself is insufficient to determine the relevance of any model to an actual economy.
- ⁴ Though this is semantics, the title of the Bergsman-Manne paper is somewhat misleading. The model itself is consistent. The question is whether the computed trajectories are feasible in terms of the estimat-

ed capacities expected to prevail in the initial year. Hence, if the authors are concerned about the non-feasibility of their trajectories because of the initial construction bottleneck, they would be more accurate if they used the term "almost feasible" rather than "almost consistent".

⁵ In fact, historical experience suggests that the supply of housing lags in the initial stages of both capitalistic and socialistic development. Consider the Manchester slums and the Soviet housing squeeze.

⁶ The profiles themselves would change, however, in response to introducing an optimising mechanism combined with some endogenous choice in the import substitution policies. This is borne out by the results of Chenery and MacEwan "Optimal Patterns of Growth and Aid Over Time", mimeographed paper presented at the Conference on the Theory and Design of Economic Development, Iowa State University, Ames, Iowa, November, 1965.

⁷ For the case of comparing observed savings S_0 and S_1 before and after a shift in the savings function (say in response to a change in tax policy) consider the following geometrical representation. The MPS are



the slopes of the functions shown in solid lines. The rates computed by the authors correspond to the slope of the straight line defined by the points (Y_0, S_0) and (Y_1, S_1) .

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Kashmir in the Wider Context

G M Rajpori

IT is not intended here to calculate the military gains that accrued to India in her conflict with Pakistan. That is not possible in the absence of adequate precise information. What will be attempted below is to assess the impact of the conflict on our national life with reference to the situation prevailing immediately prior to the conflict.

India, being a vast multi-lingual and multi-communal country, has the advantages and disadvantages of a diverse human society. In the recent conflict Indian society presented a co-ordinated response to Pakistan's aggression. This seems to indicate that a stage has been reached when the various communal forces in India have arrived at a point of synthetic assimilation and objective adjustment, providing a durable base for the future advance of Indian society as a powerful composite force. The picture of a solid national front spear-headed by various shades of patriotic opinion was projected. A theocratic state clashed with India on an issue supposed to affect a large minority here. Pakistan no doubt depended on the potentialities for discord within Indian society and expected a situation of chaos and communal strife. What happened, on the contrary, was that in India's defensive struggle various communities fought with exemplary heroism and dedication and a wave of complete national solidarity swept the country. This was perhaps the most important gain to India as a country inhabited by diverse communities. A side-effect was the submerging of linguistic controversies.

Pakistan's game can be defeated further if this united response to the aggressor is intelligently fostered and the Muslim community as a whole is encouraged to play a leading role in this. Pakistan's propaganda of a 'Jihad' goes to pieces when it is understood that what is happening is that a country inhabited by five crores of Muslims is being attacked by West Pakistan with a population of four crores. The sordid act of sending infiltrators to kill and create disorder into a State where the majority is Muslim must shock the Muslims in India. The way the infiltrators have been treated in Kashmir is a manifestation of the maturity of the Muslim community in India. The military regime in Pakistan has reasons to

write off the Muslims of India from its list of potential allies.

Another gain of tremendous importance is the straightening of India's diplomatic postures. For the first time India reacted with complete firmness to debunk the claims of Pakistan on Kashmir. It has been made unmistakably clear that Kashmir is an integral part of India. A further gain, following from this, is a clarification of the position of the various countries in regard to Pakistan's untenable claims to Kashmir. This gives us the opportunity to adjust our foreign relations on a more objective basis.

But this is not, of course, the end of the matter. How will the situation evolve round the so-called Kashmir issue? The question will have to be answered in the context of the attitudes and postures of various world forces vis-a-vis Pakistan and India. The USA and, to an extent, the UK, are smarting under Pakistan's adventurism and expending of anti-communist military resources against a non-communist power, and their flirtation with China which has completely upset the entire Anglo-US strategy of building up Pakistan as a militant bulwark against "communist expansionism" in Asia. Consequently, a phase of rethinking in the US and the UK is inevitable. Pakistan may yet persist in trying to be an ally of both the US and China, but the game is all but played out. Skillful diplomacy by India at this stage can no doubt contribute to queering the pitch for Pakistan's relations with both countries.

Pakistan's predicament at the moment is much grayer than what it appears to be to a casual observer. Beneath the surface there are powerful forces of unrest. The misadventure in Kashmir cannot but have political repercussions within the country. A further tightening of the already stringent restrictions on democratic freedom is likely. It is clear that President Ayub Khan is just now as much concerned with ensuring his personal survival as with forcing a solution of the so-called Kashmir problem in favour of Pakistan. The dictatorship in Pakistan has systematically crippled the initiative of its common people. The people's energy and enterprise have languished amidst the plethora of "do's" and "don't's". The failure of the regime's military adventure and the very considerable destruc-

tion caused by the war must give rise to a deep sense of frustration. In addition, account has to be taken of the Pakistani economy's inability to support from its own resources, as opposed to gratis aid from abroad, large-scale military preparations.

On the face of it, in China the rulers of Pakistan have a substantial ally against India. But on close scrutiny the possibility of China plunging into a major conflict without a reliable brief appears remote. China may not be averse to making use of Pakistan for limited tactical purposes, but she is not oblivious of the character of the Pakistani regime. The fairly narrow limits of Sino-Pakistani friendship may at the moment be concealed behind demonstrative troop mobilisation and diplomatic utterances. The revolutionary forces within Pakistan, which close contact with China is bound to foster and encourage, are anathema to the country's present leadership, including the top brass of the army. Considerations of self-preservation will, therefore, compel the leadership to maintain its basically pro-West attitudes with the flirtation with China only a temporary, tactical phase.

These theoretical formulations assume importance in the context of the Indo-Pak flare-up. Pakistan's frantic efforts to repair its loss of face through diplomatic manoeuvring are destined to fail. In India the mood of the people has hardened. This should discourage any outside power from attempting to pull Pakistan's chestnuts out of the fire. The situation in India just now is totally opposed to all suggestions of compromise and so the world powers can do little more than to console Pakistan with little diplomatic pats on the back. India is too important a country for anyone to antagonise to please Pakistan. Besides its democratic set up and plural social order must necessarily pull a large number of countries towards her vis-a-vis Pakistan and China. The sulky exasperation of Pakistan and her friends cannot stand in the way of India's natural rise as a formidable Asian power. If anything, Pakistan's belligerence will hasten the process through its impact on India's internal policies and on her national will. Pakistan's hostility is bound to awaken the prodigious forces of nationalism and social dynamism in India.

Impressive Recovery

Wednesday, Morning

DALAL STREET's trading pattern last week suggested that it had probably halted for an important technical correction which had been much overdue. The panicky sell-off on December 15 which had pushed the market to a new low for 1965 — the lowest for nearly three-and-a-half years — had rendered its technical position extremely vulnerable. The market needed some pretext for a rally and it therefore responded quickly to the announcement of US loan of \$35 million to the Industrial Development Bank and the ICICI and to the Johnson-Ayub communique stressing the need for a peaceful resolution of all outstanding differences between India and Pakistan.

The comparative lull on the borders, increasing indications of a welcome change in the US attitude towards India's pressing needs in respect of food as well as other economic assistance, improved rabi crop prospects, abolition of price and distribution control on fertilisers, increased off-take in the cotton piecegoods market, modifications in the rayon textiles export promotion scheme to facilitate the import of pulp and art silk yarn, curbs on short selling through modification of the margin rules by the stock exchange authorities — all these factors contributed to the improvement in market sentiment.

Equity prices have recorded a fairly impressive recovery from their previous week's lowest levels and in a matter of days some of the scrips have recouped most of the losses suffered over the past few weeks. The rally started with short covering but as sentiment improved with the recovery in prices bulls also appeared on the scene and lent selective support which accelerated the pace of recovery.

Long-term assessment of the outlook for equities has become difficult and hazardous because of the far too many uncertainties in the economic and political situation. Even the near-term outlook is difficult to assess. However, it seems very likely that the current recovery phase will continue for quite sometime, barring some unforeseen developments of course. The US decision to supply 15 million tons of foodgrains to India will not merely enable the country to overcome the anticipated food deficit in 1966 but also keep pri-

ces under control and induce a psychology of confidence. Washington's generosity in the matter of foodgrains supplies suggests a significant change in the US attitude towards India's economic difficulties and this has revived hopes of increased flow of aid. The favourable implications of over-abundant supply of foodgrains and large economic aid can scarcely be over-emphasised.

While it would be reasonable to expect that the recovery phase which is now underway will be continued for some time, optimism about the outlook for equities will need to be tempered with caution. A great deal would depend on the outcome of the forthcoming Tashkent meeting and the February Budget.

COTTON

Futures Harden Further

COTTON futures last week staged a further recovery with the March contract moving up from Rs 894.25 to Rs 902 (per 3 quintals). The buying in futures was inspired mainly by encouraging advices from the cotton piecegoods market. The turnover in futures, however, continues to be extremely poor and the whole week's business could be easily put through in a single session without causing the slightest excitement in the market. Despite increased production over the years, King Cotton has lost its old glamour for speculators.

The spot cotton market continued to present a dull appearance though the undertone was slightly steadier than in the preceding fortnight or so. Because of the quota system, mills' purchases have necessarily to be restricted. And added to this is the problem of acute financial stringency. Bengal Deshi prices which had been declining for the past one month or so have steadied up a little following the Textile Commissioner's decision to exempt Deshi cotton from the restrictions and limitations imposed about the middle of November (November 19 to be very precise) on the purchases, deliveries and stocks of Indian cotton that may be held by the mills.

The removal of restrictions on mill purchases of Bengal Deshi cotton seems to have been occasioned by the declining trend in its prices due mainly to

lack of overseas demand. Export sales up to December 17 total no more than 66,437 bales which is a very disappointing performance indeed. Since the Deshi crop this season is expected to be smaller than in the 1964-65 season, the authorities will need to take care that increased domestic consumption by mills does not reduce the exportable surplus and thereby adversely affect export performance. Bengal Deshi is a valuable foreign exchange earner. The Union Minister of Commerce is reported to have advised millowners to use more Bengal Deshi cotton for spinning lower count yarns and export that even at much reduced prices with a view to earning foreign exchange. The proposition does not appear very feasible. Bengal Deshi cotton is probably much easier to export than yarn, particularly inferior yarns.

OILSEEDS

Unexciting Affair

EXCEPT for some excitement in castor futures which displayed marked strength on bull manipulation, trading in oilseeds last week was quite a dull affair. Castor futures which had been marked down to Rs 99.75 in the preceding week moved up to Rs 104.75 by the week-end. Castor oil commercial improved from Rs 20.50 to Rs 21.50 per 10 kgs. The buying in castor futures was said to have been inspired partly by rumours about more liberal incentives for the export of castor oil and partly by fears of damage to the standing castorseed crop in case the cold spell continued for long. The marked strength in castor and castor oil did not, however, have any significant effect on other oilseeds. Linseed futures moved irregularly between Rs 121 and Rs 119.50, linseed oil between Rs 28.75 and Rs 29.25 and groundnut oil between Rs 32.50 and Rs 33.25.

No big fluctuations in oilseeds prices are expected in the immediate future. While the groundnut crop is expected to be 30 to 35 per cent smaller than in the previous season, the flow of arrivals has so far been quite satisfactory because of the general reluctance on the part of growers and merchants to accumulate stocks. Financial stringency, prevailing high prices and political uncertainty — all these factors have been discouraging piling up of

stocks. Since the shortfall in groundnut production cannot be made up through increased production of rabi oilseeds — despite recent beneficial rains the total supply of rabi oilseeds is not expected to exceed last season's out-put — and imports, the overall supply position of vegetable oils is likely to remain tight which will check any

significant fall in prices during the current season. The US generosity in regard to the supply of foodgrains has raised hopes of securing substantial quantities of soyabean oil and mutton tallow under PL 480 and if these hopes materialise, oilseeds prices might not record any steep rise from the current levels.

Export houses did not report any big business last week. Communist countries made some further purchase in groundnut extractions at around R 440 a tonne f.o.b. basis. Cottonseed cake did not evoke much interest and overseas prices were down by about 10 to 15 shilling per tonne over the week.



Necessary evil?

Yes—and understandably. An FAO Survey reports one-third of India's food crops go waste.

No one likes to queue up for anything. Least of all for food. And yet when food is not plentiful, restricted but equitable distribution is the only answer. Worthy of everybody's support.

Basically the problem is that the nation does not produce enough food. Worse still, as much as a third of what is produced rots away before it can be consumed.

The permanent solution is to grow more food. And growing more food has been given top priority in the Fourth Plan, by the end of which a 50% increase in food production is envisaged. But more food produced may mean more food wasted. Unless we lower the rate of spoilage.

One way to prevent spoilage is to process and preserve more food and more varieties of food. A recent report issued by the Food and Agriculture Organisation of the United Nations says, "Practically all the spoilage of food that

now occurs...could be eliminated by known methods of preservation."

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We at Metal Box believe that this growth must be made to happen. And to this end all our know-how in packaging, all our research and development facilities and our access to the mainstream of international packaging technology are at the service of the packers.

At Metal Box we can't grow more food. But we certainly can help save more of it. And that, you will agree, is almost as important.



CURRENT STATISTICS

Index of Industrial Production

(Base 1956=100)

Item	1965	1964	1965	1964
	September	August	July	September
	(1)	(2)	(3)	(4)
General Index				
Seasonally adjusted	182.1	183.0	186.5	179.7
Crude	183.1	185.6	190.5	180.7
Mining and quarrying	188.0	177.9	183.0	166.4
Coal	175.5	166.3	172.3	157.7
Manufacturing	176.5	180.3	185.2	177.1
Food mfg industries	147.2	134.8	135.5	148.9
Wheat flour	263.1	237.4	237.8	349.0
Sugar	14.3	12.5	12.1	11.2
Tea	232.2	210.0	201.9	240.5
Salt	39.6	41.4	124.3	34.9
Beverage and tobacco industries	206.9	210.8	211.1	173.4
Manufacture of textiles	125.5	133.6	140.8	134.7
Spinning, weaving and finishing of cotton textiles	114.6	124.8	132.4	129.7
Cotton spinning	135.9	139.0	144.7	142.5
Weaving of cotton textiles	106.4	119.4	127.7	124.8
Mill sector	92.9	96.0	101.3	98.7
Decentralised sector	143.2	182.7	199.3	195.7
Spinning, weaving and finishing of woollen textiles	116.3	116.3	119.4	134.1
Spinning, weaving and finishing of textiles from silk and synthetic fibres	250.2	251.3	252.4	222.2
Spinning, weaving and finishing of jute manufactures	124.6	125.3	134.1	117.8
Footwear, other wearing apparel and made up textile goods	263.1	276.8	233.6	263.4
Wood and cork, except furniture	227.1	235.4	248.9	203.8
Paper and Paper products	255.9	255.9	266.6	242.4
Leather and fur products	141.3	134.3	143.4	150.2
Rubber products	217.7	232.5	239.2	207.1
Chemicals and chemical products	234.8	239.2	240.9	227.0
Basic industrial chemicals	378.2	382.6	397.3	347.1
Heavy organic chemicals	393.1	436.5	482.3	313.8
Heavy inorganic chemicals	418.2	413.0	432.7	398.6
Synthetic resins and plastics	581.3	652.1	658.0	530.2
Dye-stuffs	207.0	201.0	164.9	187.1
Fertilisers	249.9	271.1	250.6	267.5
Paints, varnishes and lacquers	176.2	183.4	189.9	188.6
Soap	147.1	146.2	141.4	139.7
Matches	149.5	142.9	152.4	136.9
Petroleum products	245.6	245.6	242.9	233.1
Non-Metallic mineral products	222.7	230.8	234.6	208.8
Structural clay products	205.0	185.4	196.4	220.0
Glass and glass products	189.0	182.6	180.1	178.3
Pottery, china and earthenware	294.4	290.1	324.1	261.8
Cement	196.2	214.0	211.3	182.1
Basic metal	269.6	280.3	278.3	260.2
Iron and steel basic industries	280.5	295.4	291.7	269.4
Pig iron	370.1	379.1	370.4	347.9
Finished steel	321.7	341.9	341.2	315.4
Copper smelting and rolling mill products	137.5	138.1	147.5	136.3

Aluminium manu- facturing	426.3	427.9	407.9	393.1
Brass manufacture	156.4	156.4	181.2	192.9
Metal products	241.6	254.1	253.5	232.7
Bolts, nuts, screws, nails, springs, cha- ins, etc	176.5	186.5	180.3	199.7
Hand tools and small tools	608.3	672.6	675.4	534.4
Metal products not elsewhere classified	210.9	218.7	218.1	206.5
Machinery, except ele- ctrical machines	482.3	460.0	488.6	422.9
Internal combustion engines	467.3	464.0	539.0	433.4
Industrial machinery	533.1	479.5	504.8	465.5
Commercial, office and household machines	375.7	386.3	396.7	365.7
Sewing machines	333.1	345.6	346.4	292.6
Electrical machinery, apparatus, appliances and supplies	315.8	314.1	332.6	305.9
Power Transformers	452.1	443.7	470.0	386.2
Electric motors	483.9	471.9	468.6	423.4
Electric cables and wires	294.9	297.3	328.4	330.3
Batteries	204.5	211.4	201.8	213.3
Electric lamps	313.6	343.9	330.3	253.9
Electric fans	420.6	412.4	423.0	402.5
Radio receivers	422.4	388.5	399.4	364.5
Transport equipment	190.9	189.4	202.9	204.4
Railway wagons	135.8	147.6	162.4	154.1
Motor vehicles (auto- tomobiles)	206.1	209.6	211.6	223.0
Motor cycles and scooters	818.0	954.4	1,031.7	749.3
Bicycles (complete)	237.9	196.5	239.9	218.5
Electricity	331.2	331.2	333.1	297.2

INDEX NUMBERS OF WHOLESALE PRICES

(Base 1952-53=100)

Groups and Sub-Groups	November 1965	October 1965	November 1964
Food Articles	173.7	170.2	163.5
Cereals	149.0	147.6	140.7
Pulses	173.9	168.8	179.3
Fruits and Vegetables	191.1	162.9	199.2
Milk and Ghee	161.4	171.2	146.4
Edible Oils	260.7	239.7	206.6
Fish, Eggs and Meat	199.0	192.4	172.6
Sugar and Gur	165.3	161.1	194.4
Others	199.1	196.1	177.7
Liquor and Tobacco	136.1	136.1	136.1
Tobacco	133.8	133.9	133.1
Fuel, Power, Light and Lubricants	150.8	150.0	144.8
Industrial Raw Materials	197.4	189.9	164.8
Fibres	167.5	158.3	144.8
Oilseeds	260.7	250.7	203.1
Minerals	129.3	129.3	101.7
Others	139.2	139.6	134.9
Manufactures	150.3	148.4	139.3
Intermediate Products	176.9	171.5	155.6
Finished Products	145.9	144.6	136.6
Textiles	142.7	141.7	135.6
Cotton	140.8	139.7	139.2
Jute	144.0	143.1	125.2
Woollen	192.3	192.3	169.2
Silk and Rayon	140.2	138.6	131.9
Metal Products	187.5	187.5	169.5
Chemicals	129.4	128.2	120.4
Oil cakes	255.3	243.2	200.5
Machinery and Transport Equipment	138.1	137.3	127.7
Others	128.7	128.7	127.9
All Commodities	169.1	165.6	155.5



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Fertilisers,	
Chemicals, etc	Rs. 4,45,18,000
Plantations	Rs. 2,57,88,000
Central & State	
Govt Loans	Rs. 447,07,00,000
Central Co-op. Land	
Mortgage Bank Loans	Rs. 22,46,40,000