

Bundle no. 7

5L
Xm 8/1, N63SE
N63.4-S
H6482/4

1966

southern economist

Jan. 1, 1966, Vol. IV : No. 17 : 42 Paise

industry • banking • commerce • finance

Mysore Government Silks

Lead in Fashion

Mysore Government
Silks are
*so smooth
so alluring and
so rich in their
attractive shades*

They are fashion's choice everywhere



**MYSORE GOVERNMENT
SILK WEAVING FACTORY**
Manathody Road, Mysore-4

Showrooms at:
GUPTA MARKET
Kempergowda Road
Bangalore-9.

MYSORE SILK PALACE
Luz Corner
92, Royapettah High Road,
Mylapore, Madras-4.



SOUTHERN ECONOMIST January 1, 1966

CONTENTS

EDITORIAL	1
Year of Shastri	
NOTES OF THE FORTNIGHT	2
Bokaro; Finance Commission; I. A. C.; Fertilisers; Coffee	
GLASS HOUSE GOSSIP	7
SPECIAL ARTICLES	9
Prohibition and the Emergency — By P. K. Bhargava Future of Machine Tools — By P. M. Raje	
SOUTHERN SCENE	15
ANDHRA: Heavy Power Equipment Plant; H. M. T. MYSORE: Machine Tool Institute MADRAS: Neiveli Thermal Station; Surgical Instruments Plant KERALA: Sabarigiri Project	
BRITISH SCENE	17
COMPANY MEETINGS	18
Scindia Steam Navigation Co., Ltd. — Speech of the Chairman Mr. Dharamsey M. Khatau Consolidated Coffee Estates Ltd. — Speech of the Chairman Mr. M. A. Sreenivasan	
COMPANY NOTES	21
Scindia Steam; State Trading Corporation; New Issues	
STOCK MARKETS	23
1965: A Year in Retrospect — By "Luzer"	

SOUTHERN ECONOMIST
Published on 1st and 15th of
every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Year of Shastri

SO FAR as this country is concerned, 1965 will go down as the year of Lal Bahadur Shastri. The nation owes a debt of gratitude to Mr. Shastri for steering the ship of state through a very difficult period in which it was menaced by external aggression and threats to internal stability. It is a hypothetical question whether any other person in his position would have fared better. The role of any individual in shaping a country's history can easily be exaggerated and it will be cheap flattery if we say that Mr. Shastri saved the country from a disaster. But it is the country's good fortune that in an hour of peril, we have at the helm a man who can be firm without being trigger-happy and magnanimous without surrendering the country's vital interests. In the face of the gravest provocation, Prime Minister Shastri kept his head cool, dealt a severe blow to the enemy without the usual accompaniment of propaganda warfare and took care not to dissipate the nation's energies in several directions at the same time, stood up to China's threats — all the time appealing to the people not to lose heart and reminding them of their ultimate destiny. He may not have matched in eloquence the "greats" of the bygone era of the Freedom Struggle. But the small tremulous voice, ringing in its sincerity reached every nook and corner of the country and made us forget our petty differences. We will be less than honest if we glorify Mr. Shastri and create an aura of greatness around him. In him we have a leader with whom the people can communicate on the same wave-length and a person who has no illusions of grandeur. Here is a man who has a grasp of the true nature of the diversity that is India. This is not the time for thanks-giving, and not the time for counting, so to say, the Pattons and Sabres, since the final victory still seems to elude us, not because we do not have the capacity to humble the enemy — we have it in ample measure — but because we have not been able to conquer fear, hatred and greed. Let us, in all humility, recognise the fact that the key to the future lies within us — the 430 million of us. We face crises of different kinds and different magnitude — the foreign exchange crisis, the food crisis, the fertiliser crisis and shall we say, the moral crisis. We will be making Mr. Shastri's task easier if we show a greater readiness for sacrifice, greater sense of self-discipline and a more demonstrable feeling of oneness. On the eve of the crucial Tashkent meeting, we will be doing a great service if we make our Prime Minister feel that the entire country is behind him in his efforts to win peace.

XL
Xm 21, 11/5/66
11/5/66

NOTES OF THE FORTNIGHT

Bokaro

The Russian Way

LIKE all other things Russian, the Bokaro project report has been prepared in a massive and truly workmanlike manner. From the published summary of the 27-volume report, it will be evident that Bokaro will certainly rank as the most modern among the steel plants in India but about the cost, there is room for misgivings. Strict comparison of the Russian estimate of cost with the estimates of U. S. Steel and of Dastur is not possible since the Giproemz blue-print incorporates many features, and is based on a product-mix which was not probably envisaged by the earlier consultants.

The cost of the 4-million ton plant, not including township and other facilities, is estimated to be Rs. 770 crores. This is higher than the estimate of the U. S. experts by at least Rs. 50 crores. But the Russian designers point out that with an addition of only Rs. 90 crores the capacity could be increased to 5.5 million tons. This advantage cannot be overlooked. During the Second Plan, when the major public sector steel plants were set up, the cost-variation, from the blue-print stage, to the stage of erection was something stupendous. The Russians probably want to avoid a repetition of this kind of thing, in the case of Bokaro. Besides, since the setting up of Bhilai, Rourkela and Durgapur, there has been cost-escalation. Should we not allow some 10 per cent for the erosion in the value of the rupee?

If the cost-estimate prepared by Dastur can be taken as fairly

reliable, a 1.5 million ton plant (first stage) would have cost our planners something like Rs. 450 crores, or perhaps a little less. From the scanty information available about the Russian project report, it is difficult to say how much the first stage (1.7 million tons), to be completed by 1970, would cost. If the figure of Rs. 572 crores mentioned in some quarters is correct, then one can say that a closer examination of the estimate is desirable. The general impression — which may be wrong — still persists that a million ton steel mill can be set up at an approximate capital cost of Rs. 300 crores of which one-third can be in foreign exchange. Now according to this line of reasoning, two major steel mills, with sufficient scope for a doubling of capacity, can be set up within the outlay for Bokaro. The Russians, on the other hand, may retort: When one is enough, why plump for two? Nonetheless, it is as well that we face the fact that Bokaro, with an outlay of about Rs. 575 crores, will eat into the tentative plan provision for other steel expansion programmes and probably the programme for setting up the fifth public sector steel plant. After all, one cannot have the cake and eat it too. As to the Bokaro Christmas Cake, the temptation to plunge the table-knife is all the greater since the Indian planners cannot afford to let go this opportunity. It is not simply true that the Indian planners had a distrust of the American steel makers — actually, they were in a feverish hurry to get the thing going — but the anti-Bokaro lobby at the Capitol, aided and abetted by its Indian counterpart, virtually killed all

well-meaning attempts of the former President Kennedy and former Ambassador, Prof. Galbraith to present an "American Bokaro" to India. Perhaps a private sector Bokaro would have been more to the liking of these interests.

Now, the capital cost per ton for Bokaro is likely to be Rs. 1,925 which is certainly higher than that of TISCO and IISCO which are older in design and were built when cost-conditions were entirely different. But it compares favourably with the average capital cost of Hindustan Steel which roughly works out to Rs. 2,800 per ton but this is likely to go down and stabilise around Rs. 2,000 when the expansion programmes are completed. How is it then that Bhilai, a Russian-aided project, was set up at a capital cost of only Rs. 1,650 per ton? To quote Mr. Indejit Singh, general manager of Bhilai, "The installed cost of the works, excluding captive mines and the township, in terms of cost per ton of annual rated capacity, works out to Rs. 1,650 under the one million ton plant, Rs. 1,000 under the 2.5 million ton expansion and Rs. 850 under the 3.5 million ton expansion". Compared to this, the capital cost of Bokaro for the 4 million ton stage seems to be on the high side but at the 5.5 million ton stage, it would reach the reasonable level of Rs. 1,560 per ton.

These cost estimates are not strictly comparable since the "capital base" taken for cost-calculation differs but the need to avoid over-capitalisation was never more urgent. All the same, we need a Bokaro if only for the simple reason that the demand

for steel in the country will have gone up to 27 million tons by 1975-76. Even to achieve the modest Fourth Plan target of 16.5 million tons, the expansion programmes of Hindustan Steel, TISCO, IISCO and Bhadravati need to be carried out expeditiously, the fifth steel plant should be taken up without delay and an alloy steel plant will have to be set up at Salem. They may have to be phased out, in view of the acute shortage of foreign exchange but there can be no "shelving" of any of these schemes. The position will certainly improve by the end of the Fourth Plan when we will be in a position to build our own steel plants from the equipment forged at Ranchi and elsewhere.

Finance Commission

Not Really Enough?

The Bills to give effect to the recommendations of the Fourth Finance Commission have been passed. The debate on these bills gave an opportunity to the members from the backward states to air their general complaint, that the Commission had not given due weightage to their needs. Considering that the scheme of devolution worked out by the Rajamannar Commission is more liberal than those of the earlier commissions — in fact, the states will get Rs. 750 crores more in the Fourth Plan, under the award — much of the criticism seems misplaced but there may be some truth in the plea that the problems of the backward states were not fully appreciated. The Constitution no doubt assigns an important role to the Finance Commissions in the levelling-up process but the members who complained that the Fourth Finance Commission was not fired by the socialistic zeal have evidently not grasped the essential functions of the Commission under our federal set up.

The Constitution places certain limitations on the scope of the Commission beyond which it cannot go, particularly in assisting backward states. This is precisely where the functions of the Finance Commission clash with those of the Planning Commission and in this era of planning, it is obvious that any scheme of devolution which ignores the "capital side" of the states' finances cannot be expected to work to the entire satisfaction of the less resourceful states. The observation of Dr. Rajamannar, contained in the minute appended to the report is significant, in this context.

After fifteen years of working the provisions of the constitution, during which four finance commissions have been appointed, I think the time is ripe to have a review of the Union-State financial relationship, particularly in view of the setting up of the Planning Commission. This review should be made by a special Commission who can approach the several problems that have arisen in the past and that are likely to arise in the future objectively and realistically... As regards distribution, *inter se*, among the several states, the general principles and criteria may be laid down by the Constitution. Here again, there has been a great divergence in the suggestions put forward by the states before the finance commissions. Population, contribution, collection, relative financial weakness, social and economic backwardness and *per capita* income are some of the different criteria urged by one or other of the states. In respect of such an important matter as the determination of the resources which will be available to each state as a result of a scheme of devolution, there should not be a gamble on the personal views of five persons or a majority of them.

By and large, the Rajamannar Commission has been liberal. The total non-plan revenue gaps estimated at Rs. 2,426.69 crores for the period, 1966-67 to 1970-71, would be met to the extent of Rs. 2,190.97 crores by a share in the Union taxes and duties, and Rs. 609.45 crores by way of grants-in-aid of revenues. This scheme actually leaves a surplus of Rs. 373.73 in the hands of six states. Mr. D. C. Sharma's plea

that Punjab is meted out a raw deal does not square with the fact that under the Commission's award, it will have a revenue surplus of Rs. 29.83 crores during the period of the Fourth Plan. This is not to deny that Punjab, which suffered a damage of the order of Rs. 22 crores as a result of the India-Pakistan war deserves special consideration but how could the Rajamannar Commission anticipate the coming events? That the devolution scheme is largely in favour of the states will be evident from the fact that the states' shares of the income tax has been raised from 66½ per cent to 75 per cent and the entire list of commodities on which the excise duty is levied has been brought into the divisible pool. And the annual grants-in-aid which were of the order of Rs. 63.75 crores, have been raised to Rs. 121.89 crores. Further, the Commission has also made additional grants to cover the new commitments of certain states in regard to the payment of increased dearness allowance and revised pay-scales.

There is some force in the argument that the Commission, in determining the basis of distribution, should have ignored the "collection criterion" (which plays a minor role at present) but as the Finance Minister observed, elimination of the collection-criterion will deprive the states (particularly the advanced states) of a major incentive for raising revenue. It is pointless to accuse the finance commissions of playing second fiddle to the Finance Ministry so long as their functions are limited by the provisions of the Constitution. There has been, it is true, a gradual erosion of the states' financial autonomy under the stress of planning and on account of an irrational dichotomy between the capital and revenue budgets. It is in this context that Dr. Rajamannar's plea for instituting an enquiry

into the Centre-States relationship at regular intervals assumes special significance.

I A C

Jetting Along

THE Indian Airlines Corporation has done exceedingly well in 1964-65. Its annual report, placed before the Lok Sabha gives cause for satisfaction. The Corporation's operating revenue, at Rs. 22.81 crores, was higher than the previous year's figure of Rs. 19.38 crores. Its operating expenditure was also higher than that of the previous year but not unduly high. The operating profit, which was Rs. 74 lakhs in 1963-64, has risen to Rs. 1.64 crores. In view of the fact that non-operating expenditure showed a disproportionately large rise, with the non-operating revenue actually showing a slight fall, the disposable surplus amounted to Rs. 1.34 crores, compared to Rs. 1.06 crores in 1963-64.

There is no disputing the fact that the operating efficiency of IAC has shown marked improvement. While the increase in operating revenues by as much as 18 per cent is largely attributed to the increase in the number of revenue passengers carried — it rose from 10.47 lakhs to 12.35 lakhs — improved results could not have been obtained but for the larger availability of space for passengers made possible by the replacement of Viscounts by Caravelles. It would, nonetheless, be wrong to under-estimate the importance of Viscounts in the present route-pattern of IAC. Incidentally, the fleet of IAC in 1964-65 consisted of four Caravelles, 12 Viscounts, 10 Friendships, 3 Skymasters and 36 Dakotas. It is thus evident that Dakotas which were quite useful at one time, are proving themselves to be assets of doubtful value in the changed conditions of today. Still they outnumber all the other types of aircraft put together. The disposal of these Dakotas

must be causing a veritable headache to the IAC management.

It is significant that the Corporation has been able to achieve an improvement in the operating revenue per available tonne kilometre (ATK.m.) from Rs. 1.43 to Rs. 1.45 while at the same time showing a modest reduction — despite a rise of Rs. 1.15 crores in the wage bill — in operating cost per ATK.m. from Rs. 1.38 to Rs. 1.35. The high overall load factor — an indication of efficient utilisation of capacity — at around 70 per cent is another highlight of IAC's performance. Although there have been significant additions to the staff during the year, the revenue earned per employee has risen from Rs. 18,521 to Rs. 20,663. The sharp fall in the cargo carried, from 30,715 metric tons to 24,532 tons, underscores the need for making available more space for cargo traffic, since the fall in the cargo traffic is not due to the lack of cargo offered but due to lack of cargo space available on passenger aircraft. The high overall load factor achieved by IAC indicates the backlog of demand for air travel. As the IAC annual report says: "This points to the need for a regular programme of adding to the Corporation's fleet if popular dissatisfaction and disappointment at denial of travel facilities are to be avoided".

For a domestic airline operating in a country of continental proportions, the need for modernising its fleet — in aviation, modernisation is, of course, a relative term — cannot be over-emphasised. It is only by a switch-over to jets, at least on the trunk routes, that IAC can hope to offer more capacity. The Viscounts which still have several years of useful life ahead, can be pressed into service along "medium-density" routes. The benefits of a switch-over to jet travel along internal routes will be largely nullified if no effort is made to reduce the time taken to reach

home, from the airport. In some instances, it takes more time than is actually spent in the plane.

Fertilisers

At any price?

CYNICS may be laughing in their sleeves over the recent *volte face* of the Petroleum Ministry in regard to the future pricing of fertilisers produced by new units in the private sector. In this instance, Prof. Humayun Kabir probably will have the last laugh. It is easy to accuse Prof. Kabir of having sold the country's interest "down the river" but anyone familiar with the industry's slow progress during the Third Plan will readily agree that even the sturdiest crutches "made in India" would not have propped up an industry which somehow refused to grow. In any case, sly hints, (from outside sources) to the effect that the new policy amounts to a back-door invitation to the Bechtel Corporation of U. S. which had offered to set up five fertiliser plants of 2 lakh tons each, need to be taken with caution.

Bechtel's come-back cannot be ruled out but if it does, it will certainly be not on its terms. Conscientious objectors will do well to ruminate over this fact. By the plebeian standards of an under-developed country, no prudent government would have agreed to Bechtel's terms which included majority participation (45:55) and a guaranteed return of 20 per cent. Bechtel is hardly likely to be impressed by the new policy which doesn't guarantee anything to anybody. To quote the key para of the new policy:

In order to step up indigenous production of fertilisers, the Government has decided that all fertiliser plants licensed up to March 31, 1967, will have, for a period of seven years from the start of commercial production, the freedom to fix prices for their products and organise their own distribution thereof, subject to one condition that the Government would have the option to buy up to 30 per cent of their products at a negotiated price.

Opinions differ as to the wisdom of this change of policy but those who are quick to feel the wind of change will agree that the Union Government's decision in this regard has not been taken on the spur of the moment. The fertiliser "de-control" — if that is the right word — is a logical sequel to the Government's policy of removing price-restrictions on basic commodities. One can reasonably surmise that this change of policy is largely influenced by the views of the World Bank. In the context of the grim outlook for foreign assistance, liberalisation of price controls, in deference to the views of the World Bank, is easy to understand.

There were other compulsions too, which led to a rethinking of fertiliser policy. The inability of the planners to prod the licencees to set up fertiliser plants in the Third Plan resulted in a serious shortfall in reaching the plan target. Against the anticipated production of 8 lakh tons of nitrogen at the end of the Third Plan, actual production, according to the mid-term appraisal, may not exceed 5 lakh tons. Left to himself, Prof. Kabir would probably have favoured a downward revision of the fertiliser target for the Fourth Plan, but the raising of the foodgrains target from 120 million tons to 125 million tons called for an upward revision of the fertiliser target also. It has now been revised to 3 million tons (capacity) and 2.4 million tons (production) by 1970-71. This is in addition to one million tons of P_2O_5 and 7 lakh tons of K_2O . Even taking into account the projects that are in the process of being completed in the next few years, the production is hardly likely to exceed 9 lakh tons.

With the present acute shortage of foreign exchange, it is idle to pretend that the public sector alone will be able to create an additional capacity of nearly two

million tons in the next five years. This is the reason why Prof. Kabir and his like-minded colleagues in the Shastri Cabinet are eager to attract foreign collaborators who can participate in the fertiliser programme. To the foreign investor, it is a gamble where the stakes are admittedly high. With the ruling internal prices higher than international prices by nearly 75 per cent, the temptation to set up new fertiliser factories cannot be easily resisted but it is doubtful if the average farmer will have enough resources to buy fertilisers at such exorbitant prices. Whatever may be the future outlook for fertilisers, the foreign investors will be probably disappointed if they "sink" their money in fertiliser plants in the greedy expectation of reaping a return of 20 per cent. Even at the end of the Fourth Plan, the public sector will still have an edge over the private sector in fertiliser production. This rules out the possibility of any "cartellisation" in the marketing of fertilisers. Those who cry wolf may not be unaware of this fact.

Air-India

Up and Up

AIR-INDIA has maintained a high rate of profitability. Its annual report for 1964-65, recently submitted to the Minister of Civil Aviation, discloses an operating profit of Rs. 3.62 crores. It is creditable that in a highly competitive field like international aviation, the Corporation has been able to earn a profit in excess of Rs. 3 crores for the third year in succession. While presenting the report, the Chairman, Mr. J. R. D. Tata, did not forget to remind the Government that Air-India has consistently been a net foreign exchange earner, the obvious implication being that the Government should not be niggardly in allocating foreign exchange needed to buy spares and to augment its fleet.

That Air-India has been able to surpass the industry's global growth-rate in 1964 is something that cannot be glossed over. As the report shows, there has been an increase of 18.3 per cent in the volume of traffic in 1964-65, against an increase of only 12.5 per cent in the capacity offered. This gives a measure of the efficient utilisation of capacity. For an international line like Air-India, the overall load factor of 49.6 per cent (against 47.8 per cent in 1963-64) is not a poor record.

The growth of revenues, it is true, has not kept pace with the growth of expenditure. While operating revenues rose by 12 per cent, from Rs. 26.81 crores to Rs. 30 crores, operating expenses increased by 15 per cent, from Rs. 22.97 crores to Rs. 26.41 crores. This is not surprising in the context of the increased wage-bill and the rise in the cost of obtaining spares. Revenue passengers carried have shown an impressive increase of 24.6 per cent. Cargo earnings have shown a modest increase of 10.3 per cent. There is only a small increase in the revenue earned from the carriage of mail.

The Corporation's financial position appears to be quite sound. Although the Government has granted a moratorium on interest-payment for the loans secured by the Corporation, up to October 1966, Air-India has been able to pay interest at 4½ per cent on the loan capital of Rs. 13.41 crores. Besides, a dividend of 5 per cent has also been declared on an equal amount of equity capital. The World Bank loan for the purchase of Boeing aircraft (Rs. 19.51 crores) has been fully utilised and repayments are also being made in regular instalments, from out of the Corporation's own resources. To meet the growing traffic, Air-India proposes to buy five more subsonic Boeing aircraft during the Fourth

Plan. This will cost Rs. 27 crores.

Since Air-India is a net earner of foreign exchange, the planners can be expected to make the necessary provision for the purchase of these aircraft at the rate of one per year, in the next five years. The future of Air-India is tied up, to a large extent, with the success achieved in the country's efforts to promote tourism. This calls for a better co-ordination between the operations of the two sister-corporations, viz., IAC and Air-India, and concerted efforts at starting new companies to run feeder services connecting places of interest. In the next decade, when the world's major airlines are likely to switch over to supersonic transport, Air-India cannot afford to remain complacent.

Coffee

Meagre Quota

THE new Chairman of the Coffee Board, Mr. A. S. E. Iyer, has not brought any cheering news from the Hay Market House. The December meeting of the International Coffee Council proved infructuous and a decision over the revision of the basic quotas has again been put off. Two committees have been set up by the Council to work out production goals and quota revisions for individual countries in time for the Council's next meeting, scheduled to be held some time in April.

The coffee growers in India have never been happy over the way the World Coffee Agreement is working but they have not been hostile to India's participation in the Agreement because of the negligible share (only 2 per cent) of India's production in the world total. Nevertheless, they had urged that the basic quota of 21,600 metric tons, allowed for 1964-65, as wholly inadequate. Little were they aware that even this meagre quota was pruned,

under a strange formula of "automatic adjustment" evolved by ICO ostensibly to prevent a collapse of world coffee prices. Thus during 1964-65, India could export to the quota countries only 18,803 tons.

The actual quality sold for export, out of the 1964-65 crop is 23,002 tons. The current year's crop of about 60,000 tons is considerably lower than the previous year's bumper crop of 69,200 tons and the next year's crop also may not exceed the current year's level, viz., 60,000 tons.

The marketing committee of the Board has recommended an allocation of 28,000 tons for export, from out of the 1965-66 crop. In view of India's foreign exchange difficulties, this allocation cannot be considered excessive but exports of this order will be possible only (1) if the world prices continue to be sufficiently attractive during this year; (2) if ICO takes a more sympathetic view of the small coffee growing countries like India; and (3) if the domestic market does not exert an unhealthy pull on available supplies.

The Coffee Board is of course there but it cannot afford to remain completely isolated from realities. Whatever the Board may think of the internal price situation, there is truth in the general complaint of the consumers that the ruling prices are unduly high and that these high prices are partly the result of inadequate releases. While the logic of this contention cannot be refuted, the fact remains that internal releases in 1965 amounted to 37,000 tons against 35,200 tons in 1964. Considering that the production in 1964-65 was lower than the production in 1963-64 by nearly 9,000 tons, it would be incorrect to suggest that the Board has been following a restrictive policy but the potential annual demand — under favourable price conditions — can well be 50,000 tons.

If the coffee industry is able to reach the target of 80,000 tons — this is feasible without actually increasing the acreage — it can easily sell, at economic prices, 50,000 tons in the internal market.

This leaves about 30,000 tons for export. A higher level of export is possible only when we are able to increase the coffee acreage at home and establish a foothold in the non-quota countries abroad.

The wide variation that one notices between the blossom estimates and actual realisations shows how much the industry's fortunes are tied up with timely rains. This calls for a gradual switchover to sprinkler irrigation. This is already being done in some of the more prosperous plantations but the smaller growers may perhaps need a modicum of assistance. In this, and in the matter of replanting, the Board should adopt vigorous steps to assist the industry. It can play a very useful role, as a catalytic agent, in helping the planters to avail of the loan facility offered by the Agricultural Refinance Corporation, through the commercial banks. No less important, as Mr. M. A. Sreenivasan aptly pointed out recently, is the need to reduce the maximum rate of Agricultural Income Tax from the present oppressive level of 60 per cent. The State Government will do well to reduce it to something like 45 per cent in the forthcoming budget.

Southern Economist

wishes its

READERS

CONTRIBUTORS

ADVERTISERS AND

WELL-WISHERS

A Happy and Prosperous

New Year

SOUTHERN ECONOMIST

GLASS HOUSE GOSSIP

I CANNOT somehow persuade myself to agree with the Reserve Bank Governor, Mr. P. C. Bhattacharyya, when he says that there has been no erosion in the value of the rupee. On matters of high finance, it would be foolish on my part to cross swords with so eminent an authority as Mr. Bhattacharyya but his defence of the Rupee did not sound fully convincing, for a layman like me. Frankly, I thought, the Rupee had taken a nasty beating in the last few years and if the external and internal purchasing power of this currency unit is any indication, the erosion appears alarming. It is futile, I know, to speculate — speculation is not my means of livelihood in any case — on what would have happened if the Rupee had been devalued a couple of years ago.

Personally, I am one with Mr. Bhattacharyya in believing that devaluation is not the final answer to our foreign exchange crisis, particularly since it will add to the burden of debt-repayments abroad, but the fall of the Rupee in the unofficial markets is something which the monetary authority cannot blink. The present restrictions on foreign exchange have been the cause of too many "leaks" and the unofficial deals have, to some extent, diminished the importance of our foreign exchange mechanism. Water finds its own level, and some day, the Rupee-value may have to be brought down to its intrinsic worth. I.M.F. has good reasons for frowning on any move to devalue the Rupee — since it will cause a chain-reaction among other countries — but I only wonder how long the monetary authority

can hold out, in the face of hard realities.

* * *

GENERAL de Gaulle's election for another term as the President of the Fifth Republic has caused little surprise. I would indeed have been surprised if the unpredictable French people had voted against his continuance as their leader. They nearly did it. It was all touch-and-go. Even the most ardent admirer of the General will concede that the image of the father figure is somewhat shaken after the elections in which de Gaulle had to fight for his political life. Why should he, one may ask. But with de Gaulle, there can be no 'whys' and 'hows'. What can one do with a superman like de Gaulle who genuinely believed in the fiction that he is France?

This bloated image is, I am glad, cut to size. The very fact that de Gaulle had to enter a second ballot to secure a decision shows that he lacks the full support of the French people for his policies which seemed, at any rate, to be aimed at breaking the Grand Alliance of Europe and U.S.A. The French President's poor showing in the recent elections, I hope, will cause an agonising reappraisal of the French policies vis a vis the Western alliance. The setback suffered by de Gaulle may not cause much jubilation on the other side of the Channel since there is no immediate likelihood, as far as I can see, of de Gaulle adopting a helpful attitude in regard to Britain's entry into the European Economic Community which is already half paralysed as a result of the highly nationalistic and

inward-looking policies of France. On the other side of the Atlantic, there will be subdued hope that at least on matters like international monetary reform, de Gaulle may not further embarrass the U. S. Administration by his fascination for the yellow metal. But I doubt if the elections have really sobered the old General. The General is too short-sighted — literally and figuratively — to see the signs of the times. But who cares, so long as he gives a stable Government to France?

* * *

TALKING of generals, I was a bit shocked and saddened by the news of the sudden death of Gen. K. S. Thimayya who, with his rugged appearance, exuded an air of durability. It is some consolation to his friends and admirers that he died in harness. I am not, incidentally, fond of that popular cliché, viz., that "old soldiers never die; they just fade away". 'Timmy' died like any other mortal and the fact that he died when he was keeping peace and not when he was waging a war, only adds to his glory. General Thimayya was as much a soldier of peace as he was a soldier of war.

Whenever I think of our Army, I always feel that it is this country's good fortune to have at its helm some of the ablest veterans of the Second World War. And Gen. Thimayya unquestionably belongs to that small coterie of Sandhurst-trained veterans who are alas, a fast-disappearing species. Wherever he fought and in whatever capacity he served, he brought glory to his motherland. In the Kashmir campaign in 1948 and in healing the wounds of the post-partition holocaust in Punjab, he proved his mettle as a man of action — and a tactful strategist at that.

Gen. Thimayya, I know, was

JANUARY 1, 1966

not quite happy with the politicians in New Delhi, when he headed our Army. It is a pity that his name was unnecessarily dragged into the bickerings over promotions of officers, but I am inclined to believe Mr. Krishna Menon when he says that "neither he nor Thimayya raised the controversy." Gen. Thimayya retired from the Army in 1961 and I do not wish to speculate on how things would have shaped if he was at the helm in October 1962. It is pointless to over-emphasise the differences that may have existed between the former Chief of the Army Staff and the former Defence Minister but I wish Gen. Thimayya had jotted down his "memoirs", in the fashion of the great generals like Montgomery. In most of these controversies, no question of high policy was involved and as far as I could see, misunderstandings arose mostly on account of temperamental differences. While on the subject of political control, I am tempted to quote Maj. Gen. P. S. Bhagat, V.C. who, in his admirable book, *Forging the Shield* says:

The working relationship between the minister and the military chiefs can obviously never be exactly defined. Broadly speaking, however, any military problem with a political bearing must be decided by the political authority. In the same way the military chiefs must be consulted on a political problem with a military bearing. The weightage given to the military or political aspects will depend upon the relative importance of each in the particular issue.

This is not, I know, saying a great deal, but many will agree with me if I say that Gen. Thimayya, in his tenure as the Army Chief, set healthy precedents for which his worthy successors should be ever grateful to him.

THE master story teller and stylist is no more. Maugham, I wouldn't say, was my most favourite author, but he was certainly among those whom I

enjoyed reading. Somerset Maugham never bored me. I have, I should confess, a poor memory for the "obits" that appear in the daily papers and some time back, I had an argument with my nieces about the celebrities who were dead and those who were alive. My *faux pas* about Maugham was promptly corrected — not, of course, before the damage was done. One somehow assumes that people make their exit after a span of 70 or 80. It was James Joyce's mother, I think, who had an argument with her husband about a neighbour whose death was dutifully reported by him. To cut the argument short, the old man said: "If he is not dead, someone must have taken the liberty of burying him alive". Maugham, who was an epicure in his own way — there was a touch of Wilde about him, sans Wilde's dandyism and his lack of discipline — had no illusions about life and death. Dwelling on the most unwelcome subject in *Summing Up*, Maugham said: "Death is inevitable. It does not matter how one meets it. I do not think one can be blamed if one hopes that he will not be aware of its imminence and be fortunate enough to undergo it without pain".

I do concede that Maugham was a bit cynical about contemporary life but I do not agree with critics who say that Maugham had a wholly superficial view of life. He had no illusions about his own position in the literary world. He once remarked: "We are the products of our nature and our environment. I have not made the pattern I thought best, or even the pattern I should have liked to make, but merely that which seemed feasible." If Maugham's approach bordered on the clinical, it was because of his early insight into life through the medical profession. His involvement with the sufferings of mankind was entire-

ly of a different kind. By and large, critics did not take kindly to him — they even called him cruel and nasty — but he cared less. About them, he said: "In my twenties, the critics said I was brutal; in my thirties, they said I was flippant; in my forties they said I was competent; and then, in my sixties, they said I was superficial. I have gone my own way with a shrug of shoulders." Maugham who, to use his own words, "never quite got over my astonishment at being a writer," succeeded fabulously and made enough money to last more than a life-time. He used his inborn talents to good purpose. Neither he nor the rest of mankind need feel sorry about it.

Tailpiece

Somerset Maugham's mother, a good humoured, pretty lady with small features, was asked by her friend: "You are so beautiful and there are so many people in love with you. Why are you faithful to that ugly little man you've married?"

She answered: "He never hurts my feelings."

— *Plebeian*

Read Throughout the World

ECONOMIC AFFAIRS

A Monthly Journal of Theoretical
and
Applied Economics

*

Edited by

HIMANSU ROY

10, GALIFF STREET, BLOCK 5

SUITE 64

CALCUTTA-3

SPECIAL ARTICLES

Prohibition and the Emergency

By P. K. Bhargava *

OUR country is facing a crisis owing to the Pakistani aggression. We must leave no stone unturned to ensure the integrity and solidarity of the nation. In view of the present emergency, defence expenditure will rise rapidly. It had suddenly increased from Rs. 289.54 crores in 1961-62 to Rs. 704.15 crores in 1963-64 or by 144 per cent on revenue account. Since then, it has remained around Rs. 700 crores per annum but if the threats of war from Pakistan and China persist, defence expenditure will have to be increased further. Consequently, expenditure on social and developmental schemes will be reduced and the resources will be diverted from the Civilian sector to the defence sector. Financing of increased defence expenditure will necessitate mobilization of resources by Central and State Governments.

Additional Resources

In the present situation, the states have to shoulder greater responsibility because the Centre may reduce the voluntary grants-in-aid to the State governments in pursuance of the defence oriented plan. Thus any policy of the Government which reduces revenue of the Central or State Governments may weaken our efforts to safeguard the country. Besides, mopping up excessive purchasing power from the hands of the citizens of the Country will help to check the inflationary tendencies in the Country. Thus, in brief, the Government has to mobilize additional resources and has to fill the 'inflationary gap'

* Department of Economics, Banaras Hindu University.

in the economy.

The past experience of some states shows that their prohibition policy has virtually failed. While inaugurating the Indian Institute of Scientific Studies for the prohibition of alcoholism the Chief Minister of Maharashtra, Mr. V. P. Naik said that prohibition has not succeeded and observed: "We have passed the Act. It has been in operation for 17 years. But we have not succeeded". The President of the Poona District Congress Committee candidly told the Chairman of the Prohibition Study Team: "The abolition of Prohibition was the best way of minimising the ill effect of liquor of any kind on society. Only leaders seem to favour prohibition". Various regions such as Madhya Pradesh, Bombay and Uttar Pradesh etc., appointed committees to enquire into the working of prohibition.

The Madhya Pradesh Prohibition Enquiry Committee was appointed under the Chairmanship of ex-chief justice of Nagpur, Mr. B. Niyogi, in January, 1951. The report of the Committee was published in June, 1952. The Committee was of the opinion that prohibition had failed in dry areas because it had not succeeded in eliminating the drinking habit. Moreover, it meant a loss of revenue. The Committee concluded that prohibition had reduced the consumption of liquor but its quantum could not be assessed. The Committee pointed out that "the reduction has not been consonant with the time, energy and money spent on it". It further observed, "We have seen failure was due mostly

to lack of public support and partly to the collusion of the lower ranks of the police and excise staff, with illicit distillers".

Maharashtra's Experience

Similarly the Bombay Government appointed Mr. M. D. Bhansali, the then Chief Secretary and erstwhile Commissioner, to report on the effectiveness of the Prohibition law in the State. His report, which was published in August 1952, was based mainly on the information submitted to him by the District Collectors and various other social institutions. He pointed out that illicit distillation was rampant in twelve out of the seventeen districts visited by him and that there was enormous smuggling in the State due to the contiguity with those states in which there was no prohibition.

A Sub-Committee appointed by the Economy Committee which enquired into the working of prohibition in the eleven dry districts of Uttar Pradesh, has reported that the addicts have taken to drinking Methylated spirits. The week-end increase in tipsy motor traffic between Kanpur and Lucknow also indicates that wet and dry districts cannot exist comfortably. The Planning Commission appointed a Prohibition Enquiry Committee under the Chairmanship of Mr. Sriman Narayan in December 1954. The Committee, in its final report recommended that complete prohibition should be enforced throughout the country by April 1, 1958. The Committee was of the opinion that prohibition will succeed only if everybody in the society desires it and

is prepared to work for it. This condition of the Committee remained unfulfilled. The states gave little heed to the recommendations of the Committee. The recommendation of the Tek Chand Committee on prohibition may also meet the same fate.

Reluctant States

The states have to bear greater responsibility to raise the additional resources in the existing situation. Therefore, adoption of the policy of prohibition in the present circumstances seems undesirable. The Report of the Tek Chand Committee on prohibition which suggests complete prohibition in the country by 1970 has not met with the approval of the state governments. The states have also asked the Central Government to compensate for 75 per cent to 100 per cent of their losses in excise revenue arising out of prohibition. The states have expressed their inability to enforce prohibition since this will not only mean a loss of revenue to them but an additional cost of administration in implementing the policy of prohibition. The past experience of many states reveals that prohibition has hardly improved the lot of the

* See 'Another Resolution on Prohibition' in Commerce, Vol. CIII No. 2631, of 9th September, 1965. The *Eastern Economist* in its issue of 30th November, 1965 has estimated the loss of revenue to the states' exchequer from this source which ranges from Rs. 300 crores to Rs. 400 crores per annum. These estimates exclude the cost of enforcing prohibition. According to the estimates of the Tek Chand Committee the excise revenue loss in dry areas has been estimated to be Rs. 401 crores while the expenditure arising out of the enforcement of prohibition may be about Rs. 54 crores, making a total fiscal loss of slightly less than Rs. 46 crores. If prohibition were enforced in wet areas by 1975-76, the Committee thinks the total revenue loss might be Rs. 80 crores per annum. The estimate of the Tek Chand Committee, regarding the loss of revenue arising out of prohibition, seem to be conservative as compared to the other estimates.

people; besides it has encouraged smuggling and illicit distillation. The Government has, thus, suffered revenue losses and at the same time its policy has failed on the welfare ground.

The Centre has offered to make up the revenue losses of states caused by prohibition to the extent of 50 per cent. This is expected to cost the Centre Rs. 75 crores per annum, which means that total loss of revenue is double that figure.* The states have not accepted this proposal. For instance the state of West Bengal has urged that the expenditure on the enforcement of prohibition would be heavy and the Centre should be ready to bear 75 per cent of the burden and Bihar had said that the Centre should reimburse any loss in excise revenue and the cost of enforcement. Uttar Pradesh has agreed with the report of the Tek Chand Committee but the unilateral action by one state would hardly produce any decisive effect. The consensus in this state also has been that the Centre should compensate for the loss in revenue. Uttar Pradesh has recently modified its policy of prohibition. Under the new policy of prohibition recently introduced, there are no "dry" districts in the state but there are 57 dry days in a year.

Centre's Role

Thus the states have not only opposed prohibition but they have also changed their policy. Even if the Centre compensates for the losses of revenue to the States, there would be burden on the finances of the Central Government. The dilemma is not that whether the states should be compensated or not but the real problem consists in mobilizing the resources by the Central and State governments to finance increased defence expenditure. Thus, the adoption of the prohibition policy under the present circumstances is undesirable. The opinion at a

discussion organized by the Gandhi Peace Foundation in June, 1965 in New Delhi was largely against prohibition. Only the ex-Finance Minister of India, Mr. Morarji Desai supported prohibition.

The various studies and surveys undertaken reveal that the policy of prohibition has achieved little success because the illicit distillation and the habit of drinking liquor is increasing. According to the report of the Tek Chand Committee illicit liquor distillation takes place because of the excessive profit margins in it. The Committee thinks that the margin of profit in illicit liquor trade ranges from 200 per cent to 1,000 per cent. While the committee supports complete prohibition it admits that since the introduction of prohibition illicit distillation has grown four or five times and the consumption of liquor has increased. In the opinion of the Tek Chand Committee, illicit distillation in wet areas generally account for 20 per cent of total liquor supplies. But illicit distillation in dry areas has gone up by about 3 to 4 times, since almost all the production is illicit. In a Sample Survey conducted by the Delhi School of Social Work on drinking habits in Delhi during 1964-65 it was observed that "Women in high socio-economic groups, such as wives of high officials and well-to-do businessmen and career women were found among the upper class women drinkers".

Women Drinkers

According to the Survey the other group of women was found among slum dwellers. There was little difference between these two groups of women drinkers. The Upper class women drinkers were largely of the younger age group of 20-29 whereas among slum dwellers drinking was more common among women of 40 years and above. Besides, the consumption of liquor in the

capital has also gone up. The current estimates reveal that the consumption of liquor in Delhi has gone up by 60 per cent since 1956.

Administrative Hurdles

There are various administrative bottlenecks in implementing prohibition in the country. The policy of prohibition has encouraged corruption and red-tapism in government departments. The Chairman of the Praja Socialist Party, Mr. S. M. Joshi, told the Prohibition Study Team in Poona that the bootleggers had spread wherever dry law was enforced, and that they had "bought up the state machinery that was entrusted with the enforcement of prohibition and had completely corrupted it". Similar administrative difficulties were observed by a 'Crime Survey' conducted in June, 1965, in Delhi. The Survey reported that liquor is smuggled in various parts of the capital and from

there it is sent to retailers. The problem is completed by the absence of the necessary staff. According to the Survey, a proposal to set up a special squad has not been implemented because of the non-availability of staff.

Conclusion

Thus it is obvious that prohibition had failed in the past. It diminishes the revenue of the state governments, which also have to meet administrative costs to implement the policy of prohibition. There is, thus, double disadvantage to the State Governments. If the states give up the prohibition policy their revenues will increase (without any increase in consumption as consumers will buy in the open market and reduce illicit distillation) by a sizable amount.

Leipzig Spring Fair

INDIA will participate in the

Leipzig Spring Fair, 1966, which is to be held from March 1 to 10, 1966. Details regarding the conditions of participation in the fair can be had from the Executive Director, Indian Council of Trade Fairs and Exhibitions, Jhansi Castle, Cooperage Road, Bombay-1, or the Leipzig Fair Agency, 140-Medows Street, Post Box No. 1993, Bombay-1.

In the 1965 Leipzig Autumn Fair held from September 5 to 12, businessmen from all over the world met at Leipzig. India was the biggest overseas exhibitor at the Autumn Fair. Her collective exhibition in the Bugra fair building covered a stand space of 630 square metres. More than 30 firms, mainly from Bombay, Calcutta and New Delhi, exhibited, in addition to the traditional goods such as tea and spices, colourful textiles, sports articles, products of arts and crafts.

The somnolent village of Kukutapalli near the twin city of Hyderabad-Secunderabad is bustling with activity after

the commissioning of the fifth factory of **HMT**

THE HMT UNIT AT HYDERABAD has embarked on the production of SPECIAL PURPOSE MACHINES.

These machines will meet the needs of industries manufacturing items in medium/large batches as well as mass production.

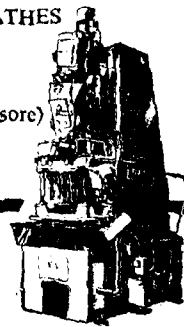
- Maximum economy
- Consistency in output and finish
- Partial or complete automation
- Diverse operations like drilling, tapping, milling etc. in any combination
- Great economy in floor space, material handling, stock-in-progress, labour, tooling and rejection.



Also available: MILLING MACHINES—RADIAL DRILLS—HYDRAULIC CYLINDRICAL GRINDERS—ELECTRICALLY CONTROLLED MILLING MACHINES—LATHES

HMT
HINDUSTAN MACHINE TOOLS LTD.

Factories at: I & II: BANGALORE (Mysore)
III: PINJORE (Punjab)
IV: KALAMASSERY (Kerala)
V: HYDERABAD (A.P.)



maa. HMT. 5522 B

EXHIBITION SMALL-SCALE INDUSTRIES PRODUCTS



With machines costing over Rs. 25 crores made available by National Small Industries Corporation Ltd, on easy hire-purchase terms, over 5,000 small scale industrial entrepreneurs have come to surface and they provide the markets with self-contained items and large industries, with ancillary parts.

To acquaint the public with the items manufactured by small-scale units with the machinery supplied by the National Small Industries Corporation Ltd., an exhibition will be held in New Delhi in February, 1966.

Are you interested? If so, please write for details to:



THE NATIONAL SMALL INDUSTRIES CORPORATION LTD.

(A GOVT. OF INDIA UNDERTAKING)
HIRE PURCHASE DIVISION, 4-ROUSE AVENUE, NEW DELHI-1.

Future of Machine Tools

By P. M. Raje

The future demands on the Machine Tool Industry will be growing and it has, therefore, to bear in mind that in the background of our needs for effective defence and the fast pace of industrialisation, the country's needs for varying types of machine are always on the increase. The industry thus will be faced with challenging demands on itself.

THE first lathe produced in Batala in 1890 marked the commencement of the Machine Tool Industry in this country. The brave youths of the Punjab are also known for their flair for technical avocation and in pre-independent India, even when industry was almost a taboo in the State, one could see about 250 machine tool manufacturers clustered around Ludhiana, Jullunder, Batala and other areas. Bombay also could be proud of lending a very effective hand to the growth of machine tool industry. There were about 100 machine tool manufacturers around Bombay during these times.

These machine tool manufacturers, however, confined their manufacturing activity to non-specialised products and the machine tool manufactured by them, while being sufficiently rugged, did not incorporate any features that called for precision or facilitated any production based on the concept of precision or quality. These 350 and odd machine tool manufacturers in the Punjab and around Bombay among themselves manufactured a range of about 100 components, principally for their own use and the Indian Machine Tool Industry thus never made any impact on the country's industrial complex.

Post-war Impetus

Almost up to the Second World War, the characteristic somnolent villages formed the nucleus of the country's economic

life, the only sign of industrialisation being a few textile units operating in bigger cities like Bombay, Ahmedabad, Delhi, Calcutta, Madras, Sholapur etc. Yes, the textile industry was perhaps the forerunner of Indian Industries. Things, however, changed after the Second World War. The blockade in Suez affected war operations in various sectors and therefore, they had to think of building a War Supply Base elsewhere. India was obviously the choice, since it remained outside the war zone. The pre-requisite, the Government soon realised, to any progress in regard to industries was an organised machine tool industry. With the cessation of hostilities, however, the Indian machine tools industry like any other war-time baby, crumbled in the face of open competition and withdrawal of State support.

State's Entry

The post-Independence Government, thus inherited a legacy of Machine Tool Industry standing on its last legs. The one peculiar feature of the Machine Tool Industry is that while it is capital intensive, it is very slow at returns. In the already capital-shy conditions obtaining during the immediate post-Independence period, the Government of India, therefore, found it very difficult to attract private capital. It was left, therefore, with no alternative but to enter this field. The immediate reaction was to approach developed countries like U. K. and U. S. A. for technical guidance. Under condi-

tions prevailing immediately after the Second World War, these developed countries, however were busy rehabilitating their own war-torn economies. The Government had to approach a country which had kept away from war and Switzerland was, therefore, the choice.

Real Beginning

It was against this background that in March 1949 the Government of India entered into a technical collaboration agreement with Messrs. Oerlikon Machine Tool Works, Buehrle & Co., Switzerland for setting up a machine tool factory in the country. This brought the Hindustan Machine Tools into being at Bangalore, which went into commercial production in 1956. With State having entered this field, there was a lot of misunderstanding among the machine tool manufacturers in the private sector, which resulted in unnecessary duplication and confusion in regard to production. Added to this were the initial teething troubles this State project had to go through. It may be mentioned that while Hindustan Machine Tools was commissioned in 1953, there was no sign of progress well up to 1956 and this brought the project under heavy criticism.

The new management which took over in early 1956 set about with a bold and dynamic programme aimed at increasing plant utilisation. This State project, which suffered a good deal of Press and Parliamentary criticism had been able to turn the corner. Starting with its maiden commer-

cial production of 135 machines against the target of 57 machines in 1956, HMT made remarkable progress. Within about 4 years, i.e., 1960-61, it had been possible for HMT to bring the production to 1,002 machines against the target of 400 machines. After the project reached the stage of self-generation, in 1960-61, it declared its maiden dividend of 10 per cent and began to plough back its surplus for its expansion. The Second factory in Bangalore was taken in hand early in 1960 and within 17 months, was inaugurated in July 1961 by the late Prime Minister.

Second Factory

When the second factory reached substantial production stage in 1962-63, the total output of HMT came to 1,615 machines valued at about Rs. 6.7 crores. During the financial year 1963-64, both the HMT factories reached their full capacity and produced 2,000 machines valued at about Rs. 9.25 crores. During the last financial year i.e., 1964-65, HMT turned out machines worth Rs. 11.2 crores. It may, however, be mentioned that production during 1964-65 suffered a short-fall by Rs. 1 to 1.5 crores mainly on account of foreign exchange difficulties. Its outstanding success encouraged the HMT to offer to the Government to build three more Machine Tool factories during the Third Five-year Plan.

The third HMT factory was set up in the Punjab. It went into production in October 1963. The factory is expected to achieve its rated production capacity during the current financial year. The fourth Machine Tool factory at Kalamassery near Ernakulam in Kerala was commissioned in October last, while the fifth factory in Hyderabad, foundation stone of which was laid on July 26 last year, is commissioned now, almost in less than 17 months of the breaking of ground. It is interesting to note that all

three factories have been planned and built entirely by Indian personnel without any foreign technical collaboration. When all the five HMT factories go into production, the total output is estimated to reach Rs. 25 crores per year during 1967. HMT will then have 15,000 employees on its rolls.

At the current rate of expansion, it would not be out of place to foresee a further increase in the production capacity of the Hindustan Machine Tools. It can safely be assessed that HMT will be able to reach the target of Rs. 40 crores worth machine by 1970-71, by which time it will have established a production capacity of Rs. 50 crores per annum. This will mean that HMT will be able to account for a little over 40 per cent of the estimated requirement of machine tools of the country. India's requirements by then are expected to be around Rs. 130 crores annually.

Future Plans

In keeping with the country's rising needs for a wider range of machines, the Hindustan Machine Tools has been continuously diversifying its production lines. From the High Speed High Precision Centre Lathe in 1956, the factory progressively diversified its production lines to include milling machines in 1957-58, radial drills in 1958-59, general purpose lathes in 1959-60 and a new range of cylindrical and universal grinding machines in 1960-61.

A new concept in the manufacturing technology, which had been in vogue in all the highly developed countries in the world through the use of special purpose and transfer line machines for mass-production mainly in the automobile industry has also had its impact on the machine tool market in India. HMT stole the honour by making pioneering efforts in this regard and it soon entered into this manufacturing field. In collaboration with a French firm, the Hindustan

Machine Tools commenced manufacture of these high production machines in their Second Factory in Bangalore in 1962-63.

To meet the steeply rising demand for more and more machine tools and metal forming machinery in the country and to fill up the capacity of its new factories, HMT thought it appropriate to further diversify its products and accordingly in 1963 entered into licence agreement for the manufacture of Gear Shaping Machines with a British firm. It is planned to make these machines initially in Bangalore and shift its production later to its fifth unit in Hyderabad. In the same year, HMT entered into a design collaboration with a West German firm for the manufacture of all electric Heavy Duty Programme-Controlled Milling Machine. These are being currently manufactured in the third unit of HMT at Pinjore in the Punjab. Simultaneously, Heavy Duty Surface Grinders of East-German design are also planned to be made in the Bangalore factories, while negotiations for licenced manufacture of Single Spindle Automatics have been recently concluded with a French firm.

Wide Gap

India has a long way to go so far as its plant-equipment is concerned. As mentioned earlier, the country's annual requirements of machine tools by 1970-71 are expected to be around Rs. 130 crores. With a view to increasing the capacity of the Indian Machine Tool industry to meet at least 75 per cent of the estimated demand, an investment of Rs. 367 crores in machine tool industry during the Fourth Five-Year Plan period has been conceived. The target of annual capacity of Rs. 95 crores is recommended, the share allotted to the public sector being Rs. 50 crores. Further, according to the assessment of experts, it should be possible for the industry to aim at the export of machine tools at the rate of Rs. 4 crores per annum by 1970.

SOUTHERN SCENE

Shastri Inaugurates HPEP Plant

ON December 11, 1965, Prime Minister Shastri inaugurated the Heavy Power Equipment Plant at Ramachandrapuram, near Hyderabad. The Plant is one of the four public sector projects being set up within the framework of first economic agreement signed between Czechoslovakia and India in November 1959. Czechoslovakia granted an easy, long-term credit to cover the purchase of machinery and equipment and also offered to extend its technical co-operation.

The execution of this project had been entrusted to Technoexport, Foreign Trade Corporation for Export of Complete Industrial

ANDHRA

Plants and to Messrs. CKD, Praha. The plant is under the management of Bharat Heavy Electricals Ltd. Construction of this plant, together with the establishment of the High Pressure Boiler Plant at Tiruchirappalli, also with Czechoslovak assistance, followed the Indian Government's decision for increasing the power-generation as quickly as possible so as to reach an output of about 35 million Kw by 1975. That meant an annual increase of about 2,500 Mw of the installed output. In this task, the electricity obtained from the huge water sources will surely play important role but there is also need for setting up a number of thermal power stations in the proximity of coal sources and centres of consumption. The Czech-aided plants will, therefore, mean significant contribution towards further development of the energy base of India.

The HPEP, in its first stage, will have the capacity of approxi-

mately 800 Mw per annum. In the production programme are included turbines and turbo-alternators of 55 Mw and 110 Mw unity capacity with the possibility of production of even bigger units in future; later on, production of turbocompressors and turboblowers, big asynchronous electric motors and extension of production of pumps is also planned. The plant will have its own foundry. It means 100 per cent indigenous production. Imports of some parts, the manufacture of which is difficult and complicated, will be limited only to the first few machines.

* * *

The Hyderabad unit of HMT was inaugurated recently. The total outlay on this unit is Rs. 7.75 crores. This includes housing and other amenities. The target of production in the first phase i.e., by 1969-70, is Rs. 5 crores. In the second phase i.e., by 1972-73, the capacity will be doubled to Rs. 10 crores. Production will start with the manufacture of custom-built Special Purpose Machines and Semi Standard Machines followed by Gear Hobbing Machines.

Mysore

Machine Tool Institute

The Central Machine Tools Institute, Bangalore, was inaugurated on December 13, 1965 by the Union Minister of Industries, Mr. T. N. Singh. The Central Machine Tools Institute (CMTI) has been established with financial and technical assistance from Czechoslovakia under the initial offer of a gift of Rs. 60 lakhs.

Bangalore was selected as the most suitable location for setting up of this Research Institute in view of its proximity to the Hindustan Machine Tools Factory and the Indian Institute of Science. Details of technical co-operation were worked out in an Agreement in 1962. It was signed in May 1962 at Prague by Prof. M. S. Thacker, President of the CMTI, with Messrs. Technoexport of Prague and a supplementary agreement embodying these details was signed during December 1962 at New Delhi.

According to the agreement, Czechoslovakia undertook the supply of machinery and expert technical staff within the gift value of Rs. 60 lakhs for setting up the Institute and the training of Indian technical officers in Czechoslovakia for periods ranging from 12 to 24 months. Since the foundation stone of the Institute was laid in July 1963, the Institute has witnessed intense activity. Out of 23 technical officers who were sent to Czechoslovakia for training, some have already returned and started work on the design and testing of machine tools. Six Czech experts are presently working on design of machine tools, standardisation of machine tool elements, machine tool and cutting tool technology and testing of machine tools. A technical programme of work for the Institute was finalised in consultation with Mr. Ludvik Brym, an expert from the Research Institute for machine tools and cutting tools in Prague. Mr. Brym and Mr. R. V. Ramiah, Joint Director of the Institute visited several firms and held discussions with experts interested in machine tool technology. A technical programme covering the Third and Fourth Plan periods was approved by the Governing Council in Jan. 1965.

Neyveli Thermal Station

OF all the power projects in India that are being built with Soviet collaboration, the Neyveli Thermal Power Station occupies the pride of place. Work on the Neyveli Station began at the end of 1956. The first 50,000 kW unit was commissioned on May 23, 1962, the second, third and fourth units were commissioned in 1963 and the fifth and the last unit of the first stage was commissioned in April 1964. Work is in progress on the expansion of Power Station upto 400,000 kW and another 200,000 kW will be added during the next Five-Year Plan. It has been estimated that about 50 per cent of the total power requirements of the State of Madras would be met by the Neyveli project alone. The Plant is unique in that it is the first lignite-fired power station in India and the first to have been built directly by Indian engineers and technicians with the technical guidance and supervision of Soviet experts.

* * *

Another Soviet-aided project is the Surgical Instruments Factory situated near Madras. This plant will manufacture about 2.5 million surgical instruments annually with a total of 180 variety of items. Its output is estimated to be of the value of Rs. 2.8 crores. This plant will meet some 60 to 70 per cent of India's current requirements of surgical and other medical instruments.

Kerala

Sabarigiri Nearing Completion

FOR the past several years, Kerala has been plagued by an acute power shortage, but the situation is expected to change with the commissioning of the

3-lakh kW Sabarigiri Hydroelectric Project in 1966. This U. S.-financed (Rs. 28 crores) project will more than double the existing installed power-generating capacity in Kerala. The project utilises the power potential of two small rivers, the Pamba and the Kakki. Both of them arise in the Western Ghats and drop several thousand feet during their swift and short passage to the Arabian Sea.

The two rivers annually carry sufficient water to cover an area of 600,000 acres to a depth of one foot. To utilize the power contained in this large water-flow, two high dams have been constructed, one across each river and the reservoirs connected by a two-mile-long tunnel. Another tunnel, three and a half miles long, will conduct the water from the Kakki reservoir to the penstocks of the power station. Six 50,000-kilowatt generators will feed a state-wide power grid. Sabarigiri is among the cheapest power projects in India. Construction costs are expected to be only Rs. 1,100 per kilowatt

THE Premier Cable Company's factory, set up in technical collaboration with an East German Firm, is now ready to commence production. Located in a 52 acre plot of land at Karukutty in Kerala State, the factory will produce p.v.c. insulated cables suitable for voltages upto 1100 V. The Company is licensed to produce 1605 million core meters of p.v.c. insulated wires used for domestic and industrial wiring and 912 kilometers of p.v.c. insulated cables—armoured and unarmoured—used in power distribution

Wire drawing machines, Stranding equipment and Laying-up machines, have been imported from East Germany, while the latest type of p.v.c. extruders have been brought from West

Germany. The Company had nine of its engineers trained by the collaborators. Installation of the entire plant has now been completed by the Company's technical personnel under the overall supervision of German technicians. The Company was ready for trial runs in November, but this was delayed by a month due to acute shortage of power. The Kerala State Electricity Board, has however, agreed to release sufficient power to commence trial runs. The Company's Managing Director Mr. H. M. Periwai, recently visited the factory to finalise arrangements for commissioning the plant. Once commercial production of cables, included in the range of current production programme, has been established, the Company will take on hand the work in connection with the second stage of the project, under which they will make copper winding wires and p.v.c./polyethylene insulated cables for higher voltages upto 11 KV. The Company's General Manager, Mr. S. R. C. Poti, recently visited the Continent in connection with the future expansion programme.

BOOKS RECEIVED

History of Economic Thought, By Prof S. K. Srivastava, M. A., Ph.D., Published by Atma Ram & Sons, Kashmere Gate, Delhi-6. Price Rs. 15.

Democracy and Mixed Economy, By V. K. Narasimhan, Published by Popular Prakashan, Bombay. Price Rs. 5.

International Liquidity and the Developing World, By Anila Graham M. Sc., Econ. (London), Published by Economic and Development Research Limited 116, Seymour Palace, London, W.1.

Financial Intermediaries in India, By M. S. Joshi, M. A., Ph.D., Published by the Registrar, University of Bombay, Bombay.

BRITISH SCENE

New Experiment in Planning

By Colin Jones *

A new experiment in economic policy is about to get under way in Britain. Industrial firms and trade unions will start notifying the Government of any plans they may have to raise prices or claim higher pay. The object will be to try to make the Government's prices and incomes policy more effective—in other words, to ease the problem, common to most industrialized nations, of keeping increases in incomes within the overall growth of productivity in the national economy, and thus of keeping the long-term trend of prices stable.

Voluntary Exercise

What is remarkable about this experiment is that, during the first stage at least, the whole exercise is voluntary. A certain amount of official persuasion, stopping well short of statutory compulsion, was used to get the experiment mounted. The two top organizations on both sides of British industry, the Confederation of British Industry and the Trades Union Congress, agreed to persuade their members to co-operate to avoid the necessity of the Government's taking powers to make such an "early warning system" compulsory. As a safeguard, however, the Government will shortly be putting legislation before Parliament that gives it permissive powers to introduce a compulsory system.

The voluntary scheme is not all-embracing. Advance warning of price increases—about four weeks

as a rule—will be expected for only about 80 groups of products and services, and on the whole these will mostly be consumer goods, that is, those figuring in the cost of living. A number of industrial goods are included—ball bearings, contractors' plant, steel products, for example, as well as road and rail freight charges. But these tend to be fairly standard items.

To avoid bogging down the whole experiment in a mass of awkward detail, and because cost-of-living indicators tend to influence many wage claims, most industrial goods have been left out: they are frequently designed to meet particular needs and quite often are sold under individually negotiated contracts.

Scope of Scheme

The scope of the scheme is somewhat wider on the pay side, but again, claims involving only small numbers of employees or which, for other reasons, are of little significance have been excluded. The procedure on the pay side is also a little different from that for prices. First of all, both claims and settlements will be notified and, where appropriate, their progress of negotiations with management.

Secondly, the Trades Union Congress agreed a couple of months ago to set up its own machinery to receive notices of pay claims from its member unions, process them, and pass on to the Government those which it thought the Government would want to consider. The Confederation of British Industry is also passing on the details of

national pay claims sent in by its members, and the Government is drawing on its own existing arrangements for details of local and plant pay negotiations.

Notice by Firms

But for prices, notice will be sent direct by the firms concerned to the Government. The Confederation of British Industry will not be handling them as the Trades Union Congress is handling pay claims; the Confederation preferred not to become involved in its members' individual pricing policies. Of course, the purpose of all this is not information for its own sake. The object is to provide the Government with sufficiently comprehensive knowledge of coming price or pay increases so that it can select with greater precision and timeliness those of particular economic or social significance for reference to the National Board for Prices and Incomes to undertake detailed investigation.

Naturally, the fact that advance notice is now expected with a statement of the circumstances and reasons for the change may have the effect of causing firms or unions to think again, or at least consider with some care the arguments they are putting forward in support of their case. For there is always the possibility that their demands may be chosen for detailed investigation. If this happens, they will be asked to accept a 'standstill' for three months and to demonstrate to the Board that their arguments do not conflict with the country's economic interest.

* Mr. Jones is Industrial Editor of *Statist*, London.

Scindia Steam Navigation Company Ltd.

Summary of the Statement of Mr. Dharamsey M. Khatau, Chairman, The Scindia Steam Navigation Co., Ltd., made at the 46th Annual General Meeting of the Share-holders 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, Mr. Dharamsey M. Khatau, Chairman, referred to the critical period 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, Mr. Khatau said that, as in the past, Scindia's entire resources were at the country's service.

Import Curbs

Commenting on the state of the country's economy, Mr. 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, Mr. 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 per cent of our bulk cargoes and an increasing share in the liner trades are carried in our ships. A major difficulty in this respect was our growing shortage of our 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,

Mr. Khatau pressed for restoration of full development rebate of 40 per cent instead of the present rates of 30 per cent for ships not more than 7 years old and 20 per cent for older ships.

During the year under review, Mr. 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 knot 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.

Improved Ships

At the very beginning of the present conflict, Mr. 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 lakhs 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 and 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, Mr. 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, Mr. 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 per cent of "Aid" cargo for their Shipping and the pressure brought on them by American Shipowners to reserve upto 100 per cent of such cargoes for U. S. Flag vessels, Mr. 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. Mr. 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 per cent increase in Coastal freights as from 1st August 1965, Mr. Khatau said, fell far short of the shipowners' demand based on operating costs which had further gone up; about 50 per cent 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 Mr. 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, Mr. Khatau hoped that the Government would find it possible to provide necessary cover at reasonably low rates. Regarding the working of subsidiary Companies, Mr. Khatau said that the Scindia Work-

shop 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, Fire 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 amounts due

from the State Government for 1962-63 and onwards.

Concluding his Statement, Mr. Khatau expressed his gratitude to the Government of India and in particular to the Transport Minister, Mr. Raj Bahadur, Transport Secretary, Dr. Nagendra Singh and Chairman of the National Shipping Board, Mr. 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.

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

Consolidated Coffee Estates (1943) Limited

Speech of Mr. M. A. Sreenivasan, Chairman, at the Twenty-second Annual General Meeting of Consolidated Coffee Estates (1943) Limited on 14th December 1965.

THE annual general meeting has usually been an occasion for Chairmen of this, as of other companies, not only to tell shareholders of the performance and progress of the Company but also to speak of the problems and difficulties facing the industry, in the hope that their statement may receive consideration of the concerned authorities. Of coffee plantations and their problems, however, so much has been said so responsibility with so little effect that I feel no urge, before this body of practical men interested in production and results, to indulge in an exercise that produces little fruit.

Those of us who have attended even the annual conferences of Planting Associations, graced and inaugurated by Hon'ble Ministers or other high authorities, are familiar with their pattern and sequences. The Chairman of the Association, chosen for his knowledge and experience, makes a carefully prepared speech, explaining the position and problems of the industry, submitting reasoned representations of the handicaps under which it is labouring, and the Association's constructive suggestions for the consideration of the Government authorities.

Set Pattern

The speech of the Minister or other high authority narrates the history of coffee planting, the merit of the coffee bean as an earner of foreign exchange, and concludes with an exhortation to planters to shed doubts and fears and produce more, export more, and pay more, with barely any reference to the Association's representations. It is the same scene of soliloquies from one side, and sermons from the other. The conference ends, the troubles remain.

Nevertheless, I shall permit myself, to refer to just one important instance—namely the representation of all the planting bodies in South India regarding the

severity and inequity of the 60 per cent Agricultural Income-tax in Mysore on incomes above one lakh of rupees. In fairness, I must stay that this plea did not end as a soliloquy. It fortunately evoked a response from the Government. No less an authority than the Hon'ble Finance Minister of Mysore made a statement in a place no less important than the floor of the Mysore Legislature, that the rate of 60 per cent was on the high side, and that the Government would bring an amendment to reduce that rate, with effect from 1st April 1964. This was on the 6th of July last year. But these reassuring words still remain to be translated into action.

Agricultural Income Tax

Everyone of us fully realises the anxiety of the State to augment its revenues to meet the growing demands of the country's defence and development. Our own Company has substantially contributed and will continue to contribute to the revenue. But the 60 per cent tax on income from agriculture, which is subject to seasonal vicissitudes in admittedly too high. It is iniquitous and, if I may add, far from socialistic; for, a holder of a hundred shares in our Company, which represent just over one acre of coffee is taxed at 60 per cent on his income from it, while the owner of a coffee estate of a hundred acres is taxed at half that rate. I am confident that a way can be found by which the tax can be made less irrational and more in line with taxation in the Centre and in the neighbouring States without diminishing, and possibly even enhancing, the revenue at present derived by the State. I still hope that the implementation of the solemn assurance by the State Government will no longer be delayed.

Turning now to the working of your Company, I hope that the results for the

year will be regarded as satisfactory. That these results have been achieved despite unfavourable seasonal conditions, severe taxation, and a substantial increase in labour and other costs is a striking demonstration, an annually repeated object-lesson, that agriculture in our country, the growing of crops in our land, can be as bountiful and prosperous and as productive even of surplus for export as in other lands, if only it is given the chance to be true as an industry in which investment is safe and not hazardous, ownership is not under constant threat, growth is not stifled by ceilings and the crop is not subjected to controls and levies.

Better Production

Instead of remaining merely a meagre means of subsistence, it can really and truly be the most important industry in the country. If the production of coffee has been trebled in ten years, there is no earthly reason why it should prove impossible to double and treble the production of food crops, not merely to cover the chronic deficit of 10 per cent in the country's bare requirements, but also to usher in an era of abundance. That era of abundance, and of our country's independence in the vital matter of food, can come only when land is left free to grow more food and not used to grow more votes; when farm and holdings cease to be continually trodden upon and made the arena of ideological exercises; when, like tea plantations and coffee estates, there can be paddy plantations and ragi estates, large and small, self-reliant, attracting investment, using managerial skills and disciplines, applying well-learned techniques, employing the requisite labour force, adequately paid, properly housed and well-cared for.

I shall now refer to one or two matters which I feel would be of interest. Knowing the great importance of safeguarding and

augmenting timber resources, your Directors have taken steps to see that at least two rosewood trees are planted where one grew before. The same policy is pursued with regard to teak and other valuable timber.

The investment of the sizeable cash resources built up by the Company is a subject to which your Directors have been giving constant thought. These funds are for the time being deposited with sound concerns and are earning a reasonable amount of interest. Meanwhile, negotiations are in progress for the purchase of a small and attractive coffee estate adjacent to the Company's property, which has been under the Company's management. If the funds have not yet been invested in the acquisition of other properties, or on other propositions, it is only because your Directors are anxious to maintain the earning capacity and profitability of the Company to the fullest extent possible. I have good reason to hope that I shall be able to report progress in this respect before we next meet.

Water Resources

Erratic monsoons, insufficient or untimely rains greatly affect our crops, as they affect other crops. With a view to mitigate the adverse effects of the monsoon's vagaries and to insure against them to fullest extent possible, your Directors are having a careful survey made of the potential water resources in

the Company's properties, and to take steps to conserve and to augment these resources, in order to ensure a steady supply to the pulphouses and to the artificial rainers and irrigation equipment in use and to be installed. Steps are being taken to modernise and to improve the efficiency of the Company's Curing Works at Kushalnagar.

As stated in the Directors' Report, Mr. V. C. W. Murphy has left the Board, as he will soon be leaving India. I am sure all of you will join me and my colleagues in thanking him for his valuable services to the Company and in conveying to him and Mrs. Murphy our sincere good wishes. In his place the Board of Directors have co-opted Dr. Rajah Sir Muthiah Chettiar. Your Directors feel that the Company is fortunate in having a person of his attainments and experience as a member of the Board.

On behalf of the Board I would like to mention our appreciation of the excellent work done by Mr. Somana, Managing Director, and Mr. K. C. Appayya, Field Manager, with the enthusiastic assistance of the other officers and staff. Labour relations continue to be cordial. I am grateful to my colleagues on the Board for their valued counsel and co-operation.

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

SCI's New Service to Thailand

THE Shipping Corporation has decided to start a regular cargo service from Thailand to India and the first vessel of the Shipping Corporation m. v. "State of Kutch" sailed from Bangkok on December 4, 1965. India used to purchase substantial quantities of raw jute from East Pakistan which has now stopped coming and India had to look for alternative sources. The Government of India has now decided to purchase 1.74 lakh tons of raw jute from Thailand.

Publications Received

Productivity: Special issue on Agricultural Productivity Vol. VI Nos. 2 & 3, 1965, Published by the National Productivity Council, 38 Golf Links, New Delhi-3

Andhra Pradesh Industries Bulletin: Inaugural Number, Published by the Director of Industries and Commerce, Government of Andhra Pradesh, Hyderabad.

COMPANY NOTES

Scindia's Many-sided Progress

THE speech of Mr. Dharamsey Khatau, Chairman of the Scindia Steam Navigation Company Limited (summary is published elsewhere in this issue) reveals that the Company has maintained the progress it has shown last year. He observed that the cargo carried and the freight earned had both shown an improvement over the previous year as a result of additional services provided in certain trades, the freight increase made last year and the rationalisation of berthing in the U. K.-Continental trades. However, berthing delays in Indian ports and the mounting operational costs partly neutralised the benefit of increased earnings. Out of the delay of 1,485 days suffered by the Scindia ships during the year, Indian ports accounted for more than 1,000 days.

Another development which is likely to affect the working of the company in the current year is the impounding of two Scindia Ships by Pakistan and the seizure of the company's assets in that country. Since separate arrangements have been made to fill the gap, the impact of Pakistan's action, it is hoped, may not be felt too severely. The Chairman also expressed concern, which is shared by other shipowners in the country, over the U. S. policy

of reserving 50 per cent of "aid cargo" for the U. S. flag vessels. He also felt that if the U. S. Government yields to the pressure of American shipowners to reserve up to 100 per cent of such cargoes for U. S. flag vessels, Indian ships would be wholly deprived of the U. S. aid cargo*. On the need to assure a substantial part of cargo entering Indian trade for the national vessels, Mr. Khatau urged that while negotiating bilateral trade agreements with different countries, 50 per cent utilisation of Indian shipping services should be insisted upon.

The company's profit of Rs. 1.30 crores for the year ended June 1965 was only Rs. 4 lakhs lower than that of the previous year. This has to be viewed against the increased depreciation provision of Rs. 2.14 crores, compared to Rs. 1.98 crores. Gross income from freight has increased from Rs. 17.13 crores to Rs. 18.21 crores. The company has made a higher tax provision of Rs. 22.5 lakhs compared to 17 lakhs in 1963-64. A sum of Rs. 75 lakhs is transferred from the general reserve. Development reserve absorbs Rs. 1.15 crores. Equity dividend, at Rs. 1.25 per share, absorbs Rs. 73.40 lakhs. The balance of Rs. 3.91 lakhs is carried forward.

The Chairman complained about the inadequacy of the 10 per cent increase allowed on coastal freights as from August 1, 1965 and pointed out that this increase did not cover even a small portion of increased costs. About 50 per cent of the increase allowed, he said, was taken away by the increase in the excise duty

on fuel oil. In this connection, Mr. Khatau suggested the setting up of a machinery to keep a close watch on the cost conditions in coastal shipping to suggest changes in the freight rates, whenever necessary.

S. T. C.'s Performance

THE report of the State Trading Corporation for the year-ended March 1965 reveals that its total business increased from Rs. 82.8 crores in 1963-64 to Rs. 90.1 crores in 1964-65. This works out to a rise of 8.8 per cent. The gross profit of the Corporation has shown an increase from 3.6 crores to 4.8 crores. The percentage of gross profit to direct trade amounted to 10.4 per cent against 6.3 per cent in the previous year. In absolute terms, establishment expenses of S. T. C. has actually shown a decline from Rs. 88 lakhs to Rs. 81 lakhs, although as a percentage of direct trade, it has moved up from 1.5 to 1.7. The net profit, after making the necessary provisions, was Rs. 1.7 crores compared to only Rs. 60 lakhs in the previous year. Dividend (at 10 per cent) accounted for Rs. 20 lakhs. A sum of Rs. 1.7 crores has been appropriated to reserves against an appropriation of only 63 lakhs last year.

In the field of exports, STC has made commendable efforts to sell our engineering goods—a non-traditional item—abroad. Trial orders for machine tools have been secured from Czechoslovakia, Poland and Hungary. The Corporation is also considering a scheme for the export of H. M. T. watches to some of the European countries where there



**WE ARE ALL INDIANS...
LET NONE DIVIDE US**

DA 65/73

is in fact keen competition. Another field where STC has made good progress is in the exports of footwear. During the year, the Corporation exported Rs 1.7 crores worth of shoes and sandals to Russia and Hungary. The Corporation has also plans to export railway wagons to East European Countries. Since the high freight charges on the transport of complete wagons have made our wagons too costly for the foreign buyers, the STC plans to set up a few assembly plants for wagons exported in CKD condition. Other new lines that STC intends to explore in future include human hair, dry fish, bananas and fruit juices.

Textool

THE turnover of Textool Company Limited for the year ended April 1965 is Rs. 3.86 crores compared to Rs. 2.82 crores in the previous year. After providing Rs. 9.40 lakhs for depreciation, the Company shows a profit of Rs. 32.22 lakhs which is higher compared to the previous year's figure of Rs. 26.38 lakhs. After bringing in the carry over from the previous year under various heads, the total amount available for distribution is Rs. 32.72 lakhs. Out of this, a sum of Rs. 1.96 lakhs is set aside for development rebate reserve. Another sum of Rs. 15 lakhs is earmarked for taxation. Bonus accounts for Rs. 4.46 lakhs. A sum of Rs. 2.50 lakhs is set apart for general reserve and Rs. 75,000 for dividend equalisation reserve. Dividend, at 12 per cent, accounts for Rs. 7.72 lakhs.

New Issues

U. P. State Industrial Corporation Ltd., Kanpur, a State Government undertaking, will be issuing further capital of Rs. 65 lakhs divided into 65,000 equity shares of Rs. 100 each for cash at par to be subscribed entirely by the Government of U. P. The money will be utilised for capital

investments and commercial operations in Lime Stone Project and Magnesite Project and to fulfil underwriting liabilities.

Beloit India Ltd., Delhi, a public company, is to issue Rs. 1,21,12,600 in equity shares of Rs. 10 each for cash at par. Out of this, 50 per cent shares will be offered for subscription to Beloit Eastern Corporation, U. S. A. The balance of 50 per cent shares will be offered for subscription to certain public limited companies under the management of Birla Bros. Pvt. Ltd. The capital will be utilised for the manufacture of paper, board and pulp making machinery. This is in supersession of an earlier consent of June 16, 1965 for Rs. 60 lakhs.

Pioneer Equipment Co., Ltd., Bombay, is to issue Rs. 57.50 lakhs divided into equity shares of Rs. 100 each at par. Of these, shares of the value of Rs. 16 lakhs will be issued to Fries International, GmbH, and Deutsche Gesellschaft Fur Wirtschaftliche Zusammenarbeit, MBH, and the balance will be issued for cash at par in India. The capital will be utilised in the manufacture of dies and die casting machines, melting and heat treatment furnaces etc.

Kumardhubi Engineering Works Ltd., Calcutta, is to issue capital of Rs. 5,33,332 divided into 1,33,333 equity shares of Rs. 3 each for cash at a premium of Re. 1 per share to C.D.F.C. Ltd., London. The money will be utilised for the import of capital equipment required for the implementation of the modernisation and expansion programme of the Company's heavy structural shop.

Bombay Malleable Iron Castings & Allied Industries Ltd., Bombay, is to issue Rs. 65 lakhs capital divided into 50,000 equity and 15,000 9.5 per cent preference shares of Rs. 100 each. This is in supersession of an earlier consent for Rs. 50 lakhs of October 21, 1963. The money will be utilised in the manufacture

of malleable iron castings.

Jiyajee Cotton Mills Ltd., Gwalior (Madhya Pradesh), is to issue capital of Rs. 100 lakhs in cumulative redeemable preference shares of Rs. 100 each for cash at par. The money will be utilised for financing the expansion scheme.

Uttar Pradesh Steel Ltd., Muzaffarnagar, is to issue a capital of Rs. 77,50,000 divided into Rs. 60 lakhs in equity shares of Rs. 10 each and Rs. 17,50,000 in cumulative redeemable preference shares of Rs. 100 each. Shares of Rs. 2 lakhs would be offered to Kobe Steel Works Ltd., of Japan against cash payment. The money will be utilised for the setting up of a steel foundry in U. P. for the manufacture of steel castings.

Pfizer Private Ltd., Bombay, will be issuing a further capital of Rs. 191 lakhs in equity shares of Rs. 10 each. Shares of Rs. 125 lakhs will be offered for cash at par to Pfizer Corporation, Colon, Panama. The balance of Rs. 66 lakhs will be offered at a premium of Rs. 15 per share of Rs 10 each to the Indian public by prospectus.

Tata Merlin and Gerin Ltd., is to issue a capital of Rs. 110 lakhs in equity shares of Rs. 100 each, to be issued for cash at par. Of these, shares of the value of Rs. 13.75 lakhs (twelve and a half per cent) will be issued to Merlin and Gerin of France against the supply of plant and machinery and the balance will be issued in India. This is in supersession of an earlier consent for Rs. 70 lakhs.

Hein Lehmann (India) Ltd., Calcutta, a new company, will be issuing a capital of Rs. 29,93,000 in equity shares of Rs 10 each. Out of this, shares of Rs. 14.10 lakhs will be offered to Hein, Lehmann and Company of West Germany. The capital will be utilised for the manufacture of industrial screens.

STOCK MARKETS

1965: A Year in Retrospect

By "Luzer"

IF any conclusion can be drawn from the behaviour of the stock markets during 1965, it is that the boom—in the Indian context—of the early sixties has petered out. Investors have become not only selective but highly risk-conscious and people with savings no longer consider equity investment worthwhile. This psychology is likely to persist for quite some time—how long, no one can say. There are no "blue chips" any more. It is not that companies are in a bad way. The corporate sector in India is not passing through a slump, in its generic sense.

There is demand for everything produced in this country, from machine tools and wrist watches to pressure cookers and razor blades. What has happened is that exaggerated ideas about capital appreciation are slowly giving way to a realistic approach based mainly on yield considerations. Even so, the investor is not in a position to judge the attractiveness of shares either by their "cheapness"—many of them have reached their rock-bottom level—or by a superficial look at dividend policy. For one thing, the bottom may not have been reached yet; for another, where a liberal dividend policy has been followed, it may be by drawing on accumulated reserves and not on current year's profit.

Tight Credit

Bank credit, in the present regime of tight credit—stock markets are not in the "priority" sector, in any case—is no longer available to the stock market operators and those who were

operating on unaccounted money have practically ceased to do so in view of the prevailing high interest rates on the one hand (they range from 18 to 24 per cent) and the relatively low returns on equity-investment on the other. The small trickle of funds that still flows into the markets is largely directed at the purchase of fixed interest-bearing securities. Interest has shifted to preference shares and debentures. But the small man with modest savings has lost faith in the stock market mechanism. He seems to have developed a preference for direct lending to the non-banking institutions, including joint stock industrial companies which offer a high rate of interest even for short-term investment. Money is often held in commodities which are in short-supply and another favourite mode of investment is investment in real estate.

Tax Credit Schemes

On the eve of 1965, the stock markets were in a thoroughly demoralised state, what with the stringency in the money market, the menacing postures of Pakistan and China and the poor performance on the industrial front but a relieving feature was the Finance Minister's "Christmas gift" in the shape of the announcement (December 24, 1964) of the scheme of Tax Credit Certificates which provided a special incentive, for a period of four years, for investment in new equity shares. Surprisingly, the Tax Credit Scheme was held in cold storage for nearly a year and it was only a week ago that the details have been gazetted by the

Finance Ministry. According to the scheme, the amount of tax credit certificate granted to any particular investor is limited to a maximum of Rs. 1,250 which is reached at an investment of Rs. 35,000 during a financial year. The total benefit accruing from the scheme on new issue investment, for the initial period of four years for which tax credit can be claimed will be Rs. 5,000. The amount of the certificate will be calculated at the rate of five per cent on the first Rs 15,000, three per cent on the next Rs. 10,000 and two per cent on the next Rs. 10,000.

Whether this additional inducement of about 3 per cent will really help to bring about a change in the attitude of individual investors at a time when the industrial outlook is far from rosy remains to be seen. In the then prevailing mood of despair, the announcement of the Tax Credit Certificate Scheme and the simplification of the industrial licensing rules on the basis of the recommendations of the Swaminathan Committee failed to boost the morale of investors. Actually the new year, 1965, began on a depressed note and the sentiment deteriorated further when, in the third week of February, the Reserve Bank raised the Bank rate from 5 per cent to 6 per cent. This, and the imposition of a 10 per cent regulatory duty on imports further accentuated the downward trend in equity values.

T. T. K's Budget

The 1965-66 budget disappointed the investors since their expectation regarding the divi-

dividend tax and the capital gains tax on bonus shares did not materialise, although they took due note of the reduction in the income tax rates and the marginal relief given to the corporate sector. While no direct relief was given by way of the abolition of the existing taxes, it has to be recognised, nevertheless, that the Finance Minister offered a number of concessions ranging from the enlargement of the scope of priority industries eligible for special rebate, reduction in the tax liabilities of companies "in which public are not substantially interested", tax credit on exports, tax credit certificates to certain categories of industries, a higher rate of development rebate to marginal concessions in several direct taxes.

Since these changes did not have any material impact on the stagnant capital market, Mr. Krishnamachari introduced further changes in the budget proposals, while introducing the Finance Bill on May 3. These changes included the enlargement of the list of industries eligible for the higher development rebate of 25 per cent, a rebate up to 40 per cent for new planting in tea industry, treating the dividend in respect of individuals and Hindu undivided families received from the Unit Trust as "earned" income, a more liberal tax rebate on insurance premia and wealth tax exemption on investment in new equity shares. Although the markets remained unimpressed by these changes, they appreciated the fact that concessions adding up to Rs. 40 crores had been given by way of tax reliefs and the maximum rate of corporate taxation was brought down to 70 per cent.

Dividend Policy

Intermittent, short spells of bullish activity noticed on the stock markets (in June, for instance) can be attributed to specific official announcements such

as rise in the price of cement and good corporate news. But the general outlook continued to be bearish and values slipped back at the slightest provocation. Contrary to the expectation of stock market operators, the dividend of market leaders like TISCO were not liberalised. This was taken to mean that the companies would generally follow a prudent dividend policy in future. The continuing shortage of raw materials caused partly by the foreign exchange stringency and the accumulating stocks with Cotton Mills created bottlenecks in many industries and production, which showed a decline from a growth-rate of 9.4 per cent in 1963-64 to 6.5 per cent in 1964-65, threatened to show a further deceleration in the last year (1965-66) of the Third Plan. Additional commitments like the minimum bonus further affected the corporate outlook.

The supplementary budget, presented on August 19, came as the proverbial last straw when additional imposts, adding up to Rs. 167 crores (in a full year) were levied in the shape of increased customs and excise duties. Although this was intended as a corrective to the balance of payments problem, it was interpreted as another additive to the cost of production. However, the withdrawal of the import deposit scheme, the selective increase in the 25 per cent development rebate to 35 per cent and the extension of the scope of the 5-year tax holiday for new undertakings were welcomed by the investors.

Gilt-edged Market

The gilt-edged market continued to be in the doldrums, thanks to the rise in the interest-rate structure and the lack of interest on the part of institutional investors, particularly Banks. One of the reasons for the "success" of the Centre's borrowing programme for Rs. 250

crores launched in June can well be the enhanced liquidity requirement which came into effect from September 16, 1964. Besides, the interest rates on these loans were more attractive. Later, the state government entered the market in August when they launched their 12-year 5½ per cent loans for Rs. 100 crores. They were pronounced a success although it is well known that the banks showed hardly any interest in these loans.

September was again a bad month for the markets during which period they were shaken up by the India-Pakistan war. Its immediate impact was less severe than its long-range consequence although fears of additional taxation, implied in the increase in defence outlay reduced buying activity to the minimum. After the cease fire, on September 22, there were signs of recovery but the developments of subsequent weeks showed that the corporate sector was in for bigger difficulties. The widespread drought in the country led to a deterioration in food situation while the aid outlook for foreign assistance aggravated the problems faced by industries.

Decontrol Policy

While there is general appreciation of the Government's decision to decontrol cement (more to follow?) the defence-oriented monetary and economic policy have not really caused any change of outlook. From the market angle, the defence gold bond scheme, the defence loans and defence remittance schemes are hardly likely to bring any relief. Hints at tax relief are dropped off and on but the market analysts are wondering how Mr. Krishnamachari can avoid recourse to further raids on the private sector, in the face of the urgent need to raise resources for defence and development. Will Tashkent provide any respite? One wonders.



We shall purify your gold. We shall purify it by refining the gold to 23.88 carats. We shall purify your gold by devoting it for fifteen years to the service of this sacred land of ours. Your gold will then be returned to you, blessed, burnished and brighter, purified on the altar of service.

Serve your country—get Gold Bonds

Never before has our country needed gold so much. We are desperately short of foreign exchange. More gold with the Government means more foreign exchange. We need gold, your gold, for the defence of the country, to buy food from abroad, and to get machinery and raw materials to keep our industries going. Our land, our jobs, and even our lives will be safe only if more gold is made available to the Government NOW.

The Government appeals to you to lend your gold to the country in its hour of need. The Government is not asking you to sell your gold or give it away. Gold Bonds will be issued when you tender gold, gold sovereigns or gold ornaments.

The Government will refine the gold to 23.88 carats (gold ornaments have a purity of only 18 to 22 carats; sovereigns are made of 22 carat gold). The weight of the refined gold will be entered on the Gold Bond, and this pure gold will be returned to you after 15 years.

If you have subscribed to Gold Bonds in the form of ornaments, gold returned to you after 15 years can be reconverted into ornaments of any purity. If you tender gold ornaments, the

Government will give you Rs. 3 per 10 grammes of refined gold as compensation for making charges, along with your Gold Bond. (One tola is equal to 11.66 grammes.) Every year you will earn Rs. 2 per 10 grammes of refined gold. (A sovereign weighs 8 grammes.) This money is free of income-tax. A Gold Bond will not attract wealth tax. There are liberal exemptions from gift tax and estate duty also.

When you tender the gold, nobody will ask you how you acquired it. No action will be taken under the Income-tax Act, the Gold Control Order or Customs regulations.

You can borrow money from banks with Gold Bonds as security, just like gold. Gold Bonds are issued at the offices of Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi and all branches of the State Bank of India and its subsidiaries.

Exchange your gold, gold sovereigns and gold ornaments for Gold Bonds. Put your gold to work in the service of the country.

Issued by the Ministry of Finance, Government of India

KEEP YOUR GOLD IN TRUST FOR THOSE YOU LOVE

Regd. No. BG. 61

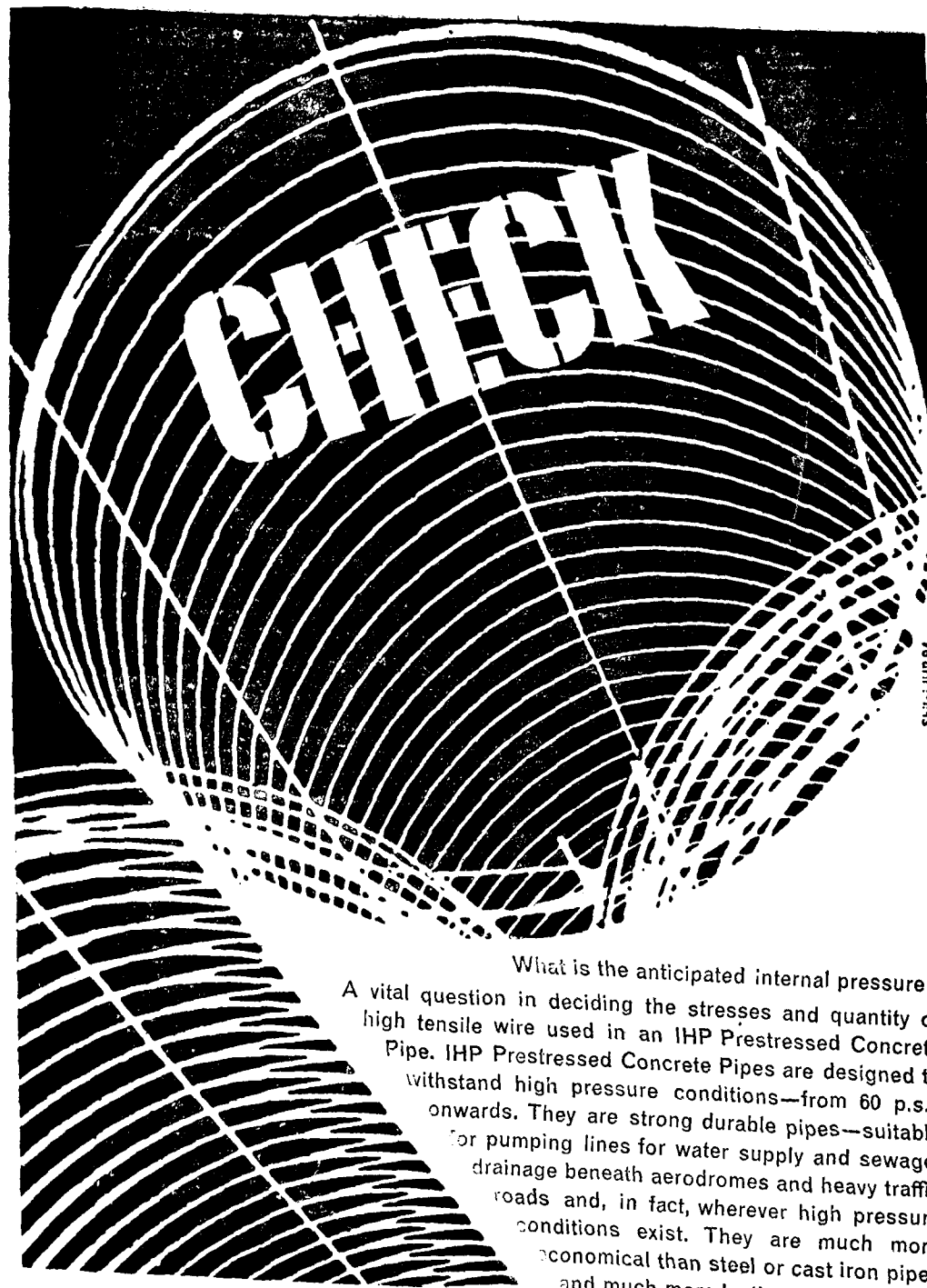
Registered with the Registrar of Newspapers for India under No. R.N. 7523/62

Southern Economist

Shastri
Legacy

Jan. 15, 1966, Vol. IV : No. 18 : 42 Paise

southern economist



What is the anticipated internal pressure?
A vital question in deciding the stresses and quantity of high tensile wire used in an IHP Prestressed Concrete Pipe. IHP Prestressed Concrete Pipes are designed to withstand high pressure conditions—from 60 p.s.i. onwards. They are strong durable pipes—suitable for pumping lines for water supply and sewage, drainage beneath aerodromes and heavy traffic roads and, in fact, wherever high pressure conditions exist. They are much more economical than steel or cast iron pipes and much more lasting, too.

THE INDIAN HUME PIPE CO. LTD. Construction House, Ballard Estate, Bombay 1. A Walchand Group Industry 

Printed by C. Krishna Rao at The Phoenix Press, Visveswarapuram, Bangalore-4. Edited and Published by Mrs. Susheela Subrahmanya, M.A., from 24 (New), Haudin Road, Bangalore-1. Editorial Adviser : K. N. SUBRAHMANYA.

industry • banking • commerce • finance



OIL gleans a silver harvest from the sea

Oil powers diesel-engined fishing boats that make deep sea fishing possible, bringing in bigger catches to add to food resources from the land. INDIANOIL supplies the High Speed Diesel oil and marine lubricants used by mechanised fishing fleets at important coastal ports in India.



— a National Trust for Economic Prosperity

INDIAN OIL CORPORATION LIMITED

mas. 100. 51

**SOUTHERN
ECONOMIST**
January 15, 1966

CONTENTS

EDITORIAL	1
The Shastri Legacy	
NOTES OF THE FORTNIGHT	4
Crude Pricing; Fifth Steel Plant; Industrial Growth; Fuel Policy; Indo-Soviet Trade; Productivity; Autos & Ancillaries.	
GLASS HOUSE GOSSIP	11
SPECIAL ARTICLES	13
Magnitude of Future Planning — By Dr A. N. Rajamani Profit: A Russian View — By Prof. Yesei Liberman Profit: An American View — By John T. Connor	
BOOKS	19
Democracy and Mixed Economy; The Impact of Price Movement on areas Under Selected Crops in India; Research Reporting in Social Sciences; Report on the Survey of Ancillary Industries in Mysore	
COMPANY NOTES	22
Ballarpur Paper; Paper Products; Voltas Limited; Associated Cement Companies; Ashok Leyland; New Issues.	
MARKETS	24
Unrelieved Gloom and Uncertainty — By "Luzer"	

SOUTHERN ECONOMIST
Published on 1st and 15th of
every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

The Shastri Legacy

SHASTRI is no more. With the passing of Lal Bahadur Shastri comes to close a relatively brief period of transition — he held the office of the Prime Minister for barely 19 months—in which this "little man with a big heart" spared no efforts to forge the country's unity and give it a sense of direction. He expended his last ounce of energy for the cause of peace and, to repeat what we said about him earlier ("Year of Shastri" January 1), "we had at the helm a man who can be firm without being trigger-happy and magnanimous without surrendering the country's vital interests". These are rare qualities. Mr Shastri died when the ink on the Tashkent declaration had hardly dried and when he had not quite got over the surprise at his success at the peace parleys.

An endearing quality about Mr. Shastri—which many great men lack—was that he never went after the "bitch-goddess", success. Greatness came to him. When Nehru died, on May 27, 1964, leaving a great void, the king-makers looked around for a worthy successor and found Mr. Shastri competent enough to take up the leadership. Never a victim to the delusion of grandeur, Lal Bahadur accepted the Prime Ministership with a sense of dedication. He did prove, as we had hoped he would, at the time of the great transition, (Southern Economist, June 15, 1964) "that the transition from the Nehru era can take place without the country witnessing any more convulsions". Mr. Shastri justified our hope that he would "prove to the world that India can not only survive but flourish without the protective care of a father-figure".

While one can readily concede that Mr. Shastri served his country to the best of his ability during the 19 months of his Prime Ministership, it is difficult to guess how he would have fared if he had held office for a longer period of five or ten years. The Shastri regime did not achieve any distinction in its management of foreign relations and it is a fair criticism to say that Mr. Shastri, in the absence of a dynamic policy vis a vis the emerging nations, let the initiative pass to smaller nations which have not yet grown into maturity. It is worth watching how Mr. Shastri's successor handles external affairs and what steps he or she would take to regain the lost initiative in areas which are vital to peace in Asia.

It is perhaps too soon to assess Mr. Shastri's contribution to the geopolitics of the Indian sub-continent. In the last phase of his Prime Ministership, it is true, he showed special interest in befriending neighbouring countries like Burma and Nepal although he could not quite catch up with developments in equally important regions like Ceylon. Just as Nehru was shocked at (and never got over the shock) the Chinese perfidy in October 1962, Lal Bahadur Shastri was

somewhat taken unawares by the Pakistani aggression in Kutch and later, in a more serious form, across the entire Western border in September 1965. But Shastri was quick to regain his composure, rally the country for the supreme task of defence, undeterred by threats from China and malicious and one-sided propaganda in the Western press. The competent way in which the war of September was handled is hardly likely to be overlooked by any future historian.

It is easy to argue that Mr. Shastri could have taken more positive steps to end the Kashmir impasse and thereby avoided a costly war which aggravated the country's economic problems. Those who take this facile view overlook two important factors. Firstly, Pakistan, encouraged by Communist China, had already made up her mind to force the issue through a show of armed might and India had no alternative but to retaliate; and retaliate it did. Secondly, Mr. Shastri could not, without endangering his own position in the Government, go beyond his brief. Let us be candid in admitting that when it comes to a question of discussing issues relating to Pakistan, our reasoning faculty is put to considerable strain. It is of the utmost importance that Mr. Shastri's successor—whichever he may be—should guard against the danger of yielding to cries of narrow nationalism and in the process, undo the progress achieved at Tashkent. He should secure a clear mandate from his party to carry the peace "offensive" a step further and go to the fullest extent in securing a permanent settlement of the issues that endanger peace between India and her neighbours. How this can be done without surrendering our vital interests—to be more precise, the country's territorial integrity—is a question that challenges the statesmanship of Mr. Shastri's successor.

Pragmatic Policy

On the economic front, it cannot be said that Mr. Shastri achieved spectacular success. Nineteen months is too brief a period to achieve any tangible results and what he could have achieved was neutralised by the lack of identity of views between the Prime Minister and the Finance Minister on the one hand and between the Centre and the States on the other. Frankly, there was no easy way out of the foreign exchange crisis, the food crisis or the crisis of confidence in the capital market. Without abandoning the goal of Democratic Socialism, Mr. Shastri made genuine efforts to reconcile the needs of the private sector with the larger interests of the country. It speaks volumes for Mr. Shastri's pragmatic wisdom that on many occasions, he resisted the pressure to adopt doctrinaire policies where he was convinced that such a change of policy would only result in

further stagnation. Mr. Shastri's attempts to give a consumer-orientation to planning and to make rational use of the available resources through a switch-over to quick yielding projects would have borne fruit but for the increased defence expenditure necessitated by the India-Pakistan war.

"T.T.K. Affair"

The "T. T. K. affair", it is true, was an unfortunate denouement. It did not add to the greatness of the ruling Congress party. Finance ministership is not a bed of roses; and more so in the case of a country which is facing an acute crisis on the foreign exchange front, a food problem of serious dimensions and is burdened with the task of financing an investment programme for which resources are hard to find. The task has been rendered more difficult by a top-priority defence programme which costs nearly Rs. 3 crores a day. To say this is not to suggest that Mr. Krishnamachari, an old hand at the game of financial brinkmanship, was looking for a plausible pretext to get out. But to be fair to him, it must be said that his colleagues could have made his task easier by showing greater understanding. As he complained at the time of his resignation, he did not appear to have enjoyed the full confidence of even his Prime Minister.

The last straw was of course the memorandum of the eleven members of Parliament. The Prime Minister could have acted promptly, one way or another. If he was convinced that the allegations against the Finance Minister added up to a *prima facie* case, he could have set the probe machinery in motion. If, on the other hand, he genuinely felt that they lacked substance, he could have dismissed them as frivolous and treated the matter as closed. But the Prime Minister probably needed some more time to sift facts and come to a decision, perhaps with the assistance of a legal luminary. In the predicament in which he was placed,

Southern Economist (BANKING NUMBER)

The issue of *Southern Economist* dated February 15, 1966 will be devoted to a survey of Banking in India and abroad. It will be more than twice the usual size and will be priced One Rupee. The subscribers will however get it in the usual course. In view of the banking number, there will be no issue of *Southern Economist* dated February 1, 1966.

Mr. Krishnamachari certainly deserved a more kindly treatment. But he could have bided his time, instead of pressing his demand at the most inopportune time when Mr. Shastri was busy packing for Tashkent.

People who stay in office long often get peevish and opinionated. To an extent, this was true of Mr. Krishnamachari. Whether one liked it or not, he was a senior member of the "collective leadership" which midwifed the smooth transition from the Nehru era. Probably, he might have nourished secret ambitions to become the first among the equals. But—very wisely, in our opinion—he never openly aspired for it. Never popular at the grass-roots level, T.T.K. found it difficult to secure the Janus-faced Congress party's acceptance of his dynamic economic policy. Unlike Mr. Morarji Desai—another unlucky Congressman who was "eased out" under the Kamaraj Plan—he was *persona non grata* with the business elite.

T.T.K. knew that the "man-eaters" about whom he sounded frequent warnings, were not an imaginary phenomenon, like, shall we say, the abominable snowman. The unrelieved glee exhibited in some circles over Mr. Krishnamachari's exit was certainly in poor taste, particularly since—as even his worst enemies concede it—it is T. T. K. who gave away the largest number of concessions to the investing fraternity, although it is a fair criticism of his fiscal

policy to say that they were far too inadequate to revive a "dead" capital market. It is true, Mr. Krishnamachari and Mr. Shastri had their differences, particularly on the *modus vivendi* to be adopted to defend the value of the Rupee. As these differences grew, without actually the public knowing much about it, the World Bank started turning the heat on, so to speak, to get the guide-lines of the Bell Mission accepted or else...

Mr. Krishnamachari was not so tactless as to throw the World Bank's suggestions out of hand but Mr. Shastri knew—so it would seem, at any rate—that T.T.K. was not the type to say "yes" all the time. Now that T.T.K. is *hors de combat*—and Shastri is no more—it is pointless to blame the Finance Minister for all the ills that beset the economy. Critics of New Delhi's fiscal policy will do well to remember that in the situation created by the Chinese aggression, and later, the Pakistani aggression, even the best friend of big business could not have presented a budget which let off the corporate sector lightly. This is not however to endorse the policy adumbrated in the budgets presented by Morarji Desai and T.T.K. This paper has always held the view that Socialism cannot be equated with the severity of the "raids" that the Finance Minister makes in his budgets. Given other favourable factors, a Socialist Society can be consistent with a low level of corporate taxation. The New Finance Minister will do well to ponder this point seriously.

His Last Testament

Excerpts from Mr. Shastri's opening address (Jan. 4) at Tashkent

I know that there are many unresolved differences between our two countries. Even between countries with the best of relationship there are differences and even disputes. The question which we have both to face is whether we should think of force as a method of solving them, or whether we should decide and declare that force will never be used.

If other countries, even those with vast resources and much deeper differences, can avoid an armed conflict and live together on the basis of peaceful co-existence, should not countries like India and Pakistan, whose main problem is the economic betterment of their people, give up the idea of solving any problem by recourse to arms?

A heavy responsibility lies on our shoulders. The sub-continent has a population of 600 million—one-fifth of the human race. If India and Pakistan have to progress and prosper, they must learn to live in peace. If there is constant conflict and hostility, our peoples would suffer even greater hardships. Instead of fighting each other, let us start fighting poverty, disease and ignorance. The problems, the hopes and the aspirations of the common people of both the countries are the same. They want not conflict and war, but peace and progress. They need no arms and ammunition, but food, clothing and shelter.

If we are to fulfil this obligation to our peoples, we should try to achieve something specific and positive.

NOTES OF THE FORTNIGHT

Crude Pricing

Heat is On

THE price-reductions offered for the crude imported by the major oil companies, with effect from the New Year, do not seem to have come down to the levels envisaged by the Talukdar Committee. Burmah-Shell has offered to reduce the crude price (Aghajari Crude) by 8 cent to \$1.40 per barrel and ESSO has offered a reduction of 4 cents on its crude-mix which will now cost \$1.36 per barrel. This is the third reduction offered by the oil companies. In December 1964, the prices of light Iranian and Arabian crudes were reduced by two cents per barrel. Further, in July 1965, the price of light Iranian crude was reduced by seven cents and that of Kuwait by four cents. The total savings effected on this account added up to Rs. 2 crores. The present cuts will mean a further saving of Rs. 3 crores.

Whether the Petroleum Ministry will be wise in insisting on further reductions in crude prices, on the pattern suggested by the working group headed by Mr. Talukdar, depends on the demand position abroad. Incidentally, the Standard Oil Chairman recently envisaged an increase of 6 per cent in world demand in 1966. Another factor that should govern the new price-pattern for imported crude is the country's capacity to augment internal supplies of crude and its ability to secure crude at concessional rates from the Communist countries. The supply position in the world market appears, at the moment, to be relatively easy and African oil has already made

a serious dent in the European market.

The Talukdar Committee has, in fact, reported instances of African crude being offered to some of the European countries at discounts ranging from 25 to 30 per cent. Since the Damle formula, on which the old pricing arrangement was based, has now expired, a new formula, based on the recommendations of the Talukdar Committee, is being hurriedly worked out. The oil companies appear accommodative and it is pointed out that the discounts offered already approximate to the reductions recommended by the Talukdar Committee. But the snag lies in the fact that the Petroleum Ministry is reluctant to commit itself to any cast-iron formula which renders import of cheaper crude (if and when available) directly from "independent" sources impossible. Oil business continues to be a gamble and the Government is as reluctant to reduce the element of chance as are the oil companies.

The foreign oil cartels operating in India, with their own international pricing arrangements, are understandably unwilling to endorse a policy which commits them to the use of crude imported from sources other than their own. So far as internal supplies are concerned, there is no hitch, so long as the crude is suitable for use in the refineries. Even if ONGC achieves some success in its exploration work, internal supplies of crude will not be sufficient to meet even 50 per cent of the country's requirements. The level of production at the end of the

Third Plan will be barely of the order of 3 million tons and the expectation of the ONGC to reach 14 million tons by 1970 may or may not be realised. On the other hand, the demand for petroleum products may go up to 28 or 31 million tons by the end of the Fourth Plan. The resultant gap thus sets a limit beyond which it may not be prudent to bargain for discounts or to insist on conditions which are unlikely to be fulfilled by the foreign oil companies.

Steel

False Economy

THE Russian experts who painstakingly prepared the project report for Bokaro, now face the disagreeable task of tailoring it to suit the requirements of the Indian planners. There can be no questioning the soundness of the Russian estimates but if changes have become necessary, it is because several steel projects—new projects as well as expansion programmes—have to be accommodated within the financial ceiling stipulated by the Steel Ministry. In the context of its ambitious 10-year plan which aims at 27 to 28 million tons at the end of the Fifth Plan, there is hardly any scope for reducing the size of the steel programme of the Fourth Plan.

A target of 16.5 million tons is in fact mentioned as the minimum to be aimed at, for 1970. Since this target can be achieved only by the setting up of a fifth steel plant in the public sector, in addition to the expansion of the capacity of the existing plants, adequate financial provision will

have to be made in the Fourth Plan for this project. The Steel Ministry seems to think that money for the fifth plant cannot be found without subjecting Bokaro to some pruning. The task is being done by a technical committee. Among the suggestions made to reduce the overall cost (for the four million ton stage) of Bokaro may be mentioned the dropping of the blast furnaces of 8.60 lakh ton capacity. This would result in a saving of Rs. 50 crores.

The changes to be proposed may also affect the galvanising unit (in view of the shortage of zinc) and the tar processing plant. There is also a suggestion for doing away with the proposed sulphuric acid project. All this may lead to a "saving" of Rs. 150 crores in the first stage which, according to the Russian estimates, will cost Rs. 570 crores. Even so, it will exceed, at Rs. 430 crores, the Fourth Plan provision for Bokaro (Rs. 318 crores) by over Rs. 100 crores. The Minister of Steel, Mr. Sanjeeva Reddy, who has set his heart on the fifth steel plant, has some quaint notions as to how these riddles can be solved.

For instance, he is reported to have favoured a reduction in the size of the fifth steel plant from 1.5 million tons to 7.50 lakh tons and the setting up of a pig iron plant at one of the sites proposed for a major steel mill. He is also favourably disposed towards the proposal to set up an alloy steel plant at Salem. Although this approach is politically desirable, since it attempts a reconciliation of various claims, it jettisons sound economic criteria. For one thing, the capital cost of building the fifth steel plant, ton for ton, will be even higher than that of Bokaro if the first stage is planned for a capacity of only 7.5 lakh tons, although there may be an initial saving of Rs. 100 crores. Once the proposition that the ultimate capacity of the

future steel plants should be of the order of 4 million tons (Bokaro can, in fact, be expanded up to 5.5 million tons) the case for smaller plants of an initial capacity of less than a million tons falls to the ground. It would be unwise and uneconomic to take up the fifth steel plant on the basis of a 7.5 lakh ton capacity. Whether the plant is located at Visakhapatnam or at Hospet, it should be planned on the basis of 1.5 million tons for the first stage.

Industrial Growth

Uneven Pattern

OFFICIAL estimates place the rate of industrial growth in 1965 at 8 per cent while actually the average obtained up to September reveals a growth of 7.3 per cent. It is presumed that since industries like tea, sugar and textiles have a tendency to show more than the usual buoyancy in the last three months of the calendar year, the annual average will come up to 8 per cent. But it cannot be taken for granted. In fact, there has been a steady deceleration since June, 1965, when the index of industrial production stood at 189.1. It came down to 186 in July, 183 in August and 182.1 in September. Where is the assurance that the figures for the subsequent months, viz., October, November and December, will reveal a different trend?

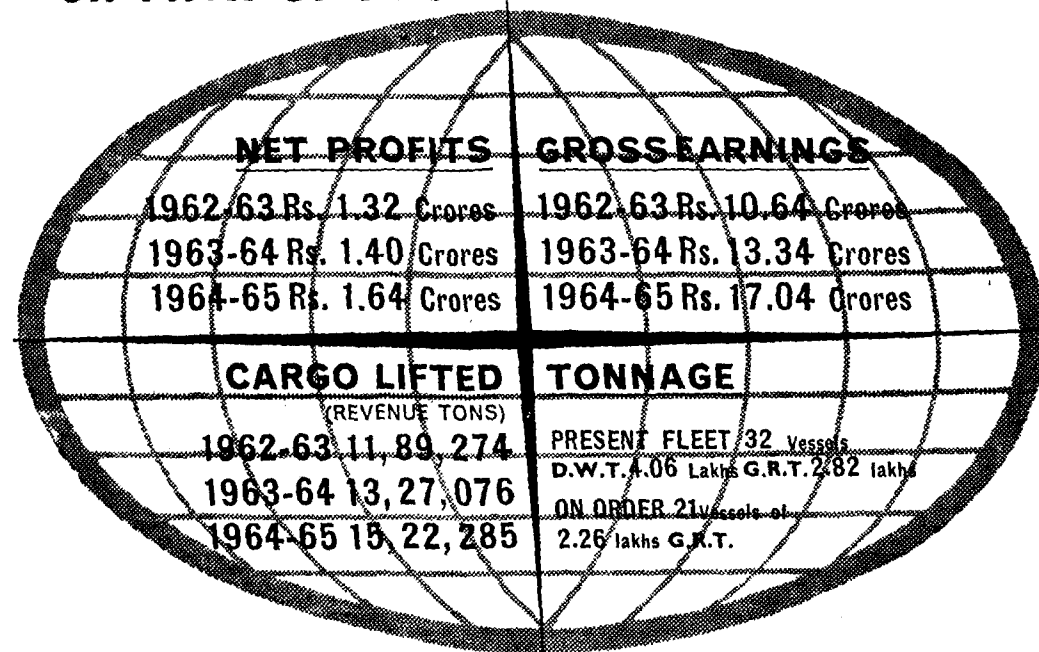
Actually, the real impact of the credit-squeeze and the import curbs is being felt in the last few months when inventories are thinned down to their lowest levels. In view of the import restrictions, replenishment of the stock of raw materials has not been possible and many industries which may be vital to the economy but are, nonetheless, in the non-priority sector, face the prospect of working far below the capacity. Looking back over the years of the Third Plan, one discerns an irregular pattern. In the

first year of the plan (the figures relate to financial years) industrial production increased by 6.56 per cent, in the second year it rose by 8 per cent and in the third year it further increased by 9.1 per cent but in the fourth year it slid back to 6.4 per cent.

Considering that the average for the first four years works out to 7.6 per cent, the industrial growth rate for the whole of the Third Plan will be somewhere near 7½ per cent, against the Plan target of 11 per cent. Even if one assumes that the average for the Third Plan will work out to 8 per cent, one cannot afford to take a complacent view of the outlook for the Fourth Plan which envisages the same growth-rate of 11 per cent. While judging the progress of industrialisation in developing countries, empirical approach is more rewarding since the rate of growth achieved by new industries depends more on new capacity created than on real gains in productivity. Another snag is that the index of industrial production may give a disproportionately large weightage to a sector which does not strictly come under the priority category in planning.

While the reliability of the yardstick to judge industrial progress needs to be assured, what is required at the moment is the removal of bottlenecks that impede the rate of growth. The major bottleneck is the shortage of raw materials which can be remedied only by the timely release of untied credit by the Consortium countries. Within reasonable limits, import-substitution may reduce our dependence on foreign sources, but there is no running away from the fact that unless imports of the necessary raw materials are assured, the growth-rate will decelerate further in the coming years.

ON PATH OF PROGRESS & PROSPERITY



OUR SERVICES

Fast Cargo Services

INDIA/U.S.A. ★ INDIA/U.A.R.
INDIA/U.K. - CONTINENT
INDIA/POLAND
INDIA/BLACK SEA PORTS
INDIA/FAR EAST, JAPAN
INDIA/AUSTRALIA

Passenger-cum-Cargo Services

INDIA/EAST AFRICA
INDIA/MALAYSIA - SINGAPORE
INDIA/CEYLON
CALCUTTA/ANDAMANS AND
MADRAS/NICOBAR ISLANDS

Tankers

IN COASTAL AND
OVERSEAS TRADES

Colliers

ON INDIAN COAST

**WE PLEDGE TO MAINTAIN THE SUPPLY LINE FOR
THE DEFENCE OF MOTHERLAND**

The Shipping Corporation Of India Ltd.

(A GOVERNMENT OF INDIA UNDERTAKING)

STEELCRETE HOUSE, DINSHAW WACHA RD., BOMBAY-1 TELE. 246271 (5 LINES)

Branches at Calcutta & Mombasa ★ Agents at all Principal Ports of the world.

Food Policy

Cause and Effect

THE American agency, AID, has come out with the (not so profound) discovery that India's food shortage is not so much due to crop failures or fall in the *per capita* output as to the increased purchasing power of the people. But the findings of the two reports of AID (Agency for International Development) are, never the less, significant since they serve to shake the developing countries out of their complacency in the matter of food supply. As far as India is concerned, the growth-rate in agriculture over the 15-year period, 1948-1963, has been of the order of only 3.1 per cent against the growth of demand estimated at 3.36 per cent. If one assumes a 2 per cent annual rise on account of population-growth the balance of 1.36 per cent has to be attributed to other factors.

The AID report serves to show that the rise in food demand in developing countries will be far in excess of the rate of growth in population since the change in the income-pattern in favour of lower income-groups results in an increased *per capita* offtake. With a sub-normal caloric intake, the casual link between increased incomes and increased propensity to consume can be conceded but there are other factors which exert a pull in the opposite direction. For instance, measures of population control will have their effect on the rate of population-growth (though not to the desired extent) and food habits gradually change in favour of non-cereal items as society attains higher levels of sophistication.

Even so, excessive optimism appears unwarranted. For India, which faces a food gap of serious dimensions, the only salvation lies in modernising agriculture. That even after three five-year plans, we continue to depend on food imports shows that the

marginal nature of the deficit, coupled with the easy access we had for the agricultural surplus in the U.S. weakened the sense of urgency which is very necessary for achieving a breakthrough. It was only when the Americans held back these supplies that we were shocked into an awareness of the need to achieve self-sufficiency. In the Fourth Plan, agriculture is rightly accorded the highest priority but it is wondered how the target of 125 million tons of food grains can be achieved without a radical change in the attitudes of our farmers and policy-makers.

Shortage of inputs is no doubt a limiting factor but lack of judicious application of the available inputs will easily lead to wastage. Oratorical flourish is hardly likely to break organisational bottlenecks and skills needed to bring about a revolution in the adoption of techniques cannot be created overnight. And so long as our food economy continues to be a deficit one, the task of distribution cannot be carried out equitably without submitting the surplus states to the discipline of an all-India policy which is now conspicuous by its absence. The resignation of Mr. T. A. Pai from the Chairmanship of the Food Corporation highlights the need for evolving a national food policy which keeps food supplies above politics and ensures fair prices through the mechanism of buffer stock operations. Our policy makers can ill afford to ignore the tocsin sounded by the former Chairman of the Food Corporation.

Indo-Soviet Trade

New Vistas

THE New Year augurs well for Indo-Soviet economic co-operation. The trade agreement signed on January 7, covers a period of five years, 1966 to 1970, and envisages an increase in the volume of trade between the two

countries from Rs. 500 crores in the five-year period, 1960-1965, to Rs. 1,300 crores. Already, the U.S.S.R. occupies the third place in India's foreign trade, the first two places claimed by the U.S.A. and the U.K. In 1964-65, India's exports to the U.K. amounted to Rs. 169.4 crores, to the U.S.A. Rs. 150.6 crores and to the U.S.S.R. Rs. 82.4 crores. Her imports from these three countries amounted to Rs. 162.1 crores, Rs. 436.1 crores and Rs. 78 crores respectively during this year.

A special feature of India's trade with the Soviet Union is that exports and imports are roughly balanced and payment is made in the Indian currency. For a developing country like India, the advantage of this arrangement cannot be overstated. Among other things, it helps in boosting India's exports of non-traditional items.

For the first time, the trade agreement visualises the setting up of factories for the manufacture of items needed by each country. The factories proposed to be set up by India mostly come under the category of consumer goods (e.g. footwear, electric bulbs, fruit juices etc.) while the factories proposed to be set up by the Soviet Union in India come under the classification of capital goods. The foothold secured by India, under the agreement, for the export of goods like cotton textiles, tobacco, coffee, spices, leather goods, tea and garments is of significance not only to India but to India's rivals in the export market. In the present phase of liberalisation in the Russian economy, there is a heavy backlog of demand for consumer goods.

With fair trading practices and due regard for competitiveness, India should be able to cater to the vast Russian market on an increasing scale. In 1964, Russia purchased from India about 70 million metres of jute cloth,



ANOTHER YEAR OF ALL-ROUND PROGRESS

AUTHORISED CAPITAL SUBSCRIBED & PAID-UP CAPITAL RESERVE FUNDS TOTAL DEPOSITS EXCEED WORKING FUNDS EXCEED NUMBER OF ACCOUNTS EXCEED NUMBER OF OFFICES NUMBER OF SAFE DEPOSIT VAULTS	RS. TWO CRORES RS. ONE CRORE & TWENTY-FIVE LAKHS RS. ONE CRORE & THIRTY LAKHS RS. EIGHTY CRORES RS. NINETY CRORES FOUR LAKHS 153 47
---	--

OUR SERVICES			
SAVINGS ACCOUNT 4% Interest	FIXED DEPOSITS 6% to 7½% Interest	RECURRING DEPOSITS 5½% to 6½% Compound Interest	GIFT CHEQUES and SILVER BARS

All kinds of Banking and Foreign Exchange Business transacted

DENA BANK

DEVKARAN NANJEE BANKING COMPANY LIMITED
 Regd. Office: Devkaran Nanjee Bldgs., 17 Horniman Circle, Bombay 1.
PRAVINCHANDRA V. GANDHI, Mg. Director

In Bangalore, our Office at : Gupta Market, Kempegowda Road.

113 million jute bags and 6 lakh pairs of leather shoes, among other items. It is equally significant that manufactured and semi-manufactured goods formed nearly 40 per cent of India's exports in 1964, against only 25 per cent in 1962. The Soviet Union accounts for about one-tenth of all the goods exported by India.

It will be an exaggeration to suggest that Soviet Union is in a position to meet the bulk of India's requirements of capital goods because Russia herself is an importer of many of these items from the Western sources. Even granting these limitations, there is vast scope for the exchange of goods between these two countries. On the list of Russia's exports to India, special mention may be made of equipment for power stations, both thermal and hydro-electric. Next in importance probably comes the export of Russian tractors. At present, Russia meets roughly 25 per cent of India's tractor requirements. The secret of the popularity of the Russian tractors perhaps lies in the availability of after-sale service and training facilities. Of special interest to the petroleum industry in India is the Russian commitment, under the new agreement, to supply the bulk of India's requirements of petroleum products.

In 1964, the Soviet Union supplied more than half of the crude imported by India, 22 per cent of kerosene and 25 per cent of heavy oil. In 1965, it can be presumed that Russia accounted for a larger share of India's import of these items. Russia's exports of oil products to India have increased from 6,90,000 tons in 1964 to 12,15,000 tons in 1965. Based, as the trade agreement is, on the equitable concept of "trade with aid", it is bound to enlarge the area of economic co-operation between the two countries in the crucial years to come.

IPY-1966

ITI's Example

PRODUCTIVITY is defined as the ratio between output and input. Most of our industries follow this definition literally, overlooking purposeful and effective organisation and utilisation of resources. Productivity is unheard of in our agricultural practices. This state of affairs in India is due to many factors, the important among them being the Government's inability to create conditions favourable to the productivity movement, ignorance of productivity techniques and attitude of the labour.

The present emergency and the foreign exchange crisis have highlighted the importance of "self-sufficiency through self-reliance". Government, leaders of industry, scientists and technicians have realised that emphasis on productivity means rapid progress and planned development. They have come together to observe this year as the India Productivity Year. The India Productivity Year-1966 was formally inaugurated on 31st December 1965. The purpose is to bring together management, labour technicians and the Government and to solve, through productivity approach, some of the problems thrown up by the present emergency. Special emphasis will be laid on agricultural productivity with a view to achieving self-sufficiency in food.

Application of productivity techniques in some of the industries has shown that it is possible to increase productivity, effect saving in labour, economise in raw materials and reduce the cost of production. The Indian Telephone Industries has taken up the drive in right earnest. In conformity with the IPY-1966 movement, ITI has formed a Central Committee under the Chairmanship of the Managing Director, including its senior officers and the officer of

the ITI Employees' Union. The movement was inaugurated on 5th January, 1966 by Mr. Satyanarain Sinha, Minister of Communications and Parliamentary Affairs. In his address, he commended the productivity consciousness of ITI which had been able to save Rs. 55 lakhs in foreign exchange during the year and hoped to save a further Rs. 60 lakhs next year by substitution of foreign materials by indigenous ones and by other means.

Autos & Ancillaries

Slow Progress

Mr. A. M. Thomas, Union Minister for Defence Production, while inaugurating the Institution of Automobile Industries (India), stressed the need for stepping up the production of automobiles. He emphasised the need to make the country self-reliant and self-sufficient in regard to the defence needs. When compared to foreign countries, our road transport is considerably backward. Our automobile industry is twelve years old. In 1953, investment in this industry was about Rs. 3 crores and the number of vehicles produced was about 14,000. This rose to Rs. 26.7 crores and 53,500 by 1961. By the end of the Third Plan, it is expected to increase further to 100,000 vehicles—30,000 cars, 60,000 commercial vehicles and 10,000 jeeps. By looking at the rise in revenue collected by way of taxes on vehicles, one would believe that the volume of production of automobiles also had shown a corresponding increase. Unfortunately it is not so. The problems of this industry are: inadequate foreign exchange allocation, lack of raw materials and the heavy taxes. To conserve foreign exchange, the industry has to use indigenous components which do not come up to the quality of imported components while prices rule quite high. Even

(Contd to Page 15)

Over grateful Panams

to our over 6,00,000 customers all over the country

SIXTY YEARS OF SERVICE—SERVICE TO THE PEOPLE, SERVICE TO THE COUNTRY—THAT'S OUR HUMBLE RECORD

To-day, Canara Bank is well-equipped to offer you a Comprehensive worldwide Banking Service with its

- Network of Correspondents all over the world
- Advisory Service for Import/Export
- 'Telex' Service for fast and accurate international communications
- Wide range of Services
- A Savings scheme to suit every pocket
- Over 235 Branches in India

The more you know Canara Bank
The more you will use Canara Bank

Move Ahead—Move with

Canara Bank Limited
(Estd. 1906)
Regd. Office: MANGALORE
Admin. Office: BANGALORE

60 Years of Service
DIAMOND JUBILEE YEAR
1966

CB-135

GLASS HOUSE GOSSIP

I SHALL not be surprised if Mr. Kamaraj pulls it off neatly, as he did at the time of choosing Mr. Nehru's successor. But I would prefer not to be dogmatic about it. Besides, I do not imagine that the Congress President would wait to hear my views on this question. For all I know, most probably, it will all be over before this issue of *Southern Economist* reaches the readers. Rommel's failures during the Second World War were attributed to the fact that he repeated his tactics. I am almost tempted to say the same thing of Mr. Kamaraj on the assumption, of course, that he would repeat the now familiar technique of "consensus".

In May-June 1964, things were different. The nation was shocked by Jawaharlal's death and the Congress leaders at the top, in their pragmatic wisdom, realised that any continued wrangle over leadership would pave the way for other political forces filling the vacuum. That was, of course, a remote possibility. But the possibility was there. Now, while it is readily conceded that Lal Bahadur Shastri's death was a great loss to the country—especially in view of the unique role he played in laying the foundation of peace—there is not that sense of insecurity which gripped the nation when Mr. Nehru died. This is a point which Mr. Kamaraj should recognise because in choosing the new leader, bulldozer techniques are hardly likely to yield tangible results. Even granting this obvious limitation, the Congress President is destined to play a great role in choosing the new team.

Many students of contemporary history unfairly accuse Mr. Nehru—a posthumous honour he certainly does not deserve—of not having groomed a suitable successor. That Lal Bahadur was his favourite was an open secret, although Jawaharlal did not loudly proclaim that fact. In any case, no one will accuse Mr. Shastri for not naming a successor. Any such suggestion, besides smacking of authoritarianism, is plainly preposterous since Shastri belonged to a team of equals, although he was the first among them, not of his own volition but by common consent, or to use the favourite expression of Mr. Kamaraj, by consensus.

It is not always possible to bet on winning horses and even the shrewdest among the punters go wrong as flukes have a tendency to pop up at the winning post. The guessing game would have been rendered relatively simple if Mr. Morarji Desai was really *hors de combat*, as he appeared to be, immediately after the Glass House session of the A. - I. C. C. Now that he has entered the race (Am I going to be proved wrong, by the way?) it is not going to be an easy walk-over for the other leading contenders, not excluding Mr. Chavan, Mr. S. K. Patil or Mrs. Indira Gandhi. There is a good deal of talk about the "big money" or betting on candidate "X" or the leftist elements betting on candidate "Y" but frankly, I am more amused by it than enlightened.

If I tend to be a bit sceptical in these matters, it is possibly because of an awareness that men (it includes women too) are so

unpredictable. Although I am not in a hurry to swallow the "big money" theory, I am equally reluctant to reject it out of hand. Since my Socialist days, I have travelled a long way and I hope people will not condemn me as a reactionary "renegade" if I say that these slogans have lost much of their meaning. What matters, so it seems to me, is not one's adherence to this "ism" or that but one's sense of fairplay and social justice. Besides, I am also slowly becoming a convert to the theory of convergence which is based on the growing similarities in the two opposing economic systems, as they are evolving today. All this, I know, may not carry much conviction with the people who hold the levers of political power.

Group loyalties and linguistic affiliations still count and I am not so simple-minded as to think that the "Syndicate" does not exist. All human decisions are liable to error and I shall not feel greatly annoyed or disheartened if the Parliamentary Party chooses a dark horse or a person whose appearance I may not quite like. But it will be a sad day for the country if the person who should lead this country were to be nominated through the device of remote control, from Washington or London or Moscow. Generalisations apart, I am inclined to agree with C.R.'s view that the Congress would be well advised to let a caretaker ministry, headed by a middle-of-the-road person like Mr. Nanda, to continue until the next general elections in 1967.

Mr. Kamaraj may be willing but will the money-bags let things happen the way they should? That is not my question—I have stopped asking questions—but the question raised by the common people. Whatever may happen, I am sure the Congressmen will not need the presence of the Russian Premier Kosygin again (glory to you, Comrade!) to "split" the difference.

— Plebeian

Magnitudes of Future Planning

By Dr. A. N. Rajamani*

THE Mid-Term Appraisal on Third Five-Year Plan, made two years ago, highlighted some of the "distortions and failures" of the planning processes and consequent strains on the economy. Realisation of a few of the targets apart, there have been slower rates of growth in various economic sectors. This was so much disturbing that men in authority and in the knowledge of economic affairs came out counselling a "Plan-holiday" for consolidating the gains made under planning.

Consolidation

It is no doubt true that the achievements of one plan lay the foundation for the following plan. However, there appears to be an incorrect belief in some quarters that there need not necessarily be any conceivable relationship between achievements of the preceding plans and the targets set for the succeeding plans. Some people even seriously believe that the poor achievements of one plan justify ambitious targets for the next.

The Congress President, Mr. Kamaraj, made an earnest suggestion at the Durgapur Session for pruning the size of the Fourth Plan. The former Finance Minister, Mr. Krishnamachari, in a Note to the A.I.C.C. Session at Bangalore, dwelt on the virtue of the country living within its means and so adapting its plans for the future as to make the minimum drain on foreign exchange. Mr. S. K. Patil

advocated a pause. Mr. J. R. D. Tata suggested a Seven-Year Plan with minimum expenditure during the first two years. Mr. S. L. Kirlskar opted for indicative planning by consent on the French Model. In his opinion, in spite of the huge investment envisaged under the Fourth Plan, "We cannot have any more development than under the Third Plan." According to him, the country does not have the investible surplus to meet the growth rates envisaged in the next plan. Mr. B.K. Nehru observed that "If the Fourth Plan is realistically framed, there should be no difficulty in getting foreign aid."

Pause in Planning

The Prime Minister, Mr. Shastri, himself suggested a pause in plan programming. The idea behind his suggestion appeared to be that the first year of the Fourth Plan can be mainly devoted to agriculture and to projects which will yield results during the next year. He also suggested that sanctioning of new projects may be held in abeyance to the maximum extent possible during this period. In this regard, it was pointed out, by way of clarification, that what the Prime Minister proposed was somewhat different from the suggestions made by the World Bank Team and other foreign experts recently.

The report recently submitted by the World Bank Team, known as the "Bell Mission", had doubted India's capacity for fast economic growth. Some members of the Team expressed their doubts on the country's ability to

maintain a six or seven per cent rate of economic growth in the Fourth Plan. There seems to be "grave misgivings that India will not be able to improve on its slow performance during the last five years". Members of the World Bank Team "have no doubt that India can spend between Rs.21,500 and Rs. 22,500 crores during 1966 to 1971; but they fear that inefficiency will grow faster than the increase in expenditure so that economic growth is slower than what is envisaged in the Fourth Plan Memorandum".

But Mr. Asok Mehta, Deputy Chairman of the Planning Commission, seems to be opposed to a smaller Fourth Plan. According to him if it is adopted, the rate of development will be lower and this will also be the case if the Plan is stretched to seven years. However the appeal for realism in the next plan is not without logical foundation. One cannot fail to appreciate (1) the lack of adequate marketed food supplies and consequent price increases; and (2) the development on the borders compelling us to accord a high priority for Defence. It is also common knowledge that the administration cannot entirely avoid controls and curbs both on domestic and foreign trade and both on agricultural and industrial sectors.

Currently, the Indian economy acutely faces, besides, the twin-phenomena of foreign exchange scarcity and rupee finance. Although the Deputy Chairman of the Planning Commission had originally expected foreign assistance to the tune of Rs. 4,000 crores during the Fourth Plan, it

Safest for everything in electric power control

HV & LV SWITCHGEAR AND AC MOTOR CONTROL GEAR

Noted for their inherent reliability and liberal design, MEI products are sturdily built to withstand exacting tests under severe working conditions. MEI equipments are in use throughout India in large factories, industries, electricity undertakings, power stations, etc. and have gained an excellent reputation for dependability and efficiency in performance.

Manufactured by:
THE MYSORE ELECTRICAL INDUSTRIES LTD.
Bangalore

Sales & Service
IAEC
(BOMBAY) PVT. LTD.
43, Forbes Street, Bombay 1.
Branch at: "K" Block, Chawdhary Bldg., Connaught Circus, New Delhi.

Associated Offices:
I.A.E.C. (Madras) Pvt. Ltd., 'Dinroze Estate', 2/17-G, Mount Road, Madras 2.
I.A.E.C. (Mysore) Pvt. Ltd., 54-55, Silver Jubilee Park Road, Bangalore City.
I.A.E.C. (Hyderabad) Pvt. Ltd., Barman Bldg., Gunfoundry, Hyderabad.
I.A.E.C. (Calcutta) Pvt. Ltd., 19, Rajendranath Mukherjee Road, Calcutta 1.

* Post-Graduate Economics Department,
National College, Tiruchirappalli-1

is unlikely to help us because: (1) the quantum of foreign aid tends to shrink due to political differences of our country with others and this has been too often revealed in the changed attitude of the Aid India Consortium and (2) the various study Teams which visited India, including the Bell Mission, were not impressed by India's performance in the past. So the basic problem of finding the wherewithal for a mammoth plan remains.

Some Problems

Further, in view of the Emergency necessitating more public expenditure, it will be very hard indeed to assure that deficit financing will not be resorted to in the future. But such financing will be highly inflationary in the present situation. The Finance Minister expressed sometime ago that the two factors largely responsible for the present price situation were: (1) the large amount of money in the hands of the people; and (2) the increased holding power in the hands of the agriculturists. His analysis may be partly correct but one must remember also that an important contributory factor for price increase under domestic economic development "is the high cost of Government, Central, States, Corporations, Municipalities, Panchayat Raj administrations, etc."

Moreover, since 1962, the economy has borne, with its unimpressive savings-income capacity, additional defence expenditure which is not a little responsible to give a spurt to price levels and it cannot be cut down in the foreseeable future. As a matter of fact, the impact of the budget itself has led to price increases in India. But it is the indirect, rather than the direct, taxation that leads to a price spurt. Whereas the direct taxes rose by 258 per cent in the last 15 years, indirect taxes rose by nearly 410

per cent. On some items, the excise duty had indeed risen by as much as 1852 per cent in the last few years. A study made by some leading Indian firms and Chambers of Commerce regarding the incidence of indirect taxation on prices reveals that these taxes accounted for 40 per cent to 65 per cent of the total ex-factory cost of six major industrial items produced in India: cloth 40 per cent to 65 per cent; sugar 65 per cent; cement 60 per cent to 65 per cent. Another estimate shows that excise duties and sales tax alone formed quite a sizable proportion of the retail price of certain other commodities, e.g., kerosene oil (superior) 58 per cent; matches 53 per cent; cloth 11 per cent to 39 per cent; sugar 29 per cent; steel 21 per cent to 25 per cent and cement 20 per cent.

Aid to States

Further, the latest Report of the Finance Commission favoured a transfer of Rs. 700 crores to the States. Since the additional amounts given by the Finance Commission are, it is pointed out, generally used by States for non-developmental expenditure, the Centre's capacity to assist the States in the next Plan will therefore be somewhat weakened by the Commission's recommendation. Therefore, looked at from all angles, it is both desirable and necessary that the size of the next plan should only be what the economy and the nation can bear under the present conditions. What is required is the completion of half-done tasks and fuller utilization of the installed capacity in industries. Repayments of the foreign loans received in the past have also commenced and for a long time they will be a millstone around the neck of the Planners.

All these problems in the context of the Emergency make it imperative to search for

greater operational efficiency in the execution of plan schemes. Essential schemes must be identified together with maximum utilization of existing capacity of the economy and of the potential sectors. The most urgent action required is to serve defence planning through increase in supplies of goods and services for defence, including civil defence; meeting the essentials of the civilians; and minimum draft on scarce foreign exchange by import substitution and augmented exports. This is complex indeed involving close scrutiny of national security and economic programmes in that some schemes must be redrawn, some should be slowed down or suspended and construction works needing scarce materials postponed. Besides, mobilisation of more savings to minimise recourse to deficit financing must be made at all levels.

Such considerations must cause delay in formulating the Fourth Plan specially because of the uncertainty about internal and external resources. As aptly observed by the Deputy Chairman of the Planning Commission, we have reached the middle stage of our development where we need not be wholly dependent on any one country but could not be wholly self-reliant; it is an area where careful co-ordination is needed to achieve the maximum degree of self-reliance. Leaving aside long-term objectives of economic growth, the immediate requirements can be broadly indicated.

New Priorities

In ordering new priorities, food production deserves a high priority. In the industrial field, production of special quality steel, pig iron, alloy steel castings and forgings, aluminium and zinc, occupies a crucial position; development of heavy electricals and heavy engineering, expanded manufacture of equipments or

cement, sugar and chemicals deserve close attention and more funds. The States, likewise, should search all avenues of resources, assess and determine their capacity for additional endeavours and should ensure utmost efficiency in plan executions. Their annual plans call for a total outlay of Rs. 2,080 crores, including Rs. 60 crores for the Union Territories. Their main features will be: (1) Main priorities will conform to the exigencies of the present situation; the principal objective will be defence-orientation; (2) Top priority will be given to agriculture, particularly to quick-yielding schemes; (3) No new schemes will be undertaken in the case of irrigation and power, unless they are sure to yield results, in terms of additional food production in a year or two; (4) No new industry will be set up except for meeting defence needs or for essential civilian consumption; and (5) Stress will be laid on family planning.

Outlay on Agriculture

The Planning Commission appears to have sounded the States on the pattern and magnitude of agricultural programmes and the proposed outlays, state-wise, are: Andhra Pradesh Rs. 19.85 crores; Assam Rs. 5.85 crores; Bihar Rs. 19.75 crores; Gujarat Rs. 14.85 crores; Jammu and Kashmir Rs. 3.03 crores; Kerala Rs. 10.70 crores; Madhya Pradesh Rs. 24.05 crores; Madras Rs. 15.60 crores; Maharashtra Rs. 35.15 crores; Mysore Rs. 19.65 crores; Orissa Rs. 12.85 crores; Punjab Rs. 14.20 crores; Rajasthan Rs. 10.77 crores; Uttar Pradesh Rs. 47.60 crores and West Bengal Rs. 14.10 crores. The state governments have also been informed about the estimate of their potential resources and the Central assistance; and the states have to

frame their Plans within these two limits.

The future economic planning in India is conditioned by a number of politico-economic conditions whose magnitudes are indeed large. The nation certainly needs assistance from other countries; however, the sooner that assistance diminishes to a marginal rate, the better for the acceleration of our progress.

Planning for Future

Economic planning today is a combined venture of both the Governments and the public. Where the honour and security of

the nation are involved, it is very important to undertake effective planning so as to free the future from political dangers. The development progress and the very tempo of the nation's life are no doubt dependent on the achievements of the plan targets. It is wrong therefore to believe that our resources are diverted from the social and economic development. The nation has willingly taxed itself heavily to meet the demands of security. One can be sure that every patriotic Indian is prepared to make the sacrifices needed to preserve his freedom.

AUTOS & ANCILLARIES

(Contd. from Page 9)

then, the automobile industry has tried to use more of indigenous components. In 1956, the indigenous contents of cars were between 20 to 50 per cent, trucks 30 to 48 per cent and jeeps 45 per cent. This ratio has gone up to 44 to 75 per cent, 38 to 76 per cent and 68 per cent respectively.

The ancillary industries catering to the needs of the manufacturers had their own problems of non-availability of raw materials, finance and foreign exchange. Since there were different models of vehicles for which they had to supply the spares and components the cost of capital equipment has been high. The only solution is the rationalisation of components. The charge that for the quality the price of the indigenous components does not compare well with those of imported ones is true, to some extent. This can be remedied by creating a ready demand for such components. The ancillary units should, on their part, improve their production-techniques to keep up to the specified standards. The Government has to see that raw materials are allocated judiciously and in time to the ancillary units.

The "Small Car" has bobbed up several times. The Jha Committee and Pandey Committee pondered this problem and recently Mr. Nijalingappa, Mysore's Chief Minister, sponsored a proposal for the manufacture of a small car, a prototype of which was built in H. A. L. In regard to scooters and motor cycles, against the installed capacity of 75,000 per annum, the production of scooter three wheelers, mopeds and motor cycles stood at 37,498 in 1964. This is due to the fact that some of the units have not gone into production. The overall demand for scooters and motor cycles is estimated at 50,000 by the end of 1965-66 and it may go up to 1,50,000 by the end of 1970. To meet this demand, the Government has licensed additional capacity. In sum, the future of the automobile and ancillary industries depends not only on the rationalisation of the manufacturing processes but also on rational thinking on the part of the industrialists as well as the Government.

Profit: A Russian View

By Prof. Yevsei Liberman *

THE decisions of the recent Plenary Meeting were enthusiastically received by the Soviet people. During these days I have been meeting and speaking to many factory and office workers and executives of factories and plants in Kharkov. All of them are deeply convinced that the measures taken by the Communist Party and the Soviet Government for further improving the planning, organisation and management of industry will facilitate an even more rapid development of the country's productive forces and a rise in the standard of living of the Soviet people.

There has been much comment on the decisions of the Plenary Meeting abroad. Friends and like-minded people in the countries of the socialist camp warmly approve these measures. However, there are also many utterances on the part of the so-called experts on Soviet affairs which distort the decisions of the September Plenary Meeting and attempt to discredit socialism.

Wrong Interpretation

Such propagandists mention my name. Starting with 1962, i.e., with the beginning of a lively discussion in the USSR on the ways and means for reorganising planning and for providing incentives to socialist production the bourgeois propaganda apparatus has raised a hullabaloo around my name. It is generally known that the article I published in *Pravda* in 1962 was entitled "Plan, Profit and Bonuses". In order to misinform the reader, Western commentators completely erased the word "plan" and

ignoring the main idea in the article, snatching at the word "profit"—a word which rings a bell in their hearts, started to interpret Soviet profit at random.

Both in that article and others which followed, I had clearly pointed out that centralised planning should be improved and intensified and that enterprises should receive planned assignments on the volume of goods to be delivered, i.e. planned assignments on the volume of goods to be sold. Profit, however, and the rate of profitability were considered as overall indices of work efficiency and as a source of encouragement to precisely prompt the enterprises themselves in drawing up and accepting increased planned assignments. How is this interpreted by bourgeois misinformers? They went in for wishful thinking: the USSR was allegedly renouncing "the very basis of its system"—the planned management of the economy, and was going over to a profit system and from here allegedly it was only one step to capitalism, nothing more nor less.

Economic Arsenal

It was Lenin who was the first to point out that socialist enterprises should cover their expenditure by their income and give society a profit. Hence, profit in the Soviet economy was not born yesterday or today: it is part and parcel of the economic arsenal of socialism from the first days of the revolution. (Incidentally, such economic categories as profit, price and money are by no means attributes of capitalism. They were also to be found in pre-capitalist economic formations.

Every socialist system uses these economic categories in accordance with their social-political tasks). It was precisely due to the profit of Soviet enterprises that it was possible to build up a powerful socialist industry.

Profit in a socialist society cannot serve as a source of private enrichment, since no one can purchase the means of production using his own income and exploit hired labour for private interests. Profit in the USSR is an expression of the economy achieved in the expenditure of social labour as compared with the norm of expenditure of this labour which is reflected in the planned price. Hence, there is nothing in our profit except hours of saved labour, tons of economised raw and other materials and kWh of electricity. This is precisely why profit in the USSR can serve as an indicator and incentive agent of the efficiency of the operation of enterprises. Under capitalism, as it is generally known, profit is more frequently realised not where it is actually created. This takes place due to monopoly prices of market speculation, the creation of fictitious capital and enormous "founders" profits.

Profit Under Socialism

Profit under socialism radically differs from profit under capitalism not only according to the nature of its formation but also according to how it is used and distributed. Where does profit go in the USSR? By no means it goes into the pockets of managers and other industrial executives. The bulk of it is used for expanding socialist production and for

improving social and cultural services for the population. Profit in the USSR is a means for satisfying the requirements of the national economy and the population.

At the same time profit, due to the very essence of the mechanism of its formation, can serve as a criterion in appraising the qualitative successes of production. This is why profit should be used for encouraging those who

directly create it. However, encouragement for producing profit is in no way a return to capitalism. Quite the contrary, this strengthens the socialist principle of remuneration for work according to its quality and quantity. The September Plenary Meeting, by its decisions, stressed the advantages of the socialist system which can be fully used on the basis of a reasonable combination of a

single country-wide planning system with the maximum interest of enterprises in the effectiveness of production, on the basis of direct ties between producers and consumers, on the basis of profitable operations. These aspects are not only compatible: they reinforce each other and are therefore, integral aspects of the system of managing socialist production which has now been adopted.

Profit: An American View

By John T. Connor *

EVERY civilization, every society can be defined and judged by the values it endorses and lives by. After a superficial examination, some people have been led to believe that values in the United States are predominantly material, and that the purpose of American lives, and the limit of U.S. aspirations, is material abundance. But is this material abundance the ultimate goal of U.S. society? Is affluence an end in itself? No. Not in America.

The goal of U.S. society, the goal which gives meaning to our constant efforts to increase material abundance, is to free man from the shackles of poverty and all the dehumanizing, debilitating effects that go with it—disease, ignorance, misery and despair. America was the first nation to dedicate itself consciously to the ideal that all men should be free of the degradations of poverty. It has always been a part of the American dream that material security was the key to freeing the human spirit from the physical demands that had imprisoned its potential since man first began his endless struggle for survival.

* U. S. Secretary of Commerce

Quite obviously the way to achieve this material security was, and is, work. In the early days of the nation this meant, for the most part, physical labour, just as it does today in the less developed countries of the world. But as the mastery of science over nature increased, as we developed the machine and mechanical power, we began to have real hope, for the first time in the history of mankind, of producing in quantity for our material needs. The benefits of industrialization could be realized, however, only if an organizing instrument welded together all the diverse elements required—machines, raw materials, the different skills of many workers, and the capital investment to build the industrial complex.

That instrument became the modern business organization. It is business which takes the risks, understands and uses the power of science and technology, studies the requirements of society, brings together personnel of many specialities, and promotes the product in the free competitive market place. It is business which earns the profits required for research and innovation, and for new plants and equipment that mass produce

better products at lower prices. The business organization is the very heart of the system that provides the goods and services which enable man to devote more of himself to higher attainments. Thus the business system is the essential material means to an ultimately spiritual goal.

The businessman's concern with profit is the necessary gauge for measuring the effectiveness of this means. It is, in fact, more than a gauge. In the free, competitive American economy, profit is a discipline, and a good one, which tells a manager whether he is failing or succeeding in his and his company's contribution to society. It is a discipline neither business nor society can afford to be without. It tells us when we have a surplus of wealth—and I use that term in its generic sense, meaning an excess of material goods over and above what is needed for sheer survival. What is more, it guides us in the best use of that surplus.

Consider what has happened in countries which have outlawed profit and loss and substituted state planning. The result is an industrial system that wastes both material and human resources and fails to provide a full and satisfying life for its citizens. I

* Kharkov State University, U. S. S. R.

understand the Soviet Union is now "experimenting" with the profit system. The "experiment" will work if it adopts the right formula: the free enterprise system that has brought America so many benefits — the system in which millions of Americans are equity stockholders having a personal stake in its success. The free enterprise system, operating in a climate of confidence and security, has brought the highest standard of living in the world to the United States. And this same system can provide its benefits around the globe wherever this same climate is engendered.

Right Perspective

Profit, in proper perspective, means an addition to the nation's and the world's wealth. It means an increase in capital, a growth

of economic resources which can be used to create more wealth for the further elimination of want. The seemingly impersonal figures on the growing Gross National Product of the United States are a shorthand that describes the wherewithal to supply 70 million people with gainful employment. It means that an average family has been made happier by an increase in personal income of nearly \$1,000 in the past four years. This shorthand spells out an increasing freedom from want for millions of individuals, not only in this country, but the world over.

The productivity and vigour of the American economy has made possible the giving of \$77,000 million dollars worth of foreign aid since World War II — aid that rebuilt a devastated Europe

and Japan and is now bettering the lot, and relieving the suffering of deprived peoples in less developed countries in Africa and Asia and Latin America. To cite but one small example, the United States is supplying school lunches for 40 million children in 89 countries. The profits and wealth generated by our business society have allowed American companies to invest no less than \$66,000 million in foreign nations, both developed and underdeveloped. That is \$66,000 million worth of fuel for their own economic engines, so that they in turn can create more wealth, lift the living standards of their people and enhance the dignity of the individual. If this is materialism, let us have more of it.

BOOKS

A Mixed Recipe

Reviewed By Subhas Chandra Sarker

The volume* contains three lectures delivered by Mr. V. K. Narasimhan, well-known journalist, at the invitation of the Annamalai University in 1964. The subjects covered by the lectures were: Ideology and Ethics; the Concept of Margin in Politics; and Democracy and Mixed Economy. All the three lectures broadly discuss the role of State in modern society. This is a very important subject and it is certainly interesting to know what a veteran and well-informed commentator has to say on this topic.

With due respect to the learned author, I must confess my inability to accept several of his assertions which are intended as statements of facts. For example, my studies of West European and the U.S. Societies do not permit me to accept the assertion of the author that in the "western democracies" there is no "exploitation of the workers by the owners of capital, but only the exploitation by the whole of society of the resources of science for the benefit of all." (p 19) This is a strange assertion when people in the West are coming to a new awareness of the existence of extreme social inequality and exploitation. Since the analysis proceeds on the basis of such an understanding of the factual situation, much of the conclusion itself is also naturally affected by it.

Lack of Ideology

In any case, the author's plea against the developing

nations having an ideology is difficult to understand. Refusal to adopt an ideology consciously and deliberately may mean, as Keynes made it clear in the field of economics, the fatal submission to a backward looking and worn-out ideology. There is no contradiction between ethics and ideology — both have to be responsive to changes. Gandhiji whose views the author looks upon favourably, was very much concerned with his own ideology. If revulsion to communism leads one to a sterile aversion towards any conscious effort at giving a goal and direction to social change it is bound to expose society all the more to the excesses of a tyrannical regime.

Conservative Bias

The past history of Russia and China provides an excellent illustration of what happens when society refuses to reconsider its conservative bias. Perhaps our own centuries-old subjugation also illustrates the central truth of the dangerous potentialities of a situation when a nation refuses, or ceases, to seek an ideology consciously.

Mr Narasimhan is right in his concern to protect the liberty of the individual citizen in a modern state. But a mere concern by itself is not enough. It has to be supported by wise suggestions for safeguarding the liberty. I am afraid, the learned writer has completely missed the issue while offering his suggestions. His opposition to the nationalization of life insurance in India is astounding. There is no question that nationalization was justifie

on economic, political and sociological considerations.

Nationalisation

While criticizing the public sector, it is of the utmost importance to keep in view the general level of efficiency in the country. Workers in the public sector are not offered compensation at a higher rate than those in private sector units of comparable importance. Even if there is no commercial benefit out of nationalization, it has its value in redistribution of wealth and income and in reducing social inequality and generating social mobility.

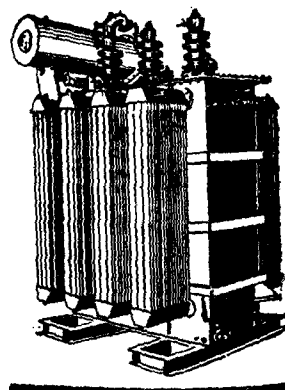
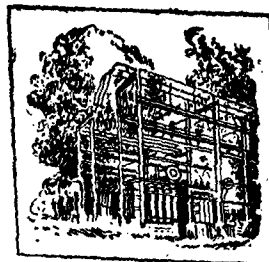
However, in recent times we have seen numerous instances of undue curbs being placed on individual freedom, particularly with regard to expression of opinion and the freedom of discussion, to warrant us all to be concerned with the need and possibility of defining the extent of state interference. Mr. Narasimhan's volume is a useful addition to a discussion on the subject.

* THE IMPACT OF PRICE MOVEMENTS ON AREAS UNDER SELECTED CROPS IN INDIA, 1900-39, by Dr. Dharm Narain, Cambridge University Press, 1965. Pp. 234. Price: 45 sh.

ONE of the cardinal assumptions of economic theory is that profit-motive governs the behaviour of producers and that each economic subject tries to maximize his individual gain. This assumption has been more satisfactorily proved in the behaviour of non-agricultural sector. Some western economists hold the view that the principle of profit maxi-

KIRLOSKAR TRANSFORMERS

FOR POWER, DISTRIBUTION AND MINING.



Kirloskar Transformers (Manufactured in collaboration with Brush Electrical Engineering Co. of England) have already gained a high reputation in meeting the exacting requirements of the customers. These Transformers have found application in the various industries of the country like Steel Plants, Chemical Plants, Textile Mills, Collieries etc. Kirloskar Transformers are also in the service of the Electricity Boards in most of the states in the Indian Union. The present range of Transformer manufacture varies from 15 KVA to 5000 KVA, 66000 volts, all natural cooled, core type, auto or double wound.



KIRLOSKAR ELECTRIC CO. LTD.

P.O. BOX NO. 1017 BANGALORE-3 INDIA

Selling agents: PARRY & CO. LTD.

P.O. Box No. 12 Madras 1. P.O. Box No. 505 Bombay 1. S R

P.O. Box No. 208 Calcutta 1. P.O. Box No. 172 New Delhi 1.

Prosperity. What does the word mean? To farmers, it suggests plentiful harvests. To industrialists, industrial growth. To businessmen, a brisker turnover. And to one and all, a better future.



a promise to keep:

“Thou shalt forever be prosperous.”

Our emblem and our motto hold out to you the bold promise of never-ending plenty. Our emblem is coin-shaped, signifying that we are a financial institution. We deal in money and, therefore, with people. People engaged in industry—symbolised by the cog wheel. People engaged in agriculture—symbolised by the two ears of corn. The upraised palm signifies security. Together they mean that we are a financial institution deeply involved in the development of all sectors of our country's economy.

Our motto, “अक्षयं ते भविष्यति” (akshayam te bhavishyati), spells out the promise of prosperity in the words of the Sun God, uttered at the time of giving the Akshaya Paatra to the Pandavas. It means: “Thou shalt forever be prosperous”.

By adopting this emblem and motto, we give you a promise of unending growth: in industry, in agriculture, in business—in all spheres of life...in all avocations.

THE BANK OF BARODA LIMITED

Over 230 branches in India and also branches in London, East Africa, East Pakistan, Fiji Islands and Mauritius.

imization is applicable to agriculture also. In his study, Dr. Dharm Narain tries to ascertain how far such a view can be held about Indian agriculture.

Subsistence Farming

The conditions of Indian agriculture are generally well known. It is characterised by a high degree of economic uncertainty and is subject to the vagaries of the monsoon. The large majority of farmers are subsistence farmers who cultivate small plots mainly for self-consumption. In India, agriculture is primarily a way of life and not a business. Under these conditions, it is natural that a considerable proportion of the farmer's land is devoted to raising his own requirements of food and other crops, and in such a case, he is insensitive to price-changes. But in the “surplus” land he may grow crops for the market and here he may be influenced by the prices and profit-motive.

The response to prices is reflected more directly in area under the crops. Dr. Narain has confined his study to the variations in area under six crops—rice and wheat which are food crops primarily grown for self-consumption and cotton, jute, groundnut and sugarcane are the cash crops which are largely raised for money—over a period of 40 years from 1900 to 1939.

The author has upheld the view that in India also the farmer is significantly responsive to price but with a noticeable difference in response as between cash crops and foodgrains. In the case of cash crops, price has definitely affected the crop acreage. In respect of foodgrains, on the other hand, there are other considerations and rainfall assumes that status which price does in the case of cash crops. But even in the case of foodgrains, where they compete with cash crops for area the play of price is evident.

The conclusions arrived at by

the author are valuable and the existence of close relationship between relative prices and acreage has policy implications in the context of agricultural development in our country.

RESEARCH REPORTING IN SOCIAL SCIENCE: By M. H. Gopal, Published by Karnatak University, Darwar 1965. Pp. vii + 88. Price: Rs. 2.

Effective writing is an important tool of research in the field of any science, more so in the field of social sciences. Although the preparation of the report is the final stage of research, it is really an inherent part of it. Unless the results of research are communicated to others in the proper manner, the research itself is of little value. In this sense, no research is complete until the report on it is prepared. But reporting calls for a set of skills which are different from those required in the earlier stages of research.

Guide Lines

What are the attributes of good and effective research reporting? Dr. M. H. Gopal, one of our outstanding economists, delivered four special lectures on the technique of writing the research report at the Department of Economics, Karnatak University. These lectures are now issued in the form of a brochure. In his lectures, Dr. Gopal has identified three distinguishable major stages in the preparation of the research report, namely, organisation, write-up and documentation, and has given useful guide-lines which are of immense value to researchers and particularly to the beginners. He has rightly stressed the value of clear, simple, direct and concise writing. The set of “do's” and “don't's” prescribed by him should be of much practical value.

While the guide-lines suggested and discussed by Dr. Gopal are extremely helpful, it is to be borne

in mind, as he has particularly pointed out, that good reporting is the result of conscious effort and painstaking practice.

M. B. N.

REPORT ON SURVEY OF ANCILLARY INDUSTRIES IN MYSORE: Department of Post-Graduate Studies and Research in Economy; University of Mysore; Mysore-2.

The recent conference on ancillary industries, held at Bangalore under the auspices of the Small Industries Corporation brought the large, medium and small-scale industrialists together to discuss their problems. Small scale industries suffer for want of raw materials, finance etc., but the foremost problem is the marketing of their products.

The publication of the Report on the survey of Ancillary Industries in Mysore State is timely. The Survey was conducted by the Department of Economics, University of Mysore, with the help of Small Industries Service Institute and the Department of Industries, Government of Mysore. It covered 119 ancillary units of which 90 were ancillary to Industrial Machinery, Machine Tools, Electrical Machinery and Equipment, and Radio industries etc., and the rest were ancillaries to more than one industry. The report gives a clear picture of the nature and extent of ancillary development, and indicates a developmental policy which the State Government can adopt.

Time-lag

The report abounds in interesting statistical information. However, a comparison of the ancillary units in Mysore State with those of other states would have given us an idea as to where we stand. The time-lag of about three years between the survey and the publication of the report diminishes the usefulness of its recommendations.

A. K. S.

Ballarpur Paper Earns More

THE Ballarpur Paper and Straw Board Mills Limited showed improved turnover during the year under review. Against a production of only 19,611 tons last year, the production has improved to 31,459.85 tons while sales have improved from 18,685 tons to 30,851.80 tons. These increases have been in the range of 60 and 65 per cent. The Chairman, Mr. L. M. Thapar, expects production to increase further by 7,000 to 8,000 tons. The improved performance is reflected in the increase in gross profit from Rs. 76 lakhs to Rs. 1.26 crores. On account of increased depreciation and development rebate provided for, and the heavy outlay on the expansion scheme, the dividend had to be met from the general reserve. A dividend of 7.5 per cent on ordinary shares and 6.5 per cent on the five per cent tax-free cumulative preference shares has been recommended.

Paper Products

DURING the year-ended July 31, 1965, the Paper Products Limited has shown a net profit of Rs. 13.53 lakhs compared to Rs. 59,283 in the previous year. This figure is arrived at after providing Rs. 15.04 lakhs for depreciation and Rs. 1.42 lakhs for development rebate. The Company has declared a higher dividend of 12 per cent, compared to 10 per cent last year. This absorbs Rs. 7.20 lakhs. The other allocations include Rs. 6.10 lakhs for taxation and Rs. 20,000 for general reserve. The performance of the company's Thana and Roha plants has been quite

encouraging. The company has set up a packaging conversion plant at Faridabad, to meet the regional demand.

Voltas Limited

THE performance of Voltas Limited during the year ended August 15, 1965, was satisfactory. The company has maintained the dividend at Rs. 15 per share. There has been an improvement in sales from Rs. 37.31 crores to Rs. 42.23 crores. Gross profits have risen from Rs. 2.31 crores to Rs. 2.60 crores. A sum of Rs. 22.68 lakhs has been set apart for depreciation, against Rs. 11.90 lakhs last year. Taxation provision, at Rs. 1.41 crores, is the same as last year. Development rebate reserve absorbs Rs. 15.17 lakhs compared to Rs. 1.87 lakhs in 1963-64. Another sum of Rs. 43.37 lakhs has been earmarked for general reserve while dividend reserve absorbs Rs. 38.25 lakhs. The company's new factory at Thana has gone into production.

A.C.C.'s Progress

THE speech of the Chairman, Mr. Dharamsey Khatau, reveals that the Associated Cement Companies Limited has not fared badly during the year ended July 31, 1965. The production of cement has risen from 38.4 lakh tons to 40.1 lakh tons and production as percentage of rated capacity has improved to 96.7 per cent against 94.4 per cent in the previous year. Although there has been an increase in the turnover from Rs. 39.21 crores to Rs. 41.73 crores, the gross profit shows a

decline from Rs. 9.09 crores to Rs. 7.85 crores. Since there is a shrinkage in the distributable amount, a sum of Rs. 17.7 lakhs has been withdrawn from the reserve. A dividend of 12 per cent has been paid on the increased capital. The appropriations are as under:

	Year-ended July 1964-65	1963-64 (In Rs. Lakhs)
Man. Agents' Remuneration	29.14	29.30
Depreciation	299.35	280.74
Taxation	202.60	248.90
Development Rebate Reserve	84.20	36.00
Net Profit	170.17	213.83

To the net profit of Rs. 170.17 lakhs is added Rs. 89,028 brought in from the previous year. From the available distributable amount of Rs. 171.06 lakhs, a sum of Rs. 2.21 lakhs is provided for amortisation reserve and Rs. 168 lakhs for general reserve, leaving a balance of Rs. 85,239 to be carried forward to next year. The company has plans to increase its capacity to about 9 million tons.

Ashok Leyland

THE sales of Ashok Leyland Limited have shown an improvement of about 17 per cent, from Rs. 17.37 crores to over Rs. 20.24 crores during the year ended September 1965.

Sir A. Ramaswamy Mudaliar, Chairman, has pointed out in his address that the shortage of foreign exchange and of power may affect the company's production in 1965-66. In view of the meagre foreign exchange allocation, the Chairman doubted whether

the company will be able to reach the target of 5,500 chassis in the current year. The company's order books are almost full for its 'Beaver' and 'Hippo' chassis. The company has plans to manufacture chassis for double decker buses. The company's capital issue of Rs. 2.21 crores has elicited a good response from the shareholders.

New Issues

Motilal Padampat Steels (Pvt) Ltd., a new company incorporated in Uttar Pradesh, for the manufacture of steel castings, has been accorded consent to issue capital of Rs. 35 lakhs in equity shares of Rs. 100 each. Of this, shares of the value not exceeding Rs. 10 lakhs will be issued for consideration other than cash, and the balance for cash at par.

Kirloskar Electric Company Ltd., Bangalore, a public company having a subscribed capital of Rs. 106,79,920 is raising a further capital of Rs. 13,33,000 (nominal) divided into 1,33,00 equity shares of Rs. 10 each, at a premium of Rs. 3.50 paise per share, for cash to be offered to Brush Electrical Engineering. Co. Ltd., U. K. With the money, plant and machinery to be imported for the manufacture of large size alternators 500-1500 KVA.

Cutler Hammer India Ltd., Calcutta, is issuing capital of Rs. 30 lakhs divided into 3,00,000 equity shares of Rs. 10 each, at par. Out of this, 49 per cent of shares will be issued to the foreign collaborators, Cutler-Hammer Inc., USA, partly for cash and partly for supply of technical know-how and plant and machinery. The remaining 51 per cent will be subscribed privately. The money will be used for the manufacture of small tools, electrical relays etc.

Modern Bakeries (India) Pvt. Ltd., Delhi, a Government company, will issue capital of Rs. 50 lakhs divided into 5,000 equity

shares of Rs. 1000 each at par to be issued partly for cash and partly for consideration other than cash. The capital will be used for production and distribution of good quality nutritious bread.

Orissa State Commercial Transport Corporation, a Government of Orissa undertaking, has been given consent to issue further capital of Rs. 35 lakhs divided into 3,500 equity shares of Rs. 1,000 each to be issued privately for cash at par. The capital will be used for developing an efficient system of road and water transport for facilitating construction and development of traffic to Paradeep port.

Bihar Alloy Steel Limited, Ranchi, a new public company, is to issue capital of Rs. 600 lakhs divided into 45,00,000 equity shares of Rs. 10 each, and 1,50,000 (9.3 per cent) cumulative redeemable preference shares of Rs. 100 each for cash at par. Of these, equity shares of the value of Rs. 40 lakhs will be offered to Des Forges Et Ateliers Du Credusot (Unines Schneider) of Paris. The capital will be utilized for the manufacture of alloy constructional steel, alloy tool steels, in collaboration with the French collaborators.

Century Enka Limited, Calcutta, will be issuing Rs. 250 lakhs capital comprising of 2,00,000 equity and fifty-thousand 9.5 per cent cumulative preference shares of Rs. 100 each at par. Of these, 90,000 equity shares will be offered to Akuholland and VGF-Germany — 60,000 shares for cash and 30,000 for technical know-how — and the balance of equity and the entire preference shares will be offered for cash at par in India. The capital will be utilized on the project for the manufacture of nylon yarn.

Modi Spg and Weaving Mills Company, Modinagar, Meerut (U. P.), is to issue further capital of Rs. 45 lakhs in cumulative redeemable preference shares of

Rs. 100 each, carrying dividend not exceeding 9.5 percent per annum, for cash at par. The money will be utilized for meeting increased cost of the company's project for the installation of spindles and automatic looms.

The Britania Biscuit Company Limited, Calcutta, is to issue further capital of Rs. 50,00,000 in 7-3/4 per cent, debenture stock, for cash at par. The money will be utilized for the establishment of a new biscuit factory at Madras.

SANFORIZED SERVICE

Mr. Arthur McCall, Manager, Technical Department, Sanforized Service, Bombay and Mr. H. G. Bandukwala, Field Service Representative, recently attended a Sanforized Technical Service meeting in Troy, New York. Sanforized Technical Service meetings are held periodically in the United States, to exchange information on improved operation and maintenance of compressive shrinkage equipment used in the production of fabric labelled "Sanforized", and to keep all members of the world-wide Sanforized field staff abreast of the various technical and scientific advances being made in the textile industry. One of the items on the agenda was the new Micro-Stretching process recently developed in Switzerland which the Sanforized Company is licensing on a world-wide basis. There are already licensees for the new process in the United States and Europe, and very shortly the Sanforized Company will expand their licensing programme to other countries, including India.

Subscribe to
Southern Economist
A Premier Fortnightly

Unrelieved Gloom and Uncertainty

By "Luzer"

GLOOM pervades the stock markets of the country as they are slowly recovering from the shock of the news of the Prime Minister, Mr. Shastri's sudden death at Tashkent. Actually, the New Year had begun well for the markets as they interpreted the Finance Minister, Mr. T. T. Krishnamachari's resignation and the appointment of Mr. Sachin Chaudhuri as his successor bullishly. There was the expectation that, other things remaining the same, Mr. Chaudhuri would present a budget which will provide incentives to the corporate sector and would pave the way for the recovery of the capital market.

Into Melting Pot

These expectations were not based on any policy statement by the new Finance Minister but on shrewd surmises. Mr. Chaudhuri himself had not revealed his mind except for a few Delphic utterances which could be interpreted in several ways. The low ranking of the Finance Minister in the Cabinet and his lack of hold on the party machine must have made many observers realise that he had to play second fiddle to Mr. Lal Bahadur Shastri to whom he owed his appointment. Now that Mr. Shastri is no more, everything is thrown into the melting pot again.

It will be many weeks before the markets are able to assess the impact of the tragic event. For one thing, they were well set for a recovery phase, and all the factors pointed to a steady trend. The food crisis had been averted, for the time being, with the U.S. offer of 15 million tons of wheat

and though the gloom on the foreign exchange front had not been relieved, there was the expectation of a larger and quicker flow of aid funds in view of New Delhi's apparent readiness to change the country's economic policy according to the recommendations of the Bell Mission. In this connection, observers attached special significance to the appointment of the new Finance Minister. With defence expenditure still running at a very high level and with the State Governments acutely short of funds to carry out the annual plan for 1966-67, there was not much scope for drastic tax reductions but the private sector had reasons to hope that suitable changes in fiscal policy would be attempted in the forthcoming budget.

Tax Reduction

Mr. Shastri's death makes a world of difference to the market outlook. If he had continued in the saddle, he would have made an earnest effort to reduce defence outlay by stages—the Tashkent declaration had made this possible—and the production and profit outlook would have improved with a gradual improvement in the balance of payments. Some of the irksome taxes like the tax on bonus shares and the dividend tax would have been scrapped and the level of corporate taxation too would have been reduced and investment outlook would have changed for the better. Now, there is no certainty that the new leadership will follow Mr. Shastri's policy.

There is no assurance that the caretaker cabinet headed by

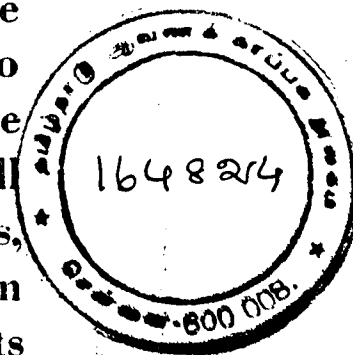
Mr. Gulzarilal Nanda will continue in saddle for a long time. While Mr. Nanda can be expected to follow prudent policies without antagonising extremist sections of either the right or the left, the same cannot be said of others who aspire to ascend the Prime Ministerial gadi. In the unlikely event of the leftist group gaining ascendancy, the expectation of fiscal reforms may not materialise. A shift of policy to the left may also mean that the Government will pursue a vigorous policy of nationalisation, including the nationalisation of banks. On the other hand, if persons like Mr. Moraji Desai or Mr. S. K. Patil come to occupy key positions in the new set-up, there can be no doubt that aid prospects will brighten but this is likely to be partly neutralised by adverse repercussions from the Communist countries.

Price Decontrol

As to the immediate future a landslide is highly unlikely since a war between India and Pakistan is ruled out. The immediate task facing any new leadership at the Centre is one of bringing about economic stability. It can be expected that the policy of price de-control will be vigorously pursued and the next item on the list can well be Sugar. The gains registered in the stock markets in the first week of the New Year are unlikely to be maintained in view of the likelihood of some nervous unloading in the coming weeks by tired bulls. Those who can afford to wait should do so since the long-term outlook is fairly encouraging.



We are proud of our students. They know the country is passing through trying times, and have been quick to do their share. They are in the National Cadet Corps, volunteering to give blood, working in civil defence and helping to raise funds. And all this without neglecting their studies, because they know the nation needs their skills. Yes, our students are serving the nation! Are you?



ONE GREAT COUNTRY ONE GREAT PEOPLE

DA 65.711



ON A SUMMER-SCENTED EVENING long ago, an exquisite princess is being married to a young Marwar prince. The eternal vows are on their lips when, suddenly, a blood-stained messenger stumbles in: "My Prince! Make haste, the enemy...". The young prince dons armour and rides away.

He is killed the same evening. The princess hastens to the battlefield and looks at her dead prince. "Let music

commence, read the sacred texts," she commands, "for I shall now complete the marriage." She mounts the pyre and sits next to her prince. As the air trembles with the chant of Vedic hymns and the weave of gay lutes, the flames lick away...

Stories such as this make the legend that is Rajasthan. To hear the legends and myths of our country is one of the pleasures of motoring. And you discover so much more when you go by road.



DUNLOP

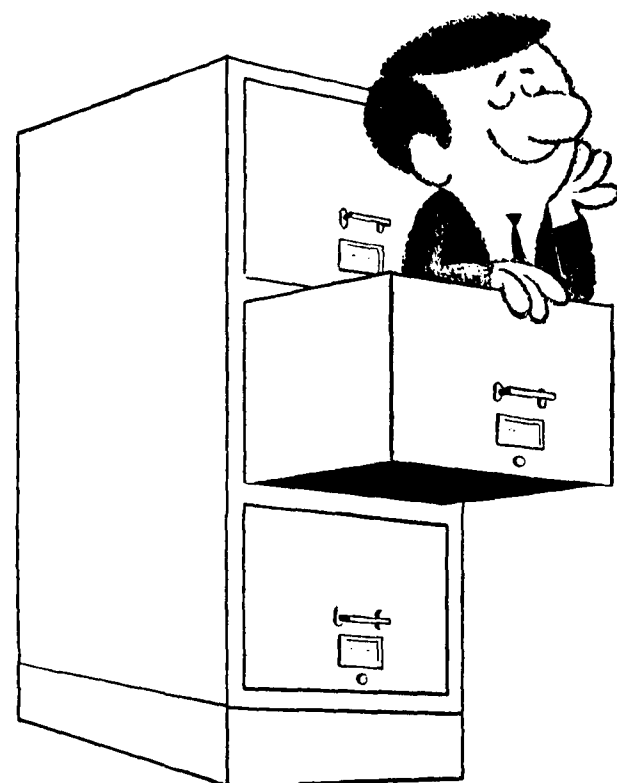
Serving India's Tourist Industry

TOURISM BOOSTS NATIONAL INCOME, BRINGS IN FOREIGN EXCHANGE

Printed by C. Krishna Rao at The Phoenix Press, Visveswarapuram, Bangalore-4. Edited and Published by Mrs. Susheela Subrahmanya, M.A., from 24 (New), Haudin Road, Bangalore-1. Editorial Adviser: K. N. SUBRAHMANYA.

southern economist

industry • banking • commerce • finance



OUR FILES ARE FULL OF SATISFIED CUSTOMERS—people who have learned from experience that Bank of America service is complete, courteous, efficient and confidential. Whatever your banking needs may be, we will welcome an opportunity to put our facilities both here and abroad at your disposal.

BANK OF AMERICA

NATIONAL TRUST & SAVINGS ASSOCIATION
Incorporated in U.S.A. with Limited Liability
FAZALBHAY BUILDING, 45/47 MAHATMA GANDHI ROAD, BOMBAY 1

**SOUTHERN
ECONOMIST**
February 15, 1966

CONTENTS

EDITORIAL	1
Pre-Election Budget	
NOTES OF THE FORTNIGHT	2
One-Man Banks; Housing Problem; Monopoly Purchase; Progress of Madras	
GLASS HOUSE GOSSIP	5
BANKING SURVEY	7 to 51
BANKING RESULTS IN 1965	
Central Bank; Bank of India; Punjab National Bank; Bank of Baroda; United Commercial Bank; State Bank of India; Mysore Bank; United Bank of India; Canara Bank; DENA Bank; Canara Banking Corporation; Bank of Maharashtra	
MARKETS	52
Pre-Budget Uncertainty — By "Luzer"	

SOUTHERN ECONOMIST
Published on 1st and 15th of every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Subscription Rates

ANNUAL Rs. 10 (Inland)
\$ 3 or 20 s (Foreign)
THIS ISSUE: One Rupee

Pre-Election Budget

THE budget to be presented in two weeks' time is hardly likely to contain surprises. In all probability, it will be a kind of "care-taker" budget designed to keep things going till the next general elections. That the Central budget affords enough scope for fiscal jugglery is not denied but since Mr. Sachin Chaudhuri is not yet properly initiated into the blunderland of fiscal adventures, one expects him not to pull off new tricks. Theoretically, the most prudent course, in the present inflationary situation, is to present a balanced budget without leaving any gap to be covered by deficit financing. The Finance Minister may not find it difficult to balance the revenue and expenditure side since the revenue accruals under major heads of taxation may exceed the budgeted figures although his advisers will be right in cautioning him about the likelihood of a fall in tax revenues consequent on the slow down in industrial production. But he will have greater difficulty in keeping expenditure estimates down to a prudent level. Whatever is saved by way of administrative economies will be more than eaten up by the increased commitments resulting from the grant of additional dearness allowance and the defence build-up. Conventional budgetary devices may not however be sufficient to deal with the type of inflation that the country is facing today. The price-increase is not merely the result of "excessive" Government spending. With a war across the border, the Government could not have followed a tight-fisted policy. But the basic malaise lies in the failure of aggregate supply to catch up with aggregate demand. The budgets, it is true, touch every segment of our economy but the real remedy lies not in manipulating the fiscal levers but in removing the obstacles to production — both on the farm front and on the industrial front. This sets a limit to what Mr. Sachin Chaudhuri can do in his budget for 1966-67.

Revenues from additional taxation imposed in the first four years of the Third Plan add up to Rs. 2,025 crores for a five-year period, against the Plan target of Rs. 1,100 crores. Considering that the yield from the measures introduced by T.T.K. in 1965-66—in the regular budget and in August—will be in the neighbourhood of Rs. 200 crores, the Third Plan achievement will be 100 per cent more than the targeted figure. For the Fourth Plan, the tentative target for additional taxation (including the States' share) is Rs. 3,000 crores of which the States can be expected to raise Rs. 1,200 crores or a little more. The Centre will thus be left with the task of raising Rs. 1,800 crores in the five-year period, 1966-67 to 1970-71. To achieve this target, the Finance Minister will have to introduce new proposals to yield, on an average, Rs. 140 crores per year. Perhaps, this will bring the cumulative total to around Rs. 1,800 crores. Mr. Asoka Mehta expects that with this effort, the ratio of tax revenue to national income will go up from 13 per cent at the end of the Third Plan to 18 per cent by 1970-71. Paradoxical as it may seem, achievement of this ratio depends on the rate of the growth of national income and higher levels of taxation can well be a cause of slower rate of income growth. It is a sobering thought that the national income during the Third

Plan will have risen, in real terms, by less than 20 per cent against the target of 30 per cent.

That the budgets of the Third Plan—particularly the budget of Mr. Morarji Desai—have caused considerable damage to investors' confidence cannot be seriously disputed but whether Mr. Chaudhuri will be wise in choosing this opportunity to give away concessions—through tax cuts—is difficult to answer since the need for applying restraints on consumption and dividend distribution was never more urgent. As we said at the outset, the Finance Minister will have every temptation to present a *status quo* budget but since he knows the mind of the private sector better than his predecessor, he may well take the first gingerly step—with of course, Mr. Asoka Mehta nodding approval—by taking off the statute book the noxious levies like the 7½ per cent equity dividend tax, the capital gains tax on bonus shares and soften the impact of the Corporation Sur Tax and the Annuity Deposit Scheme. A policy designed to give relief to the

private sector—and in the process, revive the capital market—need not be dubbed as a policy meant to appease “vested interests” because, a successful fiscal policy boosts the prestige of the Government and may ultimately pave the way for a larger flow of investment funds from the West. A distressing aspect of the Government's present fiscal policy has been that in spite of various tax credits allowed—and the tax holiday given—to new companies, venture capital has become excessively shy. This is largely because the present policy has rendered the dividend outlook uncertain and the erosion suffered by equity shares in the last few years has reduced genuine investment activity to negligible proportions. The present shift from equity finance to loan finance does not augur well for the future of the private sector which is expected to raise Rs. 7,000 crores in the next five years. This consideration, one hopes, will weigh with the Finance Minister in formulating his budget proposals.

NOTES OF THE FORTNIGHT

One-Man Banks

Cash and Camera

THE State Bank of India and its subsidiaries may be slow in branching out into the rural areas but they are not indifferent to the need for mobilising rural deposits and for extending banking services to the rural sector. Among the several schemes which are being actively considered, the “one-man branch” idea seems to be catching on. Taking its cue from the recommendations of the Krishnamurthi committee (Committee on Mobilisation of Rural Deposits) the State Bank of Mysore opened the first one-man branch in India at Anandapuram on September 2, 1965. While the progress of this branch is being watched, the State Bank of Bikaner and Jaipur opened the second one-man branch at Dudu, in Rajasthan. The State Bank of Hyderabad, another subsidiary of SBI, opened its first one-man office—the third one in the coun-

try—at Ghanpur, a busy marketing centre in Warangal district. As the State Bank of India and its subsidiaries gain experience in the working of these one-man village branches, more of them can be expected to come up in other smaller unbanked towns. In ventures of this kind, progress is hardly likely to be spectacular since the person who runs the bank (who also faces a “run,” if he is off-guard) needs time to get into his moorings in an environment which will be new, if not actually hostile. In a way, the opening of one-man branches is analagous to the sending up of a trial balloon and the main objective is to tap the savings of the rural sector. The Krishnamurthi Committee, which went into this question, did not overlook the impact of the price-increase on rural savings but it took a constructive view of the entire question and rightly recommended that if banks had a purpose in rural parts, it could only be served

by doing all types of banking—and not merely collecting deposits.

The need to view deposits and advances as two sides of the same coin is duly recognised and the awareness of the need to keep overheads down is exemplified by the one-man idea. The illiteracy of the rural clientele poses peculiar problems and this makes it necessary for the manager to be not only adept at handling cash but also at handling a camera in view of the need to supply illiterate depositors with “identification cards.” A special feature of these one-man branches is their simplicity. Indeed, if Mahatma Gandhi were alive, he would have unhesitatingly lauded the scheme. Like all dynamic institutions, the one-man branches too will grow, and when they come of age, increase in the number of staff and the range of its services will have to be considered in the light of the size of the turnover. They may one day cease to be “one-man” banks but the name will stick.

HOUSING

Unified Approach

SOME of the recent decisions of the Union Housing Ministry to streamline the housing schemes under the Plan and also to rationalise the method of giving Central assistance are to be welcomed. For schemes carried out by State Governments, 50 per cent of assistance will be in the form of loans and the rest of 50 per cent in the form of subsidy. For projects undertaken by employers, the Centre will give a housing subsidy of 20 per cent and a loan of 50 per cent. Workers' co-operatives will get a subsidy of 25 per cent and loans to the extent of 65 per cent. If past experience is any proof, these changes by themselves, are hardly likely to lead to a resurgence of construction activity either in the private sector or in the public sector.

For one thing, the decisions of the Union Ministry of Housing on the Thacker Committee's recommendations do not go far enough in meeting the inadequacies pointed out by Prof. Thacker and his colleagues. More than the inadequacy of funds, it is the lack of a sense of urgency on the part of the State Governments—and to some extent, private employers—which has been the cause of the slow progress of housing in the Third Plan. The Union Housing Minister complained in the Lok Sabha last year that about 45 per cent of the funds allotted to the States for housing schemes in the Third Plan remained unutilised at the end of the fourth year. With nearly 30 per cent of the allocation remaining unspent, it is proposed to extend Central assistance of Rs. 85 crores—only Rs. 5 crores more than the Third Plan—to the States during the Fourth Plan.

The dismal performance of the State Governments and the Private sector has not however prevented the planners from stepping up the outlay on housing

from Rs. 182 crores in the Third Plan to Rs. 530 crores in the Fourth Plan. At the Housing Ministers' Conference held at Chandigarh in December 1964, it was agreed that the diversion of funds ear-marked for housing should be stopped. It was also agreed that the setting up of housing boards at the State level and an apex agency—the Central Housing Board—at New Delhi may facilitate speedier execution of the housing programmes and fuller utilisation of funds ear-marked for housing. If the State Governments are lukewarm towards this proposal, it may be largely because there are already too many such autonomous bodies which compete with one another to raise funds through the flotation of loans. They fear that if one of the objectives of housing boards is to supplement the assistance given by the Centre, that objective is hardly likely to be fulfilled in the present state of the capital market. But there can be no two opinions on the need to increase the tempo of house building.

A distressing feature of house-building activity in India during the three five-year plans is that investment in housing as percentage of total investment has fallen from 34 per cent in the first plan and 19 per cent in the second plan to 15 per cent in the Fourth Plan. Small wonder that housing conditions in urban areas has actually deteriorated over the decade and the shortage stood at about 5.8 million dwellings in 1961. Even to prevent the deterioration in urban housing conditions, about 19 million new houses need to be built in the period, 1961-1976. Considering that no serious attempt was made during the Third Plan to reduce this gap, it may be doubted whether, even with an investment of Rs. 2,360 crores (including the private sector) in the Fourth Plan, any serious dent will be made in the next five years.

If urban housing has not made substantial progress, it is not entirely because of the inadequacy of assistance from the government sources. Probably, if the industrial employers in the private sector are assured of 100 per cent assistance (75 per cent loan and 25 per cent subsidy) they can be coaxed and pressurised to build houses for their employees. The same *modus vivendi* can be applied to public sector housing. It seems worthwhile also to revive the proposal, mooted by the former Finance Minister, for the setting up of a Housing Mortgage Corporation into which the funds of L.I.C. and Provident Funds could be canalised for the purpose of financing housing in the private sector. If the proposed Corporation is placed under the Housing Ministry instead of the Finance Ministry as proposed earlier, it will not give rise to any serious problem of co-operation.

In the implementation of housing schemes, it may not be wise to aim at perfect co-ordination or dead-level uniformity because in this field, there can be no such thing as “starting with a clean slate”. This does not mean that house-builders should completely ignore considerations of slum clearance and urban renewal but they cannot afford to wait until an all-India policy is decided upon. Once the broad guide-lines are handed down by the Central planners, the local authorities should go ahead with their own schemes to build more houses in the quickest possible time. Meanwhile, the State Governments should, through appropriate legislative enactments, prevent inflation in land values in and around big cities.

Monopoly Purchase

Invitation to Chaos

IN Mysore State, where the food position is critical but not desperate, the Government has yet to evolve a firm and prag-

matic policy. Statutory rationing in Bangalore and K.G.F. — the two major cities with a hard core of working class population — which was originally proposed to have been introduced from the New Year, has been put off but the Food Minister has asserted that this could be done “at 24 hours’ notice.” The implication is that the State Government is ready to fall in line provided the Centre assures the supply of grains needed to keep the rationed cities fed without any break. But even if such a commitment is readily forthcoming, it may be doubted whether statutory rationing will be an improvement over the present system of “informal” rationing. This is not to suggest that the consumer is all praise for the present arrangement. In the absence of regular supplies of standard rice (adulteration has reached scandalous proportions) the people have been supplementing their rations with open market purchases at prices which rule quite high. Mr. Jatti’s assertion that the marketable surplus has shown some improvement and that there has been a softening of prices is not fully borne out by facts.

The State Government seems to be proceeding on the cynical assumption that food policy is a gamble and that one cannot base such a policy on facts alone. This facile view stems from the difficulties experienced in determining the “marketable surplus” and in plugging loopholes in the distribution machinery. No satisfactory answer is forthcoming as to how Mysore, which was once a marginally deficit State, has become (so it seems) a chronically deficit one. This may well be an indication of the failure of the State planners to push through programmes of minor irrigation and supply the necessary inputs and other facilities to the farmers so as to increase yields. Against the anticipated foodgrain production of 48.54 lakh tons, the pro-

duction in 1965-66 may not go beyond 25 lakh tons. The picture would not have looked so dismal had it not been for the widespread drought experienced in 1965 but a shortfall in reaching the plan target could not have been avoided in any case. To meet the needs of the population which is expected to go up to 3.2 crores by 1971, a target of 60.48 lakh tons (on the *per capita* basis of 15.02 cereals and 3.03 pulses) has been proposed but the effort needed to achieve this goal is not there.

For the immediate future, the State Food Minister seems to have adopted a policy which hardly makes sense. For good or ill, Mr. Jatti had opted for the levy system last year, under which the producer was free to dispose of what remains after handing over the Government’s share. In the prevailing atmosphere of scarcity and with open market prices ruling high, the Government has been able to procure about a lakh tons against its target of 2.18 lakh tons. This failure, coupled with the Centre’s non-committal attitude in regard to future supplies, seems to have hardened the views of the State Government. Mr. Jatti’s announcement that the Government would resort to monopoly procurement from September this year can only be viewed against this background.

The limited success achieved by the Government of Maharashtra in its “monopoly” purchases of *Jowar* may have encouraged Mysore’s policy-makers to decide in favour of monopoly procurement but it is hardly likely to prove a success because, for one thing, the “marketable surplus” tends to get suppressed and may even find its way into neighbouring States where free trade is allowed. Further, the co-operatives in the State, which are expected to take over this function from the traders, have not proved their capacity and the Government cannot afford to entrust sizable

part of its working funds (Mr. Jatti puts it at Rs. 100 crores) in the hands of co-operatives without making sure that the task of procurement and distribution can be handled by them efficiently and with the minimum of political jobbery and nepotism.

Considering that the needs of areas coming under statutory rationing do not exceed two lakh tons this year and that with regular wheat allocations from the Centre, supplies to deficit areas can be maintained throughout the current year, the State Government is not wise in introducing monopoly procurement. When administrative know-how (of the right kind) is still a scarce commodity in this country, and working capital is scarcer still, switch-over to state trading seems highly unwise.

Progress of Madras

Realism in Food

THE Governor’s address to the Madras Legislature gives cause for optimism. The State Government’s performance in the implementation of the food policy is particularly creditable since the State has sizable urban supplies have to be assured. Over the three Five-Year Plans, the production of foodgrains has increased by 20 lakh tons, from 38 lakh tons to a little over 58 lakh tons. During the Fourth Plan, the State is not only hopeful of achieving self-sufficiency, on the basis of a *per capita* supply of 18 ounces, but also providing for a sizable surplus.

This impressive progress can be largely attributed to the speed with which the State planners have been able to provide the infrastructure facilities and the necessary inputs for augmenting agricultural production. Rural electrification, oriented towards lift irrigation, occupies the pride of place in the State plan. In

(Contd. on page 6.)

GLASS HOUSE GOSSIP

AM I being a little bit late in congratulating Mrs. Indira Gandhi? Maybe, but that could not be helped since there was no issue of *Southern Economist* dated February 1 and on January 15, she was not yet the Prime Minister. Better late than never! Mrs. Gandhi has yet to find herself firmly on her feet — she is barely three weeks in the saddle now — and although it is a country of the unpredictable, I do not expect miracles to happen in so brief a time. I have nothing to comment on her new team which, as some one pithily put it, is old wine in new bottles. But who doesn’t like old wine? There was, it is true, quite a bit of horse-trading and muscle-flexing which could not have been altogether avoided because no one expected Mrs. Gandhi to blithely ignore the existence of the “Syndicate” which helped to put her in power. This kind of thing happens even in the better organised and more enlightened democracies and I am not at all surprised at the way Mrs. Gandhi is holding the balance of power. Maybe, that is the best talent the country can boast of, at the moment but if the new Prime Minister had looked around for “new blood”, she could have found a few willing and brave souls. Frankly, I am neither dispirited nor overjoyed. With the General Elections due next year, Mrs. Gandhi, I feel, will be more preoccupied with consolidation than with experimentation. And if her policies have a machiavellian touch about them, I do not seriously accuse her for it because, after all, she does not intend to retire next year.

Nevertheless, it is up to Mrs. Gandhi to decide as to how far she can go in safeguarding her

party’s interests and in improving its election prospects. Those who think that Indira will play the role of the party’s “glamour girl” may be mistaken because, being her father’s daughter, Mrs. Gandhi is keenly conscious of the destiny of the Nehru family and the historic role she is expected to play in the fulfilment of that destiny. If the clamour for ranking that one witnessed at the time of forming the Cabinet is any indication, I doubt if Indira’s team will pull in the same direction. Whether the Prime Minister will assert herself and establish a style of her own in handling the grave problems of the country or yield to sectional pulls remains a big question-mark.

* * *

The Kerala food agitation seems to have spent out its fury. It is far from my intention to minimise the gravity of the food problem in that backward State but I strongly feel that an agitational approach will hardly serve the best interests of the State. The only people who will gain political advantage out of the student unrest there are the “left” Communists who, in their total frustration, are eager to clutch at any straw that comes their way. The student community is unwittingly playing into their hands. I have no great admiration for other parties, including the two factions of Congress, who have played no small part in adding to the unrest and I do not say that Mr. A. P. Jain, the former Governor, acted in the best interests of the State.

Mr. Jain’s indecent haste to get out of the problem State gravely exposed the weakness of the President’s rule and induced a sort of despondency among the

public who began to feel that they have no one to look to, for the redressal of their grievances. Considering that the bulk of our population is under-nourished, it may not be fair to suggest that Kerala is singled out for a “Cinderella treatment” but the reduction of rice ration to four ounces (120 grammes) was, to quote Shakespeare, the unkindest cut of all. It is now increased to 140 grammes and before these lines are seen in print, I hope, the six ounce ration will be restored. In a country of India’s size, a deficit state like Kerala can be looked after without much difficulty and the break-down in the supplies can be largely attributed (1) to the lack of co-operation on the part of the neighbouring States; (2) the absence of an all-India food policy; (3) the lack of adaptability of the people in Kerala to change their food habits.

Kerala produces, at present, about 12 lakh tons of rice of which nine lakh tons may be available as marketable surplus and if the total food needs of Kerala can be taken as 22 lakh tons, the total deficit may be of the order of 12 lakh tons. If the Keralites make earnest efforts to change their food habits and take to wheat in a limited way, it will be relatively easy for the Centre to supply 5 to 6 lakh tons of rice and a similar quantity of wheat to the State every year. When the whole country is facing a food shortage, I feel, Keralites are ill-advised in spurning the wheat ration made available to them. They must wake up to the realities.

* * *

For some time now, the enlightened section of the Indian public has been thinking aloud about alternative devices suggested for population-control. In the context of the growing food gap, this is easy to understand

but I am only anxious that in our anxiety to solve the problems we should not create new ones in their place. I have nothing but admiration for the Health Ministry's campaign to popularise IUCD but medical opinion is still divided on the relative advantages of the "loop" and the "pill". My own feeling is that all the devices (including the more commonly available contraceptives) should be pressed into service. In the absence of proper medical guidance, even the best of the devices will create complications.

The success of the IUCD campaign depends as much on public co-operation as on the availability of sufficient number of trained medical personnel. Experts on the subject of population control have not entirely overlooked legalisation of abortion as one of the weapons—in fact, our Education Minister, Mr. Chagla, recently expressed himself in its favour—but in this country where religion has a strong hold on the attitudes of the people, I doubt if the government will find enough public support for such a radical measure. Apart from Japan where legalised abortion is no longer frowned upon, many of the Muslim countries are openly discussing the pros and cons of this question. Recently, a committee set up by the government of UAR has come out in favour of legalised abortion provided it was performed by expert gynaecologists. Critics of legalised abortion are not, I concede, entirely wrong in warning that it may lead to a lowering of public morals and encourage sexual laxity among younger, unmarried people. But the world has reached a stage when it cannot afford to rule out these measures entirely on moral grounds.

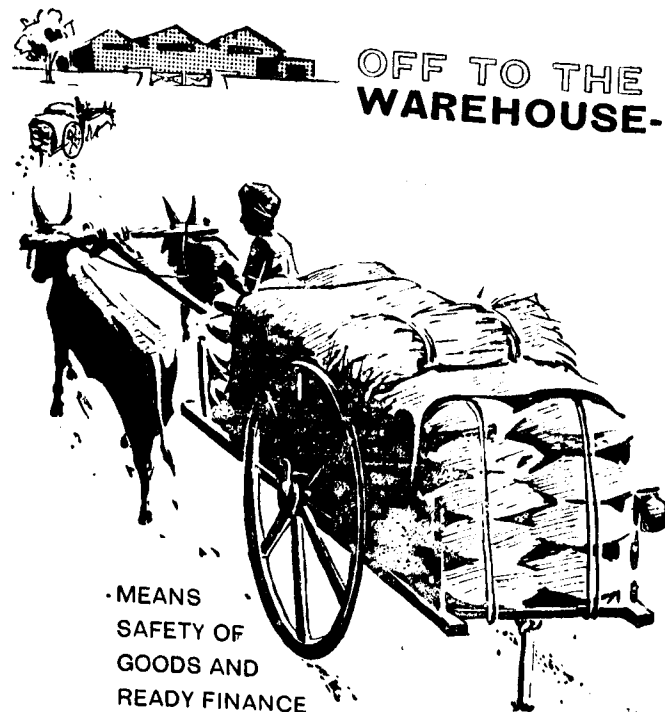
—Plebeian.

PROGRESS OF MADRAS

(Contd. from page 4)

the annual plan for 1966-67, for example, nearly 30 per cent of the State's total plan outlay of Rs. 75 crores is ear-marked for agricultural programmes. The State planners are carrying out minor irrigation programmes with commendable zeal and the fact that nearly 2.5 lakh irrigation wells in the State are connected to power gives an indication of its progress. Since adequate provision has been made in the Fourth Plan for meeting the credit needs of the farmers for this purpose, the use of electricity for minor irrigation is bound to be on a larger scale in the coming years.

Another field in which the State planners can be expected to take great strides is in the introduction of high-yielding hybrids. The experience of Madras in the use of these high-yielding strains, particularly in respect of paddy, one hopes, will be put to good use in the other neighbouring States. Fertilisers are still in short-supply but the position will improve with the setting up of the urea plant near Neyveli and the fertiliser complex at Madras, near the proposed oil refinery. The State Government also deserves credit for making a success of its procurement policy.



MEANS SAFETY OF GOODS AND READY FINANCE

The active participation of the State Bank of Mysore in the Warehousing Programme has gone a long way in the development of Agricultural marketing and consequently the holding power of the producer. By sending his produce to the Warehouse, the Agriculturist enjoys the double benefit of safety of goods and money in his pocket for his urgent needs. Just on the security of his Warehouse receipt.



the bank you can bank upon

Ask your nearest Branch Manager for further details

STATE BANK OF MYSORE

Subsidiary of the State Bank of India
H. O. Avenue Road, BANGALORE-9

S. Balakrishnan, General Manager

BAC/SBM-8

BANKING SURVEY

A SOUTHERN ECONOMIST FEATURE

February 15, 1966

INDIAN SCENE		GLOBAL PERSPECTIVE	
	Page		Page
BANKING INDUSTRY FACES NEW CHALLENGES	9	ROLE OF INTERMEDIARIES IN CANADIAN CAPITAL MARKET	31
— By The Editor		SUCCESS OF BRANCH BANKING IN AUSTRALIA	35
DEVELOPMENT BANKING IN INDIA	13	PAYMENTS "PROBLEM" OF WEST GERMANY	37
— By S. L. N. Simha		RECENT MONETARY TRENDS IN JAPAN	39
BANKS FACE COST INFLATION	17	— By Masahiko Kosuge	
— By Dr. A. C. Shah		MONETARY REFORM IN YUGOSLAVIA	41
COMMERCIAL BANKS AND AGRICULTURAL FINANCE	21	DEFENCE OF THE DOLLAR	43
— By T. A. Pai		— By Henry H. Fowler	
NEED FOR REALISTIC MONETARY POLICY	23	RECENT TRENDS IN COMMERCIAL BANKING IN U. S. A.	45
— By R. L. Tuli		ROLE OF DEUTSCHE NOTENBANK IN EAST GERMAN ECONOMY	47
CREDIT CONTROL DURING THE THIRD PLAN	25		
— By D. Sriramasaarma			
IMPACT OF RESERVE BANK FINANCES ON CO-OPERATIVES	29		
— By D. S. Srinivasa Murthy			

INTERVIEW

NEW APPROACH TO RURAL BANKING	48
BANKING RESULTS IN 1965	50

SOUTHERN ECONOMIST : 24, HAUDIN ROAD : BANGALORE-1 : Phone 75439



"H'lo Daddy!"

Across hundreds of miles his little girl's voice comes sweet and clear. This is the miracle of modern telecommunication. □ ITI, the pioneer public sector undertaking in India manufactures a wide range of modern telecommunication equipment from telephones to highly complex multi-channel transmission systems.



**INDIAN TELEPHONE INDUSTRIES LIMITED,
BANGALORE-16.**

LPE-Aiyars ITI.11

Banking Industry Faces New Challenges

BY THE EDITOR

1965 cannot be considered a normal year for the banking industry in India although the pre-audit figures about the performance of the leading banks reveal an improvement in their after-tax profits. The improvement in profits, which certainly reflects a better deployment of the banks' resources—the credit-deposit ratio stood at 73.4 per cent, at the end of the year—has not been the result of improved profitability since the higher rates of interest on deposits on the one hand, and the ceiling on the rates of interest charged on advances of big banks on the other, reduced the margin on which the banks have to make their living. In addition to these two factors, which were partly the result of the dear money policy of the Government and largely the outcome of the monetary authority's excessive reliance on the Bank rate weapon, banking costs tended to go up with increases in the salary bill and with the opening of new branches in unbanked areas.

Credit for Industry

That these were more than counter-balanced by the amounts the Banks earned by way of interest on their advances reveals the extent of the backlog of demand for bank credit. The interest-elasticity of bank advances is still a disputed question but borrowers at the ceiling rate of 10 per cent (raised from 9 per cent in February, 1965, when the Bank rate was stepped up to 6 per cent) and more, provided funds are available, were only too ready to take up whatever credit that was offered. While demand from speculative sections remained either suppressed or was diverted to the non-banking sector, the demand from the industrial sector exerted considerable pressure on the limited resources of the banks. As the latest Directors' report (for the year-ended June 30, 1965) of the Reserve Bank, observed, "the slackness in the capital market has resulted in industry's needs of long-term finance being met through the banking system rather than through the capital market". Besides, in the prevailing atmosphere of scarcity caused by drastic import cuts, industries followed an excessively cautious policy of inventory-management, e.g., stocking more raw materials than is normally done. In many instances, this resulted in larger demand for bank credit since the larger quantities purchased had to be paid for in a lump sum. There were also "sick" industries like cotton textiles which faced the problem of sizable accumulation of finished goods, owing to a slack in demand. The banks had to take a more sympathetic view of the problems of such industries.

The major sources of working funds for the banks is the saving of the public. Owing to the sharp rise in the prices, especially the prices of essential articles, there has been a steady shrinkage in the savings which must have affected deposit-accretion. The index of wholesale prices (1952-53=100) which stood at 135.7 in the last week of December 1963, went up to 159.2 in the corresponding week in 1964 and to 169.9 in the third week of December 1965. But for this sharp increase in prices, the deposits may perhaps have shown a more impressive rate of increase. An interesting feature of banking scene in recent years is that in spite of these adverse factors, the aggregate deposits of the scheduled banks have increased from Rs.2,522 crores (December 25) at the end of 1964 to Rs.2,863 crores (December 31, 1965) at the end of 1965.

It is of interest to note also that during the First Plan period, deposits grew at an annual rate of 5.5 per cent; in the Second Plan, they showed a higher rate of 14.7 per cent but in the Third Plan, they rose at a smaller rate of 7 per cent. While inter-bank competition for attracting deposits persisted in a subdued form, thanks to the inter-bank agreement on the deposit interest rates, competition from the non-banking companies was severe. According to a Reserve Bank survey, deposits with them, during the 2-years period, March 1962 to March 1964, increased from Rs.135.45 crores to Rs.185.88 crores, i.e., by 37 per cent. The survey revealed that the rates of interest offered by these companies were higher than those offered by the scheduled banks. In future, these non-banking companies will not be able to offer stiff competition to the banks in view of the restrictions recently imposed by the Reserve Bank on short-term deposits accepted by them. The return flow of short-term deposits from the non-banking sector to the banking sector on a modest scale is bound to strengthen the position of the commercial banks.

Reserve Bank's Policy

The banks are grateful to the monetary authority for such small mercies but are far from satisfied with its credit control policy. For one thing, though the banks are agreed that higher interest rates were inevitable, they have their own doubts about the interest-elasticity of deposits. In 1960, when the Bank rate stood at 4 per cent, the average call money rate was 2.81 per cent, the average Treasury Bill rate was 2.589 per cent and fixed deposits of an year's duration fetched an interest of 3.5 per cent. With the Bank rate ruling at the high level of 6 per cent, the call money rate

"Prosperity". For farmers, plentiful harvests. For industrialists, industrial growth. For businessmen, a brisker turnover. For one and all, a better future.



a promise to keep:

"Thou shalt forever be prosperous."

Our coin-shaped emblem denotes that we are a financial institution serving industry and agriculture, symbolised respectively by the cog wheel and the two ears of corn. The upraised palm signifies the security we bring to all the sectors of our country's economy. Our motto "akshayam te bhavishyati" is the blessing of never-ending plenty bestowed by the Sun God upon the Pandavas. By adopting this emblem and motto, we give you a promise of unending growth: in industry, in agriculture, in business—in all spheres of life...in all avocations.

THE BANK OF BARODA LIMITED

Over 250 branches in India and abroad

CHB-2A Write for our free booklet, "May We Help You", for complete details about our services.

went up to more than 8 per cent during 1965 and the interest rate on 12 months' deposit ruled at 6 per cent, with 7 per cent being offered for longer periods. Deposits in the banking sector have no doubt grown, in absolute terms, but as a percentage of the national income, they have hardly shown any change since 1961. They remain stationary at 14 per cent. This low ratio serves to show the predominance of non-banking sector in the country's economic activity. In *per capita* terms, deposits have shown only nominal improvement, from Rs. 46 in 1961 to Rs. 59 in 1964.

Over the three five-year plans, deposits have grown at the same rate as advances although it is true that the growth of deposits has at times lagged behind. From Rs. 908.47 crores in 1951, deposits have grown nearly three-fold to Rs. 2,738.63 crores in 1964 while bank credit has grown from Rs. 626.90 crores to Rs. 1,880.36 crores over the same period. Yet, it cannot be said that the commercial banks have fully exploited the opportunities afforded by the growth of public expenditure, and with it, the growth of national income, to mobilise a larger volume of deposits.

Slow Growth

The slow growth of deposits may be partly attributed, as observed earlier, to the reduced saving-capacity of the people, but it is still a point for consideration whether, in the present state of economic under-development, the banks should adopt a more aggressive policy both in regard to deposit-mobilisation and to the distribution of bank credit since both represent two sides of the same coin. There is growing realisation that an excessively cautious lending policy tends to strengthen the hands of the non-banking sector whose operations are a major cause of the ineffectiveness of the Reserve Bank's measures of credit control. It should also be realised that every potential borrower is a potential depositor and if the banks are inhibited from following a progressive lending policy, their ability to mobilise deposits will be automatically reduced.

Under the stress of industrialisation during the five-year plans, a marked change has taken place in the pattern of bank advances. In March 1951, advances to industry formed only 33.6 per cent of the banks' total advances. By April 1961, they had increased to 52.7 per cent. At the end of March 1964, industry's share stood at 59.2 per cent. Side by side with this increase in the share of industry, the share of the wholesale trade has gone down from 33.6 per cent in 1951 to 21.5 per cent in March 1964. While the Reserve Bank's credit control policy is open to criticism on many counts, one cannot deny that its measures of selective credit control have been effective in discouraging the flow of bank funds into speculative channels. The monetary authority should however guard against the

danger of pushing this policy too far because the banks can maximise their earnings only if they are able to cater to the needs of different segments of the economy. In its dread of the speculative elements, the authority should not put too many obstacles in the way of the flow of bank credit to genuine trade needs.

Seasonal "Swings"

The implications of the Reserve Bank's credit policy during the five-year plans are studied in some detail elsewhere in this issue, in another article. Recent criticism of the Reserve Bank's policy is mainly directed at three apparent shortcomings. Firstly, it is pointed out that the monetary authority has made excessive use of the Bank rate weapon. The higher Bank rate, at 6 per cent, buttressed by a penal system of lending linked to the liquidity-ratio has virtually driven small business to the wall, if not into the arms of the indigenous money-lender. Incidentally, the banks' prime lending rates are pitched 2 per cent higher than the Bank rate. Secondly the Reserve Bank has not fully taken note of the changes in the seasonal swings in the economy's credit needs. The "busy" and "slack" seasons have not entirely lost their significance but industrial credit (not long-term credit, which can be taken care of, by the term-lending intermediaries, but the working capital) which is growing in importance, does not conform to any seasonal pattern.

The present dichotomy under which October-April is considered as the busy season and May-September as the slack season is not without its logic since the credit-flow is still conditioned by the behaviour of the agricultural sector which accounts for the bulk of the national income. But if recent trends are any guide, the distinction between the two seasons has tended to get blurred and credit-contraction during slack seasons has been smaller than usual while the busy seasons' needs have fluctuated not only with the credit needs of agriculture—and wholesale trade which handles the farm surplus—but also with the needs of other sectors like the export sector and so on. Thirdly, the division of the economy into the "priority" and "non-priority" sectors, however justified it may be under a given set of circumstances, is not calculated to make the banks' task easier, in rationing out scarce funds.

Priority Sectors

The credit policy for the present busy season, announced rather belatedly on November 22, does not seem to have greatly helped the banking industry. Since the slack season's credit contraction has been smaller than expected—it was about Rs. 100 crores against Rs. 200 crores as anticipated—the banks were hopeful that the Reserve Bank would come more than half-way in

meeting the needs of the banking system. But, as it turned out, only three sectors, namely defence, food and export, which were defined as "priority" sectors, were the main beneficiaries of the busy season's credit policy. While the Banks can avail of the Reserve Bank's refinance facility at the Bank rate to extend credit to these "priority" sectors, the cost of RBI accommodation to the other sectors has tended to be higher since such borrowings from the "lender of the last resort" can be made only at progressively increasing penal rates which go up at the rate of one per cent (above the Bank rate of 6 per cent) for every one per cent fall in the liquidity ratio below the minimum of 30 per cent.

The Banks' credit needs for the season, which are estimated at Rs. 400 crores, will be met only to the extent of 50 per cent by the Reserve Bank while the banks themselves will have to raise the balance of Rs. 200 crores. Surely, the banks could have hardly expected the Reserve Bank to liberalise its credit policy in the present inflationary phase, but there is also no denying that this policy has placed the banks in a tight corner. In the present regime of high interest rates, mobilisation of additional deposits has become a costly affair. Resort to Reserve Bank borrowing is rendered costlier as a result of the present "penal" system linked to liquidity. It is not an exaggeration to say, therefore, that the banking industry stands precariously between the deep sea and the devil. If one excludes the State Bank of India, the liquidity ratio of the banks average just about 31 per cent. As such, the banks have very little elbow-room to borrow from the Reserve Bank at the Bank rate of 6 per cent, although the case may be different for certain individual banks.

Interest-Ceiling

The Banks have rightly complained that with the present interest-ceiling of 10 per cent on advances by big banks, the margin between their borrowing and lending rates would reach the vanishing point before they could make any attempt to meet the needs of the "non-priority" sectors since the marginal rates of borrowing from RBI would go up beyond "what the traffic can bear". It is feared that the impact of the credit policy will be most severely felt on sectors (like small-scale units) which cannot function on the basis of high-cost borrowing. But there are those who readily retort that money in the unorganised sector is in great demand, at interest rates which range between 18 and 24 per cent.

Polemics apart, this credit policy which had some justification in an emergency, does not seem to have much relevance to the present conditions which warrant the formulation of an entirely different set of criteria for determining credit priorities. The discrimination against the so-called

non-priority sectors may indirectly cause a slow down in the progress of the "priority" sectors since they are mutually inter-dependent. A *de novo* examination of the Bank rate will also be timely although the case for a lowering of the Bank rate is weakened by the prevailing trend of high interest rates abroad and inflationary conditions at home. This brief analysis of recent banking trends in India reveals that while the banking industry is by no means at the end of its tether, it faces challenging tasks ahead. The aftermath of the Palai Bank failure in 1960 was none too pleasant. But looking back over the period of five years, one can say that the measures taken by the Reserve Bank to hasten the process of consolidation by weeding out weaker units has had a salutary effect. The mergers and amalgamations, together with the introduction of the scheme of deposit insurance have led to a revival of the depositors' confidence. From 342 banks in 1961, their number has declined to 110 in November 1965. Now that the process of consolidation is practically over, the banks should step up the tempo of branch expansion, particularly in semi-urban and rural areas.

Unbanked Areas

Considering that there are still about 900 unbanked centres in the country, the need for extending banking facilities was never more urgent. Branch expansion is necessary not only to bring credit to the agriculturists—on that the banks are yet in two minds—but also to mobilise the savings of the rural sector. The State Bank of India and its subsidiaries can be expected to step into the breach but the task cannot be left to public sector banks alone. A way must be found to ensure the active participation of the private sector banks in the branch expansion programme, even if that means the offer of special incentives to open new branches in unbanked areas.

Although the deposit-growth during the Third Plan has not been disappointing, the Fourth Plan's credit needs are unlikely to be met merely by maintaining the present annual rate of 9 per cent growth which will mean a deposit-accretion of only Rs. 1,600 crores against the requirement of 2,400 crores. Deposit-mobilisation of this order calls for an annual rate of 13 per cent growth. The monetary authority will be wrong in thinking that the banks can attract more deposits merely through the "bait" of higher interest rates because higher deposit rates will mean—unless the banks are prepared to reduce their profit-margin still further—higher interest rates on advances. Considering that several strategic sectors—"strategic" in its generic sense—like small industries, agriculture and so on are already affected by the prevailing level of interest rates, it is doubtful if a further step-up in these rates is conducive to increased production.

(Continued on page 15)

THE UNITED COMMERCIAL BANK LIMITED

Head Office: 10, Brabourne Road, Calcutta-1.

I. P. GOENKA

Chairman

Authorised Capital	Rs. 8,00,00,000
Subscribed Capital	Rs. 5,60,00,000
Paid-up Capital	Rs. 2,80,00,000
Reserve Fund & Other Reserves as on (31-12-65)	Rs. 3,99,50,000

BRANCHES

In all important Cities and Towns of India, Foreign Branches in Malaysia, Singapore, Hong Kong and United Kingdom.
Agents throughout the world.

BUSINESS & SERVICE

Current Account — Fixed Deposits — Savings Accounts — Cash Certificates — Recurring Deposits — Drafts and Telegraphic Transfers — Rupee Traveller's Cheques and Other types of Domestic and Foreign Banking Business.

R. B. SHAH

General Manager

OUR DIAMOND JUBILEE YEAR

THE CANARA BANKING CORPORATION LIMITED

(Estd. 1906)

Regd. Office: UDIPI.

Adm. Office: MANGALORE.

CUMULATIVE DEPOSIT SCHEME

Deposits are received for periods of 12, 24, 36, 48 and 60 months at Re. 1/- or MULTIPLES thereof.

Attractive interest up to
7.54% P. A.

Monthly deposit of Rs. 10/- only will grow at the end of 60 months to Rs. 715/-

Further particulars can be had from the nearest branch office.

K. Ramadas Nayak, M. A.,
General Manager.

Development Banking in India

By S. L. N. Simha *

A DEVELOPING economy requires, among other things, an adequate institutional framework for financing the economic expansion. Generally speaking, commercial banks constitute the main agency for the mobilisation and disbursement of short-term funds, mostly for trade and manufacturing. In respect of medium and long-term funds, especially for manufacturing, the sources are many, including, in particular, sale of stocks, shares and bonds through the agency of the capital market. However, in the less developed countries, generally speaking, the investment habit is also undeveloped. It is partly a question of disinclination to invest except in safe avenues like Government bonds or postal savings deposit. It is also a matter of both insufficient savings and the extreme atomistic character of the savings. Where savings accrue in very small quantities it is difficult to invest them, or for institutions to mobilise them, for the purpose of long-term investment in industry and other branches of economic activity.

In the post World War II period, in most of the under-developed countries Government is playing an active role in the promotion of economic development. To a substantial extent, it mobilises resources for investment in public sector projects. But to a substantial extent, Government also gives assistance in a variety of ways to private sector, including, in particular, private sector manufacturing. The economic progress of the private and public sectors constitute an integral whole and, therefore, Governments in most of the developing countries have an overall responsibility to promote economic development and to ensure that adequate financial resources are available for the private sector to fulfil its part of the job. Therefore, special institutions have been set up mainly to ensure the flow of adequate finance for the various sectors of the economy. In view of the different needs of agriculture, industry, etc., it has been found desirable to have separate institutional arrangements.

I Scope of Development Banking

Development banking comprises institutional arrangements for provision of finance, usually medium and long-term, to the different sectors of the economy. Development banks could be of multi-purpose type, financing agriculture, manufacturing, power and transport development or they could be specialised institutions, catering to have separate institutions for agriculture, the

development banks ordinarily catering to the financing of manufacturing and power development. Although the patterns vary, development banks ordinarily finance the requirements of private sector only. In this article, attention has been confined to the development banks for financing manufacturing and allied activities.

Although development banks are ordinarily conceived to be purveyors of long-term credit, they can also serve effectively the purpose of planned economic development. They can supplement the authority of Government to regulate investment, wherever such authority exists or ensure such regulation where none exists. In short, development banks are an agency of planned economic growth.

II Development Banks in India

In India, we have a fairly well established network of development banks, called by the name finance corporations. We have institutions at the all-India level as well as at the State levels.

IFC & SFCs: The oldest of such institutions in India is the *Industrial Finance Corporation of India (IFCI)* which was set up in 1948, to provide medium and long-term credit to medium and large-scale industries. This was followed, in 1950, by establishment of similar institutions in each State, viz., the State Financial Corporations (SFCs) to provide finance to medium and small industries. The Governments (Central Government in the case of IFC and the respective State Governments in the case of SFCs) and the Reserve Bank of India have been actively associated with these institutions, through provision of funds in the form of share capital and loans and representation on the boards of directors of such institutions.

ICICI: The IFC and the SFCs, either as a matter of policy or on account of statutory restrictions, provided finance mainly as loan capital rather than risk capital in the form of underwriting of shares. Therefore, the need was felt for an institution which would also provide risk capital by underwriting the shares of joint-stock companies; it was also considered that the channelling of foreign funds, obtained through foreign and international institutions like the World Bank could be combined with the provision of risk capital. The result was the establishment, in 1955, of the *Industrial Credit and Investment Corporation of India Ltd. (ICICI)*. Neither the Government nor the Reserve Bank holds any shares in this institution. On the other hand, in the

* The views expressed in this article are personal.

ICICI share capital is held by foreign individuals and institutions, including banks. The World Bank has been actively associated with the formation and running of the ICICI; the World Bank has also granted several lines of credit to the ICICI. The ICICI has played a dynamic role, especially in the field of underwriting of share capital. The availability of foreign lines of credit has also been of considerable assistance to this institution. The IFCI has also been receiving and disbursing foreign credit.

SIDCs: In recent years, many of the State Governments have also set up institutions called Industrial Development Corporations (SIDCs). The primary object of the SIDCs is promotional work in the field of Industrial Development, but not a few of them are also engaged in the provision of finance, there being thus some overlapping with the operations of the SFCs. The SIDCs are mostly wholly State-owned institutions.

RCI: The next stage in the evolution of development banking in India was the establishment, in 1958, of the Refinance Corporation for Industry Ltd. (RCI) for assisting banks and other term-financing institutions like SFCs, to extend, within limits, medium-term loans to industries by providing refinance against such loans. In India, the commercial banks have been modelled largely on the British pattern, the banks providing finance for working capital. Formal term-lending has been very restricted. With the rising tempo of industrial development, under the aegis of the Five Year Plans, it was felt that, on a modest scale, the commercial banks also must be induced to finance the medium and long-term requirements of industries and that the best way of doing this was to assure the banks refinancing facilities. The availability of a part of the counterpart funds arising from the PL-480 assistance from the United States, for private sector assistance, was also a favourable factor for the establishment of the RCI. The share capital of the RCI was contributed by the Reserve Bank of India, the State Bank of India, the Life Insurance Corporation of India and some leading commercial banks.

IDBI: The newest agency in development banking in India is the Industrial Development Bank of India (IDBI) which started functioning on July 1, 1964. This is conceived of as an apex institution in the field of development banking, co-ordinating the operations and policies of other institutions, besides itself engaging in the provision of finance, both directly to industrial units and indirectly through other term-financing institutions and banks. The growing need for rapid industrialisation, the complexity of new industries, the enormous scale of finance required for modern industrial units, the limitations, both statutory and policy, of the existing financial institutions and the absence of a central co-ordinating agency, compar-

able in a way to the central bank in the field of commercial banking, all contributed to the decision to set up the IDBI. This institution is a wholly-owned subsidiary of the Reserve Bank of India. This is not an accident; the object was to combine in a single institution the requirements of an expanding economy and the need for continued monetary discipline to keep inflationary forces in check. As already mentioned, the Reserve Bank has been taking active role in development banking. It has been associated with the establishment and running of the IFC, SFCs and the RCI. It was, therefore, felt that an institution juridically distinct from the Reserve Bank but having close association with it, would serve the purpose well, at least in the initial stages. Hence the IDBI is a wholly-owned subsidiary of the Reserve Bank. The Board of Directors of the IDBI is the same as the same as the Board of Directors of the Reserve Bank; the Governor and one of the Deputy Governors of the Reserve Bank are, respectively, the Chairman and the Vice-Chairman of the IDBI.

In order to enable the IDBI to discharge the functions efficiently its statute has been framed on flexible lines. Further, the IDBI is conceived of not merely as a financial institution but as a developmental agency also. It is supposed to locate gaps in industrial structure and take all possible steps to fill the gap. It has a special responsibility for developing new and sophisticated industries, basic to the growth of a self-reliant economy, such as fertilisers, petro-chemicals, machine building and alloy and special steels.

LIC & UTI: It should also be mentioned that other institutional agencies, in particular, the Life Insurance Corporation of India (LIC) and the Unit Trust of India (UTI — which was set up in February 1964 and started active operations on July 1, 1964) are also important institutional agencies in the capital market, providing finance for industries directly or indirectly. These two are investment institutions and a good part of their funds will be used for acquiring securities of existing companies. Even this, however, contributes to the availability of industrial finance insofar as holders of securities of existing companies could sell them and use the proceeds for investing in securities of new companies. Besides, to a modest extent, these two institutions, especially the LIC, provide funds directly to new units in the form of underwriting of and subscription to securities. The LIC also engages, to some extent, in the granting of loans.

III Statistics of Operations

We may now turn to a brief factual statement of the assistance which has been provided by the development banking institutions in India. The quantum of assistance provided by these institutions has been rising significantly, at a much higher rate than the increase in the private sector investment

in manufacturing and allied fields. Thus, in the Second Plan period, the total assistance sanctioned by these institutions (IFC, SFCs, ICICI and RCI) was Rs. 137 crores and assistance disbursed was Rs. 86 crores. In the four years of the Third Plan, the amount sanctioned by these institutions and the IDBI was as much as Rs. 328 crores, the amount disbursed aggregating Rs. 218 crores. On this basis, the total disbursement for the Third Plan as a whole should be something like Rs. 290 crores. Thus, the assistance by the special financing institutions as a proportion of total investment has been rising, from a little over 4 per cent in the Second Plan to a little over 8 per cent in the Third Plan.

It is likely that the percentage of private sector industrial programmes financed by the development banks will go up further in the Fourth Plan. The total quantum of assistance channelled through the special financing institutions could be of the order of Rs. 550-600 crores.

In recent years, assistance in the form of underwriting has assumed importance, partly on account of the sluggish condition of the capital market. In the last year and a half in particular, most of the issues have had to be underwritten by the various development financing institutions, on which a very substantial portion of the underwriting commitment has devolved. This is, of course, a rather abnormal thing and it may be hoped that conditions will change for the better so that share capital is absorbed to a predominant extent by the investing public. To bring this about, action on more than one front is called for — fiscal changes which give a boost to investment morale without much of sacrifice to the revenue of the exchequer, increased savings by the community and better performance of our industries as a result of higher standards of ability and integrity on the part of entrepreneurs. What the capital market is suffering from is not merely what people call the crisis of confidence but also the crisis of inadequate saving. It is an inescapable obligation that more saving should be forthcoming if investment and economic development are to proceed.

It should also be mentioned that IDBI's role as financing and co-ordinating agency is being increasingly felt. The IDBI has taken special interest in the development of certain basic industries like petro-chemicals, fertilisers and alloy and special steels. It has also introduced a scheme for rediscounting bills/promissory notes, for assisting the indigenous machine-building industries — those catering for the textiles, sugar, cement and paper industries. Through its enlarged refinance facilities it is providing assistance to small and medium units, for expansion as well as new projects, in a flexible and expeditious manner.

By and large, the development banks in India have done a fairly good job by way of channelling

funds to the industrial units in the private sector. These banks have not done much of a job by way of direct mobilisation of resources; in the Indian conditions there does not appear to be much scope for mobilisation of resources by these institutions; nor does this appear to have been contemplated in a big way. The major portion of the funds of these institutions is obtained from the official sector, the Central and State Governments and the Reserve Bank.

IV Summing Up

The development banks in India set up for financing industry have done reasonably well. They have contributed in a modest way to the rapid progress in industrialisation. The technical and financial appraisal which the institutions carry out have helped the growth of industries on fairly efficient lines. The development banks have thus fulfilled an important role in the scheme of planned growth of the economy. Institutional machinery has to be continuously adapted to the growing needs of the economy. In this regard much credit should be given to the Indian authorities (the Government and the Reserve Bank in particular) for widening and deepening the financial structure for meeting the needs of a rapidly developing economy. There is no doubt that there will be further progress in this regard in the years to come. Some of the outstanding problems before the development banking fraternity are meeting adequately the requirements of small scale industries and co-ordinating the operations of the State Industrial Development Corporations with the other term-financing institutions. There is hope that these problems will be solved in a pragmatic way so as to serve the requirements of rapid industrialisation.

(Continued from page 11)

New Devices

The Banks, on their part, should realise that in a developing economy such as ours, mere gimmicks are not enough to lure the public into the banking fold. Innovations need not be frowned at and the introduction of devices such as the "Teller System" and the TV-Drive-in-bank" by individual banks only reveal that the banks are far from complacent. As the economy attains a higher level of sophistication, the banks should keep themselves in readiness to change their conservative ways. We are already witnessing a slow transition from "cash economy" to "cheque economy" but the day may not be far off when the banks have to switch-over to the "credit card economy". Are the banks and their employees psychologically prepared to usher in drastic changes in the method of dispensing credit to the community? One wonders.

THE NATIONAL SMALL INDUSTRIES CORPORATION LIMITED

(A GOVERNMENT OF INDIA UNDERTAKING)
4-ROUSE AVENUE, NEW DELHI.

★

NSIC assists small Industrialists by

*

Providing machines on easy Hire Purchase basis.

*

Assistance in securing contracts from D.G.S. & D., Railways etc.

*

NSIC also undertakes

*

Production of prototypes of machines and tools.

*

The extension of training at its Prototype and Production Centres
at Okhla, Rajkot and Howrah in modern workshops
and production practices.

★

Head Office :- 4-ROUSE AVENUE, NEW DELHI-1.

Branches :

Janmabhoomi Chambers,
(5th Floor), Fort Street,
BOMBAY-1.

116-A, Lower Circular Road,
CALCUTTA-14.

123-Mount Road,
MADRAS.

Banks Face Cost Inflation

By Dr. A. C. Shah *

BANKING, like any other industry or service, must always watch its costs. Being the fulcrum of modern economy, its costs reflect on other sectors of industry and commerce and the effects permeate the entire economic structure of the country. Escalating costs of banking inhibit economic growth, not only with a rising cost of capital but with a cramping of banking facilities and services as well. In a developing economy, these are propensities particularly to be avoided and guarded against.

The problem of the rising costs of banking in India calls for an objective study of the working results of banks with a view to observing the relative growth of earnings and costs, identifying the specific areas of cost inflation, locating the causes and seeking avenues of remedy. It is desirable, incidentally, to examine the popular fallacy that rising prices bring huge profits to banks, and that the banks further employ restrictive practices for still bigger gains.

Available Data

The appropriate period for the study is the fourteen years from 1951 when Indian planning was launched, to 1964, the last year for which complete information is available. The most appropriate source of data is in the proforma returns filed by Indian scheduled banks and published in the statistical tables of the Reserve Bank of India. The study examines the available data from three different angles: first, the progressive index of income, expenditure and profit appropri-

ation; second, the progressive ratio of major heads of income, expenditure and profit appropriation to gross earnings; and third, the progressive ratio of income, expenditure and profit appropriation to total deposits. The last one is the most vital aspect of the working of the banks; for deposits represent at once the ends and the means of banking. The sign-post years in this stretch of fourteen years are: 1951, the base year when the first Five-Year Plan was launched; 1956, the initial year of the Second Plan; 1961, when the Third Plan commenced; and 1963 and 1964 which statistically stand for the present position.

With 1951, as the base at 100, the total income of the Indian scheduled banks is seen to have progressed to 152.7 in 1956, 320.8 in 1961; 421.5 in 1963 and 500.5 in 1964. Interest on loans and investments which is the major component of income, rose at the same ratio as total earnings as seen in Table I. The same table shows that the total cost during this period grew somewhat faster than the total income, from the base at 100 in 1951 to 534.7 in 1964. Interest on deposits and borrowings, which is the major component of the total cost, will be seen to have developed a great deal faster than the total cost. The interest paid grew from the 1951 base of 100 to 507.9 in 1961 and 828.8 in 1964. The rapid escalation in the Third Plan period will be noticed. Overheads including employee emoluments, which are another major component, are also seen to have grown faster in the last four years than in the earlier ten. The gross profits have grown from 100 in 1951 to 362.7 in 1964, but

the net profits have been held down to 188.9 by taxation which has grown to 863.3 per cent of the 1951 base. The effect of this on retained profits as well as dividend is seen in the table.

Tax Element

Of the total earnings in 1951, interest and discounts had represented 56.3 per cent and returns on investments 23.9 per cent. By 1964, interest and discounts rose to 68.2 per cent of the total earnings, while investment earnings dropped substantially to 17.0 per cent. The ratio of total costs (excluding tax on income) to total earnings rose from 80.1 per cent in 1951 to 80.4 per cent in 1951, and 85.5 per cent in 1964. The sharp acceleration in the Third Plan years is again evident. Add taxation to costs, and the combined squeeze on net profits is made clear, with its added emphasis under the Third Plan. The ratio of costs plus taxes, to total earnings, which stood at 85.1 per cent in 1951, shot to 91.4 per cent in 1961, to rise steeply still to 94.0 per cent and 94.4 per cent in 1963 and 1964 respectively. The basic pressure has come from the interest paid on deposits and borrowings whose ratio to total earnings advanced steadily from 23.5 per cent in 1951 to 32.6 per cent in 1956, 37.2 per cent in 1961, and 39.0 per cent in 1964. The impact of these progressive ratios on retained earnings as well as on dividends is plain enough. Retained earnings as percentage of total earnings slid down from 7.1 per cent in 1951 to 4.2 per cent in 1961 and 2.0 per cent in 1964; and the parallel percentage of dividend moved from 7.8 in 1951 to 4.4 in 1961 and 3.6 in 1964.

* Dr. Shah is Economic Adviser of Bank of Baroda, Bombay.

FEBRUARY 15, 1966

The true significance of the working results of banks, whether in terms of earnings, costs or profits, lies in the relationship of these operational factors to the deposits held by banks. The progress of this relationship set out in Table II gives a clearer view of the areas of cost inflation than the earlier examination of operational indices and the analysis of gross earnings. While the turnover of the Indian scheduled banks has increased under the three Plans, the ratio of total expenditure to deposits has grown at the same rate as the ratio of total income to deposits. In terms of percentage of deposits, therefore, the gross profits have been static from 1951 onwards. Taxation has further seen to it that the net profits are squeezed from 0.64 per cent of deposits in 1951 to 0.35 per cent in 1964, an abridgment of more than 45 per cent. In consequence, the ratio of retained earnings to deposits has subsided from 0.31 per cent to 0.13 per cent; while the parallel ratio of dividends has been reduced by a third from 0.33 per cent to 0.22 per cent.

Salaries and Wages

Among the major components of costs, salaries and wages in relation to deposits have grown from 1.74 per cent to 2.22 per cent. Interest paid has recorded a more spectacular rise from 1.01 per cent of deposits in 1951 to 2.43 per cent of deposits in 1964—a rise of 140 per cent. This rise assumes further significance when it is considered that the corresponding growth in the ratio of interest earned to deposits has been no more than 54 per cent. Taxes on income are another area of spectacular escalation—their ratio to deposits having grown one-and-a-half times from 0.22 per cent to 0.55 per cent.

All the three angles from which the operational results of Indian scheduled banks are thus viewed, converge to the same central fact

of a declining profitability of turnover, with an acceleration of the decline since 1961. The popular myth of 'huge earnings' arises from undigested notions of the expending digits in the balance sheets of the banks, and from the fallacy that rising prices automatically carry growing profits. The truth in the case of Indian banking is plain, that profitability has developed in inverse ratio to the rising prices. The explanation of the phenomenon is equally plain, that costs have risen more steeply than earnings, and that taxation has progressively erased the already narrowing spread between the two.

Interest - Spread

The same explanation holds good in regard to the impression that restrictive practices are used for better profits. The origin of this impression can only be attributed to the opportunity which a growing demand for money apparently offers. The receding ratio of profits to deposits should be adequate evidence that the opportunity, if any, has not in fact been taken. A more direct refutation lies in the spread between the average interest earned and the average interest paid by the banks in terms of their liabilities; and particularly a comparison of the spread in the case of the nationalised State Bank of India, and that of the other banks. As disclosed by the balance-sheets, the spread in the case of the State Bank was 2.42 in 1956 and 2.50 in 1964, while it was 2.31 and 2.48 respectively in the other scheduled banks together.

Along with the fact of declining profitability, the factors contributing to the decline are also disclosed by this review of working results. These factors pertain principally to the areas of progressive rise in costs. The causes of these rise are also clear. They fall into three main groups:

the general condition of the national economy; fiscal and monetary measures flowing from plan policies; and managerial policies of banks attuned to plan objectives. These three groups of causes, in varying proportion, are seen to have influenced each area of cost escalation.

The most vital of these areas is that of resource mobilization as a basic need of planned economic development, and of the transformation of the pattern of deposits to suit the changing nature of developmental financing. The plan objective of encouraging the monetization of savings has involved encouragement of banking accounts of all sizes, including small and uneconomic ones. From the point of view of resource mobilization, the period of fifteen years of the three Plans falls into two clear parts: one of ten years from 1951 to 1960 with only two changes in the Bank rate indicating an easy money policy; and the other, of five years from 1961 to 1965 with three substantial rises in the Bank rate and other monetary measures designed for a firm policy of tight money. Here is then the explanation of the marked rise in the costs repeatedly noticed since 1961.

Bank Rate Device

The three rises in the Bank rate between 1961 and 1965, and the mounting demand for long term industrial finance spelled four upward revisions of the whole range of interest rates on deposits with incentive in favour of time deposits. Time deposits, thus placed in the higher bracket of the rates structure, grew in the four years of 1961 to 1964 by as much as 65 per cent to form 54 per cent of the total deposits. In the matter of the total growth of deposits, however, an apparently anomalous and highly significant fact arrests attention. While total deposits rose by 15.61 per cent in the five years of low

interest rates of the Second Plan, the rise in the first four years of the Third Plan with their repeated interest rate increases was only 12.21 per cent. The stepping up of the interest rates could barely hold the growth at a static rate. The indication is unmistakable, that resource mobilisation from the public has become an area of progressive cost inflation. A sharper growth of demand for credit than of deposits increased the borrowing from the Reserve Bank, which rose from 1.3 per cent of total liabilities in 1963 to 3.1 per cent in 1964. With the raising of the liquidity ratio, and the penal conditions attached to borrowing from the Reserve Bank, the average cost of resources from this avenue during the last two years has been of the order of 8 per cent.

Branch Expansion

Contiguous to resource mobilisation, or rather a part of it, is branch expansion as another area of cost inflation. While the State Bank's branches have grown from 536 in 1956 to 901 in 1960 and 1,136 in 1964, the other Indian scheduled banks have kept close to its footsteps with 2,350 branches in 1956, 3,180 in 1960 and 4,266 in 1964. Even as uneconomic accounts have been encouraged in the larger sweep of banking growth, not all units of the growing network of branches pay their way individually.

With the concurrent expansion of branches, turnover and services, bank employment has recorded a spectacular rise in the fifteen years of the three Plans. The costs have been elevated in consequence of inflationary trends as well as a growing attention to employee security and welfare. The cost under this head, has grown in its ratio to total deposits from 1.74 per cent to 2.22 per cent in the fourteen years under review.

A phase of the cost in overheads is the widening horizon of banking in response to the

expectations of the planners and the public. The advice and services rendered by banks in investment and commerce call for expertise, research, and other activities not strictly within the scope of banking as it used to be understood. Measures like deposit insurance designed to strengthen public confidence, facilities like free remittances and collections designed to promote public relations, and exploratory contacts with non-traditional areas of banking service, together make a material impact on operational costs. Pressing from outside the operational range is the fiscal policy evidenced in the taxation system.

Profit Margin

A steady rise in the cost of resources, a steeper rise in total costs than in total earnings, an erosion of the profit margin by intenser taxation, an accelerating decline in retained earnings, are the principal features of the development of Indian banking under the three Plans. These features have been clarified and their causes as well intensively examined. It is important to observe that these are not merely static facts of a period of time, but also the essentially current trends with far-reaching implications for the future, for the causes which have built up these trends continue in themselves to gather strength and weight.

It is not the development of banking alone as an industry that is involved here. The implications to the whole range of planned development are a matter for greater concern. As an industry, banking in India is on a safe foundation, with a sound structure. It has so far maintained a pace of development to match the plan demands, and has done so consistently with its internal strength. It is seen to have now reached a stage where an ampler margin of earnings is needed for internal growth to sustain

its developmental policies, in resources, expansion and services. A denial of the margin may well compel reconsideration of the pace of growth or even of growth itself.

A diminution or even retardation of the growth of banking in terms of resource mobilization and industrial financing is a prospect of national concern. Monetization of savings, and the development of the savings habit, would be directly affected by any move to avoid or eliminate uneconomic branches or small accounts. Sixteen per cent of the investment finance of the organised sector of industry is currently provided by the banks. Any shrinkage of this finance or appreciation of its cost may well affect the entire industrial structure. And so would a curtailment of services now being developed for the benefit of depositors as well as borrowers. Comparatively the most serious impact would be on the sectors commended for banking preference on grounds of national interest, and on other sectors which banking is urged to contact and cultivate on the same grounds.

Cost of Branches

If the banking situation is seen in this light of the objectives of planning and the interests of the national economy, the need to improve will be easy to appreciate. The causes contributing to the situation themselves suggest the remedies. Monetary policy here plays a major role. The adaptability and flexibility of banking may be activated by a relaxation of the ceiling on rates of interest on advances, and a readjustment of the liquidity ratio as well as of the penalties attached to borrowings from the Reserve Bank. In the larger interests of its own policies, the monetary authority may well share the initial cost of new branches. The concentration of monetary policy

on the organized banking industry, to the exclusion of non-banking institutions handling finance, amounts in effect to a discrimination which calls for immediate remedy. The recent step towards regulation of deposits with non-banking institutions is a welcome evidence of the awareness of this position. There should be little

difficulty in effecting these adjustments without any departure from the main policy of tighter money. Tax reliefs as incentives to banking need be no more than marginal ones. Relief on capital losses on securities and on initial losses on branch expansion could be provided without much loss to revenues. Banking, industrial

expansion and the stock markets would be benefited in common, if a tax incentive is devised for equities underwritten by banks which they are compelled to hold. In the present condition of the stock markets, banks are shy of industrial underwriting in which they were developing a healthy interest not long ago.

TABLE I
INDICES OF SOME MAJOR HEADS OF THE PROFIT AND LOSS ACCOUNTS
OF THE INDIAN SCHEDULED BANKS

	1951 = 100			
	1956	1961	1963	1964
Interest earned on Investments, loans and Discount	140.3	305.4	403.1	481.2
Total Income	152.7	320.8	421.5	500.5
Interest paid on Deposits and borrowings	211.3	507.9	691.7	828.8
Overheads of which				
Employees' Remuneration including bonus	138.8	251.2	353.5	423.1
Other Overheads	142.7	259.2	363.6	438.3
Total Costs	126.0	224.8	320.4	372.9
Gross profits	157.4	322.5	447.0	534.7
Taxation	134.4	314.6	319.1	362.7
Net profit	178.8	680.8	744.6	863.3
Dividend	119.0	187.4	171.4	188.9
Retained profit	117.0	182.5	215.0	229.7
	121.1	193.0	123.6	144.4

Based on: Returns filed in as per R.B.I. pro-forma — statistical Tables for the years 1951-1964.

TABLE II
INCOME, EXPENDITURE AND PROFIT APPROPRIATION AS PER CENT
OF DEPOSITS OF INDIAN SCHEDULED BANKS

	1951	1959	1961	1963	1964	1964 over 1951
Total Income	4.30	5.02	5.69	6.03	6.25	45%
Interest paid on Deposits and Borrowings	1.01	1.64	2.12	2.32	2.43	140%
Employees' remuneration including bonus	1.74	1.90	1.86	2.09	2.22	28%
Total Costs	3.44	4.14	4.58	5.10	5.35	44%
Gross profits	0.86	0.88	1.11	0.90	0.90	
Taxation	0.22	0.30	0.62	0.54	0.55	150%
Net-profit	0.64	0.58	0.49	0.36	0.35	-45%
Dividend	0.33	0.30	0.25	0.24	0.22	-33%
Retained profit	0.31	0.28	0.24	0.12	0.13	-58%

Based on: Returns filed in as per R. B. I. pro-forma — Statistical Tables for the years 1951-1964. The deposit figures are taken from the Balance-sheet as published in the said reports and though there is a discrepancy in no. of reporting banks, it is negligible and does not vitiate the trends.

Commercial Banks and Agricultural Finance

By T. A. Pai

WE are today in the midst of a grave food crisis. The food situation in the country has been getting worse from year to year, as we have failed to give adequate attention and importance to the development of agriculture during the last eighteen years and depended more and more upon imports of foodstuffs to meet the needs of our fast growing population. We found it much easier to get our requirements under PL 480 than to persuade our people to grow more food without appreciating that this would be a source of great weakness for the country and we could not expect perpetually other countries to provide us with large supplies of grains. The uncertainty of aid under PL 480 that we presently face and the failure of crops in many parts of the country on account of the failure of rains have opened the eyes of all our people to the importance of raising internal production of food grains very quickly by every means open to us and building up adequate food stocks not only to meet exigencies like the present one consequent on failure of rains, but to meet the defence requirements also. It is a matter of satisfaction that there is now an appreciation and realisation of the importance of developing our food resources.

We are on the verge — if not in the midst — of an agricultural revolution. Our scientists have shown us how we can not only double or quadruple but in some cases even multiply ten-fold the yields of our staple crops like wheat, rice, jowar, bajra and maize. Our farmers are so eagerly adopting this new technology that it explodes once and for all the myth of the conservative, never-changing farmer. It is now

for all of us to consider how we can quickly exploit this vast potential that has been created.

But these great strides in output require a commensurate supply of inputs — better seeds, fertilizers, pesticides and machines and these materials require money. It is timely and sufficient credit facility which glues all the improved technological inputs into an effective whole. It is the business of the country's banking system and other financial agencies to see that the farmers are enabled to improve their yields by taking to modern and better methods by providing them with adequate credit—short term or long term — and the enthusiasm now generated in the agricultural sector to grow more does not suffer for want of adequate aid.

In India, agricultural credit has been the responsibility of the Co-operatives. The reasons which have been put forward add up mainly to saying that, given the existing structure of Indian Farming, which means small and fragmented holdings, agriculture is a way of life and not a business, and therefore, financing agriculture is more a social responsibility than a commercial proposition. The Co-operatives have been naturally the chosen instruments for channelling whatever financial resources the nation could afford to pump into agriculture, with the unstated supposition that it is partly a subsidy to create and bolster a pattern of society which is thought desirable.

These arguments are unexceptionable as far as they go. However in the present precarious food situation, the primary objective of Indian agriculture is greatly and rapidly increased

production, and for that overriding purpose all possible alternative approaches, including additional avenues of credit to agriculture, need to be explored. Commercial banks have played a major part in the programme of industrial development of the country by providing the needed finance by large scale and small scale industries and enabled all round progress in the industrial sector. They should not lag behind now in meeting the needs of agriculture and must play their due role as a major source of credit for agriculture as in other developed countries.

The time is, therefore, ripe to examine how the commercial banks can be most useful, avoiding a duplication of efforts amongst themselves and wasteful competition with the Co-operatives. The banks can easily avoid duplication of efforts by concentrating in different geographic areas, selecting regions where they have an intensive network of rural branches. As agricultural finance requires close contact with the clients, a branch cannot function effectively outside of a 10-mile radius of its office.

Competition with Co-operatives can be avoided by:

a) reaching those clients, mostly the larger farmers, whose needs cannot be met (at least fully) by the Co-operatives,

b) providing financing for equipment requiring longer repayment periods than can conveniently be managed by Co-operatives,

c) satisfying the heavy short term financing needs for special purposes such as seed production,

d) re-financing agro-industries which supply inputs (fertilizers, pesticides etc.) to

agriculture or buy their raw materials (Vegetable, cotton, maize etc.) from agriculture, if they finance the farmers,

e) financing industries which produce inputs for agriculture, e.g., implements, power tillers, pumpsets, and

f) financing and encouraging companies to provide services to agriculture, such as, land leveling, spraying, ploughing etc.

A careful examination of the categories mentioned above would show that by confining themselves to these broadly defined functions, and leaving the Co-operatives to satisfy the needs of the rest of the agricultural economy, the commercial banks would be filling a lacuna in the present set-up, complementing the work of the Co-operatives, doing the type of financing that they are best suited to undertake, and making an effective contribution towards increasing production, particularly the marketable surplus.

I would like now to refer to a few difficulties that are usually pointed out and some suggestions that have been made from the point of view of banks.

1. Too much has been made of the difficulties caused by legislations which protect agriculturists in the various states. Most of the State Governments have not treated banks on par with money lenders and exemptions have been provided for banks in most of the acts regulating money lenders. The apprehensions that in respect of credit extended to agriculturists, recoveries would be difficult and slow, and recourse to courts may often be necessary for recovery of debts are unjustified. Our farmers are inherently honest and do endeavour to keep up their commitments whenever they have repaying capacity and means of repayment and there is no reason to feel that percentage of debts going to court in agricultural finance will be unduly high.

Whatever the legislative provisions are and with greater agricultural prosperity that would come with improved methods made possible by adequate credit, repayments should be also very satisfactory.

2. No doubt the resources of banks are limited and there are pressing demands for all available funds from other sectors like trade and industry. However from the point of view of asking available national resources for the most vital needs of the country, banks will have to ration out the credit to other sectors and divert more of their funds for agricultural finance. It is also important that every Government or other agency interested in providing finance for agriculture should extend to commercial banks also whatever privileges and facilities they extend to others. The various facilities extended by the Agricultural Department of the Reserve Bank of India to co-operative banks should also be made available to commercial Banks to the extent that commercial banks finance agriculture.

3. It also appears to me to be legitimate for banks to expect refinance facilities from the Reserve Bank of India in respect of advances made for agricultural purposes so that banks could replenish their resources. Scheme of such refinance should be sufficiently elastic and should provide for refinance in respect of both short and long term advances and should be available at sufficiently low rates of interest.

4. The Agricultural Refinance Corporation should consider expanding its facilities and grant refinance to scheduled banks in respect of advances made for food processing units and industries manufacturing machines and equipments for mechanisation of agricultural production.

5. The F. C. I. may also consider why they should not

give a guarantee in part or full to commercial banks in respect of advances made by such banks for growing of food crops subject of course to such farmers contracting to deliver their produce to the F. C. I. Just as the Guarantee Scheme of the Reserve Bank of India in respect of small scale industries provided the necessary encouragement and incentives to banks to make such finance available to industries, such a guarantee scheme of the F. C. I. may provide the incentives and give them courage initially to enter into the field of agricultural finance. This question requires careful consideration.

It is banal to state that only a prosperous economy can support prosperous banks. The question may then be asked if the banks should be content to be only passive spectators in whatever economic growth that takes place or should they also strive to be active catalysts, generating growth by intelligent disbursement of productive loans? Success in agricultural credit will make the banks the rightful instruments for a two-way channel; just as they are now asked to funnel mainly urban surpluses to rural areas, they would be expected to utilise the surpluses generated by prosperous agriculture for industrial finance. Thereby they shall be serving the true function of a bank which is to mobilize the small, insignificant savings of countless individuals into a potent driving force of the economy. — Courtesy: "Giant"

Advertise In
Southern Economist
24 (New), Haudin Road
Bangalore - 1
Phone : 75439

Need for Realistic Monetary Policy

By R. L. Tuli *

I WOULD like to refer here to the state of capital market and the extremely stringent monetary position prevailing in the country. The capital market continues to be lifeless. Since mid-February to the middle of November, 1965, the share prices have further declined by over 11.3 per cent. This reflects the impact of the following factors on the Stock Exchange:

1. The two bank rate increases accompanied by other credit control measures.
2. Dissatisfaction with the tax concessions given in the last Budget.
3. Apprehensions arising out of the Government acquiring wider powers to regulate Stock Exchanges.
4. Imposition of regulatory duty on imports.
5. Levying of higher import tariffs by the supplementary budget in August this year.
6. Disquieting developments on our borders.

The Government's monetary policies aimed at reviving the capital market including the incentives and concessions offered in the last Budget have failed. In the prevailing capital market conditions, entrepreneurs are reluctant to initiate new ventures or expand productive capacity of the existing units. This is reflected in the progressive decline in the number of applications for capital issues and the amount thereof. Total capital raised by non-Government companies fell from Rs. 145 crores in 1962 to Rs. 121 crores in 1963 and to Rs. 104 crores in 1964.

The figures are really more dismal than they would appear. Increasingly, large share of the capital issues had to be taken up by the underwriters. The limited help that banks were offering in this direction was further reduced

by (i) much larger requirements of industry for working funds; (ii) statutory stepping up of the banks' minimum liquidity ratio, and (iii) the medium-term loans refinanced by Industrial Development Bank being brought into account for calculating the net liquidity ratio for determining the rate of interest payable by Banks on refinance obtained from the Reserve Bank.

At the beginning of the busy season in 1964, the Reserve Bank of India introduced a scheme of refinancing the banks whereby the credit was made dearer. The borrowers as well as the banks had to pay much higher interest rates and yet the 1964-65 busy season experienced the record expansion of bank credit by Rs. 407 crores. The interest paid by banks reached as high as 13 per cent although the maximum rate they could charge was fixed at 10 per cent. The instructions given to the scheduled banks by the Reserve Bank at the beginning of the slack season in 1965 for maintaining artificial scarcity created misgivings in the minds of the borrowers, and affected the usual flow back of funds even in the slack season. The credit-deposit ratio of 72 per cent at the end of October 1965 was the highest ever registered at the corresponding time in any previous year.

Pakistan's aggression on India brought a fresh realisation of the necessity of increasing the industrial output of the country and the industry was looking forward to the liberalisation of credit for achieving the desired objective. But the credit policy announced by the Reserve Bank on 23rd November, 1965 brought only a selective relaxation in favour of

defence supply bills, packing credits for export, and to state governments and other agencies for procurement of food grains. The interest rate on other refinance is linked with "net liquidity ratio", as in the past year, but the rate of escalation of interest rate on the entire refinance portfolio has been stepped up from $\frac{1}{2}$ per cent to 1 per cent for every one per cent decline in the minimum liquidity ratio of 30 per cent. As the refinance obtained by Banks for priority sectors will be taken into account for calculating the net liquidity ratio, the cost of borrowing for general purposes will become very prohibitive.

More Restrictions

The scheduled banks have also been directed to obtain prior authorisation of the Reserve Bank before sanctioning fresh or additional credit limits by which the aggregate credit limits allowed by the entire banking system to any single party exceeds Rs. one crore. The bankers feel that the industrial borrowers, excluded from the scheme of priorities, will face very acute difficulties which the banks will be helpless to alleviate. The whole scheme is hedged in with so many conditions and restrictions that banks will not be able to take full advantage of the refinance facilities now offered. The saving capacity of the people has been seriously affected by the rapidly rising cost of living. Therefore, the growth of bank deposits lags far behind the ever increasing needs of the developing economy. For accelerating the pace of deposits growth, the Reserve Bank of India adopted the dear money policy. The rate of interest on deposits was sharp-

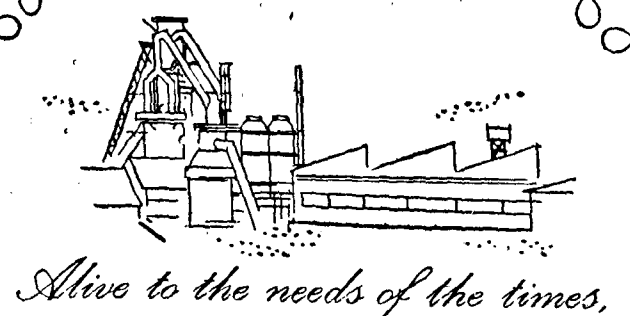
ly stepped up but it has failed to increase flow of deposits to banks. Since mid-February to 12th November, 1965, deposits, have risen by 10 per cent as against the rise of 11 per cent in the corresponding period in 1964. It conclusively proves that deposits are more a function of saving capacity than the rate of interest.

Concession Needed

The Government may, therefore, consider the desirability of giving some income tax concession on the interest earned on bank deposits on lines similar to interest earnings on postal savings and dividend income on units of the Unit Trust. In other countries, such plans have succeeded in promoting the growth of deposits and I am sure that if the Government of India provides similar incentives, it will help in checking inflation—by mopping up the floating money on the one hand and increasing production of consumers' goods on the other. More vigorous branch expansion programmes for mobilising deposits can be undertaken by banks if losses of new branches are shared by the Reserve Bank as it does in the case of State Bank and its subsidiaries.

ANOTHER BRITISH LOAN FOR INDIA

THE Third Kipping loan to India, like its predecessors for £4 million (Rs. 5.33 crores), was signed in New Delhi on December 20. This brings the total of British aid committed under the pledge for 1965-66 to £19 million (Rs. 25.33 crores), and the total of British aid committed to India's Third Plan to £174 million (Rs. 232 crores). Half of the £30 million (Rs. 40 crores) pledged for 1965-66 had been available in the form of General Purpose loans which are of immediate benefit to India's balance of payments.



Alive to the needs of the times,

THE BANK OF INDIA LTD.

would endeavour, more than ever before, to assist

DEFENCE-ORIENTED INDUSTRIES

IMPORT SUBSTITUTION INDUSTRIES

EXPORT PROMOTION INDUSTRIES AND TRADE

Please contact nearest Office.

THE BANK OF INDIA LTD.

T. D. KANSARA, General Manager



YOU HAVE A FUTURE IN THIS STAR

RAAS/B/67

Credit Control During the Third Plan *

D. Sriramasarma

THIS paper aims to discuss some of the aspects of the credit control during the Third Plan. The scope of this paper is rather very much limited in the sense that it confines itself to some of the quantitative as well as qualitative methods of credit control actively applied by the Reserve Bank during the Third Plan. The paper does not deal with the non-monetary measures of credit control.

1. The Objective of Credit Control: Generally, the objective of employing credit control measures by the Central Monetary Authority is to ensure monetary stability. Internal stability is said to be the precondition for sound economic and monetary management. The purpose of the measures is to see that the internal demand for money is under control and there are no violent seasonal fluctuations. In the post-Independence era, it was realised that the credit control measures could be used not only for establishing price stability but also for mobilising financial resources in such a way that it would result in an accelerated rate of economic growth.

The idea of imposing credit controls (and thereby maintaining the price stability) has assumed serious dimensions in the context of the present emergency. India has been passing through a process of planned development and it has seen several changes

of outstanding nature in her economic and monetary policies.

2. Its Effect during First Plan Period: During the First Five-Year Plan, credit control measures were nearly successful owing to the fact that the size of the Plan was moderate; and also there was a substantial increase in the food supply. The increase in spending due to Plan investment was balanced by the increase in food supply. This situation precipitated downward trend in the level of prices. The contraction in money supply due to the sale of securities by the Reserve Bank of India resulted in a decline in the general level of prices. Above all in the year 1951 Bank rate was raised from 3 per cent to 3½ per cent which produced the salutary effect of curbing inflationary pressures.

3. Inflationary Pressures during the Second Plan Period: The need for active imposition of credit controls by the Reserve Bank was more urgent in the Second Five-Year Plan due to the increased investment in the Plan and to a large dose of deficit financing. Prices were on the increase even from the beginning of the Second Plan. In the slack season of 1956, scheduled Bank credit not only remained at a high level but the volume of credit actually increased. Credit expansion in the following season was still greater. There was an increase not only in the velocity of circulation but also in the credit-deposit ratio. The Reserve Bank had therefore to adopt both the quantitative and qualitative methods of credit control. The Bank issued directives to commercial banks restricting the granting of credit against paddy

and rice. The Bank also prescribed an upper limit with regard to bank credit advanced during the busy season.

4. Change in the Policy during the Third Plan Period: The Third Plan however, began with a relaxation of these controls. An outstanding feature of financing the Third Plan is that the amount of deficit financing was reduced to Rs. 550 crores from Rs. 948 crores in the Second Plan. The policy of the Reserve Bank was to give a fillip to the banking system for the growth of corporate and personal savings. This was to meet the increase in the investment on the Third Plan. This liberal policy was changed in view of the Chinese aggression in 1962. The Bank rate was raised from 4 per cent to 4½ per cent on January 2, 1963. A three-tier Bank rate system was introduced according to which a bank could borrow at 4½ per cent up to 50 per cent of its statutory reserve and at 6 per cent up to another 50 per cent of the statutory reserves. An additional quota beyond the statutory reserve was permitted at a penal rate of 6½ per cent. This rise in the Bank rate was to serve two purposes—firstly, to help the Government in their efforts to control the price line and secondly to boost the saving of individuals and firms.

5. Vigorous Control following the Emergency: As the coincidence of the busy season of 1962-63 with the Chinese aggression on the northern frontier caused further inflationary pressures, the Reserve Bank tightened up its hold on money supply by imposing for the first time a ceiling limit on the amount which a commercial bank could borrow from it. Banks were also required to

* A paper submitted to the Post-Graduate Students Seminar organised by the Department of Economics, Sri Venkateswara University, Tirupathi.

I am highly thankful to Professor D. L. Narayana for his valuable guidance in the preparation of this paper.

finance defence production and exports. The system of borrowing from the Reserve Bank of India was reduced to two slabs under which a scheduled bank could borrow up to 50 per cent of its statutory reserves at the Bank rate and the remaining 50 per cent at 6 per cent. At the beginning of the 1963-64 busy season, the ceiling limit on banks' borrowing was raised from 100 per cent to 150 per cent of the average of reserves for the previous quarter.

The Reserve Bank's credit control policy was thus to be enforced through (i) changes both in the availability of credit, (ii) the cost of credit and (iii) the regulation of money supply.

6. Measures to Hold the Price Line: Prices were rising even at the commencement of the Third Plan. Therefore, it was the avowed objective of the Third Plan to hold the price line which can also be controlled by monetary and fiscal disciplines. The

year 1963-64 also witnessed continuous rise in the level of prices by no less than 14 per cent. The money-supply rose at a rate not less than eleven per cent. This increase was largely due to credit expansion by the banking system not only to the Government but to the private sector during the busy season of 1963-64 by as much as Rs. 377 crores. Accordingly, the Reserve Bank of India thought that genuine seasonal requirements were to be met within the framework of a policy of credit restraint. The Bank rate was further raised from 4½ per cent to 5 per cent with effect from September 25, 1964. This rise was considered imperative because of the growing imbalance between the expansion in money supply and the increase in real output.

Again, the Reserve Bank raised the Bank rate by a full one per cent in February 1965, from 5 per cent to 6 per cent. This

was the first time for the Reserve Bank to raise the Bank rate by a full one per cent. It was true that there was a substantial increase in the output of food-grains and other agricultural commodities but wholesale prices were higher by 16 per cent than in 1964. Expansion in bank credit during the current busy season exceeded Rs. 296 crores.

Open market operations affect the scheduled Banks' overall expansion of credit. The Reserve Bank continued to operate its open market transactions with this main objective. In the year 1961, the Reserve Bank purchased securities for a nominal amount of Rs. 6 crores. The restrictive nature of the Bank's open market operations is highlighted by the fact that during the busy season of 1960-61 when the full impact of the three tier rules was being felt, the Bank generally refrained from making purchases, the net operations

Yet Another Year of Progress

(In lakhs of Rs.)

	1962	1963	1964	1965
Paid-up Capital & Reserves. (Excluding Dividend Reserve)	76.55	91.20	113.29	134.58
Deposits	2476.67	2971.12	3662.92	4452.70
Investments	950.10	1340.05	1636.26	1644.09
Advances	1183.42	1340.25	1919.40	2622.03
Dividend Declared	9%	9%	10%	10%
Number of Branches	80	89	93	(Proposed) 100
Number of Deposit Account Holders	171000	214000	243000	Around 300000

Your Bank with the Personal Touch
THE BANK OF MAHARASHTRA LTD.
 AT YOUR SERVICE WITH ITS 100 BRANCHES

C. V. JOAG,
 General Manager

Syndicate Bank

FIRST — in small savings. Our Pigmy Deposit Scheme reaches the farmer in his field or worker in the factory.

FIRST -- in opening of All Women's branches. Our All Women's Branches run entirely by women, attract a large number of lady customers who otherwise would never have walked into any bank.

FIRST — in Agricultural Finance. We extend credit for the farmer for increased food production, our country's greatest need.

The 'SYNDICATE' with over 200 offices in India and Correspondents all over the world can be depended upon to be the FIRST in giving you every kind of banking service.

For us

"No man is too small for a bank account."

SYNDICATE BANK LIMITED
 (Regd. Office: MANIPAL)

Our Grateful Panamas

to our over 6,00,000 customers all over the country

**SIXTY YEARS OF SERVICE-SERVICE TO THE PEOPLE,
SERVICE TO THE COUNTRY-THAT'S OUR HUMBLE RECORD**

To-day, Canara Bank is well-equipped to offer you a Comprehensive worldwide Banking Service with its

- Network of Correspondents all over the world
- Advisory Service for Import/Export
- 'Telex' Service for fast and accurate international communications
- Wide range of Services
- A Savings scheme to suit every pocket
- Over 235 Branches in India

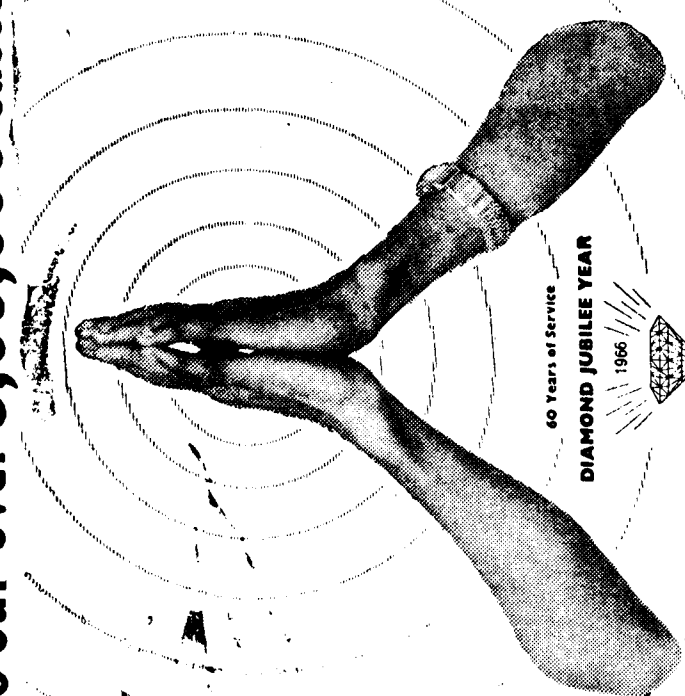
The more you know Canara Bank
The more you will use Canara Bank

Move Ahead-Move with

Canara Bank Limited
(Estd. 1906)
Regd. Office: MANGALORE
Admn. Office: BANGALORE

CB-135

60 Years of Service
DIAMOND JUBILEE YEAR
1966




We are proud of our women. Perhaps someone dear to the family is away, guarding our frontiers. Aware that the country is passing through troubled times, our women face difficulties with a smile. They know there is need to avoid all waste and to save. They work in hospitals, blood banks and voluntary organisations, helping to comfort the victims of war. Our women are serving the nation! Are you?

**ONE GREAT COUNTRY
ONE GREAT PEOPLE**

DA 65/84

MONEY COMES
AND GOES
BUT WITH THE STATE BANK
MONEY COMES
AND GROWS!

Your savings with the State Bank of India guard your future for you. And your savings earn while you learn or work. Open a Savings Account with cheque-book facilities.

With less taxes you have more money in hand. So you can save more and collect interest at the highest rates ever offered by the State Bank of India!

EARN A SECOND INCOME
WITH FIXED DEPOSITS :

We can help you to earn a second income when you keep your savings in Fixed Deposits. You get interest as high as 7%. Come to us..... we'll make your money earn more for you!

Savings Accounts	: up to	4%
Fixed Deposits	: up to	7%

Full details of interest rates on request.

STATE BANK FOR SERVICE

resulting in sales of Rs. 1.3 crores in that period. The policy of open market operations achieved greater success in the succeeding years.

7. Measures Qualitative Control : In the sphere of qualitative credit control, the Reserve Bank has been issuing directives from time to time to the Commercial banks. Among the major selective controls imposed by the Bank are, ceilings on commercial banks, advances against food articles and import deposits and clean advances. In the marketing season of 1964-65 the traders withheld stocks with the object of realising higher prices later. This was the case with vegetable oils and coarse grains. The Reserve Bank, therefore, tightened selective credit controls governing coarse food grains, oil seeds and oils. It later extended the control to cotton much to the annoyance of the cotton trade.

This credit squeeze, imposing a ceiling limit on advances of scheduled banks, alarmed the business and industrial community. Protests were voiced on the ground that it was hampering genuine credit expansion. Recent trends in banking have been such as to produce injurious effects on the economy. Firstly, credit provided by the Indian scheduled banks expanded from Rs. 1,521.98 crores in 1963-64 to Rs. 1,753.57 crores in 1964-65, the credit index rising in a single year from 365.6 to 409.3, i.e., by as much as 43.7 points. Secondly the credit-deposit ratio of these banks has been steadily rising from 68.88 per cent in 1961-62 and now forms 72.32 per cent in 1964-65. Thirdly, the borrowing of these banks from the Reserve Bank have risen from Rs. 64.59 crores in 1963-64 to Rs. 147.37 crores in 1964-65, i.e., by over 43 per cent. At the same time, the investment

† This has since been removed—Ed.
* This restriction has also been lifted—Ed.

deposit ratio of these banks fell from 33.32 per cent in 1961-62 to 28.07 per cent in 1964-65.

Thus the circumstances prevailing in the busy season of 1963-64 which attracted restrictive measures of the Reserve Bank have been repeated in 1964-65 producing negative effects on the economy. Therefore, the Reserve Bank is fully justified in imposing the credit squeeze.

8. Other Restrictive Measures : Among other measures, the import deposit scheme and the ceiling on clean loans, which were initiated recently are important. In view of the deteriorating foreign exchange situation, the Reserve Bank issued on June 25, 1965 a notification under the Foreign Exchange Regulation Act of 1947, requiring every importer to deposit with effect from July 1, 1965, with an authorised dealer an amount equivalent to 25 per cent of the value of each shipment prior to the dispatch of the goods to India.† The authorised dealer is prohibited from releasing the shipping documents to the importer unless such a deposit has been made. So far as import deposit is concerned the Reserve Bank pointed out that there was the risk of imports being bunched together in the second and third quarters of 1965-66. Such a risk could not be taken as the availability of foreign exchange reserves was limited. Therefore the Reserve Bank found it necessary to supplement import licensing with this type of credit control. The advance deposits on imports were thus part of the system of selective credit controls used in the slack season when foreign exchange reserves were under strain.

The Reserve Bank's justification for placing a ceiling on clean loans* is that a large increase in unsecured advances has taken place over the last two years. The level of un-

secured advances of scheduled banks at Rs. 297 crores at the end of May 1965 shows an increase of 41 per cent on the level of Rs. 211 crores reached at the end of May 1963. The increase in clean credit has its influence on the overall credit expansion.

9. Conclusion : There has been an undue increase in the money supply when compared to its impact on the real output. The statement is supported by the fact that there was an increase in money supply in 1964-65 by Rs. 506 crores as against 502 crores in 1963-64. Deficit financing amounted to Rs. 271 crores during this year as against Rs. 282 crores in 1963-64. The amount of deficit financing is less than the previous year, but it is by no means negligible. From the Annual Report of the Reserve Bank of India, it is evident that the increase in bank credit was by 43 per cent on March, 1964 compared to the 1961 level whereas increase in advances to industry was 60.6 per cent. But the increase in industrial production was only 25 per cent. Therefore, the explanation lies in the fact that a substantial portion of the credit advanced was invested, not in production but in inventory accumulation excessively. As a result, the object of the Bank rate, as an instrument of monetary control, is partly frustrated.

Selected References

1. B. K. Madan : Some Aspects of Economic Development.
2. H. V. R. Iengar : Monetary Policy and Economic Growth.
3. G. P. Gupta : Reserve Bank of India and Monetary Management.
4. The Third Five-Year Plan, Final Report.
5. "Commerce" August 1965.
6. Reserve Bank of India Bulletins July 1946, August 1965.
7. Trend and Progress of Banking for the year 1962.
8. Annual Report of the Reserve Bank of India for the year 1965.

A graphic design featuring the word "AUTOMATION" repeated multiple times in various sizes, orientations, and styles (solid, outlined, distressed) to create a layered, dynamic effect.



A high-contrast, black and white illustration of a man sitting at a desk, sorting through a large volume of mail. He is wearing a dark jacket and is looking down at a letter in his hands. The desk is cluttered with stacks of mail, and a desk lamp is visible on the left. The background shows a window with a grid pattern, through which more mail is visible. In the bottom right corner, there is a small black box containing the text "DA 65/271".

In its efforts to evolve a technique of monetary management to suit the requirements of the developing economy, the Reserve Bank of India concentrated mainly on discovering new channels to finance agriculture. One such means was guiding and financing the rural agriculturists through co-operatives. The Reserve Bank has established a very close contact with the co-operative agencies through its Agricultural Credit Department. The inability of the Central Banks to establish direct contact with individual agriculturists, and the unsuccessful attempts of the government to bring the indigenous Bankers into the financial fold are the main deciding factors in favour of the Reserve Bank opting for co-operatives. Lack of enthusiasm on the part of the

Since it is the responsibility of the central bank of a country to evolve sound monetary policies and more so, in the present context of developing economy, the Reserve Bank is charged with the responsibility of rendering suitable assistance to the co-operatives. The goal of socialist society, the adoption of planned economic development and the establishment of co-operative commonwealth in the light of the decision taken at the Avadi Congress Session and later, at Bhubaneswar, have necessitated an expansion of the role of the Reserve Bank in the sphere of Rural Finance. This role has grown significantly as can be seen from the advances granted by the Reserve Bank of India to State Co-operative Banks which increased from Rs. 150 lakhs in 1946-47 to Rs. 283.49 lakhs in 1964-65.

It is the responsibility of the co-operatives to provide credit for increasing agricultural production. They should also provide adequate credit to the weaker section of the agricultural community who cannot offer adequate tangible securities. The success of co-operative credit will be judged by the increased agricultural production and the improved economic conditions of the rural population.

THE DAY BEGINS WITH COFFEE

The morning mist still lingers in his eyes just opened—the newspaper in his hand is but a mass of hazy headlines.

And then it wafts its way towards him—it lingers—it dances around him—it beckons invitingly—the aroma of fresh-ground, fresh brewed hot coffee.

His hand reaches out and takes the cup of flavour-filled coffee from his dear one—he sips—the world around him springs to vibrant life—the morning has truly begun.

No other drink gives you the zest for life, as a cup of good, friendly coffee.

Coffee has so much to give

COFFEE BOARD BANGALORE



...anywhere...anytime



Role of Intermediaries in Canadian Capital Market

THE following is a brief review of the chief characteristics and functions of some of the main intermediaries in the capital market of Canada:

In spite of the many changes which have taken place in the Canadian financial system, the chartered banks continue to occupy the most prominent position among Canada's financial institutions. They are the country's largest deposit institutions, its main source of short-term credit, and they provide the basic payments system. Banks offer current accounts, personal and corporate savings and notice accounts, and personal chequing accounts. At the end of 1964 about \$14 billion out of total Canadian dollar deposit liabilities of over \$16 billion were held in one or other of these deposit accounts. Since other deposit-taking institutions in turn carry their own accounts directly or indirectly with the banks, there is very little deposit business which does not pass through the banks in one way or another.

Savings Deposits

Personal savings deposits are used both as a savings instrument and as working accounts through which pass the regular flows of individual income and spending. Current accounts are held mainly by businesses and are used by them for all their normal payment needs and to a limited extent, as a reserve of liquid assets. The banks also accept funds in non-chequing term accounts against the issue of "deposit receipts" with varying maturities. Each class of deposit is designed for a somewhat specialized market and has developed in response to a

particular set of influences. In recent years, current account balances have expanded at a slower rate as businesses have learned to work with smaller accounts, and instead of holding cash balances they have tended to invest in a variety of short-term financial assets. Among them, the fixed-term and corporate notice deposits of the chartered banks occupy an important position.

A number of highly significant changes has taken place in the structure of bank assets in recent years with the most important changes occurring in the area of bank lending. One of the most dramatic shifts has been the growth of loans to individuals. Since 1945, chartered bank lending to individuals has increased from \$269 million to over \$2.6 billion. Canadian banks have always laid emphasis on the development of a country-wide branch system. Today, in consequence, when they are directing an increasing share of their resources to small business and individual borrowers, they are in an exceptionally good position to serve new and growing communities in all regions.

Insurance Companies

Canadians are generally thought to be well insured. This is borne out by the fact that total life insurance in force in Canada is about twice the volume of total personal disposable income and that annual premium payments absorb about three per cent of disposable income. Insofar as insurance companies acquire funds from one sector of the community and reallocate them to other sectors, they are performing the basic function of a financial intermediary.

Since the liabilities of life insurance companies are relatively long-term in nature, these companies are able to invest a high proportion of their funds in long-term assets. Insurance companies which are well established need to retain only a comparatively modest liquidity position since they can count on a net cash inflow from contracts already in force. The major part of insurance company funds are devoted to the purchase of bonds and mortgages, these companies being the principal buyers of mortgages in Canada and the largest group of investors in Canadian corporate bonds. At the end of 1963, 40 per cent of their funds were in mortgages and 21 per cent in corporate bonds. Holdings of federal securities, although higher than the low point reached in 1957, accounted for only seven per cent of assets.

Trust Companies

The basic function of trust companies is the professional management and employment of funds entrusted to them. These companies have the right to act as trustee for property interests and to conduct other fiduciary business. In addition, trust companies also collect funds from the public in deposit accounts and by issuing investment certificates. The latter role is comparable to the "intermediary" function of banks and other financial institutions. Mortgages are now their most important single type of investment and at present account for about 50 per cent of total assets. In recent years, trust companies have grown rapidly. Their

freedom from legal restrictions on the maximum rate of interest on earning assets and their ability to invest in conventional mortgages have no doubt been factors contributing to this growth.

Other Intermediaries

The Mortgage Loan Companies obtain most of their funds from the sale of debentures, which account for over half of their liabilities, and they invest about three-quarters of their funds in mortgages and agreements of sale. At the end of 1964, about \$ 1.4 billion of their total assets of over \$ 1.8 billion were invested in mortgage loans and sales agreements. Under this heading are normally included instalment finance companies, companies licensed under the Small Loans Act and affiliates engaged in making personal loans. Instalment finance companies concentrate on consumer credit, particularly automobile credit, and their funds are made available to dealers to finance inventories of durable goods as well as to consumers to cover the cost of their final purchase. The loan companies deal almost exclusively with consumers, making cash loans, usually on the security of a promissory note. The rates charged under the Small Loans Act range from one to two per cent per month, depending on the size of the loan, and there is no ceiling rate for loans of more than \$ 1,500.

Instalment Finance

The instalment finance companies obtain much of their funds by selling notes and debentures to other financial institutions and corporations. Unlike other intermediaries, therefore, they borrow almost exclusively in the central financial markets and actually draw an important part of their funds from other financial institutions. Important changes in the market for consumer credit have recently

resulted from the rapid expansion of chartered bank lending through their personal loan programmes. As already noted, the banks, aided by the 1954 amendment to the Bank Act regarding chattel mortgages, have moved actively into fields such as the instalment financing of cars and other durables. At the same time, the credit unions have also taken an increasing share of the market.

The two Quebec Savings Banks have not become large national institutions comparable to the chartered banks but have tended to concentrate their attention on personal savings and family businesses. There are now over 4,800 caisses populaires and credit unions in Canada, and, with three million members and total assets of nearly \$ 2 billion, the movement has emerged as a significant part of the financial system of Canada. Personal savings are turned over to the credit union in the form of deposits or shares. The money is then to a large extent invested in loans and mortgages.

Earnings on these loans are distributed to members in proportion to the funds they have invested. In most provinces, a central credit union has been established to provide facilities for transferring funds from credit unions with surpluses to those with deficits. The caisses populaires and credit unions owe an important part of their success to the fact that as co-operatives, they are virtually exempt from corporate income tax and therefore have an advantage over competing institutions which must pay taxes on their profits.

Investment Companies

In the post-war years, there has been a rapid growth in investment companies and their assets now total more than half a billion dollars. Investment companies are intermediaries selling securities to the public and investing the proceeds in

diversified investment portfolios. Important in this group are the "open-end" companies or mutual funds which provide the investor with the advantages of professional management and diversification. Mutual funds sell shares to the public, and these shares can be redeemed at all times at prices based on the current value of their assets. Another group of investment companies, often referred to as closed-end companies, sell debt and equity from time to time in the same way as industrial companies. Their securities trade in the normal way and shareholders may sell their shares on the open market.

Government Institutions

The principal financial institutions supply the bulk of the financial needs of individual businesses and farmers and, in the area of short-term finance, the chartered banks are the main institutional source of funds. However, in cases where certain sectors have been thought to be inadequately supplied by private sources, governments have intervened to assist such borrowers by insuring private loans or by lending directly through a variety of special agencies. For example, the National Housing Act insures loans for new dwellings and the Industrial Development Bank makes term loans to medium-sized businesses. In addition, there are measures to encourage lending to farmers, fishermen, veterans and other groups. The lending powers of the Industrial Development Bank have recently been considerably broadened and a very rapid expansion has taken place in the bank's activities since 1961. It is noteworthy that this Government bank may take conventional mortgage security and has no ceiling on its lending rate so that it can exceed the six per cent ceiling imposed on the chartered banks. The Farm Improvement

Loans Act provides for government guarantees of medium-term loans to farmers. This Act was passed in 1944 to encourage lending to farmers on a term basis for the purchase of equipment and live-stock and for the construction or repair of farm buildings. In January 1965, the banks had \$ 269 million of Farm Improvement Loans and \$ 410 million of other loans to farmers on their books.

Conclusion

The Canadian capital market is, in many respects, the focal point of the country's economy. Decisions taken in this market have a major impact on the allocation of resources and on rate of growth of output in the economy.

So far as the structure of the Canadian financial and banking system is concerned, the revision of the Bank Act, which

governs the operations of the chartered banks, could provide an opportunity for changes of great importance to all Canadians. This revision of the Bank Act follows the detailed examination of the Canadian financial and banking system which was carried out by the Royal Commission on Banking and Finance. The main recommendation of the Royal Commission report was for changes leading to a more open and competitive financial system by eliminating restrictions which impede the effective operation of the capital markets.

For example, two of the restrictions imposed on the chartered banks by the present Canadian Bank Act, the six per cent ceiling on the interest charged on loans and the prohibition of loans secured by conventional mortgages, prevent the banks from competing in

many areas with other lending organizations whose rates would be lower if they had to face the competition of the chartered banks. Removal of these restrictions would enable the chartered banks to extend a wider range of banking services to the public. Courtesy: Canadian Imperial Bank of Commerce.

Larsen and Toubro

LARSEN & TOUBRO'S sales for the nine months ended December 31, 1965 were Rs. 743 lakhs an increase of 33 per cent compared to Rs. 560 lakhs for the nine months ended December 31, 1964. The value of the output from its workshops at Powai for the same period is reported to be up by 22 per cent as compared to the same period last year.

SAVE | to strengthen the Country's economy
to make India strong and self-reliant

WE OFFER ATTRACTIVE RATES ON YOUR DEPOSITS
WITH US

Savings Bank Accounts 4% p.a.
Fixed Deposits 5% to 7½% p.a.
depending on the period.

With just Rs. 5/- you can open a Savings Bank Account
at any of our 141 offices.

Banking business of all types transacted.
Please contact our nearest branch agent who will
gladly furnish you further details.

STATE BANK OF BIKANER & JAIPUR
(SUBSIDIARY OF THE STATE BANK OF INDIA)
Head Office : JAIPUR

The Mysore State Co-operative Apex Bank Ltd.,

No. 1, Pampamahakavi Road, Chamrajapet, BANGALORE-18.

Golden Jubilee Celebrations



Golden Jubilee Deposits at very attractive rates of interest are accepted repayable after three years and certificates will be issued in the following denominations:

	Face Value	Issue	
10			8.25
100	"	"	82.50
1,000	"	"	825.00
1,00,000	"	"	82,500.00

The Certificates are issued under various denominations like 25,000, 50,000 at the above rates.

Special rate of interest is offered for the Golden Jubilee Certificates. Avail of this opportunity to save money to help yourself and agricultural production.

The Bank accepts deposits for various periods with interest ranging from 2½ per cent to 7½ per cent. Affords all types of Banking Facilities such as Demand Drafts, etc.

(G. Rudrappa)
Secretary.

STATE BANK OF INDORE

(SUBSIDIARY OF THE STATE BANK OF INDIA)

INCORPORATED IN INDIA UNDER SPECIAL STATUTE

THE LIABILITY OF THE MEMBERS IS LIMITED

Head Office: Bombay-Agra Road, INDORE



Branches at Bombay and all important commercial centres in Madhya Pradesh.

Attractive rates of interest on Deposits.

Agency arrangement with over 1800 offices of the State Bank of India and its Subsidiaries.

Foreign Exchange Business transacted.

Liberal terms for advances to Co-operative Institutions and Small Scale Industries.



OFFERS COMPLETE BANKING SERVICE

Success of Branch Banking in Australia

(Contributed)

THE Australian banking system has come a long way from the time when rum was a popular standard of barter in the colony. In those days also, cardboard tokens, IOU's and promissory notes issued by traders were widely accepted as forms of money. The first commercial bank was started in 1817 with a paid-up capital of just £3,625.

Australia's eight major trading banks (of which one is Government owned) today control more than 90 per cent of the country's commercial banking through 5,000 branches. These eight banks, whose deposits exceed £2,000 million and advances £1,200 million, also have direct representation in hundreds of other places such as in south and west Pacific area, and in London. Most of them have been established for more than a century. The Australian banking structure is fashioned on the Scottish principle of branch banking by which a few large banks control a net-work of widely-spread branches.

Diversified Economy

The branch system of banking has proved to be particularly suited to Australia because of its diversified economy and comparatively small population spread over vast distances. And because of the country's variety of natural conditions, the system of wide-spread network of branches makes it possible to effectively channel deposits collected in prosperous, established districts towards the development of unsettled areas. This system also enables the trading banks to finance primary producers and others afflicted by unfavourable conditions, from the resources

made available from regions enjoying more favourable ones.

In keeping with English banking principles, the Australian banks initially confined their main activities to discount and deposit and refrained from making advances against land. But following the economic crises of 1840's, with land speculation as the root cause, Australian banks were allowed to lend against land and movable property such as wool and cattle. From this practice has stemmed the singularly Australian method of granting overdraft loans under which borrowers are charged interest only on the amount owing each day.

By 1939, Australian trading banks provided more than one half of the total credit needs of the community. But to avoid inflationary expansion of bank credit, which had greatly increased because of big war-time expenditure by Government resulting in an increase of money in the hands of the people, war-time banking regulations required that the commercial banks deposit their surplus funds with the Central Bank (which in 1960 became the Reserve Bank) at a nominal rate of ¼ of one per cent.

Statutory Reserves

These compulsory deposits known as Statutory Reserve Deposits and intended to restrict bank credits, today stand at 13.8 per cent of each major bank's assets and total about £340 million. In addition to this statutory control, the banks have also agreed to maintain a certain proportion of their deposits in liquid assets and Government securities which now amount to

18 per cent of the bank's total deposits.

With restrictions on bank credit, ceilings on overdraft rates and other restrictive monetary policies, the contribution of banks to the total credit needs of the community dwindled down to a mere one-fifth by mid-1950, thus reducing the influence of the banks in the credit structure of the country.

As is inevitable in any free enterprise community heavily dependent on capital intensive activities, prospective Australian borrowers, both firms and individuals, looked for other sources of credit. And the prosperous Australian community with rising income expectations found little difficulty in arranging alternatives to trading bank finance.

Non-banking Sources

During the last fifteen years, Australia has seen a marked increase in the lending and investment operations of non-bank institutions. These include insurance companies, pastoral finance companies which provide substantial rural lending. Over the same period, there has been a sharp growth and proliferation of finance companies engaged in a variety of credit arrangements ranging through hire-purchase lending, to personal loans, leasing arrangements, business and development loans and loans on real estate.

The averages of three years' figures show that loans outstanding of cheque-paying banks rose from £854 million in 1953-1955 to £1,227 million in 1962-1964, representing 43.7 per cent increase. During the same period, however

loans outstanding of life assurance organisations rose from £206 million to £465 million, an increase of 125 per cent; of non-retail business, from £131 million to £421 million, an increase of 221.4 per cent, and of building societies, from £124 million to £290 million (in 1962), representing an increase of 110 per cent.

It is no wonder therefore that the major trading banks all have their finger in the pies of financial intermediaries. The lead was given by the Commonwealth Bank when it went into hire-purchase business in 1946. The other trading banks soon followed suit, although until now, they do not themselves conduct hire purchase business but merely act as agents for related companies.

Monetary Discipline

The volume of money, as defined in Australia, consists of cash held by the public and the deposits of the public with the banks. Recent developments in the Australian economic structure, however, have made it amply evident that control over the volume of bank money alone is not sufficient to check inflationary pressures if financial intermediaries outside the banking system over whom the monetary authorities have little control are allowed to operate in comparative freedom.

The realisation on the part of the monetary authorities that a decline in the influence of the banks in the credit structure of the community necessarily meant a decline in the effectiveness of any monetary action unable to exert sufficient influence over the non-bank organisations, is reflected in the more recent official monetary policy in Australia.

The trading banks are now being allowed progressively greater freedom to compete for deposits and to enter certain fields of credit which had been denied to them since the last World War. In the official short

term money market, for instance, the banks had £61. million on deposit at December 31, 1964. This was about 36 per cent of the market's total funds. The official restriction limiting the proportion of bank funds which dealers could hold, which had existed since the establishment of the market in 1959, was abolished in July 1964.

Another recent innovation is the establishment of a term lending fund which was established in 1962. It represents 3 per cent of each bank's deposits and at the time totalled £57 million. This fund enables the banks to grant medium-term loans for fixed periods, generally from 3 to 8 years, for development purposes, farming, secondary industry and commerce, and to provide export credit facilities. Term loans outstanding rose from zero in mid-1962 to £79 million by January 20, 1965, indicating that it was fulfilling an essential need.

Export Refinance

In addition to the medium term loans, the Australian trading banks in conjunction with the Reserve Bank established the Australian Banks' Export Refinance Corporation Limited in September 1964. Its job is to enable individual banks to meet the increasing demands for export credit over extended periods. This corporation, commonly known as the "Bankers' Bank," is intended to help particularly the Australian exporters of capital goods to retain their existing overseas markets and develop new ones.

The Australian monetary authorities have also had second thoughts on the cheap monetary policy they had vigorously pursued earlier. Now the official policy is to vary bank interest rates to suit the varying phases of the economic cycle. On March 10, 1965, the Reserve Bank increased the term deposit rates of the trading banks by $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent and the overdraft rate by $\frac{1}{4}$ per cent to $7\frac{1}{4}$ per cent.

The banks are now also allowed to accept deposits of £50,000 and more up to 24 months. Formerly maximum term was 15 months.

The change in the monetary policy has enabled the trading banks, traditionally Australia's cheapest source of credit, to compete more effectively for deposits with the non-bank institutions. In December 1964, the deposits of the major trading banks rose to a new peak of £52,389.5 million which was £276.9 million more than that of the previous year. Bank advances were also comparatively higher—rising during the year by £94.6 million to £1,193 million.

Savings Deposits

In the field of savings banks in which all the major private banks have subsidiaries, the growth of deposits was even more spectacular. By the end of December, total savings deposits were £2,377.5 million, an increase of £256.2 million over that of the previous year. And the housing loans outstanding of the savings bank, which are the biggest institutional lenders for housing in Australia, and which in June 1963 were at the high level of £397 million, by December 1964 had increased to £550 million. Seventy per cent of the assets of the savings banks which are either associated with or conducted by the major trading banks, have to be invested in government or semi-government securities or else deposited with the Reserve Bank. By December, their Commonwealth and State Government securities totalled a record £1,000 million.

~~~~~  
Your children  
will enjoy Freedom  
Tomorrow if you  
safeguard it Today  
~~~~~

SOUTHERN ECONOMIST

Payments "Problem" of West Germany

(Contributed)

THE change which took place somewhat abruptly in the German balance of payments more than a year ago has once again shown how quickly overall economic situations can alter. Since the end of 1964, the Deutsche Bundes Bank's gold and foreign exchange holding has declined by about DM 2 billion to a total of DM 28.3 billion. This is below the maximum of DM 32.5 billion, reached in April 1961.

The present absolute size of the foreign exchange reserve, covering average import requirements for about five months, affords indeed no occasion for anxiety concerning Germany's international solvency; even so, however, the fact should not be overlooked that the foreign exchange cushion was much more comfortable in 1960, when it corresponded to roughly nine month's imports. While in the past years, the German economy's success in exporting had not been well appreciated, and in some quarters even described as 'endangering equilibrium' it must by now be becoming clear, that the trade surplus not only stimulated overall economic growth but also produced the extremely valuable effect of accumulating a substantial gold and foreign exchange reserve.

Gold Reserves

If the surplus on trade is combined for the period from 1950 to 1964 with the deficit (which has existed for only a few years) on service transactions with foreign countries, the result is a total surplus approximating to DM 71 billion. This sum sufficed not only to meet in foreign exchange the current international payment liabilities in other categories but also to build up the above-men-

tioned gold and foreign exchange reserve, of which gold nowadays accounts for some 62 per cent.

Short and long-term capital movements required, in the same period, foreign exchange expenditure of DM 14 billion; on a longer view, they are thus by no means one of the factors which put liquidity into the German economy. If German industry had not so energetically taken advantage of the undoubtedly favourable structural conditions for strengthening its position on world markets, the Federal Republic might soon be faced with balance of payments problems like those which dominate the economic policy of other countries.

First "genuine" deficit

The Federal Republic had already had a balance of payments deficit in 1959, 1961 and 1962. In those years, however, the deficit was mainly due to special factors in the field of capital transactions, such as increased foreign payments by the Federal Republic for future armament imports or for advance repayment of debt. This year, the balance of payments deficit, which may amount to DM 3 billion, is on the other hand mainly due to the deficit (which has appeared, on a full year, for the first time since 1950) on the so-called net transactions in goods and services. The loss of foreign exchange has thus occurred not by chance but because of a structural change.

The rapid rise of imports has led despite the continuing substantial increase of exports to temporary drying up of the foreign exchange stream which sprang from the current account surplus, and which was regarded as quite a matter of course. That makes

the consequences of the deficit on the balance of payments a matter of special importance for the course of economic activity and for the money supply. These effects are described in some quarters, for instance the Federal Ministry for Economic Affairs, as "urgently necessary contribution towards easing the strains on the home market"; in others, there is a talk of "a disquieting slide into deficit".

Self-balancing

A feature common to balance of payments is that in many respects they both reflect and determine the economic situation of a country. If in the theoretical model, all market factors are assumed to be fully mobile, a balance of payments which has run into disequilibrium will always tend automatically to square itself. Thus, if for whatever reason a country's balance of payments has run into deficit, the liquidity shortage inevitably resulting from the outflow of foreign exchange ought to induce a decrease of economic activity (that is less demand for imports and greater efforts to export), downward pressure on costs (with an improvement of price levels in relation to other countries), and finally a rise of interest rates with a consequent increase of capital imports.

While these implications were at least to some extent operative under the gold standard, we are now far removed from any such automatic operation. First, there is a large amount of international payment liabilities, for restitution, development assistance and the like, which lie completely outside the market process; secondly, downward pressure

exerted by the balance of payments on the cost structure is conceivable only within very narrow limits when there is full employment and wages tend constantly upwards. The measures adopted in other countries to restore equilibrium in balances of payments show that, even at the price of a stagnancy in economic growth, rise in wage costs are hard to bring under control.

What is above all significant in the present situation, however, is that by reason of the highly varied impediments in our own and other countries the international money and capital streams can be controlled through the interest rate in only limited degree. Foreigners' bank balances in the Federal Republic are subject to a rule forbidding payment of interest and to increased minimum reserve requirements; for non-residents, the interest on fixed-interest securities is reduced by the 25 per cent coupon tax. If the interest rate mechanism had not been thus largely put out of action in the period of German balance of payments surpluses (possibly, at that time, with just cause), compensatory imports of capital would no doubt have started long ago. The limitation of the capital outflow from the United States has moreover been especially felt in the Federal Republic.

It is therefore not surprising that the German overall balances of capital transactions in the period from January to August of 1965 showed a deficit, although no longer on the same scales as in the previous year, when announcement of the coupon tax had raised security sales out of foreign holdings to a particularly high level. The bank's short-term employment of funds abroad, and the direct credit relationships between the parties to foreign trade transactions, do of course show some tendency to react. From the large surplus on the so-called residual item in the

balance of payments this year it can indeed be concluded that, among other things, both the non-reportable suppliers' credits in connection with imports and the advance payments for exports have increased in amount. In the absence of the consequent foreign exchange influx, the balance of payments would have shown a deficit greater by DM 2.8 billion in the period from January to August, 1965.

Reduced Liquidity

Subject to some qualifications, it can accordingly be said that the deficit on the balance of payments nowadays in the main produces only the first stage of its traditional effects, namely, constriction of liquidity for the economy and the banks. Since the narrowing of liquidity has already taken place, not foreseen even by the official agencies, there have been serious disturbances on the security markets and a steep rise in the rate of interest for capital. Although in this connection other factors were also at work, and the steps taken to reduce the public authorities' demand for capital may exert thoroughly wholesome influences, no decisive change in the capital market can be expected until the balance of payments is at least again in equilibrium and therefore neutral in its effects on liquidity, or until relaxation of the additional restrictions on credit can square the position. While according to official statements, the upward trend still persists without interruption, and the deficit on the balance of payments is accordingly regarded as a desirable corrective, other experts feel that the first tendencies to weakness are already appearing, and that under the influence of a further decrease in liquidity they might quickly become dominant. It is to be hoped that relaxation of credit will not be delayed until a recession can no longer be averted.

NEVER BEFORE
SUCH HIGH
RATES OF INTEREST
TO YOUR MONEY!

INTEREST AT

4 $\frac{1}{4}$ % P. A.

on SAVINGS BANK
ACCOUNTS

7 $\frac{1}{2}$ % P. A.

maximum for
FIXED DEPOSITS.
according to Periods

**The Karur
Vysya Bank Ltd.**

Regd. Office: KARUR

45 Branches in
Tamil Nad

**GOLDEN JUBILEE
(1916 - 1966)**

C. Ramanatha Chetty,
Secretary.

Recent Monetary Trends in Japan

By Masahiko Kosuge

TOWARDS the end of 1963, the Japanese monetary authorities introduced a tight money policy to check a deteriorating balance of payments. They raised the ratios of reserve requirement for financial institutions and increased the central bank's discount rate. The economy in 1964 thus operated under the strain of these monetary restrictions.

Nevertheless, industrial production continued upward during 1964 with the gross national product swelling markedly by 16.3 per cent or 13.9 per cent in real terms compared with 1963. Meanwhile, the merchandise trade balance was restored to equilibrium, moving to a surplus at about the middle of 1964. Against this background, the monetary restraint was eliminated in stages from late that year to the spring of 1965, and the money market eased in consequence. But, industrial production leveled off late in 1964 and remained in the doldrums throughout 1965.

The economic adjustment that started toward the end of 1963 is thus marked by a considerable time lag between monetary restriction and economic activity. Under these circumstances, the monetary situation has changed significantly and is likely to change in the period ahead. Now, let us look into the recent changes in the monetary climate and the reaction of financial institutions to such changes from three major angles.

1. Slack in Business Demand for Funds: The high-rate economic growth of Japan since the end of World War II has been sustained by vigorous plant and equipment investment activity in the private sector. Since the

latter half of 1950, in particular, business plant and equipment investment has been expanding tremendously year by year on the crest of an investment boom, forming an important factor empowering the expansion of aggregate demand. Business plant and equipment investment has been financed in large measure by loans from banks, and city banks have taken a predominant part in such financing activity. To be sure, city banks sought to absorb personal deposits actively through their extensive branch network, and secured huge sums of corporate deposits through their close relations with leading enterprises.

In actual practice, however, business fund demand was so heavy that the banks could not fully satisfy business fund requirements. Hence, the banks had to look elsewhere for additional funds. Such shortages of funds on the part of the city banks were covered by borrowings from the Bank of Japan and other financial institutions. Borrowing from the Bank of Japan formed the major channel through which city banks could be accommodated with funds at low rates of interest. From monetary policy considerations, however, quantitative limitations were placed on such fund supply by the Bank of Japan, and these limitations compelled city banks to look to other financial institutions for funds to cover shortages. Financial transactions of this kind are conducted in the call money market; what is termed the "call money market" in Japan differs in substance from the original one that functions to conduct transactions in short-term funds.

Funds that flowed into the call money market have been supplied mainly by financial institutions other than city banks—particularly by local banks, trust banks, financial institutions for agriculture and forestry and credit associations. These financial institutions acquired funds at a virtually higher cost than city banks did and supplied these funds to the call money market, and yet they could earn comfortable profits. An influence behind the scene was the fact that business demand continued quite strong.

The call money market has thus turned into one which supplies relatively long-term funds to city banks, and accordingly call money rates have been running higher than average rates charged on bank loans. With the current economic adjustment as a significant momentum, business attitude towards plant and equipment investment has assumed a different attitude. Plant and equipment investment in the past several years has turned into productivity, boosting appreciably the productive capacity of industry. As a result, the competitive position of Japanese exports has gained strength whereas the supply-demand situation at home has worsened.

The appearance of excessive supply conditions has fast lessened business interest in plant and equipment investment. Despite an easing of the money market in 1965, therefore, business investment activity cooled off and industrial production remained stagnant. The decline in business fund demand and the Bank of Japan's discount rate reduction

made on three occasions in 1965 to stimulate business activity have brought bank loan rates and call money rates down to the lowest levels in post-war years.

As things stand today, the substantial decline in call money rates leads to an improvement in the fund positions of city banks while causing other financial institutions that supply funds to the call money market to face difficulty in terms of profitability and fund operation.

2. Bond Flotation Policy: The share of Government spending in the gross national product which has been rising from year to year, has recently exceeded 20 per cent. The growing Government expenditures have been covered exclusively by natural increases in tax revenues that developed in keeping with the fast economic growth, and the Government has so far followed a sound balanced budget policy. In 1965, however, tax revenues, notably corporate tax revenues, fell far below the original estimate in reflection of the stagnant economic activity and consequently, a deficit of nearly 260,000 million yen is developing in the General Account for the fiscal year 1965 ending March this year, which has to be covered in some form or other.

Moreover, the Government is being urged to provide fiscal stimulus for economic activity much more strongly than before. Here, the Government has been obliged to make a significant shift in its balanced-budget principle, and as positive expression of this, the Government has decided to issue public bonds at home for the first time since the war as a means of not only supplementing its fiscal policy but bolstering its long-term economic growth policy. Incidentally, Government short-term securities and Government-guaranteed bonds of public corporations have already been floated.

While there is some difference in the purport of bond flotation between fiscal 1965 and fiscal 1966, public bonds amounting to 259,000 million yen and 730,000 million yen, respectively, are to be issued and will be taken up for the most part by financial institutions. For the present, however, if the bulk of these public bonds should be accepted by financial institutions in the period ahead, city banks would become increasingly dependent on outside institutions for funds to purchase public bonds, in view of the non-existence of markets, and the liquidity positions of city banks would worsen in consequence. Moreover, public bond issues in great amounts would raise a new problem of adjusting fund distribution among issue markets in their relation to the flotation of Government-guaranteed bonds and local public bonds and business fund demand in periods of economic recovery. This could have a complicated influence on the monetary situation in the period ahead. In this connection, the future operation of policies by the monetary authorities needs to be watched closely.

Toward the end of 1965 when the call money market had tightened, the Bank of Japan supplied funds to the market through call money brokers and checked the advance in call money rates. Such an action should be noted in connection with the flotation of public bonds.

3. Changes in the Monetary Situation at Home and Abroad: Now, we should not overlook the fact that changes in the monetary situation abroad have been reflected in the money market at home.

In 1964, Japan upgraded its membership in the international Monetary Fund to that of an "Article VIII nation" and joined the Organization for Economic Cooperation and Develop-

ment, thereby shifting to an open-door economy in real earnest. This implies that Japan has to give greater consideration to the international monetary trends in operating its monetary policy.

The interest rate level of Japan has fast approached the levels ruling in other advanced nations. Meanwhile, however, interest rates prevailing in the United States, West Germany and certain other western European countries have been trending upward. Notably, interest rates in the United States have reached the highest level since the war as a result of the boost in the Federal Reserve discount rate in December 1965. In consequence, some U. S. interest rates charged on trade finance have risen even higher than the similar rates applied in Japan.

That is to say, import credit facilities obtained from the United States (a factor in short-term capital inflow in Japan's international accounts) have become relatively costlier than domestic yen finance. Then, there has developed a move to refrain from such import facilities (a factor in short-term capital outflow), constituting a latent factor contracting the nation's foreign exchange reserves. This poses an important problem to Japan, though the reserves are now mounting on the strength of the continued large surplus on merchandise trade, thanks to the impressive growth in exports.

Meanwhile, Japan has difficulty in placing bonds on overseas markets, for the capital market in the United States and certain other advanced nations has stiffened owing to the monetary stringency. Moreover, it seems unlikely that inflows of short-term funds such as "Euro" dollars will continue as briskly as before in view of the changes in the monetary situation at home and abroad.

Monetary Reform in Yugoslavia

(Contributed)

DETAILED studies of the price relations in the home market of Yugoslavia as well as relations between domestic prices and those in the world market, have revealed that it is feasible and advantageous to take a further important step towards closing the disparity within the domestic price-scale and by this, the disparity between domestic prices and those in the world market. By the decision of the Federal Executive Council taken in 1965 a uniform exchange rate of the dinar is introduced by changing the present rate of 750 dinars per US dollar to 1,250 per dollar. By putting the producers in various lines of the economy in the same position when entering foreign markets, conditions are provided to eliminate, in principle, the system of premiums by which the export of some products has been subsidized until now. On the other hand, the fixing of the new dinar rate may help some segments of the economy, which have been exporting so far at a lower dollar-dinar rate, to make some extra gains. In such cases, a provisory export duty is visualized, which should facilitate the transition of the economy to the new patterns of calculation in foreign trade.

Economic Criteria

Along with the amendment of the exchange rate of the dinar, further changes of the foreign trade and the foreign exchange system have been announced. The system is being further adjusted to the requirements of the liberalization and direct participation of producers in foreign trade, which has to be subjected exclusively to economic criteria. Along these lines,

imports of primary products and semi-finished goods should be further liberalized. Within the limits of feasibility, to be set by the social plan, the imports of capital as well as of consumer goods will also be liberalized. The new, final customs tariff becomes the main lever of protection of the domestic industries noting that the new dinar rate will allow fixation of the tariffs at a higher average level than the present provisional tariffs.

Exports will stay free, its volume depending on the economic possibilities and the direct interest of the producers themselves. Special export-promoting measures will be contemplated in cases where the export of certain items is faced with extraordinary obstacles or discriminatory treatment in foreign markets. Measures of limiting exports will be taken in exceptional cases, if supreme national interests are at stake.

Uniform Rate

Foreign exchange transactions in the domestic market will be handled by authorized banks and their volume determined by the given balance of payments' position. All exporters will have to offer the foreign exchange they have earned to authorized banks for sale at a uniform exchange rate. The importers will buy foreign currency they need to cover their commitments at the same rate. The purchase of foreign currency to cover imports of primary products and semi-finished goods will depend mainly on the financial possibilities of the importers, whereas the purchase of foreign currency for imports of capital equipment and consumer goods will be kept

within the limits set by the social plans. Besides, the present limitations applied to foreign exchange allocations for travelling abroad, and for remittances are also expected to be gradually liberalized, in step with the amelioration of the foreign trade and the balance of payments' position of the country.

Transitional Period

The switch to the new exchange rate and the setting up of the new foreign exchange system will take place gradually, passing through a transitional period extending up to one year and probably, to some extent, into 1966. This course will take into account the present position and the existing commitments both in imports and exports. A special feature of this second leg of the monetary reform is that the change of the dinar rate and the further liberalization of the foreign trade and foreign exchange system constitutes an integral part of a wider programme aimed at stabilizing the economy, eliminating those disproportions which cropped up in the course of a high growth period of the Yugoslav economy in the past years. The way the national resources had been mobilized to finance the substantial investments, left behind a pointed disparity of prices in the home market.

Prices of electric power, transportation and of primary products were greatly lagging behind the prices fetched by products of the manufacturing industries. This provided, however, for the different segments of the economy being in unequal business conditions, which inevitably led to substantial disproportions. The

development of the power generating industry, crude material production and that of semi-finished goods was lagging behind the quick growth of the manufacturing industries. The different accumulative power of these industries had created a situation in which some industries could develop only, thanks to heavy investments out of the centralized investment funds, and some of them (for instance the railways) had even to be subsidized of late. At the same time, some manufacturing industries, for which favourable conditions of production were missing, grew at a quick pace, and could prosper, thanks to the lower prices of primary products as they were in a position to get on to the world market due to price-supports through premiums and tax exemptions.

The fixing of the exchange rate of the dinar at a more realistic level, and the realization of the changes in the foreign trade and foreign exchange system are expected to contribute to a further stabilisation of the economy and to push ahead the process of rationalization. The direct impact of the world market, as a sequence of the devaluation of the dinar, will be a significant improvement of the prices and the position of the power generating industry, and the industries producing primary and semi-finished goods. However, the manufacturing industries, which had been dealing in conditions of subsidized supply with primary products and receiving export premiums, will have to reduce the costs of production.

NEW PRICES UNDER SUGAR AGREEMENT

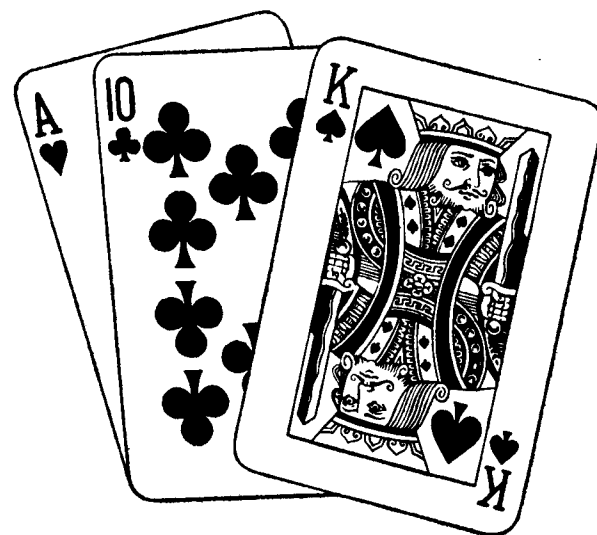
Negotiated prices under the Commonwealth Sugar Agreement (CSA) will in future be fixed for three years at a time, it was announced by the British

Ministry of Agriculture. The Ministry disclosed that the price for 1966, 1967 and 1968 will be £43 10sh (Rs. 580.) per long ton, free on board and stowed bulk.

The new method of determining prices results from a review of arrangements under the Agreement following proposals made in 1964. Discussions took place in May 1965 and at meetings which ended recently. Following measures taken by the British Government to suspend the Rhodesian Sugar Association from membership of CSA, the exporting parties have "assured the British Government of their co-operation". The Southern Rhodesian quota was 25,000 tons.

For the less-developed exporting territories in CSA, a special payment will be calculated annually. It will vary inversely with the world price, and will take account of the benefits that formerly accrued to exports under the colonial certificated preference system. The special payment will consist of a fixed element of £1. 10sh (Rs. 20) and a variable element ranging from £2. 10sh (Rs. 33.33) to nil. The variable element of the special payment will be assessed every year on the world price in the period April 1 to March 31. The Agreement has also been extended for a further year up to December 31, 1973.

no luck at cards ?



if we could rely on aces and kings we would all be millionaires.....but you can rely on 'CENTRAL' ...'CENTRAL' gives you 4% p.a. on your 'SAVINGS ACCOUNT' and upto 7½% on FIXED DEPOSITS...So be lucky at 'CENTRAL' and then try your luck at cards...



THE CENTRAL BANK

OF INDIA LIMITED

REGD. OFFICE: MAHATMA GANDHI ROAD, BOMBAY-1. F. C. COOPER, GENERAL MANAGER

Defence of the Dollar

By Henry H. Fowler *

DURING the past few years, solving the U. S. balance of payments problem has engaged the best efforts of imaginative men. Many of the steps taken have been successful in reducing part of the deficit. But each time the deficit was held down in one place, it bulged out in another. In fact, we have been plagued by a series of deficits arising from a different mix of causes from year to year. Over a period of four years, 1961 to 64, efforts to reduce the U. S. balance of payment deficit yielded results which totalled more than \$3,500 million. But the deficit failed to narrow a corresponding amount.

Just as this effort was gathering momentum, a new problem appeared. The outflow of United States private capital into foreign securities rose alarmingly because, in part, inadequate capital markets in the remainder of the industrialized world made recourse to our money market the easy and cheap course for all who needed capital. This required the second programme to control the deficit, which was contained in the Balance of Payments Message of July 1963. The Interest Equalization Tax proposed in that message was immediately effective in stemming capital outflow into foreign securities. But the net result was a reduction in our overall deficit of \$800 million. Another new problem appeared. A marked rise in overall private capital outflow, including both short- and long-term bank credits and direct investment abroad.

It was clear that we could no longer attack the deficit piecemeal.

We had to attack the entire deficit. That is just what President Johnson did in his Balance of Payments Message last February. In that message, he strongly reaffirmed his intention to strengthen and build upon the measures already taken. He called upon the business and banking community to do everything in their power to help by launching voluntary programmes to reduce the net overall private capital outflows. The result is that for the first time, our entire nation is committed to a concerted attack on the deficit. With the exception of travel and tourist spending abroad, virtually every source of private or public dollar outflow is now the target of either substantial public or private effort or both.

What is at stake? The protection of the dollar in ways fully consistent with sustaining prosperity at home, maintaining our defences abroad when our allies are threatened, supplying private and public funds to less developed countries, avoiding renewed restriction on trade, and the achievement of a more flexible world monetary system that will permit continued Free World trade and development to progress as it has since World War II.

I am convinced that the programme that President Johnson began on February 10 will succeed. The United States is like a banker who is lending far more than he is borrowing and whose net asset position is great and growing. In one sense he is not living beyond his means. But if that banker is short of cash and current assets, which are regularly exceeded by his current liabilities,

it is not prudent for him to further deplete his current assets. He will adjust his current assets to liabilities as a first priority.

We are committed to eliminating our balance of payments deficit. Once we achieve equilibrium, we must maintain it for a substantial period. It is not surprising that a number of wishful thinkers would like to avoid the discipline of such a course.

One group points to the fact that under our first two programmes we achieved more than \$3,500 million in balance of payments. The group looks at our present problem as a very temporary one, which will soon clear up and allow our previous gains automatically restore us to balance. Unfortunately, this happy optimism is without foundation.

Another group believes that all we have to do to solve the payments problem is raise our interest rates. Unfortunately, such a course not only conflicts with our need to maintain our domestic expansion but, also would not solve the problem. In view of the tremendous difference in size and efficiency between the money markets here and abroad, it is hardly realistic to expect a higher interest rate to provide the necessary reduction in long-term capital outflow. Furthermore, an interest rate increase large enough to have a significant effect in this area would almost certainly bring a recession. A recession, in turn, would severely damage the climate for foreign investment in the United States and would also create a strong movement to reduce interest rates immediately.

* Mr. Fowler is U. S. Secretary of the Treasury

Still another group of wishful thinkers looks to new international monetary arrangements as an escape from our present payments problem. I must frankly admit that this attitude puzzles me. New international monetary arrangements certainly won't remove the necessity for the United States—as a major reserve currency country—to maintain reasonable equilibrium in its balance of payments. And there is no doubt that whatever new monetary arrangements may be negotiated are bound to include the dollar as the major reserve currency for the free world.

Our view, supported by most of Western Europe, is that the best step the United States can possibly take at this time—to protect not only its own interests but also the world monetary system—is to move as strongly as possible toward equilibrium. At the same time we should continue discussions—predicated on the maintenance of the dollar as the major reserve currency of the free world on possible steps to improve the world monetary system once our deficit has been eliminated. There is general agreement that some modification in the international monetary system will be required. We will need some way of gradually and systematically producing the additional liquidity which will be required to finance expanding free world trade and development.

Towards Equilibrium

In the past, the major source for such additional liquidity has been the continuing payments deficits of the United States. When these deficits have been brought to an end, it will be necessary that there be general agreement on an effective way of fuelling the world payments system. It is not too soon to begin high-level talks on this matter of building upon the

exploratory technical discussions that have already taken place.

Once we have reached and sustained an equilibrium in our balance of payments for a substantial period, we shall also renew our pursuit of our long-term objective of free capital markets both here and abroad. For there is no attractiveness to anyone in considering the voluntary restraint programmes and the related series of interferences with these free capital markets as a permanent solution to the payments problem. No one can realistically predict when they can be abandoned, but the sooner the better.

Competitiveness

There are, however, some significant factors to be noted.

For one thing, slowly but surely changes are taking place in both the depth and the quality of foreign capital markets. Furthermore, there has been substantial reduction in the impact government spending overseas has had on our balance of payments. At the same time, our continuing price stability and rising productivity are contributing to the increasing competitiveness of U. S. goods in foreign trade. In addition to these important factors to the maintenance and strengthening of our trade position there is also the rising tide of earnings from U. S. private investment over the post-war period. These earnings can help to provide substantial improvement to our payments position in the years ahead.

THE VYSYA BANK LIMITED

Estd : 1930

A Scheduled Bank

H. O. Avenue Road, BANGALORE-2.

Yadalam S. Gopalakrishna Setty,
Chairman.

Branches :

Bangarpet,	Hospet,	Mysore,
Bellary,	Hubli,	Hyderabad,
Chintamani,	Kadiri,	T. Narasipur,
Chitradurga,	Kadur,	Gowribidanur,
Chickpet (B' city),	Kampli,	Ulsoor (B'lore),
Chickballapur,	Kollegal,	Vijayapura,
Davanagere,	Markapur,	Siddiamber Bazaar,
Dharmavaram,	Madras,	(Hyderabad),
Hindupur,	Mulbagal,	Secunderabad.

All types of Banking Business transacted

J. Suryanarayana Chetty, B. A.,
General Manager.

Recent Trends in Commercial Banking in U. S. A.

(Special to Southern Economist)

OF wide serious implication for the future of commercial banking in the United States was the 1963 Supreme Court ruling that bank mergers, whether by the acquisition of assets or stock, are subject to the Clayton Antitrust Act. A Federal judge has ruled that a large New York bank's merger violated the Sherman and Clayton Antitrust Acts, and other dissolution efforts have followed. This development has resulted in an effort to remove banks clearly from such jeopardy through Congressional action. Except for this area, the framework for regulation of commercial banks in the United States has relaxed considerably in the past three years.

National Charters

Under the present Comptroller of the Currency, national banks have been permitted, among other things, to (A) engage in leasing of personal property, (B) underwrite certain revenue bonds, and (C) count subordinated capital debentures in the base which limits the size of loans to individual borrowers. Because of the broader interpretation of regulations governing national banks, many large state banks (i.e., banks incorporated under state laws rather than federal laws) have converted from state to national charters.

New legislation in 1964 permitted national banks to extend their mortgage lending from 75 to 80 per cent of appraised value and from 20 to 25 years maximum maturity. In 1962, Congress authorized the Board of Governors of the Federal Reserve System to permit foreign branches of

national banks to exercise such further powers as is usual in the places where they transact business. It also terminated the "central reserve" classification of banks in New York and Chicago which, until December 1960, carried with it higher reserve requirements.

Deposits Lending

Commercial banks turned increasingly to the debt markets as sources of funds during the past three years. Some \$2 billion debentures and notes were sold during this period. Negotiable certificates of deposit have been widely used, and even abused in some cases, particularly of smaller banks hungry for funds to grow on and willing to borrow short for longer term lending. Some bankruptcies have been abetted by this practice.

Deposits, loans and security of all commercial banks at the end of each of the past four years are shown, in billions of dollars, in the table below. Noteworthy are (A) the relative growth (24.3%) of time deposits, (B) the even stronger percentage growth of 102.3 (42.4%), and (C) the growth of municipal bonds ("other securities") at the expense of Treasury issues.

The sale of services is becoming increasingly important in U. S.

commercial bank business. Upgrading of loans has also been stimulated by the prevailing liquidity squeeze. Non-bank financial intermediaries continued to attract large flows of savings from 1962 to 1965, primarily on the basis of offering higher rates than commercial banks were permitted to pay. With the decline in housing starts, however, the market for funds of these specialized savings institutions has weakened. Moreover, recent increases in the maximum rates which commercial banks are permitted to pay have slowed their deposit growth.

In 1964, savings and loan associations were authorized to use their funds outside the real estate area—to make limited educational loans and purchase selected municipal bond issues. They have pressed (unsuccessfully, thus far) for a doubling of deposit-insurance coverage, and the mutual savings banks are seeking a federal chartering law. Systematic expansion of these institutions into other credit areas including consumer credit may not be too far in the future. Although the savings and loan and mutual savings institutions have recently been covered by income tax laws to a limited extent, they still enjoy a favourable tax position relative to commercial banks, and the tendency

	1962	1963	1964	1965	% Increase
Total Deposits	262.1	275.1	298.9	325.9	63.8
Demand	163.9	163.5	172.2	180.3	16.4
Time	98.2	111.6	126.7	145.6	47.4
Loans	140.1	156.0	175.6	199.5	59.4
Investments	95.7	98.2	100.4	102.7	7.0
U. S. Govt. Sec.	66.4	63.2	62.0	58.4	-8.3
Other Sec.	29.3	35.0	38.4	44.3	15.0

toward wholesale "opening-up" of the fields previously restricted to commercial banks has stirred considerable controversy. Meanwhile, the Federal Home Loan Bank Board has required fast-growing savings and loan associations to build reserves more rapidly.

Torn between the pressures for monetary ease domestically and monetary stringency internationally, the Federal Reserve Board has tended to follow a policy of moderate ease. Toward November 1962, the Board reduced reserve requirements on time deposits from 5 to 4 per cent and maintained modest levels of free reserves.

In response to the balance-of-payments pressure in July 1963, and November 1964, however, the Federal Reserve raised the discount rate from 3 to 3½ and to 4 per cent, respectively, while banks were effectively dissuaded from raising the prime rate on their loans. Again in December 1965,

the Federal Reserve increased the discount rate by ½ per cent, but this time the banks responded to increased pressure on loanable funds as well as sharply rising costs and generally raised their prime rates to 5 per cent from 4½.

Since the first quarter of 1965, loan demand has been strong. Despite the heavy inflow of savings in response to the higher rates paid by banks since the beginning of 1965 (permitted by a raising of the Regulation Q ceiling), commercial banks have felt a liquidity squeeze. Their loan/deposit ratios are historically high, and the Federal Reserve has been able to let the market serve as the money-tightening agent to a considerable degree. The increased costs associated with the higher rates paid on time deposits and the growing proportion of such deposits in the banks, as well as the higher charges for funds borrowed from the Federal Reserve, have put increased pressure on the banks to increase

operating efficiency and restructure loan and security portfolios to achieve higher yields.

On February 10, 1965 the Gore Amendment to the Interest Equalization Tax Law was invoked to bring certain commercial bank loans abroad under the tax. In addition, the Federal Reserve has supervised the Voluntary Restraint Programme for commercial banks, under which loans outstanding from domestic funds were to grow by no more than 5 per cent in 1965 and by no more than 9 per cent of the year-end 1964 base by the end of this year. Considerable progress was made in 1965 toward improvement of the U. S. balance of payments position. Meanwhile, increased attention is being given to monetary matters on the domestic front where increasing loan demands, purchasing power and other economic factors are exerting inflationary pressures.

(Source: Economic Research Department, Bank of America)

Role of Deutsche Notenbank in East Germany's Economy

(Contributed)

BESIDES the national bank, known as Deutsche Notenbank, there are various other banks in the German Democratic Republic: Deutsche Investitionsbank, Deutsche Landwirtschaftsbank, Deutsche Handelsbank A. G., the savings banks and banks for trade and industry.

Main Functions

The main functions of Deutsche Notenbank are (1) to issue notes and coins in the local currency and to control money circulation; (2) to grant short-term credits to the nationally-owned industry, transport and communication services, to socialist trading organisations and co-operative societies as well as to semi-private and private firms; (3) to exercise financial control and assist borrower firms in industry, transport, communication, and trade in utilizing these credits to the best advantage; (4) to organise and handle financial transactions and clearing business at home and abroad including West Germany and West Berlin, and to deposit the foreign currency holdings of the GDR; (5) to carry out cash transactions within the state budget.

In the organisation and settlement of financial transactions involving payments due to or from other countries, Deutsche Notenbank performs the dual function of central bank and a commercial bank. Together with Deutsche Handelsbank A.G., it is responsible for handling all financial transactions with West Germany, West Berlin and other countries, and to this end, it is supported by a network of

branch establishments. This network consists of 15 country head offices, 54 special branches exercising and supervisory function in certain industries and granting credits for the realization of production programmes, and about 200 local offices of which 35 carry out direct transaction with the correspondence banks of Deutsche Notenbank in other countries.

Beneficial Contacts

In its capacity as the national bank of the German Democratic Republic, Deutsche Notenbank has concluded payments agreements and agreements on technical aspects of banking. Close and beneficial contacts are being maintained with other national banks also in the absence of such agreements. Payments and clearing business between the two German states by the operation of reciprocal clearing accounts is regulated under the 1951 Berlin Agreement in conjunction with the supplementary agreements signed in 1960. The Deutsche Notenbank has established good relations with the national banks of the socialist countries and the International Bank for Economic Co-operation in Moscow.

Deutsche Notenbank has created an extensive network of correspondents. Accounts are kept with approximately 100 foreign banks and correspondence business is done with another 500 banks. Agreements have been concluded with the National banks of a number of countries providing for the regulation of payments and goods exchange between the GDR and the countries concerned. The prac-

tice is, however, not desirable because a trade agreement on government level is considered the best guarantee for the unhindered development of commercial exchange.

Deutsche Notenbank extends short-term and medium-term credits to the foreign trade companies of East Germany for financing stocks and outstanding claims. This enables the state trading companies to offer corresponding credit facilities to foreign customers. An essential condition for this service is that adequate securities on the part of the foreign importer, as rule guaranties by reputable banks, are supplied. Credits to foreign companies are granted at a rate of interest between 5 and 8 per cent per annum.

Trade Deals

In addition, Deutsche Notenbank advises GDR foreign trade companies on the financial aspects of export and import deals and especially on how to avoid the risk of losses in long-term commercial commitments. Currency developments in the leading capitalist countries are carefully watched and regularly analysed. In Berlin, capital of East Germany and in other towns, especially in places near the state boundary, Deutsche Notenbank operates numerous exchange offices for the convenience of visitors wishing to exchange their money into GDR currency or to cash traveller's cheques. Temporary exchange offices are opened during the Leipzig Fair, Baltic Week and on the occasion of other prominent events to cope with the extra volume of business incurred.

ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION LTD.

(A STATE GOVERNMENT UNDERTAKING)

- A**rranges, surveys and obtains feasibility reports
- P**rovides financial assistance
- I**nvites entrepreneurs for promoting new industries
- D**irectly promotes selected industries as joint ventures
- C**reates the right climate for industrialisation



Registered Office:

B-1-174, Fatch Maidan Road, HYDERABAD-4, A.P.

Grams: "APIDC"

::

Telephones { 35355
33303

New Approach to Rural Banking*

Your Bank, from its very inception, has been serving the industries of Mysore State. Are you satisfied with the progress shown by industrialists who have benefited by the Bank's assistance?

The Bank has been rendering financial assistance to several industrial units both for their establishment as well as to meet their expansion schemes, but the accent has been on providing working capital finance to most of the industrial units in the State. Most of the units have progressed steadily, barring a few uneconomic and ill-managed ones, with a number of them launching on expansion schemes. Though the trend of progress has been generally good, there are instances where even big companies face financial difficulties, primarily due to lack of proper financial planning and/or planning having gone overboard on account of present day high prices and wages.

What is your Bank's experience in providing credit to small industries? How do they figure in the pattern of your advances?

While assistance to small-scale industries was being provided since the inception of the Bank, it has been put on a scientific basis since the Bank became a subsidiary of the State Bank of India. It has a liberalised scheme of assistance to small scale industries which includes concessional rates of interest, margins etc., and provision of financial assistance from the time of purchasing raw materials to the time of realisation of sale proceeds. There has been a steady growth under the Bank's advances to small-scale industries during the last 2/3 years. The target of Rs.200 lakhs of sanctioned limits and Rs.100 lakhs of outstanding thereunder are expected to be reached in the near future. The percentage of advances to small-scale industries to total advances has been steadily increasing and stands at 4.57 per cent at present.

With your unique experience in deposit-mobilisation in rural areas, will you please enlighten us on the saving-potential of the rural sector?

The extent of savings potential in rural areas is difficult of assessment for various reasons. Primarily, banking habit is still to become popular with the rural population and the task is undoubtedly a time-consuming one. There are, for instance, fears of confiscation by tax authorities which can only be cleared by educative propaganda on a large scale. Even after

the initial resistance is countered, there will be a time-lag for the attraction of savings into the coffers of the Banks. However, there are signs of a healthy beginning.

While on the subject of rural banking, will you also tell us about the villagers' response to the "One-Man" bank idea? Some of our readers may be interested in knowing how the first "One-Man Bank" at Anandapuram is functioning.

The idea of "One-Man" village offices has been greatly welcomed by the rural public. The response at Anandapuram has been quite encouraging. If the present indication is an index, the "one-man" offices will not only mobilise rural savings but also render financial assistance to agriculturists, to do away with the exploiting middle man both in the matter of raising the crops and sales after harvest. Several villages from all over the State have been pressing our Bank to open "One-Man" village offices in their places.

Have you any plans to set up more such "One-Man" units in 1966?

It is proposed to open the second "One-Man" village office of the Bank at Konanur (Hassan District) shortly. Two more experimental "One-Man" offices are likely to be opened before the question of opening village offices on a much larger scale is considered.

As a leading subsidiary of the State Bank of India you have an advantage in the field of rural banking. Can you tell us where your bank stands in this matter vis a vis the private sector banks?

The declared policy of the State Bank of India and its subsidiaries is to carry banking to rural and semi-urban areas where commercial banks hesitate to go because of the uncertainty of working results and/or the time lag involved in crossing the break-even point. The Bank has been doing its utmost in this direction. The progress of branch expansion of the Bank during the last 5 years has mainly been in the direction of rural banking. Out of 48 offices opened during the last 5 years, 38 offices are in rural areas. The Bank proposes to open 42 offices during the next 5 years under its second expansion programme and all the centres are in rural and/or totally unbanked areas. Priority will be given to totally unbanked areas. The need for securing fresh deposits is keenly felt by all banks which are naturally looking to rural savings from untapped areas as an important source. There has, however,

been competition amongst the banks to secure whatever business that is available in the more important rural centres. Opening of "One-Man" offices by the State Bank of India and its subsidiaries is a step to mobilise rural savings even in areas where the potential is too low to meet the cost of working even a very small branch.

What is your experience, generally speaking, in deposit mobilisation? Was the higher deposit interest rates of any help?

The higher rates of interest now allowed by the Banks could help to divert to the field of banking savings which would have otherwise gone to other sources of investment. It is debatable how far this has been achieved, in the absence of any accurate assessment of the investible surpluses in the hands of the public. The confidence in banks which had suffered after the failure of the Palai Central Bank, has been restored due to various measures taken by the Government and the Banks themselves. The mobilisation of savings will be possible only by inculcating a better saving habit among the public and by reducing personal expenditure. There are, however, several inhibiting forces such as high prices, rate of depreciation in the real value of money, increasing population, expenses connected with the use of consumer goods and change in the way of living etc. which hamper growth of the investible surplus considerably. There have been many competitors to secure a share in these savings, the Government not excluded. Considering the stagnant position of the stock market, the higher rates of interest offered by the banks afford a better return and should, therefore, help the banks to get a larger share of the national savings.

What is your personal view about new devices like T. V. Drive-in Bank, Mobile-Bank and so on? Are they of any great help in mobilising deposits?

The need for securing larger deposits is keenly felt by all the banks for augmenting their resources for development to industries whose demands are daily increasing and all of them are in the race. Every bank is anxious to be ahead of others in the field. Since all banks, except the State Bank of India, are tied down by an agreement in the matter of payment of interest on deposits, the only method of attracting potential customers is by extending first class service to them. The T. V. drive-in Bank, Mobile-Bank, small gifts to new account holders etc., are some of the healthy innovations made by banks. These measures do offer scope for attracting customers and mobilising deposits.

There is a general impression that public sector banks are slow-moving both in attracting deposits and in their lending operations. That impression, we feel, may not be correct. Have you anything to say on that?

This impression does not appear to be obviously correct. The statistics furnished by the State Bank of India and subsidiaries and those highlighted in the reports of the Directors and the speeches of the Chairmen and a comparison of the rate of growth of deposits and advances of the State Bank of India and its subsidiaries vis-a-vis those of the banking system as a whole, will disprove this.

One last question: Is the present policy of credit control conducive to increased production?

Credit control in itself may not be conducive to increased production. But without quantitative and selective credit control, I do not visualise any other method or measures for stabilising the present day economy of our nation.

Thank You, Sir.

BANK OF BARODA EMBLEM

The new emblem of the Bank of Baroda is coin-shaped, signifying a financial institution—an institution that deals with money and therefore with people. The emblem includes a cog wheel and two ears of corn to symbolise the Bank's dealings with people in industry and in agriculture. The upraised palm in the background signifies security. The emblem as a whole denotes the active role the Bank plays in the development of all sectors of the country's economy.



The motto, "akshayam te bhavishyati" that goes with this emblem is uniquely Indian. It means: "Thou shalt forever be prosperous." It holds out the promise once made by the Sun God when he gave the Akshaya Paatra (the vessel with an inexhaustible supply of food) to the Pandavas. The Bank has adopted this emblem and motto to symbolise the role they are playing in helping develop a more prosperous India.

* Interview with Mr. S. Balakrishnan, General Manager, State Bank of Mysore.

Profits Improve But Bonus Eats Into Surplus

THE summary of the working results of the leading scheduled banks, published in this section, shows that 1965 was not, after all, a disappointing year for the banks. Operational costs, it is true, have gone up and the banks have had to pay more by way of interest on deposits. If in spite of these adverse factors, the banks have been able to show bigger profits, it is largely because of the higher interest they earned on advances. But for the credit-squeeze, they would have shown more impressive performance. The banks have maintained dividends at the previous year's level. The Reserve position of the banks remains unimpaired—in fact, allocation to reserves has been stepped up in many cases—but depreciation of gilt-edged values is likely to eat into the inner reserves. In 1965, a sizable part of the banks, earnings has been set apart for the payment of bonus to the staff. In the coming years, this item is likely to figure prominently in the balance sheets of banks.

Central Bank

THE profit of the Central Bank of India for 1965 has gone up by Rs. 11.30 lakhs, to Rs. 2.27 crores (decimals rounded). Together with Rs. 99,655 brought in, the disposable amount adds up to Rs. 2.28 crores against Rs. 2.17 crores in 1964. Dividend for the first half of the year, at Rs. 2.40 per share, absorbs Rs. 45.65 lakhs compared to Rs. 35.41 lakhs in 1964. The final dividend, at Rs. 2.60 per share takes another Rs. 49.46 lakhs. A larger sum of Rs. 45.40 lakhs has been set aside for reserves against Rs. 43.20 lakhs in the previous year. The amount ear-marked for special reserves has also been stepped up by Rs. 3 lakhs to 43 lakhs. A sum of Rs. 93 lakhs has been carried over. Bonus, if paid, will be from out of this amount. With 27 branches added on in 1965, the total number of the Bank's branches stands at 412. The Bank is licenced to open another 48 branches in 1966.

Bank of India

THE profit of the Bank of India for 1965, after providing for taxation and making the usual provisions for contingencies, including the sum of Rs. 1.07 lakhs brought forward, amounts to Rs. 1.50 crores. Out of this sum, Rs. 30 lakhs is transferred to the Reserve Fund; Rs. 32.40 lakhs is set aside for payment of interim dividend at the rate of 8 per cent, subject to deduction of tax. The balance available for distribution is Rs. 88.60 lakhs. The Directors propose to pay a final dividend at the rate of 10 per cent (subject to deduction of tax) making 18 per cent for the year. This absorbs Rs. 40.50 lakhs. The carry-forward, subject to the payment of a bonus to the staff, is Rs. 48.10 lakhs.

Punjab National Bank

THE net profit of the Punjab National Bank, after providing for taxes and for payment to the employees' gratuity and

superannuation fund trusts and making the necessary provisions, amount to Rs. 1.47 crores as against Rs. 1.41 crores for the year 1964. The amount brought forward from the previous year's account is Rs. 0.95 lakh. Together with the transfer of Rs. 30 lakhs from the contingency reserve, the total amount available for appropriation stands at Rs. 178.30 lakhs. Out of this, a sum of Rs. 20 lakhs has already been utilized for payment of ad interim dividend at Re. 1 per share, subject to tax, leaving a balance of Rs. 158.30 lakhs for further appropriation. The Directors have recommended a final dividend of Re. 1 per share subject to tax, making a total of 20 per cent, which is the same as last year. This will absorb Rs. 20 lakhs. A sum of Rs. 50 lakhs, the same as last year, has been transferred to the Reserve Fund (including statutory reserve). A sum of Rs. 1 lakh, as against Rs. 2 lakhs in previous year, has been allocated to charity and donation account, Rs. 29.45 lakhs to Bonus payable for 1964 and Rs. 3 lakhs transferred to staff housing fund leaving a balance of Rs. 54.85 lakhs to be carried forward, subject to payment of Bonus for the year 1965.

Bank of Baroda

THE Bank of Baroda has earned a net profit of Rs. 90.12 lakhs in 1965 which compares favourably with the previous year's profit of Rs. 85.53 lakhs. Including the previous year's carry-over of Rs. 1.24 lakhs, the total available for disposal is Rs. 91.36 lakhs. The ad interim dividend for the half year ended 30th June 1965 at the rate of 10 per cent per annum subject to tax absorbs Rs. 16 lakhs. The Directors have transferred Rs. 18 lakhs to the Reserve Fund and a sum of Rs. 20 lakhs to special reserve. They propose to pay a final dividend for the half year ended December 31, 1965, at the rate of 20 per cent to the debit of the special reserve (making 18 per cent for the year), subject

to deduction of tax, which will absorb Rs. 20 lakhs. The balance of Rs. 37.31 lakhs will be carried forward to the next account, subject to a payment of bonus to staff.

UCO Bank

THE net profit of the United Commercial Bank has gone up from Rs. 83.19 lakhs to Rs. 84.79 lakhs. With Rs. 1.54 lakhs brought in, the amount available for appropriations will be Rs. 86.33 lakhs, compared to Rs. 83.94 lakhs in 1964. The Bank has maintained dividend at 13 per cent. Out of this sum, Rs. 17 lakhs (same as last year) are set apart for the Reserve Fund and a sum of Rs. 36.40 lakhs is appropriated for special reserve out of which the dividend will be paid. A higher allocation of Rs. 27 lakhs has been made for bonus to staff, compared to Rs. 24 lakhs in 1964. The amount carried forward to the next year's account is Rs. 5.93 lakhs compared to Rs. 1.54 lakhs in the previous year.

State Bank of India

THE results of the State Bank of India for 1965 are encouraging. The Bank's net profits have risen from Rs. 2.95 crores to Rs. 3.30 crores. Adding Rs. 27.44 lakhs which is brought in, the total surplus will be Rs. 3.57 crores. Dividend, at the rate of Rs. 23 per share, absorbs Rs. 1.29 crores. A sum of Rs. 66 lakhs is transferred to the Reserve Fund, compared to Rs. 60 lakhs in 1964. Appropriation to the pension funds is also higher, at Rs. 10.63 lakhs. The Directors have appropriated a higher sum of Rs. 1.29 crores for bonus to staff, against Rs. 90 lakhs in 1964. The appropriations for staff welfare fund and staff co-operative housing fund are Rs. 12.50 lakhs and Rs. 5 lakhs respectively. This leaves Rs. 4.93 lakhs to be carried forward.

Mysore Bank

THE working of the State Bank of Mysore for the year 1965 resulted in a net profit of Rs. 21.05 lakhs as against a net profit of Rs. 19.25 lakhs for 1964. Together with the sum of Rs. 24,318 carried forward from the last year, the total sum available for distribution amounts to Rs. 21.29 lakhs which the Directors, at their meeting held on January 12, 1966, approved to be disposed of as under: Reserve Fund Rs. 4.50 lakhs; Bonus to Staff Rs. 6.00 lakhs; Staff welfare fund Rs. 25,000; Dividend at 10 per cent subject to tax 10.00 lakhs; Carried forward Rs. 54,784.

United Bank of India

THE United Bank of India Limited has made a net profit of Rs. 26.32 lakhs for the year 1965 as against Rs. 26.34 lakhs for 1964. This figure has been arrived at after paying bonus to staff amounting to Rs. 23.80 lakhs (Rs. 16.91 lakhs in 1964) and after providing for taxes. With the carry-forward from previous year, the total profit comes to Rs. 27.32 lakhs. The Directors have decided to maintain the dividend at 7½ per cent (subject to tax). Dividend will absorb Rs. 20.20 lakhs and Rs. 5.40 lakhs will be allocated to Reserve Funds, raising the Reserve Funds to Rs. 115 lakhs (Rs. 109.60 lakhs in 1964). Deposits of the Bank have increased by about Rs. 14 crores to over Rs. 102 crores, registering a rise of 15.7 per cent compared to last year. Advances have increased by over Rs. 14 crores to about Rs. 70 crores.

Canara Bank

AFTER providing for taxation and making the usual and necessary provisions, the net profit of the Canara Bank for the year 1965 amounts to Rs. 35.95 lakhs as against Rs. 34.65 lakhs for the previous year. The Directors propose to transfer to Reserve Fund a sum of Rs. 7.25 lakhs as against Rs. 7 lakhs last year. The balance of Rs. 28.70 lakhs is proposed to be transferred to the Special Reserve. The Directors are recommending the maintenance of dividend (totalling Rs. 13.48 lakhs) at 5.56 per cent on preference shares and at 15 per cent on equity shares (both subject to deduction of tax at source) to be paid out of the Special Reserve. (The new shares issued towards the end of the year do not qualify for dividend for the year 1965). The balance in the Special Reserve will be subject to the payment of Bonus to staff.

Further, a sum of Rs. 10.40 lakhs is proposed to be transferred from contingencies to Reserve Fund. With these transfers, the Reserve Fund (including share premium account of Rs. 23.80 lakhs) will stand at Rs. 128.65 lakhs as against Rs. 108.50 lakhs last year. The paid-up capital also stands higher at Rs. 1.25 crores against Rs. 1 crore last year. During 1965, the Deposits of the Bank have risen to Rs. 98.98 crores from Rs. 88.24 crores last year, recording an increase of 12.2 per cent. Advances registered a moderate increase and stood at Rs. 59.57 crores as against Rs. 58.59 crores last year. The investments of the Bank have gone up from Rs. 22.28 crores to Rs. 25.78 crores thus indicating a strengthened liquidity position.

Dena Bank

THE Devkaran Nanjee Banking Company has reported satisfactory results for 1965. The Bank's net profit has gone up from Rs. 30.35 lakhs to Rs. 31.38 lakhs. The dividend has been maintained at 12 per cent. Including Rs. 2.64 lakhs brought in, the distributable sum amounts to Rs. 34.01 lakhs. The interim dividend absorbs Rs. 4 lakhs while the final dividend accounts for Rs. 8 lakhs. A sum of Rs. 10 lakhs has been transferred to the Reserve Fund and a higher provision of Rs. 8.25 lakhs (Rs. 7.50 lakhs last year) has been made for staff bonus. This leaves a carry-over of Rs. 3.76 lakhs. The Bank's deposits have increased from Rs. 72 crores to Rs. 81 crores and advances from Rs. 45 crores to Rs. 52 crores. Its branches number 153, compared to 147 a year ago.

Canara Banking Corporation

THE net profit of the Canara Banking Corporation Ltd., for the year 1965, before providing for taxation, has risen to Rs. 16.55 lakhs against Rs. 11.68 lakhs for the year 1964. After transferring a sum of Rs. 2.85 lakhs (Rs. 2.15 lakhs) to Reserve Fund, Rs. 7.35 lakhs (Rs. 4.75 lakhs) as provision for income tax, Rs. 2.52 lakhs (Rs. 0.98 lakh) as provision for bonus to the staff, it is proposed to recommend dividends of 7.15 per cent and 6.43 per cent on the 5 per cent and 4½ per cent Cumulative Preference Shares respectively and a dividend of 12 per cent per annum on ordinary shares. This absorbs Rs. 3.83 lakhs (same as last year). The position of the Bank at the end of 1965 was as under: Paid-up Capital: Rs. 37.50 lakhs (Rs. 37.50 lakhs); Reserves

Rs. 30.35 lakhs (Rs. 28.00 lakhs); Deposits 1,574 lakhs, (Rs. 1,456 lakhs); Advances Rs. 858 lakhs (Rs. 785 lakhs); Total Working Funds: Rs. 1,958 lakhs (Rs. 1,924 lakhs). The figures within brackets indicate corresponding figures for 1964.

Bank of Maharashtra

THE after-tax profit of the Bank of Maharashtra for 1965 is Rs. 16.88 lakhs compared to Rs. 13.37 lakhs in 1964 and Rs. 11.50 lakhs in 1963. Adding to this sum the carry-forward of Rs. 50,000 from the previous year, the total disposable amount will be Rs. 17.38 lakhs. A sum Rs. 3.40 lakhs has been ear-marked for the Reserve Fund compared to Rs. 2.70 lakhs in 1964. The Reserve Fund now stands at Rs. 37 lakhs. Dividend Reserve absorbs Rs. 9.10 lakhs compared to Rs. 7 lakhs in 1964. Gratuity provision is Rs. 50,000. The carry-forward amount, subject to the payment of bonus, is Rs. 4.38 lakhs. The deposits with the bank stood at Rs. 44.53 crores at the end of the year, compared to Rs. 36.63 crores at end of 1964. The advances have gone up from Rs. 19.19 crores to Rs. 26.22 crores. The credit-deposit ratio stands at a prudent level of 58.8 per cent.

BUSINESS OFFER

For Northern India Market

your industrial and consumers' product on remuneration or on commission basis through a well connected and experienced person,

please write :-

Trade Promotion Syndicate

50, Dobhalwala,
DEHRA DUN (U.P.)

Phone No. 1049

Pre-Budget Suspense

By "Luzer"

BARRING a brief spell of activity following the signing of the Tashkent declaration, the stock markets of the country have been passing through a period of agonising uncertainty. Analysts of the market trends fear that although heavy raids on the tax payer are highly unlikely, Mr. Sachin Chaudhuri may not make any sweeping changes in the present scheme of corporate taxation. To many observers, the behaviour of stock markets may appear strange particularly since the exit of Mr. T. T. Krishnamachari and the appointment of Mr. Chaudhuri in his place can be interpreted as an indication of the likelihood of a liberalisation of fiscal policy. Indeed, the new Prime Minister, Mrs. Indira Gandhi, has said or done nothing to scare the market operators out of their wits. But, in glaring contrast to Mrs. Gandhi's reticence, the Planning Minister, Mr. Asoka Mehta, made a speech at Saugor University which, if taken seriously, may mean the extension of public ownership and public control.

Meanwhile, the presidents of the leading Stock Exchanges in the country have, in a lengthy memorandum submitted to the Finance Minister, highlighted the causes which have led to the continued stagnation of the capital market and suggested budgetary measures calculated to revive the confidence of investors. Pointing out that out of Rs. 7,000 crores earmarked for the private sector in the Fourth Plan, as much as Rs. 2,400 crores—nearly 35 per cent—are to be invested in organised industry, the memorandum

has called for favourable changes in fiscal policy. After tracing the recent trends in equity prices, the note observes that with the budget of 1965-66, which did not bring any substantial relief, "share prices have slumped down to their lowest levels since the Chinese invasion." Considering that the precipitous fall in share prices during the past three years since the Chinese invasion has coincided with a marked upswing in the general price index, the extent of the real fall in equity values has been far greater than is indicated by the equity index. The decline, in real terms, has been of the order of 33 per cent.

Thus, the memorandum adds, if the market value of the officially listed shares is taken as Rs. 1,300 crores in 1962, the erosion works out to Rs. 429 crores. In addition to this, new issues have also suffered capital erosion of more than 25 per cent. The note underscores the fact that the total depreciation over the past three years works out to over Rs. 500 crores—which gives a rough indication of the magnitude of the loss suffered by the middle-class investor who forms the backbone of the stock markets in India, as elsewhere.

Among the fiscal measures the memorandum lists as impediments to revival may be mentioned the $7\frac{1}{2}$ per cent equity dividend tax, the capital gains tax on bonus shares, the surtax on companies and the bonus issues tax. The memorandum points out that the $7\frac{1}{2}$ per cent dividend tax discriminates against equity investment and as such, should be abolished. It also refutes the contention that the companies

have been excessively liberal in distributing dividends. Recent studies of the Reserve Bank show the amounts distributed as dividend have actually shown a decline in recent years while the percentage of retained earnings and depreciation provision has shown a steady rise. Urging the removal of the dividend tax, the memorandum asks:

In the present pattern of high interest rates when the Bank rate has been put up twice during the last one year from $4\frac{1}{2}$ per cent to 5 per cent in September 1964 and then to 6 per cent in February 1965, when deposits with banks and companies fetch 7 per cent to 10 per cent and debenture and preference shares are issued to yield at least 8 per cent to 10 per cent respectively, who would invest in risk bearing equity shares if all equity dividends, no matter how small, were to attract the equity dividend tax?

The memorandum is also highly critical of the capital gains tax on bonus shares. It questions the logic of treating bonus shares as capital gains and the wisdom of taxing imaginary gains on the basis of the market value, irrespective of whether the shares are sold or not. The 10 per cent relief given in the last budget, the memorandum says, is meagre. It urges that this tax should be abolished as it acts as a powerful drag on investment confidence and inhibits investment in industrial securities. It also pleads for the abolition of the $12\frac{1}{2}$ per cent bonus issue tax payable by companies on the capitalisation of reserves. The memorandum of the Presidents has also urged the abolition of the corporation surtax as it has done incalculable damage to psychology of the investors.



4500 gold necklaces of
58 grammes (5 tolas) each
will buy just one Gnat
Fighter for our defence...

Serve your country
get Gold Bonds



THE GOLD BOND SCHEME HAS BEEN
EXTENDED UP TO FEBRUARY 28, 1966

MMGI
is now within the first 10
*Five years ago it was not
even among the first 20*

MMGI's gross premium in 1964 increased by 27% over 1963. Its claims cost in terms of premium income at 41% is the lowest among larger insurance companies.

It is the customer confidence in its prompt settlement of claims and personalised service that has made MMGI the fastest growing general insurance company in India today.

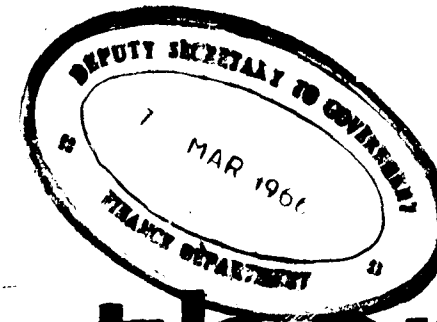


**MADRAS MOTOR & GENERAL INSURANCE
COMPANY LIMITED**

52, Peters Road, Madras-14

Offices: Bangalore - Bombay - Bellary - Calcutta -
Coimbatore - Cochin - Cuddalore - Davangere -
Goa - Hubli - Madurai - Mangalore - Nellore -
Salem - Secunderabad - Tiruchirapalli - Tirunel-
veli - Trivandrum - Vellore - Vijayawada - Visa-
khapatnam

JWT-MMGI 3362



**CENTRAL
BUDGET**

southern economist

March 1, 1966, Vol. IV : No. 21 : 42 Paist

industry • banking • commerce • finance

Export

BY
AIR-INDIA

- Earn valuable foreign exchange
- Export your goods the modern way
- Here's how we can help you:

SPEED We jet-speed your cargo at 600 m.p.h., reaching foreign markets in a matter of hours. This means less tied-up capital for you! Also you can safely export perishable goods—be sure they'll arrive fresh and unspoilt!

FREQUENCY We have a frequent network of flights direct to the business centres of the world.

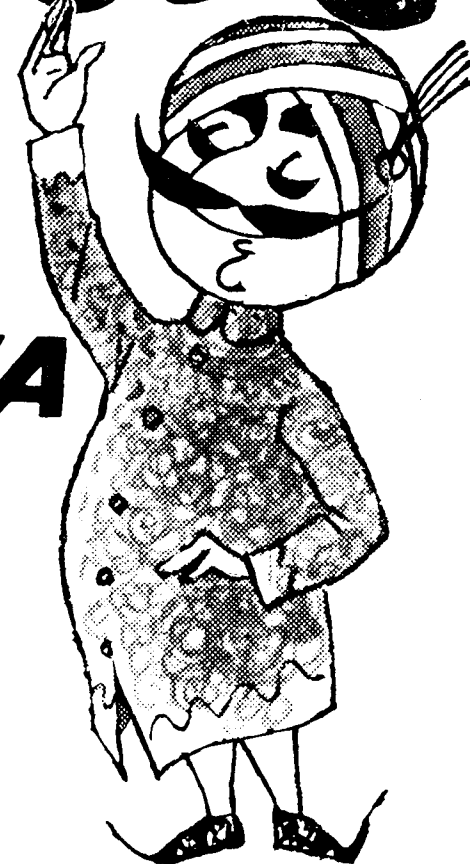
CAREFUL HANDLING Whatever your product it is handled with care by specially trained staff, eliminating loss through damage and pilferage.

REDUCED COSTS Because of our special handling facilities, expensive crating becomes unnecessary. Only light packing is needed. And the time factor reduces insurance rates and eliminates warehousing charges.

DISCOUNTS The larger your consignment, the lower our freight rates. And we also offer special reduced rates on certain commodities!

Let us assist you in promoting your exports.
Please contact our local office for free service.

Asia-East Africa-Australia-Fiji-Middle East-Europe-UK-USSR-USA



SOUTHERN
ECONOMIST
March 1, 1966

CONTENTS

EDITORIAL	1
Carrots and Crumbs	
NOTES OF THE FORTNIGHT	3
Railway Finances; Transport Policy; Food Muddle; Rupee Devaluation	
GLASS HOUSE GOSSIP	7
SPECIAL ARTICLES	9
Towards a Taxless Society — By Dr. T. M. A. Pai	
Report from Jaipur	
Agricultural Economics — A Report by Sudhakar Gautam	17
BOOK REVIEWS	17
The Development of Social Overhead Capital in India, in 1950-60; History of Economic Thought; A Maritime History of India; Productivity; India — Instalment Credit, Extent Stability, Growth	
AVIATION NOTES	20
Air Traffic Forecast for 1966	
BRITISH SCENE	21
COMPANY NOTES	22
Indian Oxygen; Associated Battery; Coromandel Fertilisers; K. C. P.; Union Bank; I. O. B.; New Issues	
STOCK MARKETS	24
Hesitant but Hopeful — By "Luzer"	

SOUTHERN ECONOMIST
Published on 1st and 15th of every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Carrots and Crumbs

FOR a maiden effort, Mr. Sachindra Chaudhuri's budget for 1966-67 is not a disappointment. True, there are not many plums in the pudding but in the present inflationary situation, even a politically sensitive Finance Minister — we have general elections next year — could not have dared to give away major concessions without inviting the ire of the World Bank, the I. M. F. and perhaps the economic purists. Pitch-forked into the world of high finance when he least expected it, Mr. Chaudhuri was quite hard-pressed for time which he badly needed to sort things out. And hardly had he got over the surprise of his elevation to the ministerial status when he was shocked by the death of his man of destiny, Mr. Lal Bahadur Shastri. Mr. Asoka Mehta's Saugor speech and the trend of discussions at Jaipur did not make his task easier. When he was just beginning to feel his way — and understand the mind of the party bosses — he could not have possibly hastened to make sweeping changes in the existing tax structure. It is against this background that one has to view Mr. Sachindra Chaudhuri's budget.

It is a legitimate question to ask — as many critics have hastened to do — as to why, after having produced a revenue surplus of the order of Rs. 210 crores, Mr. Chaudhuri allowed an overall gap of Rs. 117 crores to appear and then set about the task of covering this gap through additional tax effort of the order of Rs. 101.51 crores? Taking into account the reduction in the yield from annuity deposits, amounting to Rs. 9.39 crores, the amount available for reducing the overall gap of Rs. 117 crores was actually only Rs. 92 crores. Mr. Chaudhuri's budget remained, in spite of his brave efforts, a deficit one, revealing an overall gap of Rs. 25 crores. Since revenue-estimates usually err on the side of under-statement, this deficit may, in all likelihood, turn into a nominal surplus by the year-end. Those who argue that Mr. Chaudhuri could have presented a balanced budget, even without resorting to additional imposts of the order of Rs. 101 crores miss two essential points, namely, the difficulty in persuading the spending ministries to reduce their expenditure and to abandon their pet schemes and secondly the equally difficult problem of securing a drastic reduction in development outlay, both in the Centre and at the state level. Incidentally, the plan outlay for 1966-67 is Rs. 2,081 crores — Rs. 144 crores less than the current year's outlay.

Another factor which rendered Mr. Chaudhuri's budget less flexible is the defence outlay which, despite the Tashkent accord, went up by Rs. 28.61 crores. The proposed total outlay on defence stood at the staggering figure of Rs. 918.27 crores. There was nothing that Mr. Chaudhuri could have possibly done in this sensitive area. Having realised how narrow is the field for manoeuvre, Mr. Chaudhuri most sensibly set about the task of re-shaping the fiscal picture on a restricted canvas. In the field of indirect taxation — the familiar hunting ground of our reckless Finance Ministers — Mr. Chaudhuri may not have taken long time to realise that there was not much scope for making fresh raids. Customs

duties had already been raised to very high levels by Mr. Krishnamachari in his supplementary budget in August last year. Leaving the import duties untouched, Mr. Chaudhuri selected a few items like sugar, cigarettes and certain varieties of cloth for increased excise duties. It is easy to exaggerate the impact of these levies on the middle class family budget. At their worst, their effect can only be marginal. Had he minded, he would not have found it difficult to reduce excise duties over a wide range of items, including industrial raw materials. How far such concessions would have benefited the economy in the present state of scarcity is open to question. In any case, Mr. Chaudhuri could not have resorted to such "across-the-board" cuts in excise duties without making nonsense of the rationalised scheme of import duties put through in the supplementary budget and without inviting frowns from the I. M. F. whose stand-by credits are indispensable in the present foreign exchange crisis. Even so, the fact that excise duty changes account for nearly 50 per cent the additional tax-yield, in Mr. Chaudhuri's budget ought not to escape notice.

However, it is the changes that Mr. Chaudhuri propose in the field of direct taxation that give an insight into the working of his mind. In a pre-election budget, it was only to be expected that the Finance Minister should throw crumbs at the harassed middle-class. Side by side with the increase of Rs. 500 in the exemption-limit for income tax, the personal allowance for married and unmarried individuals has also been raised to the same extent. But the 10 per cent surcharge—yielding Rs. 25.6 crores—will add to the tax incidence at practically all levels. The raising of the exemption limit for annuity deposits—from Rs. 15,000 to 25,000—may help in releasing a moiety of private savings into the capital market but the scrapping of ADS would have been more timely.

But what distinguishes Mr. Sachindra Chaudhuri from the general run of "Congress Finance Ministers" is his originality and simplicity of approach in regard to the Kaldorian levies many of which had been introduced in haste and amended haphazardly. No tears will be shed for the removal of the Expenditure Tax from the statute book. In fact this tax had ceased to be a revenue-earner or an effective device to curb conspicuous consumption. The revision of the rates of gift tax and estate duty are intended more to discourage the evasion of the estate duty than to secure more revenue.

It is in the field of corporate taxation, more than in any other area, that Mr. Chaudhuri seems to have applied his mind seriously to the long-neglect-

ed task of removing the pall of gloom that had enveloped the capital market. The increase in the general rate of corporate taxation by 10 per cent has no doubt caused some groans but the widening of the scope and, shall we say, depth, of the development rebates will help in reducing the tax liability in several industries. Tea, newsprint and printing machinery, for example, are now entitled to the higher development rebate of 35 per cent. The plantation industry, which is facing a crisis will particularly welcome the liberal provision for development allowance which is raised from 40 to 50 per cent for new planting and 20 to 30 per cent for re-planting.

From the investment angle, the abolition of the capital gains tax on bonus shares—to the extent the tax-liability arises out of 'notional gains'—is a welcome measure. This will remove a psychological road-block for equity investment. Similarly, the abolition of the 12½ per cent Bonus Tax—payable by companies on the capitalisation of their reserves—is also another measure to revive the investors' confidence. The third measure that should enthuse investors in equity shares is the liberalisation of the 7½ per cent dividend tax which is now leviable only on dividends in excess of 10 per cent. Although the original purpose of this measure, namely, to discourage excessively liberal dividend policies, was unexceptionable, it had rendered equity investment unattractive, particularly in the present regime of high interest rates. It is to be hoped that these measures will enable the private sector to raise the necessary resources for expansion envisaged under the Fourth Plan. Once Mr. Chaudhuri succeeds in getting the economy moving, he will have greater confidence in—and more elbow-room for—devising further measures to tone up the investment climate. In his first budget, he has amply demonstrated that he is willing to listen and to act.

Read Throughout the World ECONOMIC AFFAIRS

A Monthly Journal of Theoretical
and
Applied Economics

Edited by

HIMANSU ROY

10, GALIFF STREET, BLOCK 5
SUITE 64, CALCUTTA-3

NOTES OF THE FORTNIGHT

Railway Finances

Long Haul Ahead

THE Railway budget for 1966-67, presented by Mr. S. K. Patil is cast in a stereotyped pattern. True, it mercifully leaves the harassed passenger untouched when there was every temptation for the Railway Minister to make another raid. But the budget does not give any indication that an all-out effort will be made to improve the competitiveness of this major undertaking in the public sector. It can, in future years, keep its head above water only through two alternative means—either by improving its competitiveness *vis a vis* road transport or by prodding the Government to place additional road-blocks in the way of its competitors. It is a pity that Mr. Patil's budget speech hardly touches this dilemma.

If one does not apply this efficiency test too severely, the railways do not present a dismal picture of a decaying industry. The revised estimates for 1965-66 show that in spite of the "slack" in passenger earnings, the gross traffic receipts have shown a 3.6 per cent rise over the budgeted figure. This is largely due to the increase in goods earnings, expected in 1965-66, from Rs. 441.90 crores (R.E) to Rs. 462 crores. Gross receipts are expected to reach Rs. 741.80 crores.

The budget estimates for 1966-67 seem to take a realistic view of the traffic trends when they place goods earnings at Rs. 488 crores and passenger earnings at Rs. 227.20 crores and the gross earnings at Rs. 777.23 crores (without the new levies which would fetch about Rs. 18 crores) but when the revised estimates for

1966-67 are made, they may probably show larger accruals.

Last year, the railways had shown a surplus of about Rs. 30 crores, after paying the usual dividend on the capital. If Mr. Patil had maintained *status quo* in regard to the freight structure, there would have been hardly any surplus left, on the basis of the present estimates of revenue. Now, since the 3 per cent surcharge on goods rates (with some exceptions for priority items) and the increase in the rates on coal, coke and salt and the extension of the scope of the 20 per cent surcharge are expected to yield about Rs. 18.10 crores of additional revenue, the surplus for 1966-67 is expected to be of the order of Rs. 22.19 crores. Considering that expenditure chargeable to "Development Fund", which represents the size of the surplus, amounted to Rs. 134 crores in the Third Plan and averaged Rs. 26 crores per year, and the Fourth Plan needs on this score are estimated at Rs. 30 crores per year, the surplus of Rs. 22 crores in 1966-67 appears too small.

Further, the expenses have shown a tendency to go up steadily. Under the Convention Committee's recommendations, dividends as well as depreciation have been stepped up. Depreciation provision may well go up from Rs. 380 crores in the Third Plan to Rs. 650 crores in the Fourth Plan whereas the increase in dividend, from 5.5 per cent to 6 per cent, may mean an additional draft of Rs. 7 crores in an year. There has also been an increase in the prices of coal and diesel oil while the Railways' commitments in respect of increased dearness allowance involve an additional expenditure

of more than Rs. 10 crores.

Viewed in this light, the marginal increases in goods rates do not appear too harsh but it may be doubted whether the Railway Minister has given serious thought to their likely impact on the future trend of traffic which is subjected to pulls from different directions. While the railways still enjoy the lion's share in the movement of "bulk" commodities, "the increasing volume of road transport in recent years has, among other things, contributed to the decline in the railway's proportionate share of the movement of some of the commodities". This admission by the railways reveals that an agonising reappraisal of the working of the railways and of the rate structure *vis a vis* the other modes of transport is perhaps overdue. In particular, it is worth pondering whether the offer of special concessions to "high-rated" traffic and to "small" would help to prevent their diversion to road transport. There has been, it is true, vast improvement in the productivity as is evidenced by the better use of the wagons and the gradual switch-over to diesel traction but this, by itself, will not be enough to stem the rot. Bolder attempt at streamlining appears urgently called for.

Transport Policy

Better Co-ordination

THE report of the Committee on Transport Policy and Co-ordination, which had been set up in 1959, has at last seen the light of the day. Its work was not all smooth-sailing—the Chairman, Mr. K. C. Neogy, resigned in 1964—and there

were many changes even after Mr. Tarlok Singh took over. Even so, the inordinately long time taken by the Committee—seven years—cannot be overlooked. Committees are set up not to produce text books but to help in taking prompt policy-decisions. Having said this, one must at once compliment the Committee for its pragmatic and workman-like approach to the problems of transport policy and co-ordination. It rightly feels that ownership is irrelevant to a consideration of a policy of co-ordination since the larger purpose is to “develop the various modes of transport as complementary services in such proportions and combinations as will meet the total needs of the community at each given stage at minimum cost to the economy”. Nevertheless, the element of substitutability is not overlooked. While the Committee lays special emphasis on the adoption of cost-based criteria, it considers “social costs” as decisive. In the nature of things, it could not have clearly spelled out these social cost criteria.

The report does not suffer from any apparent bias in favour of any single mode of transport. Its observation that “most of the new investment on the railways will have to be devoted to building up an increasingly efficient rail transport system rather than to the expansion of the network itself” is not without significance. It assigns to the road transport the task of opening up new and less developed areas and of promoting the growth of agriculture and the rural economy. The Committee rightly welcomes the gradual switch-over from the *ad valorem* criteria in the railways to the cost-based criteria but it recognises that “there are limits to the railways’ ability to adjust rates on the basis of costs fully in all cases”. To those who consider the railways as the nation’s

“sacred cow”, the Committee’s forthright suggestion for scrapping uneconomic branch lines comes as a disagreeable surprise. Equally candid is its suggestion that the construction of new lines should be taken up only if they can yield a reasonable return on the investment. The railways should also take serious note of the Committee’s suggestion for improving their accounting methods and generally for reducing their operational costs.

In respect of road development, it lays special emphasis on regional approach. The report rightly suggests that “priority should be given to areas in which intensive agricultural development plans are being undertaken or where new resources, such as irrigation and power, have come into use”. The Committee urges the development of transport in more backward areas through Central assistance to the extent of one-third of the outlay. Equally significant is its suggestion for the setting up of Road Planning Boards in the states, to ensure that roads will make the maximum contribution to economic development. The Committee is so emphatic on the need to provide better transport facilities in backward regions that it recommends lower rates of taxes for road transport services in these regions.

In the task of co-ordination, the Committee assigns, rightly in our view, a larger role for the Inter-State Transport Commission which can be invested with licensing authority. It considers the definition of “region” under the Motor Vehicles Act as too narrow and suggests that “regions should be determined, not only on consideration of administrative convenience but even more, on economic considerations which take into account the natural flows of traffic”. It calls for greater inter-State co-operation in the matter of issuing

permits and suggests that there should be uniform rules for motor taxation. It even suggests that the Constitution may be amended to bring this subject under the Concurrent List. The state governments should take particular note of its plea for the abolition of Octroi and, whenever possible, Tolls. They will also do well to consider the Committee’s suggestion that passenger and goods taxes should be consolidated with the motor vehicles tax, as has been done in Andhra Pradesh.

It does not fail to take note of the present unorganised state of the road transport industry. Indeed, it recommends a set of far-reaching measures aimed at its reorganisation on a rational basis. One such measure is the joining together of small operators to form viable units. Another suggestion is to encourage co-operative transport undertakings as a matter of public policy. The Committee also expresses disappointment at the way institutional finance is at present provided to the transport operators. It says that unless they (the banks and other institutions) came forward to provide finance in a big way, it will not be possible to secure the development of road transport industry along sound and efficient lines. Again, the Committee’s views on the future development of goods transport are of special significance in the context of the demand, frequently voiced in certain quarters, for its nationalisation. The committee thinks that the private sector will be able to cater to the increased traffic likely to be generated in the Fourth Plan but feels, however, that “it may well be necessary to supplement this effort”. Resources permitting, the Committee has no objection to the state governments “making a beginning in the operation of goods transport services,

associating the railways as partners in this activity”. It hastens to point out, however, that “the advance in the direction of public participation in goods transport during the Fourth Plan is not likely to be on any significant scale”. On the whole, the Committee’s recommendations are based on weighty considerations of the country’s long-term needs and what is commendable, they are entirely free from any doctrinaire bias.

Food Policy

Words for Lunch

FOOD Minister Subramaniam is entitled to our sympathy but one has to confess to a feeling that since he took over the food portfolio, he has not been able to put into effect a workable policy either on the production side or on the distribution side. To this charge, Mr. Subramaniam can easily retort that food being a state subject, the effectiveness of the Union Government’s policy decisions is limited to the extent of the co-operation extended by the states. This amounts to saying pretty little. In a way, it means questioning one’s own *raison d’etre*.

This is not a job for desk-bound creatures—Subramaniam certainly is not one—but it cannot be put to mere coincidence that the Food Minister misses, precisely those “crisis areas” where his presence may have a therapeutic effect. The truth may well be that with all his brandishment of facts and figures, he is as much in the dark about the “marketable surplus” as his next-door neighbour. There has certainly been a serious short-fall in this year’s production which is placed at around 76 to 77 million tons, against the previous year’s record production of 88 million tons, and the shortfall is estimated at 12 million tons. It could be more since one has to estimate the

deficit on a consumption-level of at least 95 million tons per year.

Besides, these all-India aggregates, even assuming that their margin of error is small, are of little help in tackling regional shortages. It is this fact that does not seem to have been adequately appreciated by our policy makers. Since the world’s sympathy is aroused, it is hardly likely that our undernourished millions will be “thrown to the wolves”, but it is very important that what comes in dribbles, from OXFAM, from the Vatican and from all well-meaning sources, not to speak of P. L. 480, which is the largest source, should be co-ordinated and used in the best possible manner. Our ports, it is true, are handling food imports as best as they can, but the Government’s food policy still has many loopholes with the result that the country’s food shortage is not tackled in a manner that is calculated to serve the best interests of the people in the “scarcity pockets”.

The Jaipur session of the Congress can well be termed as a turning point in the Government’s food policy. For it was there that the majority in the ruling party practically repudiated the Centre’s food policy and demanded the scrapping of the present single-stage food zones. Stone-walling tactics of the Food Minister were of no avail and the assurance was elicited to the effect that an agonising reappraisal of the present zonal arrangement would be made at the earliest opportunity. At the Chief Ministers’ conference held subsequently, Mr. Subramaniam partly succeeded in convincing the state governments that in the present context of scarcity, it might not be wise to remove the zonal barriers, but that the question could be reconsidered some time later in the year. His frequent harping on the “scarcity theme” may well earn him in course of time the title, “Minister

of Famine”, and his critics are not entirely wrong in warning him that his excessively cautious approach may be exploited by the private trade which has learnt to thrive on crises.

The state governments have accepted the imperative need for “cordonning off” areas of high consumption, through the introduction of statutory rationing. If they are still marking time—rationing in big cities was to have been introduced in January—it is not because of their reluctance to fall in line with an all-India policy but because of the absence of any firm assurance by the Centre that the needs of the cities coming under statutory rationing would be met fully from out of the Centre’s buffer stocks. The wholly negative approach of the Centre in this regard is exemplified by the Food Minister’s suggestion for a uniform, 7-ounce rice ration in all the states. Although this has helped to mollify the critics in Kerala, the surplus states do not seem to have taken kindly to this suggestion.

The wisest course, under the circumstances, seems to be to leave these things to the discretion of the state governments instead of making a futile attempt to bring about uniformity in the consumption-level in all the states. If the scrapping of the single-state zones becomes inevitable, as it seems it will, the best that the Food Minister can think of is to “match”, on a regional basis, the deficit and surplus states into regional groupings so that there is free flow of the “marketable surplus” into deficit areas within these zones. There is wisdom in the suggestion of economists like Dr. K. N. Raj for the adoption of the “dual market principle” which in practice means the co-existence of two markets—the “captive” market in which cereals are sold at controlled prices and the free market in

which the higher income-groups can buy their requirements at higher prices.

The success of such a policy hinges on how effectively the private traders can be prevented from exploiting situations of scarcity. This is an area in which the Centre can do very little and the only hope lies in effective action by the state governments. One answer to this problem is to opt in favour of monopoly procurement in all the states and the complete take-over of food distribution by co-operatives or some other suitable agency. But if past experience is any guide, monopoly procurement is likely to lead to a shrinkage of the "marketable surplus" and to hoarding, not by the trader, but by the producer himself. As to the distribution by co-operatives, it is highly doubtful if they can carry out the task efficiently. The only sensible course, under the circumstances, is to allow the present imperfect mechanism to continue, in the not-unreasonable hope that water finds its own level.

The Rupee

Devaluation Rumours

THE gleeful manner in which rumours about rupee devaluation were greeted by the stock markets leads the uninitiated to believe that such a measure must be to the good of the country. These rumours were however forcefully denied in the Lok Sabha by the Planning Minister. But the more vociferous the denial, the greater will be the suspicion that the measure may well be round the corner. Among the arm-chair economists, devaluation has been the subject of keen controversy but at the policy-making level, it has not elicited strong support at any time. The experts of the World Bank were credited at one time, with the view that so long as India maintained the official

exchange rate of the rupee at an unrealistic level, she will not be in a position to make out a strong case for external assistance. The I. M. F., which is the watch-dog of the world's currencies, has frowned upon frequent changes in the exchange rates of currencies, barring situations in which countries faced a fundamental disequilibrium. Whether such a situation obtains at present in India is itself open to question.

One way of measuring the depreciation in the external value of a currency is to find out how far it has fallen internally. During the decade, 1954 to 1964, the annual rate of depreciation—in terms of purchasing power—of the Indian rupee (Source: First National City Bank) averaged 4.2 per cent which was certainly steeper than the depreciation of the currencies in most of the Western countries—even in the U. K. it was 3 per cent—but there were many Middle Eastern and Latin American countries which showed a more serious rate of fall. For instance, Brazil showed an average decline of 27.6 per cent, Argentina showed a fall of 22.4 per cent, Chili a decline of 24.8 per cent, and Bolivia a fall of 25.4 per cent. Among Middle Eastern countries, Turkey showed a fall of 8.4 per cent. The French Franc, which is one of the "sound" currencies of Europe, suffered an erosion of 4.4 per cent per year, over the decade under review. It is significant that none of these countries, barring one or two exceptions, have resorted to devaluation as a remedy to their balance of payments problems.

The monetary authorities in India can derive little comfort from these figures because the fall in the value of Rupee has been precipitous in 1964-65 and 1965-66. In 1964-65 alone, the Rupee suffered an erosion of the order of 11.7 per cent. And the fall appears more serious when one

takes into account the "unofficial" rates at which the Rupee is exchanged for other leading currencies. The steep rise in the wholesale price index in 1965-66 indicates that the decline in the internal purchasing power was of the same order, in 1965-66.

But no responsible economist advocates devaluation as a remedy for inflation. To the extent that domestic inflation is brought about by the imbalance between aggregate demand and aggregate supply, the remedy lies not in monkeying with the exchange rate but in suitably changing fiscal and monetary policies in order to siphon off excess liquidity and to augment production. Domestic price stability holds the key to the solution of the problem of external payments but in a developing economy such as ours, the situation is further complicated by the burden of loan repayments, repatriation of profits and so on, which have a tendency to widen the payments gap even when the domestic economy is subjected to a regime of austerity.

Besides, the naive assumption that inflation, by making the country's imports costlier and its exports to other countries cheaper, will help to restore the equilibrium in the balance of payments, will not hold good in India's case. The size of our import bill is determined not by the price at which machinery, equipment and raw materials are sold to India but by considerations of Plan priorities and the availability of foreign exchange. This is another way of saying that our imports are inelastic to price-changes. The rising trend in our exports, in spite of the "pull" of the domestic market where the commodities fetch higher prices, owing to inflation, again weakens the argument in favour of devaluation which only offers a dubious advantage on the export front.

(Continued on page 16)

GLASS HOUSE GOSSIP

MANY friends are asking me as to what I thought of the first 30 days of Mrs. Indira Gandhi's Prime Ministership. Indeed, I often feel tempted to put the same question to those who may be in the know of things. Being a woman has its advantages—nobody will be rude to them, you see—but I am not sure that the Opposition will be exceedingly considerate to her in this pre-election year. And by her performance in the last 30 days, it is patently unfair to judge the new Prime Minister. The senior Ministers in Mrs. Gandhi's Cabinet seem to be as much at sea as the Prime Minister herself, and no one was in a mood to hit back, if you get what I mean. Mr. H. V. Kamath tried (unsuccessfully, as everybody knows) the gambit of pulling the rug from under the Prime Minister's feet by calling her the most beautiful Prime Minister in the world but that amounts to saying pretty little since the endearing epithet is hardly applicable to the males of the species.

Joking apart, I quite see that there is a good deal of interest in how Mrs. Gandhi sets about solving the difficult problems facing the country in the present crucial period in its history. Gallant knights who can shield the Prime Minister from the Opposition attack will not be found lacking in courage but considerations of sex not withstanding, no leader worth his salt can afford to remain permanently in the background. It was precisely here that Mr. Nehru held the entire House in awe and those who were foolish enough to tilt at the wind mills like, shall I say, Dr. Lohia, invariably got a telling rebuff. It will be highly unwise on my part to suggest that Indira should

blindly imitate her father's style. Probably, she may have to evolve her own, as she gains greater self-confidence. As to the question-hour grilling, the Prime Minister will be probably spared the trouble of giving replies too often but I do not think she will be wise in neglecting her homework on that score.

On the Press side, the Prime Minister has, so far, managed to project a familiar image and I think the appointment of Mr. B. G. Verghese as her Press Secretary will greatly help in the not-so-easy task of maintaining good relations with the Press which represents a broad spectrum of opinion. She has not yet started holding monthly press conferences—which had become an institution by itself, in her father's time—but I am curious to know as to who will play the role of Merriman Smith (thank you, Mr. President) in Indira's Press conferences.

READERS of New Statesman will miss the prickly cartoons of Vicky who died recently under sad circumstances. It is not that Vicky's caricatures were a feast to every beholder's eye but very few could match him in pricking the high and mighty. He sometimes irritated them beyond the limites of endurance. It is true, he was considerate to the Socialists but his cartoons of Harold Wilson showed that Vicky was quite outspoken in his cartoon comments. If I remember correctly, Vicky was no great admirer of that other Labour party leader, the late Mr. Gaitskell.

He was not a great draftsman—he wasted no time in embellishments—and certainly I would not bracket him with

either David Low, Franklin or Maudlin. Many in this country tried to follow his style without much success. One can discern a streak of Vicky in Dizi's cartoons but Vicky's seemingly crude lines had a touch of sophistication which is lacking in the works of his imitators. It was left to David Low to immortalise Chamberlin whose umbrella symbolised appeasement. To some extent, it is correct to say that Vicky immortalised Anthony Eden whose Suez adventure exposed Britain to the world's ridicule. Cartoonists are temperamental people. And Vicky certainly was not free from this familiar trait.

IT is not difficult to visualise a "taxless society" (see Mr. T. M. A. Pai's article elsewhere in this issue) but I do not see much logic in C. R.'s challenge to the Government that if the taxes are reduced by 50 per cent, he would disband his party and—if garbled verisions of the reports are to be believed—join the Congress. Taxes represent the savings of the public and the question is not whether they should be increased or decreased but whether it could be spent better in the hands of the individual or by the Government. Many years ago, there was an anti-tax campaign in France, under the leadership of Poujade—a colourful character with some following. I do not know what happened to Poujadists in the present de Gaulle regime. Certainly, it would be unfair to compare the Swatantra party with Poujadists since tax reduction is not the only objective of the Swatantrites. But why insist on a 50 per cent reduction? Again why should C. R. offer—or could it be merely a figure of speech?—to disband his party in exchange for the 50 per cent tax-cut?

C. R. is perfectly right in argu-

ing that tax reductions will encourage increased production and increased output in turn will lead to increased tax revenues, even at lower levels of taxation. But the Government needs money for defending the country and for carrying out development plans. Where I differ from C. R. is in thinking that the Government exists only for maintaining law and order. Prohibition offences notwithstanding, we have travelled a long way from the law and order concept of the State. I do concede that a lot of tax payer's money is going down the drain but the remedy does not lie in limiting the scope of the Government to the maintenance of law and order but in making the Governmental machinery—and of course, nationalised undertakings—function more efficiently. But C. R. seems to have given up hope.

that I see in the morning's papers spoil my appetite for breakfast. The gory happenings in Indonesia often make me rush to the "air sickness bag". As to what is going to happen to Bug Karno, I will look for the next day's papers. In the meantime, the spotlight seems to have shifted to Accra where the Ghanaian army has staged a coup precisely when the "redeemer" was away on a grand tour. I do not jump to any conclusions nor do I suspect the hidden hand of Britain or CIA in the African turmoil but the coup in Accra, coming in the wake of bloodshed in Nigeria and Syria, has ominous portents. Now that Nkrumah is out, there are slender chances of his Convention People's Party staging a come-back, although nothing is improbable in that part of the "Dark Continent".

The self-styled redeemer was, it is true, riding the high horse for a long time and his intolerance of even mild opposition must

have hastened his downfall. Yet, I am sorry for Nkrumah's exit because although he ruled Ghana with an iron hand—he was almost a dictator—Ghana will not be the same without the "Asagefo." I have no admiration for the Ghanaian Army leaders who engineered this coup when the "redeemer" was away on a tour. If this becomes the fashion of the day, I may have to postpone going on a long vacation. For all you know, some other fast-talking johnny will be sitting in my chair!

Publications Received

Report of the Energy survey of India Committee—Published by the Government of India, New Delhi

Yojana—Annual Number Re-Public Day 1966 published by the Director, the publication Division, New Delhi-6

SPECIAL ARTICLES

Towards a Taxless State

By Dr. T. M. A. Pai

GOOD public finance is the very base of a sound government. Taxes of different kinds have been levied by governments since time immemorial and people have come to accept them as part of their natural environment and increase in governmental levies year after year as destiny. In our country, taxes have multiplied both in range and depth to such an extent that the nation is groaning under the impact of a heavy tax structure. Human nature being what it is, honesty has been continuously at a discount in tax matters and evasion has been developed into a fine art, thanks to individual ingenuity coupled with the clever suggestions of legal experts of the land.

Heavy taxation has resulted in the following maladies which are eating into vital areas of economic life and creating an unhealthy social atmosphere. The following evils can be directly traced to the rigours of our tax system :

- Fraudulent practices like false partnerships and accounts.
- Profiteering and black-marketing.
- Hoarding.
- Tax evasion.
- Hindrance to saving and capital formation in the open and organized sector of the money market.

Even the best of administration would fail to remedy these widely prevalent malpractices which are deeply ingrained in human nature. No amount of legal enactments will raise our citizens to the requisite level of understanding and sympathy in the foreseeable future.

Fiscal Needs

It is under the gloom of an ever deepening human crisis that

this author has been discussing the idea of a welfare state without any taxation. The suggestion was placed before individual friends and also groups of citizens in a considerable number of meetings since the last four years. After the initial shock was over, the idea of a taxless state has appealed to quite a good number. Hence the author had to do some quick and original thinking to put his ideas into a practical shape before advocating the same for purpose of financial policy. The concept of a taxless state does not interfere with avowed national policies of planning or development, as the people are expected to share their income with the State.

To understand the complications of the present mode of taxation, the Budgetary revenues (Estimates) of the Government of India for 1965-1966 (in crores of rupees) can be cited under receipts is as follows :

Excise duty	827.17
Corporation tax	386.00
Tax on income	292.00
Estate Duty	7.40
Tax on wealth	12.00
Gift tax	3.10
Expenditure tax	1.55
Other heads	23.87
Debt service	296.73
Administration service	9.51
Social & Development service	23.57
Multi-purpose river scheme	0.13
Public works	3.94
Transport and communication	6.75
Currency and mint	61.69
Miscellaneous	25.47
Misc. adjustments	34.81
Extraordinary items	60.60

Share of Income Tax payable to states	122.95
Share of estate duty payable to States	7.17
Total	Rs. 2,206.41

Many of these taxes are at best inflationary and at worst expropriatory. They put a great strain on honesty and prevent the growth of domestic savings and capital formation. The multiplication and deepening of the direct taxes like Estate Duty, Wealth Tax etc., have sapped traditional sources of industrial finance while the legal break-up of big families has led to the creation of weaker sources of industrial finance.

The capital budget of a country desiring development at a rapid rate grows phenomenally. In the case of India, our capital Budget at Rs. 2,183.95 crores (Budget Estimate for 1965-66) is approximately on a par with the revenue collections of the Government of India.

Capital Budget

(in Crores of Rupees)	
Revenue service	236.61
Public debt : raised in India	270.00
Raised abroad	666.86
Repayment of loans & advances : To the States	273.69
Outside	60.00
Small savings	135.00
Provident fund	54.66
Income-tax Annuity Deposit	65.00
Deposit of PL 480 Funds	191.00
Railways & P. T. Funds	48.23
Special Development Fund	143.16
Other deposits	37.74
Total	2,181.95
The total Budgeted needs of	

THE BANK OF RAJASTHAN LIMITED

(Established : 1943)

REGISTERED OFFICE :
CLOCK TOWER : UDAIPUR.

CENTRAL OFFICE :
JOHARI BAZAR : JAIPUR.

PLEASE CONTACT ANY OF OUR FOLLOWING 55 OFFICES

RAJASTHAN

- AJMER *
- Alwar *
- Banswara *
- Baran *
- Beawar *
- Bharatpur *
- Bhilwara *
- Bhawanimandhi *
- Bijainagar *
- Bikaner *
- Bundi *
- Chhotisadri *
- Chittorgarh *
- Dungarpur *
- Fatehnagar *
- Gangapurcity *
- Gulabpura *
- Jaipur (Johari Bazar) *
- Jaipur (M. I. Road) *
- Jaipur (Adarshnagar) *
- Jaipur (Mobila) *
- Jaipur (Bapunagar) *
- Jhalawar *
- Jhalrapatan *
- Jobner *
- Jodhpur (Tambakhu Bazar) *
- Jodhpur (H. C. Road) *
- Kekri *
- Kishangarh *
- Kota (Rampura Bazar) *
- Kota (Junction) *
- Kota (Subzimandi) *
- Kota (Industrial Estate) *
- Lakheri *
- Nasirabad *
- Nathdwara *
- Newai *
- Pali *
- Partabgar *
- Ramganjmandi *

- Rani *
- Sriganganagar *
- Sumerganjmandi *
- Sumerpur *
- Tonk *
- Udaipur (Clock Tower) *
- Udaipur (Bapu Bazar) *

MADHYA PRADESH

- Indore *
- Khachraud *
- Manasa *
- Neemuch *
- Shamgarh *
- BOMBAY (Zaveri Bazar) *
- DELHI
- Kota (Srirampur) Pay Office

MAHARASHTRA

UNION TERRITORY

BRANCHES MARKED WITH STAR HAVE SAFE DEPOSIT VAULTS.

R. Y. GARG
General Manager.

CANARA BANK'S RESOURCES EXCEED Rs. 110 CRORES

as on 31-12-1965

Deposits	..	Rs. 98.98 crores
Paid-up Capital	..	Rs. 1.25 crores
Reserves	..	Rs. 1.29 crores
Investments	..	Rs. 25.78 crores
Advances	..	Rs. 59.57 crores
Working Funds	..	Rs. 111.04 crores
Net Profits	..	Rs. 35.95 lakhs

This growth is entirely due to the great confidence reposed in the Bank by its over 6 lakhs of customers all over the country.

Canara Bank takes this opportunity to re-affirm that it will strive its utmost to live up to the reputation it has won during its 60 YEARS OF SERVICE.

CANARA BANK LIMITED

(Estd.: 1906)

Admn. Office :
BANGALORE

Regd. Office :
MANGALORE

60 YEARS OF SERVICE — DIAMOND JUBILEE YEAR

the Union Government are therefore to be placed at Rs. 4,436 crores, on revenue and capital account. At present this sum is raised mostly by taxes—direct and indirect, loans and small savings, apart from foreign assistance. The contribution of the public sector undertakings is as yet meagre but may be expected to grow as years pass.

Deposits to Rescue

The proposal to eliminate all taxes can be put into effect if they are replaced by a compulsory deposit from all incomes collected at a progressive rate. There will be no exemption limit, even the lowest income group being expected to make a small contribution to the maintenance of the State. *The deposits are long-term deposits with the government without the latter being required to pay interest to the depositor. At the end of 20 years, the deposit will be refunded to the contributor.* Such refunds are possible as under the proposal the government is expected to invest a substantial portion of its total revenues in capital undertakings of a productive nature earning at least 4½ per cent interest. This part invested at 4½ per cent compound interest for 20 years will enable the government to pay back the total annual deposits subscribed by the people at the beginning of the period. *

Illustration

* Total National income	Rs. 16,600 crores
Compulsory Deposit at 25 per cent of National income	Rs. 4,150 ..
Revenue allotment : at 4/7 of the deposit collection	Rs. 2,371 ..
Interest-free capital available for investment at 4½ per cent	Rs. 1,779 ..
	4,150
Deduct 2,371	1,779

At the end of 20 years Rs. 1,779 crores will grow into Rs. 4,150 crores.

1. In order to make these loans attractive, the interest-free bonds must be made transferable and negotiable in the market. The bonds may be used by the public to raise loans. The official discount rate may be fixed at 6 per cent.

2. The abolition of taxes need not necessarily mean unemployment for those engaged in tax collection, for all of them would be required to assess the incomes of producing units all over the country.

3. A self-financing scheme for maintaining the new assessors of income (the present tax collection administration) may be suggested. All those who are working in factory or farm or in the services may be asked to take an annual licence for employment at a fee ranging from Re.1 to Rs.100. The proceeds of this fee will meet the cost of the administration.

4. In the organized industrial sector, the employer will be expected to deduct the amount of deposit before wages are paid. Similarly the land owner will be held responsible for deposits with reference to the workers under him.

Resource Mobilisation

1. The replacement of tax by a deposit will help to revolutionize the existing popular attitude to taxation as a burden. Reasoned self-interest of the people would enthuse the people to pay their deposits gladly.

2. On the other hand abolition of indirect taxes will help to reduce the general level of prices so that real income of the earners is not affected. The purchasing power of their income may even go up.

3. So far as the upper incomes are concerned, 75 per cent of their income being frozen (at the topmost slab) the proposal will reduce wasteful expenditure and thus help to reduce the rigours of inflation.

Conclusion

The compulsory, interest-free deposits proposal outlined above enables the government to collect enough resources for development while the citizen is provided an opportunity to become a conscious participant in the activities of his State.

Indirect taxes now assuming a large share of our tax revenues are usually advocated as "painless", as the taxpayer is ignorant that he is paying the tax in the very act of purchasing a commodity. The bulk of the population therefore has developed an indifferent and lax attitude to taxes and subsequently to public expenditure. But if the citizen could be made to see that there is a palpable relationship between fiscal policy of the government and his own willingness to save and contribute towards the success of such policy, we would be invoking the right type of social response and realising the chief virtue of a democratic state, namely, intelligent understanding between the people and their government.

Socialist Congressman

FORTNIGHTLY JOURNAL
OF CONGRESS SOCIALIST OPINION

*

Subscription
Annual Rs. 6.00 only.
Half-yearly Rs. 4.00 only.
Single copy 0.35 Ps.

*

PUBLISHED ON 1st & 15th OF
EVERY MONTH FROM
C-41, Nizamuddin East,
NEW DELHI-14.

SOCIALIST CONGRESSMAN is not an official journal of the Congress or any group thereof.

DENA BANK

For complete banking service

SAVINGS ACCOUNT

Interest 4%

MINORS' SAVINGS SCHEME

Interest 4%

FIXED DEPOSITS

Interest 6% to 7½%

RECURRING DEPOSITS

Compound Interest 5½% to 6½%

CURRENT ACCOUNT

FOREIGN EXCHANGE SERVICE

EXECUTOR & TRUSTEE SERVICE

GIFT CHEQUES

SILVER BARS

INVESTMENT SERVICE

SAFE DEPOSIT VAULTS

**TOTAL WORKING FUNDS
EXCEED
RS. 90 CRORES**

DEVKARAN NANJEE BANKING COMPANY LIMITED
SERVING THE NATION WITH OVER 155 OFFICES IN 11 STATES

Regd. Office: Devkaran Nanjee Bldgs., 17 Horniman Circle, Bombay 1.

PRAVINCHANDRA V. GANDHI, Mg. Director

In BANGALORE our Office at : Gupta Market, Kempegowda Road.

Report from Jaipur

The Spent-out Fury

(From a Correspondent)

WHAT took place at Jaipur, in the 70th session of the Congress, did not really amount to a "revolt" of the rank-and-file. The Congressmen, it is true, were excited over many things, not excluding Haji Pir Pass and, of course, food. But in meekly submitting to the "official" line, after all that sound and fury, they only proved the truism of the dictum: History repeats itself. It is the Working Committee's view that still prevails. There can be no mistake about it.

What was the ultimate outcome? To summarise the deliberations of the grand old, all-India party in a neat balance sheet is no easy task because the party accommodates a wide spectrum of opinions. It speaks in many voices. The session did posthumous honour to the departed leader, Mr. Shastri, by endorsing the Tashkent declaration unanimously. But there were many, like Mr. Tyagi, who expressed (genuine?) misgivings and questioned the wisdom of withdrawing our troops from Haji Pir and other strategic areas to the August 5th position. Defence Minister Chavan did well to point out that the object, of occupying Haji Pir Pass was not the liberation of that part of Kashmir but to prevent and check infiltration. To the question as to what India would do if the infiltrators repeated their "August performance", Mr. Chavan retorted: "India would repeat what it did".

None the less, there were many like Mr. Bibhuti Misra, who remained only half convinced. The Tashkent discussion was, on the whole, free from political rancour and even embittered

souls like Morarji Desai did not use it as a stick to beat his opponents with. He felt there was no need to fear Pakistan's motive. For Mr. Chavan, the Congress endorsement of the Tashkent Agreement did not give much comfort. He expected a full-throated cheer which he did not get.

Subramaniam's Stand

Perhaps the Congressmen would not have worked themselves up into a feverish frenzy over food had it not been for the Kerala crisis. But who was to blame? Food Minister Subramaniam was the obvious target but he seemed to have survived the onslaught. He trotted out the usual figures. Against last year's "record" production of 88 million tons, this year's production was only about 76 million tons. The "gap" of 12 million tons could be closed only through increased imports. He was however hopeful about the long-term prospects since he felt that the Fourth Plan target of 125 million tons could be achieved with concerted effort.

But the discussion on food emitted more heat than light. It had political overtones. Deficit States, led by Kerala, spearheaded a blistering attack on the Centre's (shall we say, Subramaniam's) food policy—particularly, the single-state zones—but the Food Minister, though badly bruised, did not hang up the gloves. To the majority demand for the abolition of the food zones, Mr. Subramaniam replied: "The existence of State zones was only a temporary feature and once the production improves the State zones will have no meaning. But this is not the time to press or the abolition of State zones".

Kerala, like other deficit states, remained far from convinced. Mr. C. M. Stephen, a loquacious member from that problem-State, asked: When the rest of India was given a 240 gramme rice ration, how can the Food Minister expect Kerala to subsist on a 140 gramme ration? Not a little embarrassment was caused to Mr. Subramaniam as a result of the vehement, if somewhat dogmatic attack of the Congress members on the Government's fertiliser policy. The freedom allowed to new units over the pricing of fertilisers was criticised as a "letdown" and even Mr. Kamaraj—Mr. Subramaniam's political guru—seemed at one time, to lean towards the "Ginger Group" on this point. But it must be said in fairness to the Congress President that he ultimately came to his disciple's rescue. The situation was saved.

Indira's Debut

Prime Minister Indira Gandhi, still a novice in the art of political in-fighting, gave one the impression that she had yet to find herself firmly on her feet. In the only major policy speech she made at Jaipur—that too, not on an economic subject but on the Tashkent Agreement—she took care not to tread on tender corns nor to deviate from the party-line. Lacking the sure touch of her father but showing a willingness to listen and learn, she guardedly defended the Tashkent commitment without forgetting to make a mention of the "valour and sacrifice of the armed forces".

Mr. Asoka Mehta's presence at Jaipur, after a prolonged estrangement of nearly two decades, did not go unnoticed but he gave one the impression

of a "lost soul". His note on economic situation couched as it was, in ambiguous terms, did not carry much conviction with the rank and file. He spoke of the need to devise a "national policy for incomes and prices"—an idea borrowed wholesale from Britain—but did not make any attempt to solve the contradictions that such a policy is likely to give raise to. The former Finance Minister, Mr. Krishnamachari was, in fact, thinking along the lines of adopting an incomes policy. If he could not make much headway, it was largely because of the difficulty in reconciling a policy of wage-restraint with a similar policy of profit-restraint. Mr. Mehta's note, it is true, had none of the ideological clap-trap of his earlier address at Saugor, but it hardly added up to pragmatic statement of intentions. How, for example, can he square his desire for a larger volume of external assistance with the need to pursue policies aimed at extending public ownership? The riddle seemed too difficult even for a fertile mind like Mr. Mehta's, to solve.

But Mr. Kamaraj's address definitely proved to be the saving grace and, if one may say so, *coup de grace*. With characteristic terseness and brevity, the Congress President covered a broad canvas, taking in his sweep all the major problems confronting the nation. He reaffirmed the party's faith in Socialism and even showed keen concern over the delay in implementing the decisions taken at Bhubaneswar. While he favoured controls to ensure equitable distribution of scarce commodities, he was refreshingly candid in suggesting that the industries which did not require foreign exchange for the setting up of new units or for expansion should be freed from the irksome licensing procedure. On the question of checking monopolis-

tic trends, the Congress President favoured a tighter licensing policy *vis a vis* big companies to prevent them from growing bigger. Certainly, Mr. Kamaraj's plain talk was hardly calculated to put cheer into the hearts of "big business". But it succeeded, in a large measure, in giving to the Congress party a sense of direction which it badly needed in the nation's present predicament.

New Companies In Southern Region

FORTY-eight companies with

an authorised capital of Rs. 12,51.57 lakhs were registered in the Southern region of Madras, Andhra Pradesh, Mysore, Kerala and Pondicherry, during the quarter ending December 31, 1965. Of these, eight are public companies with an authorised capital of Rs. 226.57 lakhs. State-wise, the new registrations of 16 private and 6 public are in Madras, 12 private and 1 public in Andhra Pradesh, 8 private and 1 public in Mysore and 4 private in Kerala.

CHOOSE YOUR SAVINGS PLAN

PIGMY

You can contribute at even 25 paise per day and the amounts are collected at your door by our collector.

SAVINGS BANK

Amounts in your account earn interest at 4%. No restrictions on maximum withdrawal and no notice needed.

CUMULATIVE

A Scheme for monthly savings. Term — one to five years.

FIXED DEPOSITS

Attractive rates of interest allowed — Interest paid half yearly.

GIANT CASH CERTIFICATES

Available in denominations of Rs. 100 and Rs. 1,000 maturing in five years — Encashable at any time at scheduled rates.

AND SEVERAL OTHER ATTRACTIVE SCHEMES

SYNDICATE BANK LTD.

Registered Office : MANIPAL, Mysore State

Branches :
Over 200

Resources :
Exceed Rs. 85 crores

Agricultural Economics

A Report by 'Sudhakār Gautam

THE silver jubilee conference of the All-India Agricultural Economics Society was held recently at Allahabad. Here is a brief review of the technical discussion held by the experts attending the conference.

Employment Productivity and Wages: The total number of papers submitted on the subject was 23. The explanation of the late Lord Keynes that equilibrium can obtain below full employment level was perhaps the first major step in economic thought. The second major step was taken by Rangar Nurkse when it was shown that unemployment, instead of proving an obstacle to economic growth, could be a positive assistance to it. The impact of both these contributions on economic thinking has been far-reaching. Out of the 23 papers, only 2 papers discussed theoretical issues directly and the rest of the 21 papers dealt directly or implicitly with issues relevant at theoretical level. Most of the theoretical discussion revolved round the shape of the supply-curve for labour and equilibrium of demand and supply. Another major issue raised in some papers was related to demand. Further, like the zero-marginal productivity hypothesis, a "fixed income goal hypothesis" and a "dual society hypothesis", were put forth by the contributors.

Secondary Data

On the whole, micro studies through field investigations undertaken specially for the purpose dominated the discussions but macro and micro studies based on secondary data were also substantial in number. In tracing the unemployment in rural areas, three approaches

have been adopted. During the discussion, some participants provided a logical explanation for existence of vast unemployment of labour. Some of them examined issues relating to the measurement of unemployment.

Technological Change: There were 38 papers on this topic. This large number bears a testimony to the live interest of the profession in the problem. The papers reflected the inter-disciplinary approach to the subject. The definition of the technological change marked the beginning of group discussion. Apart from economic factors, sociological and demographic factors affect technological changes to a great extent. The first category of the factors (i.e. economic) includes ten factors whereas the other (i.e. Sociological and demographic) includes only four. The process of technological change is a long chain of activities involving different stages. The listing of stages varied from two to seven. Only three contributors attempted to measure the technological changes in quantifiable terms, "output/input" and "Solow" approach were used for measurement.

Diffusion of Change

The definition of the diffusion of technological change was, again, a matter of difference of opinions. So far as the factors affecting the diffusion of technological changes are concerned, naturally all the factors mentioned above affect diffusion also. However, one important factor is the number of changes which are introduced at a given point of time. During the discussion, the problem of farmers' reaction towards a single technological change *versus* a package of

changes was also put forth and the problems of extension workers and their lack of faith in the superiority of the method of technological change was also referred.

Food Policy and Agricultural Development: Only 13 papers, in all, were submitted on this burning topic. Out of these papers, 5 papers critically examined several aspects of price policy. Whereas one contributor sought to tackle a neatly defined problem of finding a price "P" for a cereal which satisfied the condition: "*Minimum possible price acceptable to the maximum number of producers is equal to maximum possible price payable by a maximum number of consumers*". The other contributors examined the basis of support prices, the commodity terms of trade of agricultural sector, the different concepts and measures of agricultural parity prices and incomes, so as to provide certain guide-lines for the Food Corporation to function as a stabiliser of agricultural prices.

One paper examined the impact of food policy on agricultural development in Ceylon, which had a relatively long record of guaranteed price scheme, and pointed out that the price offered to the producer is quite high. The scheme which has almost the same objective like our Indian scheme, was associated with marked credit expansion. Besides spending a considerable amount on land development, a 50 per cent subsidy on fertilizers is given to the producer in Ceylon.

The major components of food policy viz., production, distribution and prices were subjected to a searching analysis. The concept of self-sufficiency also dominated the discussion in which measures

taken to achieve the goal of equitable distribution, the question of monopoly purchase by the State and the present restriction on inter-state movement figured prominently. During the open session, when the President of the Conference invited Prof. Dantwala to express his candid opinion on the problem, he disclosed some startling facts. He observed that "we were as confused as the Government is". Referring to the possibility of fixing the high prices by Agricultural Prices Commission, he said: "I will not be a member of that Commission". Prof. V. M. Dandekar was elected President for the next year's conference.

(Continued from page 6)

Devaluation Rumours

If the free market rate of the Rupee is depressed in terms of Dollars, Pounds, Yens and Deutsche Marks, it is largely because the Indian buyer of smuggled goods finds it to his advantage to exchange the Rupee for these currencies even at sizable discounts. This is a good argument for devaluation — as far as the argument goes — but there is no means to find out how far the Rupee is over-valued in terms of other currencies and certainly the unofficial rate of exchange cannot in all conscience be considered a true measure of the value of the Rupee. If the present drift continues, devaluation cannot be postponed indefinitely but it is possible to secure a respite on the balance of payments front by securing a moratorium on loans for a period of say, five years, and also by paving the way for massive foreign investment, through fiscal incentives.

West German Aid

LEAVING aside institutional credit-givers like the World Bank and IDA, West Germany ranks second among India's credit givers (up to September 30, 1965), with a payment record of Rs. 320 crores (12 per cent of total payment to India). West Germany is second to the U. S. A., as far as actual aid disbursements are concerned. It ranks before the U. S. S. R. and even all the East Bloc countries taken together. With aid contracts signed, West Germany has the same ranking also (12.4 per cent of all orders placed). Only with Rs. 416 crores credit commitments signed (11 per cent of total) West Germany takes the third place, behind the U.S. and the U.S.S.R.

In 1965, West Germany paid out credits totalling Rs. 159 crores — a very substantial amount considering present budgetary difficulties. Out of this total, 69 per cent (Rs. 110 crores) were given to Asia; 15.5 per cent to Africa; 11.5 per cent to European countries, and 4 per cent to Latin America. Pledges for further aid worth Rs. 73.8 crores were made — much of this for India, including a Rs. 15 million credit for the immediate purchase of 35,000 tons of potash. This particular credit is extended over 25 years, with an annual interest of 1 per cent, to help in India's crash agricultural campaign.

The following statement about ownership and other particulars of the "SOUTHERN ECONOMIST" is published in accordance with Rule 8 of the Registration of Newspapers (Central) Rules.

FORM IV

(See Rule 8)

1. Place of Publication : 24 (New), Haudin Road, Bangalore-1
2. Periodicity of its publication : Fortnightly
3. Printer's Name : C. Krishna Rao
Nationality : Indian
Address : Phoenix Press, 87 Visveswarapuram, Bangalore-4
4. Publisher's Name : Susheela Subrahmanya
Nationality : Indian
Address : 24 (New), Haudin Road, Bangalore-1
5. Editor's Name : Susheela Subrahmanya
Nationality : Indian
Address : 24 (New), Haudin Road, Bangalore-1
6. Names and addresses of individuals who own the newspaper and partners or shareholders holding more than one per cent of the total capital : Susheela Subrahmanya
24 (New), Haudin Road, Bangalore-1

I, Susheela Subrahmanya, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Dated 1st March 1966.

(Sd) SUSHEELA SUBRAHMANYA
Signature of Publisher

BOOKS

Efficiency of Overhead Capital

THE DEVELOPMENT OF SOCIAL OVERHEAD CAPITAL IN INDIA, 1950-1960
By J. M. Healey, Oxford University Press, 1965, Pp. 180. Price: Rs. 22.50

Although social overhead capital is generally taken to refer to all those basic facilities which are necessary for economic development, this study is confined only to such overhead services as transport, power and irrigation, since they absorb a very large proportion of Government expenditure. The period covered by the study is broadly the period of operation of India's first two five-year plans.

According to the author's findings, the overhead development has been more geographically dispersed in Independent India than in British India. The study has shown that the contribution of public utilities to the investment expenditure from their surplus earnings declined during the period covered by it. Irrigation and power undertakings had rising annual deficits, while railways did not expand their annual surplus. The author makes the significant observation that freight charges were not adequately raised to ensure surplus earnings. There is a critical analysis of transport investment and operations and an investigation of the relationship between growth of production and freight movement.

Turning to irrigation, the author discusses the criteria used for deciding the scale and distribution of investment among different irrigation and power projects. One striking feature in this context is the tendency for actual costs to exceed estimated costs,

the main reason, according to the author, being inadequate geological and technological investigations in the early stages.

Employment aspects of investment programmes are also considered in the book and it is suggested that there is scope for greater expenditure on labour-intensive but productive fields of public investment.

HISTORY OF ECONOMIC THOUGHT, by S. K. Srivastava, Published by Atma Ram and Sons, Kashmere Gate, Delhi-6, 1965. Pp 684. Price: Rs. 15.

This is the second but revised and enlarged edition of the author's earlier book. In a systematic study of economic science, the study of development of economic thought is an important part and hence the subject of the history of economic thought is included in the economic syllabus in the Universities. But the standard works on the subject, mostly by western authors do not adequately meet the requirements of students in Indian Universities and Prof. Srivastava's book thus fills an important gap.

The book is divided into five parts, namely, Beginning of Economic Thought, Development of Classical Economics, Development of Economic Systems, Modern Economic Thought and Economic Thought in India. It traces the development of economic thought from the very early times to the present day and brings out clearly the economic ideas of each period of history and the ideas belonging to different schools of thought. The author has critically examined the ideas of various

economists and economic thinkers and has evaluated their contributions to economic thought. Prof. Srivastava has rendered a distinct service by including in the book a section dealing with economic thought in India which throws light on the economic ideas in ancient and medieval India and the beginning of economics in modern India.

The book is well suited as a text book for students of economics in Indian Universities. The list of suggested readings given at the end of each chapter is of considerable help to those who intend making a more detailed study.

— M. B. Nanjappa.

A MARITIME HISTORY OF INDIA, by K. Sridharan; Publications Division, Ministry of Information and Broadcasting, Government of India, New Delhi-6. Price: Rs. 7.50.

If we look at the map of India, we shall see that Geographically, she occupies a strategic position on all the important trade routes of the world. Her vast coastline stretches over 3,000 miles. The facts that India had great maritime tradition of the past and she had once a thriving ship building industry are well-known but so far, no attempt has been made to give a cogent and connected account of our maritime history.

This book by Mr. Sridharan, who is intimately connected with the Indian navy, serves this need. There numerous evidence available in Rigveda, Buddhist books and Indian mythology to show that Indian merchants made periodical voyages to countries in the East and West. Shipbuilding

and sea navigation were thus well-established in India in ancient times. This book contains all interesting details arranged chronologically from the ancient times to the present day. The author gives an extensive account of the growth of shipping during the reign of Moghul Kings, Vijayanagar Kings, Cholas, and Pallavas.

The last chapter adequately deals with the progress of shipping in India up to the present day. The author also enumerates the problems facing the Indian shipping industry. The book is written in a lucid style and contains many interesting facts pertaining to the maritime history of India.

— S. Natarajan

PRODUCTIVITY: Vol. VI, Nos. 2 & 3, 1965: Special Issue on Agricultural Productivity, National Productivity Council, New Delhi, Price: Rs. 6.

The second and third issues of the quarterly journal of the National Productivity Council for the year 1965 are brought out in a single volume as a special issue on agricultural productivity. It is a collection of papers on the problem of agricultural productivity prepared by specialists on the subject. They attempt to explain the need for applying productivity techniques in the field of agriculture in order to get the maximum return per unit of land and the input of labour.

Some of the articles deal with basic issues concerning productivity and there are also other pieces analysing the underlying causes of high productivity in the agriculture of Western countries. In the context of the fact that during recent years, when compared to the momentum gained by population growth, India's capacity to feed the growing millions has been decreasing and that, in addition, the present emergency calls for maximum efforts to step up production in

all sectors, and particularly in the agricultural sector, the special issue focusses attention on the achievement of sustained increase in productivity as the only permanent solution to India's agricultural backwardness, besides drastic reduction in the high birth-rate.

Increase in productivity is generally the result of more efficient use of the factors of production. Thus, productivity is essentially a physical concept, and basically is a physical relationship between output and the inputs. While this approach is necessary, it is of utmost importance to recognise that in a country like India there is an immediate need for a transformation of the low levels of personal aspirations of our people and of their attitude towards work and wealth which are also growth-determining factors. Then only productivity can become a mass movement in India.

— M. B. Nanjappa

INDIA: INSTALMENT CREDIT, EXTENT, STABILITY, GROWTH, by Kersi D. Doodha: Published by University of Bombay: Distributed by P. C. Manaktala & sons, 6, Fair Field, Road No. 4, Churchgate, Bombay-1: Price Rs. 17.50. Pp. 304.

Conservative economists have always been lukewarm to the proposition that instalment credit, popularly called hire-purchase, has any utility in a developing country like India. Their argument is that in a capital-scarce economy such as ours, there is no place for institutions that seek to encourage consumption. This criticism arises from the mistaken notion that instalment credit, by definition, is consumers credit. It is forgotten that instalment credit finance consumption as well as investment, thus contributing in a large measure to

economic growth by stimulating production.

Mr. Kersi Doodha has systematically dealt with the subject in his book which was originally written as a thesis and submitted to the University of Bombay. The author emphasises that instalment credit is capable of playing an important role in India where there is already a developed money and capital market, unlike many other backward countries where institutional finance is yet to be organised. He shows in his analysis how instalment credit benefits consumption, production, distribution and employment. He drives home the real impact of instalment credit on our economy where non-bank financial intermediaries play an important part in the canalisation of credit. The author also outlines the part played by sales finance companies acting as intermediaries in the promotion of instalment credit.

After making a thorough study of Indian conditions with respect to this form of credit, he recommends: (1) starting of sales finance companies; (2) increased participation of banks in indirect lending to finance houses; and (3) making available the technical know-how about instalment lending business. Mr. Kersi Doodha's book is a valuable contribution to the study of this comparatively new subject.

— J. Radhakrishnan

Publications Received

AICC Economic Review—special Number 70th plenary session of Indian National Congress, February 1966. Edited by P. N. Vesuvala and Published from 7, Jantar Mantar Road, New Delhi.

Socialist Congressman—Progressive Rajasthan Number. Edited and published by H. D. Malaviya from C-41, Nizamuddin East, New Delhi-13.



Dedicate your gold for the defence of the motherland. The gold will be returned to you after 15 years—blessed, burnished and brighter.

Serve your country—get Gold Bonds

Gold locked up is idle gold. Gold invested in Gold Bonds is active gold. Gold with Government means foreign exchange, badly needed for machinery, raw materials and defence equipment.

No questions asked

When you exchange gold, gold coins or gold ornaments for Gold Bonds, nobody will ask you how you got them. No action will be taken under the Gold Control or Customs Regulations.

Earnings from Gold Bonds

You earn Rs. 2 per 10 grammes (of refined gold) every year (one tola equals 11.66 grammes. A sovereign weighs eight grammes). Use this golden opportunity to earn an income on your old-fashioned ornaments of gold.

Compensation for making charges

If you tender ornaments, you get Rs. 3 per 10 grammes of refined gold as compensation for making charges. If you buy Gold Bonds with ornaments or with declared gold the gold returned by Government after 15 years may be converted into ornaments of any purity.

Issued by the Ministry of Finance, Government of India

Gold Bonds as security

You can borrow money from banks with Gold Bonds as security.

Exemption from taxes

The earnings from Gold Bonds are free of income-tax.

Gold Bonds do not attract Wealth Tax. Profits from the sale of Gold Bonds are tax-free.

Gold Bonds are exempt from Gift Tax for the first subscriber up to 5,000 grammes (about 429 tolas) in a year.

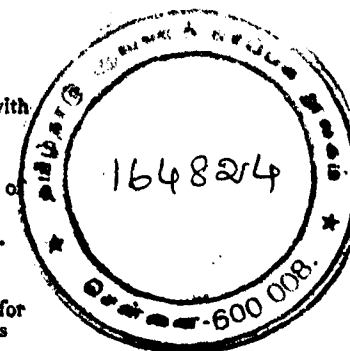
No Estate Duty is leviable on Gold Bonds when they are inherited for the first time, up to 50,000 grammes (about 4,288 tolas).

Where to get Gold Bonds

Gold Bonds are issued at the offices of Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi and all branches of the State Bank in India and its subsidiaries.

Help the country

The future of the nation and of those who are close to your heart depends on how much gold you exchange NOW. Put your gold to work in the service of the country.



JL
Xm 21, N 63 SE
N 63. 4-5

KEEP YOUR GOLD IN TRUST FOR THOSE YOU LOVE

Air Traffic Forecast for 1966

THERE is every indication that the year 1966 will be another good one for the airlines of the world. According to preliminary figures, 1965 was a particularly good year, better than 1964 which itself was good compared with earlier years. However, present indications are that it would be too much to expect growth in 1966 to match that of 1965 although it should come fairly close. Sir William P. Hildred, Director-General of IATA estimates that in 1966, the airlines should carry 205 million scheduled passengers, an increase of about 14 per cent; 229,000 million passenger-kilometres, an increase of about 15 per cent; and 6,150 million cargo tonne-kilometres, an increase of about 23 per cent.

The year-end traffic figures of International Civil Aviation Organization (ICAO) showed that not only were more passengers carried in 1965 by the world's scheduled airlines, but that the rate of increase was the highest in a decade. In 1965, ICAO paid particular attention to aviation safety, and took into account both man's increasing technological knowledge and the increasing density of air traffic.

At a special meeting called by ICAO last year, to consider the air traffic problems over the North Atlantic, action was taken to decrease the delays and difficulties experienced as a result of the very heavy air traffic over this area; the year-to-year increase in this traffic has resulted in virtual saturation of the air

space during the peak summer months. The first change made by the meeting—a reduction in the longitudinal distance between aircraft flying at the same altitude and in the same direction—went into effect before the summer of 1965, and helped to reduce the difficulties. The second change—reduction in the lateral spacing between aircraft at the same altitude from 120 to 90 nautical miles—went into effect on January 13, 1966, and will increase the number of aircraft able to fly over the Atlantic at one time by nearly one-third.

LUFTHANSA carried over three million passengers in 1965. According to the preliminary results, 3,295,000 passengers used Lufthansa's services during 1965, which constitutes an increase of 28 per cent over 1964. The increase in first class passengers was 48 per cent, whereas in economy class, the increase amounted to 28 per cent. The total cargo carried was increased from just over 40,000 long tons in 1964 to 56,800 (+ 35 per cent), airmail carriage was increased from 8,740 tons to 20,503 tons. The number of flights was up 25 per cent to a total of 67,000 flights.

SWISSAIR carried 2.2 million point-to-point passengers in 1965, an increase of 14 per cent over 1964. The carrier's network has a total length of 1,36,000 kilometres covering Europe, the Middle and Far East, Africa,

South and North America. Air cargo showed a gain of 25 per cent followed by airmail which was up 9 per cent. The load average in scheduled services advanced from 52.3 to 53.6 per cent. Seat utilization moved forward from 54 to 54.7 per cent. The announcement by the Scandinavian Airlines System pertaining to its order of DC-9 jet aircraft has found a positive echo with Swissair as the decision opens up prospects of a further co-operation between the two carriers.

AT the Annual General Meeting of the International Air Transport Association (IATA) in Vienna, held last year, the airline presidents agreed upon a charge for film or music entertainment on board commercial aircraft. This charge will be US \$2.50 per earphone in first and economy class. Should more than one film be shown on a long section, the same amount will again be charged for the second and each following film. This recommendation will become effective on April 1, 1966, if all IATA member airlines agree by means of a mail vote.

Advertise In
Southern Economist
24 (New), Haudin Road
Bangalore - 1
Phone : 75439

SOUTHERN ECONOMIST

Britain Struggles with Payments Deficit

By Colin Jones *

FOR once, Britain appears to be combating a balance-of-payments crisis without bringing the whole national economy to a grinding halt. In the past, Britain's "stop-go" saga has become almost an international byword. A boom in business gets out of hand; imports increase and exports slow down; corrective action, sometimes imposed too late or too harshly, brings on a protracted pause in the country's output growth. And then, in another fit of over-compensatory or mistimed stimulation, the next boom is spread on a scale too large for the nation's foreign currency reserves to withstand—and so on.

But this time, by judgment and perhaps a little luck, a bout of "go" has been followed by a bout not of "stop" but of slower growth. Argument still goes on over the responsibility for the 1964-65 economic crisis. Whatever the merits of the conflicting views, there is no doubt that the present management of Britain's economic affairs enjoys international confidence. And one of the reasons for this is that the rate of overall payments deficit has been cut quite drastically—to a bare £130,000,000 in the first quarter of 1965, and to yield a modest £9,000,000 surplus in the second quarter.

Favourable Auguries

This result was perhaps exceptional, but the auguries look very good food for the Government attaining its objective of halving

* Colin Jones is Editor of "Statist," London.

MARCH 1, 1966

the 1964 rate of deficit in 1965, and they are quite favourable for the further objective of eliminating the deficit altogether by the end of 1966. Simultaneously, despite the successive bouts of restrictive measures that have been taken to make this possible, the Government has managed to sustain the domestic growth rate at almost half-speed. Last autumn's National Plan envisaged an economic growth of 25 per cent between 1964 and 1970—or 3.8 per cent a year on average. The rate during 1965 looks like having been about half that.

Prospects for 1966

The prospect for 1966 is a growth rate slightly bigger, perhaps 2 to 2½ per cent, even if the Government decides to pare the further growth of its own spending programmes or increases taxation (or both) in order to make sure that the overseas books are put in balance within the year. One of the reasons for this slowdown of growth, rather than cessation, is that business confidence has not been destroyed by Government's measures. For once, capital spending plans have not been curtailed by the disappearance of boom conditions. British businessmen have taken a longer view of the need for capacity expansion.

Another reason is that consumption has not been as hard hit as some observers had expected partly because incomes have been rising faster than was hoped. And a third reason is that Britain's exports went soaring ahead throughout 1965 after the previous year's disappointments.

An encouraging development during the year is the progress made by the Government since October 1964 in securing the agreement of both sides of industry to a prices and incomes policy. The National Board for Prices and Incomes was set up, and the Government followed up each of the Board's reports in an effort to ensure that the main findings were accepted by the parties concerned. Arrangements for a voluntary "early warning" system on prices and incomes have also been agreed.

The aim of such a system is to give the Government an adequate opportunity to consider decisions concerning prices and pay before they are put into effect. The Government has declared its intention of taking statutory powers which can be held in reserve for use should the voluntary system prove inadequate.

A Good Start

Admittedly, the prices and incomes policy has not had much practical effect as yet, nor has it had much impact on the economy as a whole. But this can only come as the policy wins the approval and effective co-operation of both sides of industry. So far, not bad—is the British view of all this. The country is by no means out of the wood yet. For one thing, the large debts incurred in 1964 and 1965 will have to be repaid one day. But it is a good start and, with all the self-questioning and search for reform generated by the last crisis, this time the Britain's economic ills might be cured for good.

Indian Oxygen Earns More

THE speech of the Chairman, Mr. N. Dandekar, at the annual meeting of the Indian Oxygen Limited reveals that both the sales and profits of the company have increased substantially in 1965. Sales for the year totalled Rs. 14.09 crores, an increase of more than 16 per cent over the previous year's sales of Rs. 12.10 crores. All products contributed to the higher sales but the most significant contributions were made by oxy-acetylene welding equipment and electrodes.

The profit for the year, after providing depreciation of Rs. 70,44,600 (previous year Rs. 67,77,754), amounted to Rs. 1.77 crores as against Rs. 1.59 crores last year. Bearing in mind the rising costs and the fact that consequent upon the enactment of legislation concerning payment of bonus to workmen, the accounts for the year have been burdened with bonus charges for two years, the increase in profit, though not commensurate with the sales advance of nearly Rs. 2 crores, is satisfactory.

Tax provision for the year amounted to Rs. 1.04 crores as against Rs. 86 lakhs in the previous year, the higher incidence being due mainly to increased profits, lower development rebate and larger sur-tax provision. The amount transferred to Development Rebate is Rs. 5 lakhs (previous year Rs. 10 lakhs). After adding Rs. 16,630 brought forward from the previous year, an amount of Rs. 67.91 lakhs was available for appropriation. Out of this Rs. 1.17 lakhs has been transferred to Fixed Assets Replacement Reserve and the balance of Rs. 66.74 lakhs to General

Reserve. The Directors have recommended that the rate of dividend (subject to deduction of tax) should be maintained at 12 per cent.

Associated Battery

ALTHOUGH the sales of the Associated Battery Makers (Eastern) Limited have risen by about 18 per cent during the year-ended August 31, 1965, the profit has increased only by 0.4 per cent, due to the higher cost of raw materials. Taxation, as percentage of profit before tax, is however 6 per cent lower in view of the applicability to the company of some of the concessions allowed under the Finance Act, 1965. The profit, before tax, amounted to Rs. 69.08 lakhs compared to Rs. 68.84 lakhs in the previous year. The net profit amounted to Rs. 29.58 lakhs compared to Rs. 24.80 lakhs in the previous year. After deductions Rs. 1.08 lakhs for development rebate (Rs. 80,354 last year) and adding Rs. 9,464, being the balance of unappropriated profit from last year, the sum available for distribution is Rs. 28.60 lakhs compared to Rs. 25.06 lakhs last year. Appropriations to various reserves absorb Rs. 8.05 lakhs against Rs. 5.50 lakhs in the previous year. Out of the balance of Rs. 20.54 lakhs, a dividend at the rate of 14½ per cent has been recommended on the equity shares which absorb Rs. 20.53 lakhs. This leaves a sum of Rs. 1,178 to be carried forward.

Coromandel Fertilisers

DURING the year ended September 30, 1965, the losses of the Coromandel Fertilisers Limited amounted to Rs. 3.10 lakhs

against a loss of Rs. 14 lakhs incurred in the previous year. The accumulated loss stands at Rs. 25.26 lakhs. The company's authorised capital is Rs. 8.50 crores. The directors' report says that \$ 3.3 million were drawn from out of the Export-Import Bank loan to make disbursements in the USA.

The estimated cost of the project was originally Rs. 32.5 crores, inclusive of working capital requirements. Since then, the rate of import duty on machinery has been stepped up from 16½ per cent to 45 per cent. The final cost is thus going to be more than proportionately higher. The directors' report reveals that the construction work was started in the first quarter of 1965 and equipment has started coming in. The bulk of the equipment is expected to be landed by the middle of 1966. During the year, the company sold 46,618 tons of ammonium phosphate against 46,412 tons in the previous year. The increase of Rs. 11.90 per tonne in the price allowed by the Government from June 7, 1965 has been welcomed by the company.

K. C. P. Limited

THE Directors' report of the K.C.P. Limited for the year ended June 30, 1965 reveals that although the total turnover has increased from Rs. 8.08 crores to Rs. 9.18 crores and the profit (before depreciation and taxation) from Rs. 1.41 crores to Rs. 1.49 crores, the dividend has been maintained at 15 per cent on equity shares. This underlines the prudent and sound policy followed by the company in conserving its resources. The net

profit of the company (after depreciation and taxation) available for appropriation and dividends is Rs. 47.8 lakhs compared to Rs. 31.1 lakhs in the previous year. The reserves stand at Rs. 2.24 crores compared to Rs. 1.98 crores in the previous year. The gross block stands at Rs. 6.91 crores.

The sugar factory crushed cane for a period of 196 days and produced 46,210 tonnes of sugar including 24,017 tonnes of raw sugar for export, as compared to 36,612 tonnes of sugar produced during the previous year. The average recovery was 9.32 per cent as against 10.08 per cent in the previous year. The fall in recovery is due to the longer crushing season.

Production of Cement during the year was 2.00 lakh tonnes as against 2.07 lakh tonnes in the previous year. The fall in production is due to the unprecedented floods in Macherla and dislocation of communications. The production during the current year is expected to reach the licensed capacity of the plant.

During the year, the Company received a letter of intent for setting up a plant for the manufacture of asbestos cement pressure pipes at Macherla. Necessary arrangements are being made. The Company has been granted a licence for increasing the crushing capacity of the sugar factory at Vuyyuru from 2,500 tonnes to 3,750 tonnes per day and the equipment required for the expansion will be manufactured in the Company's General Workshops.

Union Bank

THE pre-audit figures of the Union Bank Limited for the year ended 1965 reveal a net profit of Rs. 34.27 lakhs compared to Rs. 32.29 lakhs in the previous year. This figure is arrived at after providing for taxation and making other provisions. Including an amount of Rs. 1.46 lakhs

brought in, the total sum available for distribution will be Rs. 35.73 lakhs, compared to Rs. 33.86 lakhs in the previous year. The depreciation provision is Rs. 60,000 while Rs. 8 lakhs have been set aside for the reserve fund. Dividend, at 12 per cent, on the enlarged capital, absorbs Rs. 12.75 lakhs against Rs. 12 lakhs in 1964. The balance of Rs. 14.39 lakhs (subject to the payment of bonus to staff) is carried forward.

Indian Overseas

THE performance of the Indian Overseas Bank in 1965 is impressive. The Bank shows a net profit of Rs. 24.03 lakhs in 1965 compared to Rs. 22.48 lakhs in 1964. A sum of Rs. 7 lakhs is earmarked for bonus to staff, compared to Rs. 4 lakhs the previous year. Another sum of Rs. 3.50 lakhs has been set apart for the Reserve Fund. Dividend, at 14 per cent (same as last year), absorbs Rs. 14 lakhs. A sum of Rs. 23,567 is carried forward. The Bank's deposits stand at Rs. 54 crores compared to Rs. 47 crores at the end of 1964.

New Issues

J. K. Engineering Works Ltd., a new company incorporated in U. P. with its registered office in Kanpur, has been authorised to issue capital of Rs. 80 lakhs. This will consist of Rs. 60 lakhs in equity shares of Rs. 10 each and Rs. 20 lakhs in preference shares of Rs. 100 each for cash at par. Out of the issue, such number of each class of shares as would qualify for listing on recognised stock exchanges will be offered for public subscription. The money will be used to set up a new industrial undertaking in Kanpur for the manufacture of cast iron spun pipes. This is in supersession of an earlier consent for the issue of capital of Rs. 75 lakhs.

Rajasthan Fertilisers and Chemicals Corporation Ltd., a

new public company incorporated in Rajasthan with its registered office in Jaipur has been authorised to issue capital of Rs. 7.50 crores divided into 7.5 million equity shares of Rs. 10 each, to be issued for cash at par. Out of the issue, shares of the value of Rs. 3.68 crores will be offered for public subscription. The remaining shares each of the value of Rs. 66,66,660, Rs. 75,00,000 and Rs. 75,00,000 will be offered, respectively, to the company's three foreign collaborators, Stamicarbon of Netherlands, Bechtel of the U. S. A. and American International Oil Company. The Indian directors and associates will subscribe Rs. 1.66 crores. The money will be utilised for establishing and operating a nitrogenous fertiliser factory in Kota, Rajasthan.

Telefunken India Ltd., a company to be registered and incorporated in Delhi, is to issue capital of Rs. 75 lakhs divided into 750,000 equity shares of Rs. 10 each for cash at par. Out of the above, 367,500 equity shares will be offered to Telefunken A.G., Germany who are the foreign collaborators, 120,000 equity shares will be subscribed by Mr. Ravi P. Gupta and his friends and associates and 262,500 equity shares will be offered to the public.

Protos Engineering Co. Pvt. Ltd., Bombay, is issuing capital of Rs. 2 lakhs divided into shares of Rs. 100 each. The bonus shares will be issued to the existing shareholders of the company on capitalisation of the company's general reserve to a like extent.

The Aluminium Industries Ltd., Kundera, Kerala, a public company, is to issue capital of Rs. 28,92,850 divided into 289,285 equity shares of Rs. 10 each, to be issued as bonus shares on capitalisation of the company's share premium account to a like extent.

Hesitant but Hopeful

By "Luzer"

THAT there was long-liquidation in the post-budget sessions of the stock markets was only to be expected since the markets, in their over-optimism, were looking for a give-away budget on Monday evening. A small "dip" of this kind need not cause undue concern so long as they indicate a corrective process, from an over-bought position. There was not much of hectic activity really but if one could discern some selective buying on the eve of the budget, it was because Mr. Chaudhuri's recent pronouncements and the hints contained in the *Economic Survey* led one to feel that the major obstacles to capital-formation would be removed and the entire scheme of corporate taxation would be reorganised.

Additional Taxation

Mr. Sachindra Chaudhuri did not disappoint the investors although his measures, taken in their totality, appeared to add to the total burden of the tax payers. For one thing, it would be wrong to assume that the markets were surprised by the size of the additional tax effort, which was to the tune of Rs. 101.51 crores. This consisted of Rs. 52.86 crores by way of changes in excise duties, Rs. 22.14 crores by way of changes in personal taxation and Rs. 36 crores by way of changes in corporate taxation.

Among the changes that have an immediate bearing on market sentiment, may be mentioned (1) the abolition of the capital gains tax on bonus shares (2) the scrapping of the 12½ per cent Bonus Issue Tax (3) the changes

in the 7½ per cent Dividend Tax (4) the lowering of the effective rate of Surtax and (5) the broadening of the scope of development rebate and depreciation allowance. Firstly, the investing class was highly critical of the imposition of the capital gains tax on the bonus shares allotted to shareholders. Under the change proposed, the shareholder will not be liable to taxation on "notional" capital gains. The 10 per cent relief given in the last year's budget was not of much help. Secondly, the markets have welcomed the abolition of the 12½ per cent tax on bonus shares which represent the capitalisation of reserves. This tax had ceased to be of any significance as a revenue-earner since companies have ceased to issue bonus shares after the levy of the tax on "notional" capital gains accruing on the issuance of such shares.

Dividend Tax

Thirdly, the liberalisation of the 7½ per cent dividend tax should improve the equity outlook but it cannot be taken for granted that the dividend policy of the companies would be liberalised on this score. Formerly, the tax was leviable on the whole dividend declared or distributed during the previous year. Now, the dividend tax is leviable only on that part of equity dividend which exceeds 10 per cent of the paid-up equity capital. This will benefit companies to the extent of Rs. 5 crores. What is more significant, it will enable companies to follow a realistic dividend policy which is attuned to the

existing structure of interest rates. It is too early to assess the adverse impact of the general increase of 10 per cent in the tax on corporate incomes.

The extension of the list of "priority" industries (for purposes of the higher development rebate of 35 per cent) to include tea, newsprint and printing machinery will marginally reduce the burden on these industries. The shipping industry gets a shot in the arm in the shape of the reduction in the requirement that 75 per cent of the development rebate should be put into a reserve. This is reduced to 50 per cent "in order to provide an incentive for fresh investment in this industry where the levels of profitability are relatively low". Further, benefits that the tea industry gets by way of a liberalised development allowance for new planting (40 per cent to 50 per cent) and re-planting (from 20 per cent to 30 per cent) are not insignificant.

Larger Savings

The investing class will also welcome the new basis suggested for determining the tax deductions in respect of "closely-held" companies. From the market angle, the raising of the individual income tax exemption-limit by Rs. 500 as also the exemption limit for ADS is to be welcomed as they pave the way for a larger flow of personal savings into the corporate sector. As to the changes in the excise duty, the sugar and textile industries are likely to be adversely affected since they may not be able to fully pass on the entire tax burden to the consumer.

COMPLETE ADDRESS SPEEDS DELIVERY

INCOMPLETE
ADDRESS
DELAYS
DELIVERY

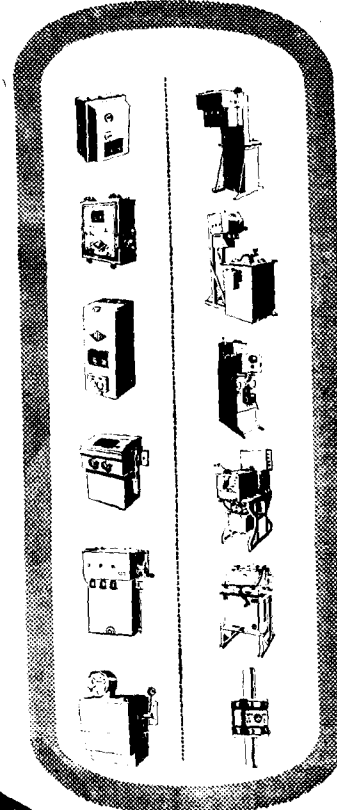
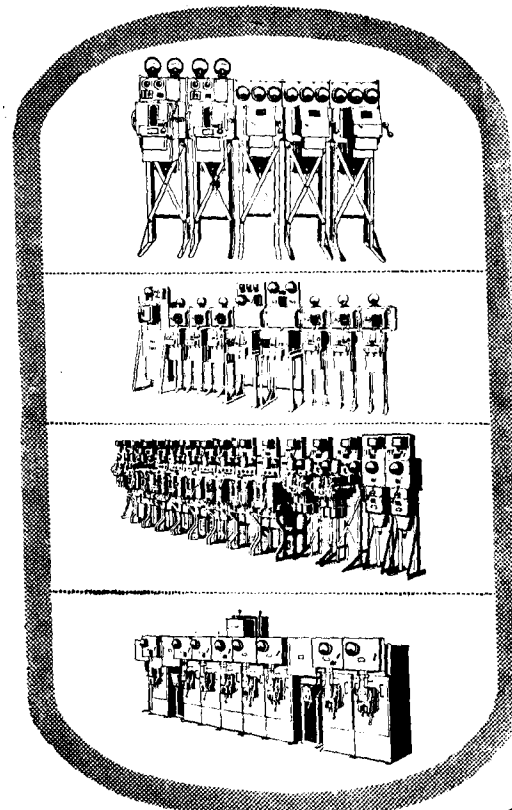


INDIAN POSTS & TELEGRAPHS

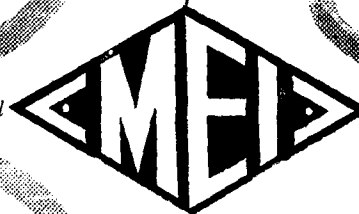
Regd. No. BG. 61

Registered with the Registrar of Newspapers for India under No. R .N. 7523/62

Southern Economist



Safest for everything in electric power control



HV & LV SWITCHGEAR AND AC MOTOR CONTROL GEAR

Noted for their inherent reliability and liberal design, MEI products are sturdily built to withstand exacting tests under severe working conditions. MEI equipments are in use throughout India in large factories, industries, electricity undertakings, power stations, etc. and have gained an excellent reputation for dependability and efficiency in performance.

Manufactured by:
THE MYSORE ELECTRICAL INDUSTRIES LTD.
Bangalore

Sales & Service

I.A.E.C.

(BOMBAY) PVT. LTD.

43, Forbes Street, Bombay 1.

Branch at: "K" Block, Chawdhary Bldg., Connaught Circus, New Delhi

Associated Offices:

I.A.E.C. (Madras) Pvt. Ltd., 'Dinroze Estate', 2/11-G, Mount Road, Madras 2

I.A.E.C. (Mysore) Pvt. Ltd., 54/55, Silver Jubilee Park Road, Bangalore City.

I.A.E.C. (Hyderabad) Pvt. Ltd., Borman Bldg., Gunfoundry, Hyderabad.

I.A.E.C. (Calcutta) Pvt. Ltd., 19, Rajendranath Mukherjee Road, Calcutta 1.

2
check up
how we are
getting 2 copies
of this magazine
A
22/4

Report on
Monopolies

southern economist

April 1, 1966, Vol. IV : No. 23 : 42 Paise

HEXANE HELPS CATTLE FEED EXPORT

Hexane is the most widely used solvent for vegetable oil extraction. Solvent extraction not only yields far more oil than does mechanical pressing but also produces a purer meal with a lower fat content. This means that Hexane helps to produce a meal with better "keeping properties", a more neutral taste and less protein degradation, all of which are essential for cattle feed. Most important of all, Hexane extracted oilcake meets the specifications of export markets. In the year ending March 1965, India exported approximately Rs. 38 crores worth of oilcake to the U.S.A. and other markets. ■ Hexane was wholly imported until 1962, when Esso began manufacture of this product locally. The Solvent Unit of the refinery was designed and constructed entirely by the refinery staff to meet India's demand for this product. ■ With its vast experience and worldwide research facilities, Esso is continually widening the horizon of progress for the prosperity of man—today and tomorrow.



SOUTHERN ECONOMIST

April 1, 1966

CONTENTS

EDITORIAL	1
Prelude to Reform	
NOTES OF THE FORTNIGHT	2
Managing Agencies ; Fertiliser Policy ; Coffee Prices ; Sugar Decontrol ? ; Bokaro Estimate ; Liquidity Stalemate ; Modernising Agriculture	
BOOKS	8
Tea Price Stabilisation — Reviewed By M. R. Krishna Murthi	
GLASS HOUSE GOSSIP	9
SPECIAL ARTICLES	11
Budget and Distribution of Fiscal Burdens — By A. T. Akolkar	
Monopoly Report — Reviewed By M. R. Krishna Murthi	
The Case of Developing Countries — From a Correspondent	
COMPANY MEETING	20
Speech of Mr. K. P. J. Prabhu, Chairman, Canara Bank	
COMPANY NOTES	22
India Sugars and Refineries ; Salar Jung Sugar ; Hindustan Lever ; Union Carbide ; Pfizer's New Issue	
STOCK MARKETS	24
Trends and Portents — By our Market Analyst	

SOUTHERN ECONOMIST
Published on 1st and 15th of
every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Prelude to Reform

It is indicative of our lop-sided approach to the country's economic problems that in the last four weeks, our financial pundits were preoccupied with the Central budget practically to the exclusion of everything else. The budget, it is true, continues to be the "pace setter" of the economy but the wide range of major and subsidiary ailments that the economy is groaning of, cannot be ascribed wholly to the inappropriateness of the present fiscal policy. Viewed in the light, Mr. Sachindra Chaudhuri's quotations from Kautilya's *Artha Shastra* was as irrelevant as the business community's "blanket" opposition to additional taxation. Such things are perhaps unavoidable in a budget debate in which heat and light were released in roughly equal proportions. The new Finance Minister—so it seemed—was more sure of himself and less sure of his economics. His ready repartee and *sang froid* won him more admirers than adherents. But Mr. Chaudhuri cared less. If the Congress comes out of the 1967 elections unscathed, it will do well to assign a more important role to Sachindra than to be mere "figure-head" minister of a prickly portfolio. The present situation calls for good housekeeping—not a profound knowledge of Keynesian economics. The party cannot afford to "disown" him, even if, at times, he appears to debunk some of the cherished dogmas which are dear to the hearts of many Congressmen. What Mr. Chaudhuri needs, in the present difficult situation, is a pat on the back (although he is not very keen on it), a long broom for clearing the cobwebs in inaccessible corners and a pair of sturdy scissors to clear and trim the overgrowth. All this sounds simple but these are precisely the things which our Congressmen are reluctant to entrust Mr. Chaudhuri with.

The despair of Congress theoreticians (and theologians?) appears to be that their new Finance Minister has an uncomplicated mind. The intelligent among them, one hopes, will not be slow in recognising the advantage of having at the helm a Finance Minister whose faculty to see things clearly is not dimmed by the vicissitudes of the party's fortunes. It is pointless to dwell on the question, after four weeks of intense debate, whether Mr. Chaudhuri's budget is a sound one. It can be termed "sound" in the sense that the budget may not have grossly under-estimated the revenues and over-estimated the expenditure. It is also pointless, now that Mr. Chaudhuri has refused to withdraw the 10 per cent surcharge on corporate and personal taxation, to ponder whether the tax incidence is so severe as to cripple the capital market further. In any event, the Finance Minister is right in asserting that the 1966-67 budget has not caused a landslide in equity values; on the other hand, there has been a small improvement which is the direct result of the removal of the "psychological irritants". Heartening as these faint signs of a "revival of confidence" are, it is time the Indira Gandhi Government made an unequivocal declaration that the private sector will be given all reasonable incentives to thrive within the spheres assigned to it and that, on no account, there would be indiscriminate take-over of the private sector units. It is still intriguing on what basis the planners have assigned to the private sector the task

of investing Rs. 2,400 crores in organised industry during the Fourth Plan, considering that the bulk of it must come from surpluses generated within the industry.

Adoption of the policy of decontrol and measures aimed at attracting a larger volume of foreign capital will make the private sector's task less difficult but a precondition for the success of the Government's fiscal policy is stability of prices. At the time when the new Government was ushered in, there were indications that the planners were feeling their way towards an incomes policy. The Government has shown its inability to restrain wages and profits within the limits justified by increases in productivity — a failure which can be ascribed to the price-spiral and the basic ingredients of an incomes policy are thus conspicuously absent in the present situation. Mr. Sachindra Chaudhuri will be serving the larger interests of the country best only if he politely, but firmly, refuses to be bulldozed into adopting a short-sighted fiscal policy aimed

primarily at "catching the votes". He should, with the concurrence of his colleagues, institute an expert enquiry into the causes of the present economic malaise and prepare the ground for a radical reform of the fiscal and monetary policies, at least after the next general elections.

This does not mean that he should maintain *status quo* or that he can afford to allow the present dangerous drift to continue, for the time being. The drive against unaccounted money, initiated by the former Finance Minister, has not brought out any significant amount of black money. If Mr. Chaudhuri is genuinely anxious to make a frontal assault on inflation, he should not hesitate to adopt measures which may cause dismay among a section of businessmen. Responsible economic journals will be unwittingly serving the cause of anti-social elements if they attempt to elaborate on what the Finance Minister should do in this highly sensitive area. Lack of clarity may be forgiven under certain exceptional circumstances.

NOTES OF THE FORTNIGHT

Managing Agencies

Hints of Retreat?

IMPATIENCE over the delay in abolishing the managing agency system, expressed in the Rajya Sabha recently, is not difficult to understand in view of the haphazard manner of managing agency renewals that have taken place at the end of last year. Assurances to the effect that the system would be ended by 1960 are recalled and there have also been rumblings of discontent over the fact that the agency terms of some of the companies have been extended for as long a period as 10 years. It is not clear, however, whether it has been done before or after the appointment of the Managing Agency Enquiry Committee headed by Dr. I. G. Patel. Now that the Law Minister, Mr. Pathak has assured that action on the Committee's recommendations will be expedited, it may not be

wise to jump to hasty conclusions.

In any case, the desire of the Government not to hustle things through cannot be considered as a sign of "retreat" since outright refusal to renew the terms of the agencies will have caused a void which will have further depressed the investment market. The trend of opinion among industrialists is generally against the abolition of the system. This can be attributed to the influence of the leading business houses where the system is deeply rooted. The Monopolies Inquiry Commission, which preferred not to go into this question—at any rate, not to make any recommendations on it—was not unanimous about the role of managing agencies *vis à vis* the concentration of economic power. In his dissenting note, Mr. R. C. Dutt is quite emphatic on the point that "the Managing Agency system is a potent instrument of concentration of econo-

mic power and that, to the extent concentration has to be discouraged, this instrument must be dealt with".

The reluctance of the Commission to make specific recommendations on this question lends special significance to the findings of the Patel Committee. It is pointless to speculate, however, on what the Committee has recommended. After all, the Committee itself was appointed under Rule 11 of the Companies (Central Government's) General Rules and Forms, 1965, "to make an enquiry into the desirability of applying the provisions of Section 324 of the Companies Act". Under this section, the Government has powers to declare, if it so desires, that certain categories of industries shall not have managing agents from a specified date. In view of this, the Patel Committee may have recommended "phased and partial abolition" of the system instead of outright abolition in all indus-

tries within a specified time-limit. It is not adequately realised that the abolition of the system of management, which have proved too costly in the case of many industries, does not alter the pattern of corporate share-ownership. Progressive industrialists should welcome a change-over of this system, to more modern methods of corporate management. No tears were shed when the *zamindari* system was abolished in our agriculture. And one can be certain that not many will weep their hearts out over the abolition of the managing agency system. The question facing the Government is only one of evolving a suitable *modus vivendi*.

Fertilisers

Pride and Prejudice

MUCH of the criticism of the Government's new fertiliser policy—particularly the seven-year holiday from controls—stems from an inadequate appreciation of the industry's problems and the country's present predicament. The fertiliser targets for the Fourth Plan are linked with the production targets in the agricultural sector. The foodgrains production target of 125 million tons is, to some extent, largely dependent on the country's ability to produce enough fertilisers. The adequacy or otherwise of the fertiliser targets will have to be judged only from this stand-point. The Fourth Plan aims at a consumption target of 2.4 million metric tons of nitrogen, one million tons of phosphate and seven lakh tons of potassic fertilisers. This target has been recently checked and endorsed by a team of U. S. A. I. D. experts who, in their report, have underlined the need for achieving a large percentage of these targets in the early years of the Fourth Plan. The U. S. experts, ready endorsement of the Government's new policy

may be attributed to an ingrained "private sector bias" but one cannot remain blind to facts.

Nowhere are the shortfalls in production more evident than in the field of fertilisers. Against the Third Plan target of one million tons of nitrogen, the likely achievement is only of the order of 65 lakh tons. Against the target of 5 lakh tons of phosphatic fertiliser, the achievement will be of the order of only 2.5 lakh tons. Similarly the production of potassic fertilisers will be only 1.5 lakh tons against the modest target of 2 lakh tons. While it is pointless to apportion the blame for this shortfall, the fact remains that the public sector was able to achieve 81 per cent of the target assigned to it, against the private sector's achievement of just 3 per cent. The Government has learnt the bitter lesson that it is not enough merely to issue licences up to the targeted capacity, hoping that the fertiliser plants would come up according to schedule.

If things went awry during the Third Plan, it was largely because, fertilisers being a capital intensive industry, the necessary foreign exchange was not available and the Indian entrepreneurs could not find foreign collaborators who are ready to put in their capital and know-how in the fertiliser industry. Those who were willing, like Bechtel, put forward terms which seemed patently unworkable. The Bechtel Corporation of U. S. A., which had offered to set up five nitrogenous fertiliser plants of two-lakh ton capacity each, insisted on a 20 per cent return which could not be guaranteed except by adopting a pricing policy which went against the interests of the Indian farmer. There were other snags like Bechtel's insistence on 50 per cent partnership and on the company's right to import the crude needed to produce the required naphtha. There was also

a wide divergence between what the Government considered as the reasonable cost (Rs. 175 crores) and what Bechtel proposed (Rs. 200 crores). It is the failure of the Bechtel negotiations, coupled with the urgent need for raising foodgrains production, which led to a re-thinking of the policy in respect of setting up new fertiliser units.

The key-note of the policy announced in December last year is that the fertiliser units already licensed and those to be licensed in future will enjoy complete freedom of pricing, sale and distribution for seven years from the start of production. What this "freedom" will mean in terms of the price of the final product is a purely hypothetical question since pricing—under a free market mechanism envisaged under the new policy—will depend on how far the public sector will progress in increasing its share of production. At the time of announcing the policy, the former Minister, Prof. Humayun Kabir observed that the public sector will have a decisive voice in any pricing arrangement since it will command 75 per cent of the future of output of fertilisers, quite apart from the 30 per cent of the private sector production it can take up "at a negotiated price". After all, any future negotiation with prospective collaborators will have to be based on the principle of "give-and-take" and it would be unrealistic to expect that the terms they offer should suit our petty considerations of national pride. On crude supplies needed for the production of naphtha, the collaborators can be expected to adopt a helpful policy and there should be no difficulty in ensuring the use of surplus naphtha that will be available in our refineries.

Since some of the new fertiliser factories will be taken up by the collaborators in the refinery projects, indigenous supplies of

naptha can be easily supplemented by naptha produced out of foreign crude. Price-reductions are possible in the process based on naptha but costs may not immediately come down to international levels. However, fears about the foreign combines exploiting the Indian consumer appear largely exaggerated since, even under the new arrangement, the Government will have the means to prevent profiteering by foreign firms. Besides, unlike soap or dentifrice, fertilisers are not products which can be sold across the counter, in a neat package. Fertiliser marketing needs a good deal of extension work and in a country which still follows antiquated methods of farming, it will not do merely to dump the product on the lap of the farmer. This point needs to be emphasised particularly since the cost of marketing is not an insignificant element in the total cost of producing fertilisers. The fertiliser firms are actually expected to play a vital role in bringing about a technological revolution in agriculture. Freedom of pricing is too small a price that the country will pay to the foreign collaborators for helping the modernisation of our agriculture.

Coffee

Fewer Cups

IT is doubtful if the appeal of the Coffee Board Chairman to the Coffee "addicts" in India to reduce their coffee consumption in the interest of boosting exports will evoke their ready response. This is not because of any lack of patriotism but because habits die hard. If it is merely a question of satisfying internal demand, which is estimated at 40,000 metric tons, the home market can be saturated with adequate releases since the production, even in the current lean year, 1965-66, is estimated at 60,000 tons.* The

* Since this was written, the figure has been upgraded by 3,000 tons.

Coffee Board has however decided in favour of a policy which is designed to satisfy the external and internal markets to the maximum possible extent. But supplies are yet to catch up with demand. That the Board is not altogether unmindful of internal needs will be evident from the fact that internal releases increased from 35,200 tons in 1964 to 37,000 tons in 1965. When one considers that there has been a drastic fall in production from 68,922 tons in 1963-64 to 60,000 tons in 1964-65, the proportion of internal releases to exports has actually gone up in spite of the decline in production.

In the context of the pressing need to earn more foreign exchange, it is doubtful if internal releases can be maintained even at the 1965 level of 37,000 tons since that will leave just about 24,000 tons for exports, against the total export requirement of 33,500 tons. If the Board goes all out for boosting exports—irrespective of what its impact will be on the internal market—the coffee trade in the country will have to remain content with a supply of about 27,500 tons, against an estimated demand of 40,000 tons. Mercifully, the Coffee Board had adopted the "golden mean" in fixing internal and external quotas. Internal releases will be limited this year to 33,000 tons—4,000 tons lower than last year's release and about 7,000 tons short of the estimated demand. This shortfall is likely to lead to a price-rise in the internal market and it is wondered how the Board can keep down prices at the 1965 level.

In a competitive product like coffee, which is exposed to substitutes, appeals to restrain consumption may not be in the long-term interest of the industry since the consumer has a tendency to switch-over to substitutes. If shortages are unavoidable, at least till the next harvest, which promises to be a better one, the

Board can well ponder the desirability of setting up its own retail depots in major consuming centres for selling raw coffee at fixed prices. So long as shortages last, the Board will also be justified in reducing supplies to hotels by at least 25 per cent so that supplies to domestic consumers can be maintained at the present level. Considering that prices in 1965 ruled quite high (Plantation A fetched up to Rs. 282.88 per 50 kilos, against export prices which were lower) in spite of substantial increases in internal releases there appears to be no escape from exercising some control over distribution.

While the industry cannot afford to neglect the home market, which is its mainstay, it may not be wise to weaken our hold on the export market although India's share in the world imports is only 1.3 per cent. At the meetings of the International Coffee Council, India's spokesmen have persistently argued for a larger quota. But for this year's unexpected fall in production, the quota of 23,371 tons would have proved quite inadequate. The offtake of Indian coffee by non-quota countries will add up to another 10,000 tons. This explains the present dilemma of the Coffee Board which has to safeguard the interests of the consumers as well as the producers.

Sugar

Force of Habit

THE Government's indecision over the question of decontrolling sugar is difficult to understand. Controls are justified only by scarcity, or in the case of strategic commodities, by other valid considerations; but sugar is neither scarce nor is it a strategic commodity. Can the delay in announcing the new policy be attributed merely to force of habit? Now that Mr. Sachindra Chaudhuri's reply to the budget debate contains a hint to the

effect that there may be partial decontrol of sugar, one may look forward to "sweeter" days ahead, although much of the "sweetness" is taken away by the increased excise duty announced by him. Incidentally, this levy will net in a sum of Rs. 22 crores for the exchequer. If cement, which is still in short supply, can be decontrolled, why not sugar which is plentiful?

Sugar production in 1965-66, the current season, is estimated to be around 33 lakh tons, although earlier estimates had placed the figure higher, at 34 to 35 lakh tons. Even assuming a production of 33 lakh tons, one can safely say that there is enough to go round. Production in 1964-65 was 32.6 lakh tons. It was 21.6 lakh tons in 1962-63. If the last year's carry-over is also included, the total quantity available would be around 40 lakh tons. Allowing 27 lakh tons for internal consumption and five lakh tons for export, we will have a comfortable carry-over of nine lakh tons which should be quite sufficient to meet any adverse situation. Considering that internal consumption in the last two years has not exceeded 24 lakh tons and exports, three lakh tons, the expected carry-over of nine lakh tons may turn out to be higher by two to three lakh tons, bringing it roughly close to the Sen Commission's stipulation of 12 lakh tons as a precondition for decontrol.

If a section of the industry favours the continuance of controls, it may be because of the fear of a slump in prices. Curiously enough, the Food Minister is reluctant to lift the control of sugar in view of the possibility of prices shooting up in the free market. But a sound policy cannot be based on subjective calculations alone. Partial decontrol, suggested in some circles, can only be a very unsatisfactory arrangement since it will be based on two channels of distribution, involving unnecessary duplication of effort. Its

implications need therefore to be studied carefully. Under partial decontrol, the industry may be allowed to release a certain percentage of its production for "free" sale, with the Government continuing to control the distribution and sale of the bulk of production. In the present context of adequate supplies, partial decontrol will help neither the consumer nor the industry.

In any event, the present policy of "ad-hoc-ism"—a term borrowed from the Sen Commission—should give place to a positive policy designed to give a fair deal to the consumer and to place the industry on a sound footing. What the ingredients of such a policy should be has already been outlined by the Sugar Enquiry Commission. But the most difficult riddle to solve is the riddle of high costs of growing sugar cane. There is, as yet, no sure indication that the new licensing policy will be biased in favour of areas giving high yield—such as Maharashtra and Southern States—and fears that political considerations play a large part in giving new licences are yet to be dispelled. If the Government is really serious about building an export market for Indian sugar, it has to follow a policy aimed at discouraging the expansion of cane acreage in the north, where the per acre yield and sucrose content of cane are comparatively low. As to the pricing policy for sugarcane, there is something to be said in favour of linking the price, above a minimum, with the percentage of sugar recovery, although it means lower prices for growers in the less fertile areas. A point which our policy makers are chary of admitting is that Indian sugar may probably never hope to establish a commanding position in the world market.

The policy of subsidising exports may be justified in the present context of the need to earn more foreign exchange, but when

normalcy is restored, it loses its validity. Actually, subsidised exports are harmful to the long-term interests of the sugar industry inasmuch as subsidies are linked to domestic prices, directly or indirectly. This is because subsidised exports inhibit the growth of the domestic market and high prices, boosted further by excise duty increases, drive the consumer towards the *khand-sari* sector and substitutes like *gur*. The immediate future for the industry does not seem very bright since it will be handicapped by the shortage of raw materials like sulphur and the obstacles that stand in the way of modernisation. For an agriculture-based industry like sugar, it is very important that cost of production is brought down not only at the factory level but also at the farm level. Development of large-scale co-operative sugar farms, attached to co-operative sugar factories may help in reducing costs all round. But where the interests of farmers and the sugar producers clash, it will be difficult to bring down costs.

But still, if investment in sugar industry holds a fascination for the entrepreneur, it is largely because of its growth prospects. By international standards, the *per capita* consumption of sugar in India is very low. With the improvement in standards of living, the internal offtake is bound to go up. The Sen Commission estimates that the internal demand will go up to 37.6 lakh tons by 1970-71 and to 53.4 lakh tons by 1975-76. With the export requirements placed at 7.5 lakh tons and 10 lakh tons respectively, the overall demand is estimated at 45 lakh tons by 1970-71 and 63 lakh tons by 1975-76. Targets based on these projections may not be difficult to achieve, since the country already has enough capacity to fabricate sugar manufacturing machinery but in granting new licences, the

Government should not overlook cost considerations.

Bokaro

Cost Conundrum

THE Bokaro project report has now been approved by Government. If the Russians were understandably annoyed over the Centre's delay in approving their project report over Bokaro, the Indian planners are equally puzzled as to how they can dovetail the Bokaro blue-print to the rest of the Fourth Plan steel programme. Mr. M. R. Masani's pungent aside about the Taj Mahal notwithstanding, the planners are genuinely earnest about starting work on this fourth public sector steel plant although they may want to knock some frills off the "Gipromez" report. The Russians may not really object to peripheral changes but our experience of Russian collaboration in Bhilai and elsewhere reveals that they can be quite sensitive over such things. The Government has however taken the most sensible course in approving the broad outlines of the Project up to the 1.7 million-ton stage and giving the green signal to the Russian collaborators to go ahead with the task of placing orders with individual factories in Russia for the necessary equipment which is not indigenously available. Indeed, any delay in taking a firm decision, at least on this part of the Bokaro project, would have lengthened the schedule by nearly 12 months since Russian factories plan their production one year in advance.

Many significant developments have taken place since the project report was handed over to the Government of India by Russia, in December 1965. Firstly, there has been a change of Government with consequent reshuffling of the

portfolios. Steel has now been transferred from Mr. Sanjiva Reddi to Mr. T. N. Singh. Secondly, the foreign exchange situation has grown so acute that a rethinking of the Fourth Plan strategy has become almost unavoidable. As is well known, the present estimate of cost for a 4 million-ton Bokaro is higher than the U.S. Team's estimate of Rs. 703 crores and the Dastur estimate of Rs. 638 crores. It is pointed out however that there has been cost-escalation of the order of 10 per cent per year since the earlier estimates have been made and secondly that the Russian estimates include the impact of the excise duties. Considering that the indigenous content of Bokaro will be of the order of 60 per cent, the Russians were probably right in taking a serious view of the inflationary conditions prevailing in the country.

The 22-member technical committee, which went into the entire question, in the light of the need to accommodate the other projects in the Fourth Plan's steel programme, has not favoured any major changes in the Soviet project report. But this technical committee's findings are again being processed by a four-man team of economic secretaries. One useful contribution of the technical committee is its breakdown of the cost-estimate for the 1.7 million ton stage, which is placed at Rs. 626 crores. Out of this, the cost of the plant alone works out to Rs. 559 crores. The difference between the Russian estimates and the technical committee's figures can be partly explained by the incidence of increased excise duties. The former Steel Minister, who was greatly concerned over the high cost of Bokaro was toying with the idea of dispensing with some parts of the project, like the 8.60-lakh ton blast furnace (to produce pig iron), the galvanising

unit (to produce G.I. sheets) and the tar processing plant.

The technical committee does not seem to have favoured any such changes in the project report. The question now is not whether to drop Bokaro but whether to have the fifth public sector steel plant too during the Fourth Plan. The secretarial committee, which is going into the Bokaro cost estimates, can be expected to throw some light on this question too. Out of the tentative Fourth Plan provision of Rs. 1,025 crores, only Rs. 318 crores had been ear-marked for Bokaro, first stage. If the Russian project report is accepted as it is, with minor changes, this provision will have to be nearly doubled. Since there is hardly any scope for pruning the outlay on expansion schemes at Bhilai, Rourkela and Durgapur, it may be doubted whether the Steel Ministry will find enough money to take up the long-delayed fifth steel plant. It remains to be seen how the Centre will achieve the seemingly impossible task of making omelette without breaking egg.

World Liquidity

The American Dilemma

HOPES that the world's rich nations would ultimately evolve an international mechanism to prevent a slow-down in global commerce resulting from inadequate liquidity, have receded to the background with the failure of the Group of Ten to come to any understanding over this question, at their recent Paris meeting. There will no doubt be further meetings but so long as France remains adamant over "broad-basing" any scheme, no reform is likely to take concrete shape. In its distrust of the dollar and the pound sterling—the two reserve currencies—France has even withdrawn its proposal for a Collective Reserve Unit (CRU)

linked to gold. The withdrawal of the CRU scheme is not greeted with jubilation since the U. S. and Britain think—not without reason—that the worst is yet to come. The speed with which France is accumulating gold—she bought more than 884 million dollars worth of gold from the U. S. in 1965—arouses one's suspicion that de Gaulle may announce a new gold parity for the Franc which may compel the U. S. to "devalue" the dollar in terms of gold. Since that means the virtual end of international monetary co-operation, it may be hoped that Finance Minister Debre may not take any such unilateral action.

Nevertheless, the lukewarm attitude of the Continental countries, especially the members of E. C. M., may delay the emergence of any acceptable plan to increase world liquidity. This means that no far-reaching decision is likely to be taken, even at the next annual meeting of the I. M. F., to be held in September. One thing is certain. Further creation of liquidity through a widening of the U. S. balance of payments deficit is out of the question. At the end of February 1966, the total U. S. gold and convertible currency reserves stood at the depleted level of 14.45 billion compared to 15.57 billion a year ago. This partly explains the American dilemma—the reluctance to surrender the key currency status and the anxiety to take the load off the dollar by means of a supplementary arrangement for creating additional reserve assets with which to finance the expanding world trade. This dilemma could have been resolved, albeit in an unsatisfactory manner, if the "Group of Ten" had unanimously accepted the latest I.M.F. Plan which would have increased the "borrowing rights" of the members without any enhancement of their gold tranche. At the same time, it would also have

helped in the creation of additional reserve units for use of the members as official reserves. This proposal has been flatly rejected by the "Rich Ten" who want to keep the developing countries out of the picture in any new scheme of reform.

Meanwhile, the I. M. F. has taken steps to put into effect the proposal, recommended by the Governors last year, to increase the members' quotas by 25 per cent. This will lead to an increase in the total quotas from 16 billion dollars 21 billion dollars. Since the required two-thirds majority has already been secured for this proposal, the increase will become effective soon. This should provide a temporary respite to the countries which are in difficulties but as the Fund's Managing Director, Mr. Schweitzer warned at the recent ECOSOC meeting, future growth of world trade is likely to be hampered if no measures were taken to increase world liquidity. He made it clear that the increase in the members' quotas and the proposed schemes of compensatory financing may not be adequate to arrest the slow-down in world trade. For good or ill, the world has grown out of the shackles of gold and there can be no return to any scheme rigidly linked to the yellow metal. French obduracy notwithstanding, the developed countries, which have a stake in growing world trade, will have to bring into being a system which is capable of supplying additional liquidity to the developing countries to the extent they need it to finance their genuine trade requirements. A number of plans have been formulated (the Stamp Plan, the Bernstein Plan, the Triffin Plan, the Posthuma Proposal, the Rueff Plan, the Roy Harrod Plan, the Despres Plan and, shall we say, the Mendes-France Plan) to tackle this problem. Each of these plans has its merits but what is needed today is a bold

action, within the frame-work of the I. M. F., to provide a flexible mechanism which would prevent the backward countries from adopting restrictive measures to keep themselves "out of the red".

Agriculture

Towards Breakthrough

TALK of the country having not attained self-sufficiency in food despite 18 years of Independence, often heard in Parliament and elsewhere, smacks more of politics. Although many of its policies and procedures may have failed to reckon with the evolving situation, the Government cannot be accused of apathy. Apart from an increase of well over 50 per cent in the output of rice, food production has risen from 54 million tonnes in 1950-51 to 87 million tonnes in 1965. Indeed much of the present food shortage could be ascribed to changes in the pattern of consumption. Many who only a few years ago were content with *jowar* and *khandsari* are now buying rice and sugar; Keralites who are short of rice, despise tapioca. Besides, population has risen to unprecedented levels.

But the remedy—"adoption of modern farming methods"—which Mr. Subramaniam prescribes is by no means new. Better exploitation of underground water through tube wells, for instance, would facilitate intensive irrigation of paddy lands and in some areas raising two or even three crops on single-crop lands, now entirely dependent on rains. But modernizing agriculture is beset with problems, economic and social. The agricultural demonstration farms set up in some States are yet to set the stage for a more rational mode of farming; farming is still looked upon more as a way of life than as a business proposition. The effect of "farm publicity" is yet largely peripheral. Experts,

(Continued on page 23)

Tea Price Stabilization

THE title of this book* is a little intriguing. The book no doubt deals with tea price stabilization. But the sub-title, 'The Indian Case', seems to imply that a non-Indian tea price stabilization scheme is under discussion and that the Indian point of view is not properly appreciated. The book puts forward the Indian point of view. Actually, between 1935 and 1955, there was International Tea Agreement which tried to allocate exports among producers. But since the agreement ended in 1955, no new Agreement has been brought into being. India is the biggest tea producer in the world and the largest supplier to Britain which is the major tea consuming country. The development of tea industry in India was mainly oriented towards meeting the tea needs of Britain.

British Capital

Sizable British capital is invested in the tea industry in India and even now, 18 years after Independence, tea estates in India are largely owned by the British. The financing and marketing of tea both within and outside are largely in the hands of British firms. Lipton and Brooke Bond are the two largest firms in the field. They also own a number of estates. British and Scottish wholesale co-operatives also own large estates in India and Ceylon—probably more in Ceylon than in India. Tea has been the largest foreign exchange earner for India. Recently, however, the exports to Britain have declined owing to

competition from Ceylon and African states.

Even small shortfalls in anticipated supplies or demand will result in large fluctuations in prices. The world demand for tea is increasing at the rate of 2 per cent every year and even in the producing countries whose output was meant mostly for export, internal consumption has risen with the rising standard of living and prices have maintained an upward trend. In spite of violent fluctuations in prices in some years, tea industry has been doing well. Under the International Tea Agreement, anticipated demand and supply were sought to be adjusted by quotas and expansion was geared to meeting increased demand. But, at least six to seven years must elapse before a tea estate comes into production and large long-term investments have to be made.

Low Productivity

Preparing tea for the market after the leaves are plucked requires much technical skill and increase in productivity, which is the other method of increasing supplies, has assumed special importance. Though some progress has been made in this respect in India, productivity is still lagging behind. And the old estates are in urgent need of replacement. Indian ownership of tea gardens is very small, with a preponderance of small-sized estates most of which are considered uneconomic. They are much handicapped in the matter of finance.

In all schemes of improvement and regulation, the interests receiving special consideration are

those of the producers. The consumers do not come very much into the picture. So far as Britain is concerned, tea consumption is highly inelastic and changes in the price, unless they are too large, have very little effect on consumption. On the other hand, in developing countries with rising standards of living, where lower quality teas are in demand, tea is Price-elastic.

Tea Board's Role

Dr. Roy points out that all the British owned tea estates are highly extravagant. Being in the hands of managing agents, they have to pay commission on every conceivable item of sale or purchase of products and inputs. The Indian Tea Board, which has been in existence for more than 30 years, has done much good work. Its work has resulted in large increases in internal consumption of tea. The Government, through its Plantation Enquiry Committee, its working group on plantation and the Tea Finance Committee, has studied the needs of the industry in detail. Some of the monopolistic practices in tea industry may well come under the scrutiny of the Commission on Monopolistic and Restrictive Practices which is likely to come into being as recommended by the Monopolies Enquiry Commission.

Dr. Roy's scheme of stabilization consists of the establishment of separate organisation for fundamental research in tea, for collection and publication of statistics, for financing the tea industry and the establishment of a Tea Trading Corporation which

(Continued on page 19)

GLASS HOUSE GOSSIP

I DO NOT think this is the quite appropriate time for our banks to plunge into the field of consumer credit but experimentation in new ideas seems worthwhile, all the same. The idea is not to pump in more credit but to get the public closer to the banks. Banks like IOB and Dena Bank had a fling at H-P Credit. But the response, as far as I see, has not been altogether encouraging. This is not because there is dearth of people wanting credit for hire-purchase but because, firstly, inflation has eaten into the people's surplus that can be spent on consumer durables and secondly there are shortages all round, owing to the decline in production. But sooner or later H-P credit will catch on with the Indian public.

The Bank of Baroda, which was the first to introduce many innovations for the benefit of its growing clientele, has now launched a new credit card scheme which, though limited in its scope, is sure to popularise the banking habit among the middle class. As the Bank's *Weekly Review* says:

The Barodabank Card marks a distinct improvement over demand drafts or travellers' cheques. Convenient as it is, a draft requires the payee to be identified at the time of encashment. Both drafts and travellers' cheques have to be purchased in advance, thus blocking money and losing interest on it in the intervening period. The card, on the other hand, is issued free of charge and the amount is debited only when withdrawn.

In formulating this scheme, the Bank of Baroda has drawn inspiration from British Banks—particularly Barclays and Midland—which have recently entered the field of credit cards. But unlike the schemes now in operation in the U. K., the Barodabank Card does not offer

the same facilities that the Diners' Club credit card, for example, offers. But if you have an account with the Bank of Baroda, the Barodabank Card enables you to encash your cheque in any branch of the bank—a facility which is not generally available in this country, although many of the banks offer free remittance facilities to their customers.

The State Bank of India, which is always receptive to new ideas, has also introduced a scheme of "Courtesy Cards" which will enable persons holding travellers' cheques (purchased from SBI) to encash them at any office of the Bank, anywhere in India. The Bank does not charge the usual commission of $\frac{1}{2}$ per cent on these cheques. "The Courtesy Cards" are priced at Rs. 10. The advantage of the "Courtesy Card" scheme appears to be that there is no upper limit to aggregate encashments.

I welcome these new devices to attract customers into the banking fold but I hope some enterprising and resourceful bank will evolve a more ambitious scheme—at least in urban areas having a population of more than 10 lakhs—to provide credit to the middle income groups. The purpose must be two-fold, namely, to evolve a simplified and less costly way of transferring credit within the community and secondly to enable persons with limited but regular and assured income, to buy goods and services on the basis of their creditworthiness. This calls for (i) the introduction of a comprehensive scheme of credit transfer and (ii) the introduction of a well thought-out credit card scheme—some variant

of the "charge account card" in the U. S.—which will rid the ordinary shop-keeper of worries about the creditworthiness of his individual customers. Progressive banking institutions like the Canara Bank, I am sure, will not be slow in taking this hint, although in the present inflationary situation, the banks have reason to be cautious in embarking any scheme of credit dispensation.

* * *

BY the time I see these lines in print, our Prime Minister will have come back from Washington. All the same, I take the liberty of wishing Indira *bon voyage*. It is not without a tinge of sadness that one can recall how our late Prime Minister's visit had been put off more than once at the instance of the U. S. President. And Mr. Shastri quite properly did not show any special interest in catching the earliest plane to New York. On the other side of the Atlantic death took away the late President Kennedy too before he could think of planning a visit to India. I am not a believer in fatalism but such things happen.

Indira needs no introduction to Americans—she has visited the country a number of times—but the significance of her visit lies in the fact that she is meeting LBJ for the first time as the first Indian woman Prime Minister. Considering that India received quite a few snubs from the tall Texan for her "fault" of being a little outspoken over the U. S. policy in Viet Nam, I think Mrs. Gandhi will be wise in avoiding abrasive areas. That is, if she can help it. Being an idealist by temperament and a realist by necessity, I cannot help feeling that the main item on the "agenda" is going to be food and aid. After the India-Pakistan flare up, President Johnson

* TEA PRICE STABILIZATION - THE INDIAN CASE. By Himamsu Roy, 1965, World Press, Calcutta, Rs. 15/-.

tightened the screw on both these items and "political leverage" was applied to get India to veer round towards the American stand-point *vis a vis* Kashmir. I was one of those who thought, perhaps wrongly, that theas Thkent accord removed these prickly India-Pakistan issues from the hands of "third parties" but after seeing the glittering display of Chinese weapons in the Pakistani National Day parade, I am now less certain.

Even so, I do not think walking into the American camp (if we are not already in it) is the wisest thing to do. Besides being her father's daughter, Indira will not, I am sure, wish to abandon the policy of non-alignment although the fact remains that India is less non-aligned than before! The Chinese perfidy of October 1962, not to speak of Peking's occasional "sheep and yak" threats, has caused a serious re-thinking of that policy and I am almost tempted to say, its abandonment. The greatest confrontation today is not between the Communist and the non-Communist worlds but between Communist China and the rest of the world. It is not that the entire world is out to crush the Chinese giant — which is a futile pursuit in any case — but there is growing awareness that there will be no lasting peace in the world so long as the Communist rulers in Peking follow their present policy of fomenting unrest through subversion.

There is thus a good deal of common ground between India and the U. S. on which to base a workable policy of mutual co-operation. LBJ must have realised, at least in his pensive moments, that a non-aligned friend can be more useful than an aligned one. I am one of those who believe that each country has its own vital interests and "spheres of influence" and if anyone in the White House thinks that India can be made to "toe the Admini-

stration's line" under the threat of withholding food aid or capital aid, I can only say he is being totally unrealistic. Nature abhors vacuum. If America refuses aid, some other country will come forward to fill the breach. Life will go on, *sans* dollars, *sans* P. L. 480 grains. But there is no point in striking idealistic postures. It may be unrealistic to think that Mrs. Gandhi's visit to the U. S. will open the floodgates for American venture capital. Investors are a hard-headed people. Only if they think India is a good "risk", they sink in their money, irrespective of what Malaviya or Nath Pai may say about the future of private enterprise.

WHILE on the subject of Mrs. Gandhi's American tour, I cannot help feeling that Air India missed a great opportunity to fly India's first lady to America. The management, I know, is as much disappointed over this fact as the general public — perhaps more so since Air India has the distinction of flying several distinguished VIPs, including the Pope — but they were wise in declining the offer of their "striking" crew to take a special flight for the Prime Minister. It is not my intention to enter the cockpit of the dispute but I think the flight navigators were a little hasty in precipitating a crisis particularly when the issue involved seemed trivial, from the broader national stand-point. As a people, we are a status-conscious lot and the flight navigators' refusal to be equated with flight engineers may have stemmed from a false sense of superiority. This excessive preoccupation with status and ranking is, I think, a hangover of the British days although I do not hold the poor Britisher responsible for all our sins. The strike does make the gentlemen in the cockpit feel how important they are in the Air

India set-up but they will have cause to regret sooner or later for what has happened.

I WILL expose myself to ridicule if I assert that the Muslims are the greatest enemies of Pakistan, the coloured people the greatest enemies of Africa or the Catholics the worst enemies of Italy. In the same way, people will laugh at me if I make the seemingly foolish statement that the Hindus are the enemies of Hindustan that is India. But after seeing what happened in Panipat, I feel I should risk the odium of making a statement of that kind. Religion is purely a matter of one's faith and I strongly feel that it should not be mixed up with controversies surrounding language or politics. But if history is any guide, people have a tendency to hurt their own interests. I am proud of being a Hindu but I do not believe in all that poppycock about our being the most tolerant people on earth. Hinduism, it is true, is based on tolerance but that is confined only to the holy books. At any rate, the happenings in Punjab have not, if I may say so, enhanced our reputation for tolerance. There are many, I know, who argue that it was not a case of the Sikhs *versus* the Hindus but of the Punjabi Suba enthusiasts *versus* the Hindi zealots. I do not dispute this statement, but many more lives could have been saved if communal organisations had scrupulously kept out of the Punjab politics. Since we do not now have a leader of towering stature, of say Gandhi or Nehru, to chide us when we behave like children, we should, in our own self-interest, learn to restrain ourselves even in the face of obvious provocation. If we take to the cult of the acid bomb, we may have to face the sad spectacle of the country going to pieces.

— Plebeian.

SPECIAL ARTICLES

Budget and Distribution of Financial Burden

By A. T. Akolkar

BEING the budget of the first year of the Fourth Plan, the 1966-67 budget is of particular significance. But probably it assumes greater significance in view of the formidable political and economic factors that made the budget framing task extremely delicate for the Finance Minister. With the general elections ahead next year, it was widely believed that no drastic raids will be made by the Finance Minister. The acute economic problems at home needed a much more pragmatic approach. The whole of the Third Plan period witnessed a continuous rise in the price level increasing both the cost of living as well as the costs of production. Added to these were the mounting expenses on defence, acute balance of payment problems resulting in shortage of imported raw materials and the emergence of idle capacity and the ever present problem of feeding the growing millions.

How far the present budget will solve these problems is a matter of detailed study of the total impact of the budget on various aspects of each of these problems. Here, let us confine ourselves to one important aspect, namely, that of studying whether the budget has made any attempt at a redistribution of economic burden on different sections of the economy.

Jaipur Guidelines

Recently at the Jaipur Congress session, Mr. Kamaraj pointed out that in spite of rapid industrial progress in the country the gulf between the rich and the poor is fast widening and the country is still very much at a distance

from the avowed goal of democratic socialism. A fair distribution of the national product is only one aspect of socialism. Unfortunately no one considers the other important aspect of the problem that of proportionate efforts by all concerned in the task of creating larger wealth. It will be interesting to see how far the budgetary policy of the Government has taken this into account.

A look at the revenue side of the budgets of last five years reveals that the main heads of the revenue consist of direct taxes on personal income and expenditure, corporation tax, taxes on property and capital transactions. With the growing requirement of the Plan attempts were made to net in larger sums by enhancing the rates of these taxes. The rise in their incidence can be judged by the fact that receipts from taxes on income other than corporate income have increased from Rs. 132.73 crores in 1950-51 to Rs. 268 crores in 1964-65. During the same period, receipts under corporation tax have gone up from 40.49 crores to Rs. 342.00 crores.

As far as these direct taxes are concerned, one particular point needs emphasis. There is hardly any industrial activity in the rural areas and hence the question of the burden of corporate taxation does not arise. The rural areas mostly generate agricultural income which is exempt from Central income taxes. The twin factors of lack of industries in rural areas and the exemption of agricultural incomes from Central income taxes makes the rural sector subject to extremely low tax incidence; the inhabitants of the urban areas thus have to

share a disproportionately larger burden of the direct taxation.

Indirect Levies

In addition to the burden of direct taxes, the urban community also bears a larger burden of indirect taxes. In 1958-59, the burden of all indirect taxes, Central and State, for all households was 5.7 per cent of consumer expenditure. For rural households this figure stood at 4.4 whereas for urban households the same was 9.3. In fact, for all the state and the Central indirect taxes, the incidence on urban households is substantially more than the Indian average and for rural households substantially lower than the Indian average. Between the rural and the urban households the incidence on latter is double that of former. Probably the situation has gone still adverse to urban areas since 1958-59. The total effect of these direct and indirect taxes on urban population is a disproportionately larger tax burden on the urban wage earners, salaried persons and business men.

Unfortunately the 1966-67 budget, instead of correcting this trend, has further strengthened it by following the traditional policy of enhancing the taxes on urban incomes, and excise duties precisely on those items which enter into urban consumption. The budget has raised the total tax burden of an already overloaded economy by a further Rs. 101.5 crores. As in the previous budgets the emphasis is again on income tax, corporation tax and excise duty. In the sphere of personal taxation an additional special surcharge of 10 per cent of the

amount of income-tax and surcharge will yield to the Government Rs. 22.6 crores, i. e., 25 per cent of the additional burden imposed. No doubt the Finance Minister has given some consideration to lower classes by increasing the exemption limit by Rs. 500. But this merely amounts to a redistribution of burden between different urban classes. In view of the ever rising costs of living and already higher taxation, the middle income classes also deserved some concessions but their burden unfortunately has increased. The corporate sector which is already in the grip of a severe slack in the capital market and a stringent credit squeeze, has to bear an additional taxation of Rs. 43.46 crores. Out of a total additional revenue of Rs. 52.86 crores from excise duties, bulk of it is expected to be raised from levies on crystal sugar, cigar, and cigarettes, cotton yarn and cotton fabrics and synthetic fabrics. These goods mainly enter into the consumption of urban population and taken with the increase in direct taxation impose considerable additional burden.

This practice of continuously increasing tax burden on a small proportion of population to the total neglect of other sources, has serious implications. Firstly such an approach perpetuates the historical anomaly of treating agricultural income as something different from income from other sources. Agricultural activity is essentially a 'business' like any other industrial and commercial activity and such income from land should be treated in a similar manner as any other income.

Today nearly 45 p. c. of our national income consists of income from agriculture. Yet, as compared to industrial sector the tax burden on this sector is negligible. In 1955-56 on the total national income of Rs. 4,520 crores in agricultural sector, tax receipts by way of agricultural income tax and land revenue were Rs. 86

crores, whereas all the rest of the sectors on a national income of Rs. 5,460 crores by way of income and corporate taxation alone paid Rs. 168 crores. In 1962-63, agriculture, on an income of Rs. 6,970 crores paid by way of agricultural income tax and land revenue Rs. 118 crores whereas rest of the economy on the income of Rs. 8,510 crores by way of income and corporate tax paid Rs. 360 crores.

Though, at the time of presenting the budget for 1965-66, Mr. Krishnamachari gave high hopes of a balanced budget and non-inflationary financing, within a short period, it was realised that resources were far too short of requirements. In order to raise additional resources a supplementary budget for Rs. 100 crores was introduced in August, 1965. In spite of this, we are now told that the year 1965-66 is likely to close with a big gap of about Rs. 165 crores.

One of the characteristic features of 1965-66 has been that the revenue accruals were less than budget estimates. The Finance Minister himself has attributed this to the sluggish economic activity, particularly in industrial sector. However, surprisingly, he has chosen a path which is likely to aggravate this problem. The inflationary forces have put tremendous pressure on wages and costs of raw materials. The excise duties on important articles of consumption and industrial raw materials are important elements in this cost inflation. The profits which are low because of high costs are further reduced by the high taxes. These low profits have depressed the capital market and rendered further expansion impossible. Under these circumstances, merely raising the direct taxes on lower profits does not lead to increase in revenues.

The higher personal taxation poses an equally serious problem. The rise in the cost of living has

already reduced the saving capacity of the middle and upper classes. The additional surcharge levied would further reduce their capacity to save. The middle and upper class savings constitute an important source of capital for the industries and if this is sucked into the Government coffers, one wonders how the desired rate of growth in the private sector is going to be maintained.

Earlier, we have pointed out that during the last decade, there has been a considerable increase in agricultural activity in the country. The growth of industries and population have created a good market for diversified agricultural products. During the years 1950-51 to 1962-63 the area under sugarcane has increased by about 14 lakh acres. During the same years, area under tobacco has increased by 2 lakh acres, that under groundnut by 53 lakh acres and that of cotton by 52 lakh acres. The prices of all these commodities have recorded a phenomenal rise during the last decade. As compared to 1952-53 in 1964-65 prices of groundnut are 86 per cent high those of cotton 26 per cent, tobacco 27 per cent and food articles more than 60 per cent.

The net profits per acre on a cash crop varies between Rs. 1,000 to Rs. 3,000 depending upon the crop. Let us, for argument's sake, assume, on an average, it is about Rs. 1,000 per acre. In 1962-63, the total area under four major cash crops, sugarcane, tobacco, groundnut and Cotton was about 4 crore acres. By 1965-66, this must have definitely increased but in the absence of the latest figures we assume that it has remained the same. Even on the modest assumption of a profit of Rs. 1,000 per acre this represents a net income of Rs. 4,000 crores. A mere two and half per cent tax on this income would have fetched the government the additional requirement of Rs. 100 crores.

The "Abominable Snowman"

Reviewed by M. R. Krishna Murthy

THE Monopolies Inquiry Commission was appointed by the Government in April 1964 (a) to inquire into the extent and effect of concentration of economic power 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.

Commendable Effort

The report has been published in about 18 months' time. This, indeed, is commendable, considering that many committees have not completed their work even several years after their appointment. In his minute of dissent, Mr. R. C. Dutt differs from the majority findings on a number of important points. The present study confines itself only to concentration in private sector industries. The Commission has also pointed out that it has not been able to study concentration in banking and in the newspaper industry. Thus, the report presents an incomplete picture. In deciding on the action to be taken on it, the Government should consider the relevant data

§ The opinions expressed by the Reviewer do not necessarily reflect the editorial policy of S. E.

on the other aspects of the problem.

Part of the information in possession of the Central Statistical Organization could not be made available to the Commission on account of legal difficulties. It made use of information collected by the Director General of Technical Development in the development wing of the Government of India. Some check on these figures should have been made, seeing that even income tax accounts certified by Chartered Accountants are again liable to check by income tax officers. The Commission itself collected some data on cost conditions but the publication of this data, they feel, will not be in 'public interest'. The Commission, however, recommends that building up consumer resistance is the one method of countering monopoly exploitation. If even the Commission which conducted the enquiry on behalf of the Government and in the public interest, cannot disclose information for fear of embarrassing industrialists, how are we going to check malpractices?

Concentration

As regards the concentration of economic power, the majority feel it is difficult to define the term and in any case, a definition is not absolutely necessary. The Commission settles on two kinds of concentrations: One is product-wise concentration, the other is country-wise concentration. In the first case, one firm or a few firms have attained a dominating position in the industry. They are able to control the market by regulating prices or output or by eliminating competition. Another is the adoption by some producers and dis-

tributors — even though they do not enjoy a dominant position — of practices which restrain competition and thereby deprive the community of the benefits of competition among producers and distributors. Needless to say, such practices impede the best utilization of the nation's means of production. Economic power may also manifest itself in obtaining control of large areas of economic activity by a few industrialists by diverse means. This often results in the creation of industrial empires, tending to cast their shadows over political democracy and social values.

Mr. Dutt's Dissent

Mr. Dutt disagrees. He argues that, the phenomena of industry-wise concentration are so dissimilar that there is no advantage in including them both under the wider concept of concentration of economic power. Search for economies of scale may lead to largeness, and largeness leads to dominance and to monopolistic and restrictive trade practices. This no doubt has to be dealt with. But this concentration is restricted to the product or industry concerned and does not necessarily have any broader significance, from the national point of view.

This is debatable. A basic or essential commodity may be involved and where the size of the concern is very large, it may lead to concentration of enormous political power. The steel industry, the petroleum industry and the armaments industry in many countries are instances in point. But in the case of what the majority call "country-wise concentration" and what Mr. Dutt calls inter-industries concentration, where individuals or com-

paratively small groups of individuals obtain control over large or important sectors of the economy, they constitute a real danger to the community. The suggested causes of concentration are: (1) search for economies of scale leading to bigger units of production; (2) advantages of earlier start and technical know-how; (3) the managing agency system; when management was still scarce, people were willing to invest in new enterprises under the leadership of managing agents of proved ability; (4) investment by one corporation in another; (5) having common directors in companies dealing with the same or allied products or companies engaged in the distribution of products in which a particular company is interested; (6) the second World War gave great impetus to industry. Many concessions were given to industry. Large profits were made and were re-invested later; (7) with the advent of independence, many British concerns passed into the hands of Indians.

Constitutional Safeguards

The authors of the Constitution recognized the dangers of concentration of economic power and made specific provisions to prevent it. But the actual needs of the situation have proved too strong and in their anxiety to adopt the quickest way to achieve industrialization, the Government has adopted policies which has led to further concentration of economic power. In accordance with the Industrial Policy Resolution and the provisions of the Industries Development and Regulation Act, the Government has adopted a licensing procedure for establishing new units or expanding the old units or starting new industries. In granting licences, old established firms which had the capital and easy access to technical know-how have been favoured.

Several concessions like development rebates have been given to those who start new industries. Foreign exchange difficulties have prevented the import of commodities to maintain competitive conditions and in the sheltered market, industries are able to make large profits. Issue of licences and import quotas has been in favour of the bigger units and traders already established in business. Only the bigger firms were able to secure foreign collaboration and technical know-how and licensing policy favoured them. Though the Commission has not mentioned it, the tie-up with foreign business firms has given to industry greater strength and greater power to bring pressure on the Government. The political and economic consequences of foreign collaboration cannot be minimised. The Commission ought to have considered this question more thoroughly. Already, in several instances, attempts to influence the Government through foreign agencies in favour of particular groups have been made. The procedure for the issue of licences has been the cause of much delay. This resulted in the restriction of freedom of entry into business new businessmen who are also hampered in the matter of obtaining bank credits.

Managing Agencies

Mr. Dutt feels that the managing agency system was a method by which the Britishers controlled the economy. This system has tended to shut out new entrants. Incidentally, the report of the Committee on the managing agencies is awaited. The Commission has not made a detailed study of the managing agency system, though it was highly relevant to the problem of concentration. This further restricts the usefulness of the Commission's recommendation. Mr. Dutt also says that planning has not

been used to prevent concentration.

As regards the concentration of products under "food and drinks", high concentration (control of 75 per cent of the product for sale) is seen in infant food, corn and wheat flakes and chocolates. There is no concentration in clothing industry. There is high concentration in petroleum industry. In household goods, stores, dry batteries, sewing machines, sewing machine needles, domestic refrigerators, wrapping paper, typewriters and typewriter ribbons, clocks and time pieces, there is high concentration. Electric lamps, electric fans, radio receivers also show concentration to a lesser degree (i.e., more than 60 per cent but less than 75 per cent).

Under conventional necessities, matches, soap, leather and rubber and canvas footwear, tooth paste, talcum powder, razor blades and cigarettes — all show high concentration. All important drugs reveal high concentration.

Business Houses

As regards 'country-wise concentration', there are 75 big firms which control a large number of enterprises — they have a paid-up capital of Rs. 646 crores and assets of Rs. 2,606 crores. The proportion of the assets of the 75 groups to those of all Government and non-banking companies work out to 46.9 per cent. The proportion of the total paid-up capital of these groups to that of all non-government and non-banking companies is 44.1 per cent. The largest of them is the Tata group consisting of 53 companies, with assets of 418 crores and turnover of 325 crores. The Birlas have 151 companies with assets of 293 crores and a turnover of 290 crores. We have already mentioned that these figures of the Commission, based on D. G. T. D. figures, are open to verification. Though the commission says that the margin of

error is not too big, one gets a feeling that the analysis of assets and the history of their growth would have been more useful to an understanding of the process of growth of these firms.

Big business in our country practices all the well known monopolistic and restrictive trade practices. It resorts to (i) horizontal fixation of the prices (ii) vertical fixation of price and resale (iii) allocation of markets — maintenance of markets (iv) discrimination between purchases (v) boycott (vi) exclusive dealing contracts (vii) tie-up arrangements (viii) shutting out competitors by use of influence, and threats (ix) hoarding whenever there is scarcity (x) price maintenance by exclusive dealing, fixation of prices by agreement between competitors — giving the same quotations for tender (xi) restriction of output in jute, for instance. The economic and social consequences of such practices are seen in the hatred of big business, destruction of mutual goodwill and suspicion that big business corrodes into the democratic processes.

Political "Corruption"

The political parties have admitted to receiving help from industrialists, resulting in political corruption. Big business also owns newspaper chains and has interest in banks. In this connection, the comments of Mr. Dutt are interesting: "Control over large resources gives big business power to influence the economic decisions of the Government. They may, without investment in desirable channels, influence public opinion through their control of the Press."

The report has stressed that economies of scale and concentration resulting from optimum production may be inevitable. But economies of scale and optimum production have not reduced the prices to the consumer. The recommendations of the

Commission fall under two heads, non-legislative and legislative. It has suggested the creation of a Monopolies Commission and the passing of a Monopoly and Restrictive Trade Practices Act. Political parties are advised against accepting funds from industrialists. Removal of corruption in administration, liberalization of industrial licensing, favouring smaller units, equitable distribution of import licences, import of goods to improve competition and to safeguard the interests of consumers are among the suggestions made in the report. The Commission has also favoured the setting up of more consumer co-operative production. Purchasing departments of Governments, it is suggested, may sometimes be able to take corrective action to curb the power of the dominant concerns. In making its legislative recommendations, the Commission has taken into consideration the special circumstances prevailing in our country. The country is underdeveloped and there is pressure of population and unemployment. Foreign indebtedness is increasing and there is a large deficit in balance of payments. Food shortage has led to malpractices and price controls have been only partly successful. The Commission says that concentration is to be tackled only when it becomes dangerous and for the reasons mentioned above, it may be desirable to break up industrial empires.

Diversification

Besides, product-diversification is wholly undesirable. The report recommends the creation of a Commission, independent of Government control, to take action against resale price maintenance and hoarding, to approve prices to be fixed, to regulate production and supply, to prohibit any practice likely to weaken competition, to fix standards of

goods. It will examine and decide on the merits of proposals for mergers and combinations. Common directors are not to be allowed in the case of dominant companies.

The majority in the Commission is of the opinion: "In the light of experience of other countries and having regard to the urgent need of the country's industrial development that diversification, with its necessary concomitant of country-wise concentration of economic power, even though an evil in some respects, is a necessary evil in the economic interests of the country". According to the Commission's interpretation, Act 39 of the Constitution does not condemn concentration as such, but only such concentration of economic power as may be to the common detriment. Where there is a risk of such concentration corroding the political machinery, the remedy lies in proper action being taken by the political parties themselves. As regards its evil effects in the social field, the emergence of the strong public opinion against corruption, helped by right emphasis on values is mentioned as the ultimate remedy.

Mr. Dutt's suggestions are: (1) monopolistic and unfair practices which are likely to result from the expansion of scale to achieve economy must be recognized and preventive action taken against evil consequences that may follow. But expansion, as such, should not be curbed as economies of scale and size are related to technological developments; (2) country-wise concentration gives rise to social, political and economic consequences. It must be recognized and controlled, subject to the needs of growth of the economy.

Safeguard must be provided against the effects of concentration of economic power; (3) proliferation in different industries is to be prevented; (4) grant

or permission for the expansion of industrial units should be entirely within the competence of the Government and not the proposed Commission; (5) regarding mergers and combinations, under the Companies Act, the courts have jurisdiction. The adequacy of the present provisions should be examined. Each case for merger or combination should be examined on its merits; (6) licensing system should be simplified, but not abolished. In issuing licences, small industrialists are to be preferred in the case of low priority industries.

For medium priority schemes, established medium-sized entrepreneurs are to be preferred. For top priority schemes involving large capital, big industry is to be preferred even at some risk of adding to concentration; (7) regarding inter-corporate investment, an amendment introducing 'public interest' in the relevant sections of the Companies Act should be effected, if it is held that the Section as it now stands cannot be used in the interest of 'the public'; (8) regarding capital issues control, the present Policy of diversifying may be continued; (9) public institutions like the L. I. C., Unit Trust and Industrial Finance Corporation which have large blocks of shares must take more interest in the management of the companies where their funds are invested; (10) shareholders' Associations should be developed; (11) the spheres of the public sector and private sector are not generally different. The public sector has emerged only recently. It is bound to improve. Wherever possible, public sector industries in competing fields should be set up; (12) dominance in basic industries is to be prevented.

Regarding the powers of the proposed Commission, Mr. Dutt says that only the Government is competent to fix rates. Fixing of rates is to be preceded by de-

tailed investigation and it has a bearing on the behaviour of the economy. Government being responsible for the behaviour of the economy must control rate fixing. Competing public sector industries may come under the purview of the Commission. Concentration and monopolistic practices of the Press have not been studied. Freedom of expression has been guaranteed by the Constitution, but as Mr. Dutt says, 'gross abuse' of freedom of expression cannot be tolerated. The Constitution may be amended, if necessary, to prevent such abuse.

Monopoly gives rise to serious social and economic problems. Admittedly, the Commission has not been able to examine all the aspects of these problems. Experience of foreign countries show

that in spite of several laws, the evils of monopoly are still not fully eliminated. Big business can adapt itself to changing political situations, act concertedly in its interests and convert any situation to its advantage. It can act quickly whereas Government can act only belatedly. However, one hopes that the proposed establishment of a Commission for the control of monopolistic and restrictive practices will go some way to check these trends.

Publication Received

The Automobile Industry of India 1964-65: Published by the Association of Indian Automobile Manufacturers, Mahatma Gandhi Road, Bombay-1.

DIAMOND JUBILEE YEAR The Canara Banking Corporation Ltd. (Estd. : 1906)

Regd. Office:
UDIPI.

Adm. Office:
MANGALORE.

Your Savings
at the
CORPORATION BANK
can help you
in
3 ways

- * They serve as a safe investment which is not affected by day-to-day fluctuations.
- * They provide you with a second source of income by way of earning interest at 4 % per annum
- * They enable you look forward to the future with a feeling of absolute security and confidence.

★
Save Money at the
CORPORATION BANK
and help yourselves.

K. RAMADAS NAYAK,
General Manager.

UNCTAD Round-up

The Case of Developing Countries

(From a Correspondent)

THE Trade and Development Board, at its third session held in New York from January 25 to February 17, considered problems of monetary liquidity and developmental finance, urged the early negotiation of an international agreement on cocoa, reviewed other fundamental problems facing developing countries and agreed that the second session of the United Nations Conference on Trade and Development (UNCTAD), scheduled for 1967, should concentrate its attention on specific goals.

Among other topics discussed at the third session were principles governing international trade policies, problems arising in trade relations between countries with different economic and social systems, preferential treatment for manufactures exported by developing countries, the urgency of increased financial assistance by the richer countries to the developing world and the implementation of the recommendations made by the 1964 conference in Geneva. These subjects will be examined again in greater detail at the Board's fourth session, in Geneva from 30 August to 23 September.

Useful Dialogue

Jose Pinera (Chile), the Board's President for 1966, said in a closing statement that, although some progress had been made in laying a solid foundation for future UNCTAD work, it was a matter of "deep and intense concern" that more progress had not been achieved. A full-fledged dialogue between developed and developing countries had not yet begun, he added. Mr. Pinera believed, however, that much had been accomplished towards establish-

ing the broad outlines for a new international monetary system and, although progress made in respect of cocoa had been "modest", it was of great significance. He urged a more efficient organization of the Board's methods of work.

"Qualified satisfaction" with the results of the Board's third session was expressed by Raul Prebisch, Secretary-General of UNCTAD, in speaking to newsmen as the session neared an end. Mr. Prebisch attached paramount importance to the consideration given to problems of monetary liquidity. He said that the industrialized countries now had a better understanding of how these problems affected the less developed nations, problems which could not be ignored in shaping the world's monetary system.

Rates of Growth

In pointing out the need for a "dialogue", Mr. Prebisch said that, whereas the developing lands had been putting forward what some considered to be exaggerated demands, there had still been no clear response from the developed nations. The people of those countries still did not fully understand the meaning of what was happening in the developing world, where growing populations were facing conditions which did not permit improvement of living standards. If this situation continued, he stated, there would be events of a most violent character. Some of the problems dealt with by the Board are reviewed below.

Monetary issues, on which a report has been prepared by a 12-member Expert Group appointed by the Secretary-General of UNCTAD. This report proposes

reforms in the international monetary system, including the establishment of a link between the creation of a new reserve unit and the provision of development finance. The Board decided to transmit this report, along with the records of the discussion and a memorandum by the developing countries on international liquidity to the International Monetary Fund (IMF) and other international financial institutions.

Supplementary financing, on which a scheme has been prepared at UNCTAD's request, by the International Bank for Reconstruction and Development (IBRD). This scheme, which is designed to prevent disruption of development programmes because of unexpected short-falls in export earnings of developing countries, will be studied further by the Committee on Invisibles and Financing this spring.

The "Horowitz proposal", on which the IBRD has also prepared a study. This proposal, which provides for an interest equalization fund to permit developing countries to borrow money at lower interest rates, will be studied further by an UNCTAD group later this year.

The UNCTAD secretariat will continue its studies on the assessment of the feasibility of achieving higher growth rates of developing countries, in accordance with plans set forth by the Secretary-General of UNCTAD. In the course of the Board's discussion, it was generally agreed that the rates of growth of the developing countries were inadequate. Serious concern was expressed that, instead of the acceleration in the rates of growth

which was envisaged for the Development Decade, there had in fact been a decline in these rates in the early 1960s which jeopardized the prospects of achieving the objectives of the Decade. Representatives of developing countries said that the fall in these rates of growth was particularly disquieting, in view of the population increase, widespread poverty, the declining share of the developing countries in world trade, the rising prices of imports from the industrial countries and the heavy burden of the debt service of many of the developing countries.

It was widely agreed that developing countries were in need both of increased development finance and of financial resources to counter short-term fluctuations in their balance of payments. Representatives of the developing countries endorsed the conclusions of the Expert Group on International Monetary Issues. They stressed that developing countries had liquidity problems at least as serious as those of the developed countries and that all countries prepared to acquire the rights and to accept the obligations involved should participate both in the discussions and in the decisions concerning any reform of the international monetary system and in the operation of new monetary arrangements.

Reservations were expressed, however, by representatives of countries with developed market economies concerning the feasibility of linking the creation of new reserve assets to development finance. These representatives also stressed that currencies should meet certain characteristics in order to qualify use in the reformed system as backing for the new reserve assets. The representatives of several countries with developed market economies called attention to the role of the IMF in the international monetary system and the contribution it could make to a reform of the

system. A similar view was expressed by the representatives of some developing countries.

Representatives of the socialist countries of Eastern Europe were of the opinion that, since reform of the international monetary system affected all countries, UNCTAD, as the most universal international body, should be the central agency in which to consider reform of the system. It was widely agreed that the basic problems of developing countries could not be solved by monetary reform alone. Measures in trade and other spheres were required as well.

With regard to the World Bank staff study on supplementary financial measures, a large number of delegations welcomed the report but wished to withhold substantive comment since the Committee on Invisibles and Financing related to Trade would be dealing with this matter at its resumed session. The representatives of some developing countries suggested that the scheme for supplementary financing should take into account unforeseen factors beyond the control of developing countries, other than shortfalls in export earnings, which would disrupt their development programmes.

In their draft resolution, the developing countries recalled the recommendation of the 1964 Conference, in which developed countries were called upon to endeavour to supply financial resources to developing countries of a minimum net amount approaching, as nearly as possible, 1 per cent of the developed countries' national income. The draft resolution noted the finding of the IBRD that the capability of developing countries to make productive use of resources had now increased, so that they could effectively use, on an average over the next five years, about \$ 3,000 million to \$ 4,000 million per year more than they had

actually received in the recent past. It was proposed that the Board invite developed countries to provide for suitable increases in the net flow of their developmental assistance in the formulation of their budgetary and fiscal policies beginning 1966-67.

The Board reviewed the effect given to the recommendations of the 1964 UNCTAD conference, but a full discussion of this question will take place at the next session when the UNCTAD Secretary-General will submit his annual report on trade and development, including information received by Governments on implementation of measures. In this discussion, representatives of developing countries expressed disappointment that more progress had not been made in the implementation of the recommendations of the first session of the Conference. Many of the matters dealt with in the 1964 recommendations remained merely the subject of study. In their view, the efforts thus far had not resulted in any significant practical achievement of benefit to the developing countries.

In the field of shipping, the Board approved a work programme proposed by the Committee on Shipping which includes studies relating to the establishment of consultation machinery between shipping conferences and shippers' councils, activities designed to establish or expand merchant marines in developing countries and studies for the improvement of port operations. At a special session in Geneva, in July 1966, the Committee on Shipping will study the approach to the problem of the level and structure of freight rates. The future work programme in the field of tourism is designed mainly to provide material for the planning of the tourist industry within the framework of the developing countries' economic plans, with a view to increasing their receipts of foreign currency.

(Continued from page 3)

will enter into advantageous agreements with the Governments of consuming countries. Since many of the functions to be assigned to these new bodies under Dr. Roy's scheme are now being performed by the Indian Tea Board one would expect an expansion of its activities. But Dr. Roy wants to replace it by a new set-up. This is neither necessary nor desirable.

Dr. Roy has taken great pains in elaborating his point of view in this book. It gives a fairly correct picture of problems of the industry in all its varied aspects.

— M. R. Krishna Murthy

A Punjabi Fare

Land of the Five Rivers—Stories from the Punjab edited by Jaya Thadani and Khushwant Singh.

Jaico Publishing House, Bombay. Price: Rs. 2.50. Pp. 178.

This volume consists of about twenty tales set in the Punjab and told by familiar writers like Khushwant Singh, Amrit Pritam, Balwant Gargi and Mulk Raj Anand. But the greater number of the storytellers are unknown to us and we welcome this attempt to present the Punjabi short stories to the rest of India. Most of the stories have been translated into English from the Punjabi original. One can think of no better way of achieving national integration than to make our regional literature available to the rest of India.

Though the stories are uneven in quality, they all share in varying degrees, the vitality that one associates with the "land of the five rivers". It is interesting, though not surprising, that the bulk of the stories deal with the partition. What is surprising

however, is their complete lack of rancour and bitterness. The style is refreshingly Punjabi. However, there are a large number of misprints and a few solecisms have also been allowed to escape the editorial pencil. In these poignant stories one runs the entire gamut of satire, humour, irony, pathos and tragedy. They do not always come off but there are moments when they do. And these moments are rewarding enough.

— Manorama S. Kankalil

Publications Received

Fertiliser Statistics 1964-65: published by the Fertiliser Association of India, 85, Sundar Nagar, New Delhi.

Journal of Institute of Economic Research: Inaugural Number—published by Institute of Economic Research, Vidyagiri Dharwar-4.

SYNDICATE BANK MARCHES AHEAD

HIGHLIGHTS 1965

	1953 Rs.	1964 Rs.	1965 Rs.
Paid-up Capital (inclusive of advance calls) ..	80,58,467	93,57,904	99,72,556
Reserves (including Share Premium) ..	75,25,000	85,00,000	1,00,00,000
Deposits ..	45,49,17,100	51,45,38,335	59,11,12,449
Advances & Bills Discounted ..	27,82,93,062	33,48,03,373	37,25,37,620
Dividends ..	11,66,346	13,58,350	16,11,639
Number of Deposit and Borrowing Accounts ..	7,02,253	7,85,127	9,80,766
Number of Branches ..	189	203	204
Personnel ..	2,596	2,983	3,179
Shareholders ..	4,681	4,769	4,876

SYNDICATE BANK LIMITED

Regd. Office: MANIPAL (South India.)

..... For Worldwide Banking

Canara Bank Limited

Extracts from the Statement by the Chairman at the Annual General Meeting held on March 16, 1966

The following are extracts from the Statement of the Chairman, Mr. K. P. J. Prabhu at the Annual General Meeting of Canara Bank Limited, held at their Registered Office, Light House Hill, Mangalore-1 on March 16, 1966.

Gentlemen,

It gives me great pleasure to welcome you to this 60th Annual General Meeting of our Bank.

Before proceeding with the general business of the meeting, permit me to express on behalf of us all our homage to our two late stalwarts on the Board of the Bank who are no more with us today, Shri U. Srinivas Malliah and Shri H. Lakshminarayan Kamath who were long associated with and were a source of strength and guidance to the Bank. In their passing away, the Bank has lost men of experience, vision and mature judgement.

The monetary policy during the period has been primarily aimed at containing the inflationary pressures by restraining monetary demand, and by simultaneously encouraging the level of savings in the economy.

To restrain monetary demand in general, and bank credit in particular, the Reserve Bank stepped up the Bank Rate from 5% to 6% in early February last year. To reinforce the basic objective of making credit costlier, the Reserve Bank also tightened its system of granting accommodation to commercial banks. The borrowings by commercial banks from the Reserve Bank were made progressively costlier by relating borrowings to net liquidity position, and charging a higher rate of interest varying with the fall in the net liquidity position of the individual banks. On 20th November 1965 this system was further tightened.

All these measures were a signal to commercial banks to go slow with credit expansion. The latest change in the credit policy is also notable for the element of "Selective Liberalisation" introduced by the authorities. In cases of need, banks can now obtain refinance at the Bank Rate in respect of advances to specified priority sectors such as defence-oriented industries, exports and food. At the same time, the Reserve Bank has also taken steps to

introduce an orderly structure of rates of interest on deposits.

The banking system of the country has responded well to the task of meeting the credit needs of our growing economy. The performance of banks in mobilising deposits has been satisfactory. In spite of the general inflationary situation which affects the capacity of the people to save, and the growing competition from non-banking companies which offer higher rates for public deposits, banks have been able to increase their deposits by over Rs. 312 crores during 1965, as against Rs. 297 crores during 1964.

Your Bank's progress during the year has also been satisfactory, and in line with the general banking trends. During the year, our deposits improved from Rs. 88.24 crores to Rs. 98.93 crores—an increase of 12.2%. This progress during 1965 would however appear to be moderate when compared with that of the previous year. This was partly because in 1965 we opened only 2 new branches, for reasons I refer to later in this statement under branch expansion.

A noteworthy feature of this year's progress is an impressive increase under Savings Deposits. Our Savings Deposits increased by Rs. 4.44 crores and accounted for over 41% of the total increase in deposits. I make a special reference to the progress under Savings Deposits because the growth of this type of deposit, even amidst the prevailing economic gloom, is a welcome feature, while for the bank itself it is an index of its services having been appreciated by the banking public. There was a further increase in the number of our clientele and the total number of accounts serviced by the Bank exceeded 6½ lakhs at the end of 1965.

There was also a greater response to our subsidiary services. The year witnessed a progressive expansion of our executor and trustee business. Our Personal Tax Assistance service, started on an experimental scale in Bangalore has proved immensely popular and requests are being received for extending this service to other centres.

Branch Expansion

As in the previous year, our efforts this year also were mainly concentrated on the task of developing the business of the newly taken over branches of other units.

As a result, we opened only 2 new branches during 1965: one at Old Delhi and other at Vellore (Madras). Later this month we open our third branch in Goa at Margao. During the current year, we expect to go ahead a little more actively in implementing our branch expansion programme.

In spite of unfavourable economic factors, the business turnover of the Bank showed improvement during the year. In keeping with official credit policy, our Bank favoured a policy of 'controlled expansion' under advances. Although, as a result, the actual increase in the level of advances was not significant, there has been a diversification of advances in favour of the industrial sector over the year. The share of industry in our total advances increased from 45% to about 52%.

Advances and Foreign Business

In the matter of foreign business, in which the Bank could show a very substantial increase in 1964, the favourable position was maintained in 1965, although the volume of import business was slightly lower owing to restrictions on imports. In keeping with the country's objective of export promotion, the volume of export business handled by us continued to predominate.

Capital

You will be glad to know that, as in the past, this year's issue of equity capital of Rs. 1.5 lakhs was over-subscribed. The paid up capital of the Bank now stands at Rs. 1.25 crores, and the Reserves at Rs. 1,28,65,000/-.

Working Results

Higher interest rates on deposits, and a larger wage bill, accounted for a marked increase in the expenditure of the Bank. In order to meet these larger expenses, the Bank had to revise its lending rates during the year. Against this background of mounting expenditure, it is gratifying to note that our profits during the year have been somewhat higher at Rs. 35.95 lakhs as against Rs. 34.65 lakhs last year.

It is important to mention here that there is every prospect of a very substantial addition to the wage bill of commercial banks once the settlement arrived at in the recent bipartite talks comes up for implementation. On the other hand, the margin between the rates on deposits and the

lending rates is severely restricted in view of the ceiling of 10% on the rates that can be charged on advances.

In order that banks may be able to meet their additional commitments, and at the same time progressively strengthen their capital and reserves, there seems to be an urgent need to review the present ceiling on lending rates. The banks, on their part, will have to pay increasing attention to economise expenditure, and introduce more efficient methods of working.

Mechanisation

As you are aware, steps were taken last year to introduce I.B.M. machines at the administrative office of the Bank. A group of operators was recruited and specially trained for the purpose. But the machines could not be commissioned into service, as the issue of mechanisation is being discussed at the bipartite talks. We are however hopeful about the outcome.

The staff-management relations continued to be cordial during the year. We hope that the approach of cordiality and mutual consultations would be further developed in the coming years, so that the Bank can look forward to a period of even greater prosperity with the joint endeavours of staff and management.

G. M. Retires

I would like to make a special reference to the services rendered by Mr. P. Sarvotham Nayak as the General Manager of the Bank for the last 33 years. Mr. Nayak will be retiring from service on 31-3-1966. I am sure you will agree with me when I say that the present eminence and strength of your Bank is, in a very large measure, due to the foresight and the singleness of purpose with which Mr. Nayak guided the affairs of the Bank all these years. On behalf of you all, the Board, as well as on my own, I place on record our deep appreciation of the role played by Mr. Nayak in the development of our Bank. We wish him health and happiness in his retirement.

Diamond Jubilee Year

This year your Bank enters the Diamond Jubilee year. The Directors have been considering for some time as to how best the occasion may be commemorated.

It will be recalled that, at the time of its Golden Jubilee in 1956, the bank had introduced several welfare schemes such as the housing scheme for its employees, the Golden Jubilee Staff Welfare Fund, and the Jubilee Education Fund for grant-

ing scholarships to deserving students from the lower income group.

On the present occasion, your Board has in mind the provision of hospital facilities for Staff at Bangalore on a preferred basis by contributing to construction of a hospital ward. A proposal to construct a children's centre on the site of the first branch of the Bank in Dongerkery, Mangalore, is also under consideration. A donation is also proposed to be made to the Canara High School started by our founder.

Above all, your Directors regard the Diamond Jubilee year as an occasion for a thorough review of the Bank's work, its administration and its services, in the context of its rapid expansion in recent years. We believe that only by such a process will it be possible for any growing institution to maintain its efficiency and vitality. It will be the endeavour of your Board to see how best our services to customers in particular can be improved, recalling the ideals with which the Bank was started by our illustrious founder sixty years ago.

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

Telephones :

Yelahanka : 25006 — Tumkur : 56

Telegrams :

"STANDARD", Bangalore & Tumkur

THE STANDARD BRICK & TILE CO. (YELAHANKA) PRIVATE LTD. YELAHANKA & TUMKUR WITH ASSOCIATE CONCNS



Manufacturers of

Raja Mark Roofing Tiles—Hollow Bricks—Refractories, Ordinary and High Grade—Specials and Seating Blocks—Wire-cut Bricks and Water Course Bricks, Cement Floor Tiles, Plain and Mosaic, Etc.

India Sugar Earns Less

THE working of the India Sugars & Refineries Limited for the year ended September 30, 1965 shows a net profit of Rs. 9.59 lakhs after charging Rs. 5.70 lakhs for depreciation. Out of this, the net deficit relating to the previous year amounting to Rs. 67,784 has to be deducted, leaving a surplus of Rs. 8.91 lakhs. A sum of Rs. 9,032 brought in from the last year's account is added. This leaves a surplus of Rs. 9.00 lakhs for appropriations. A sum of Rs. 2.00 lakhs has been provided for taxation and Rs. 1.83 lakhs for development rebate reserve.

The Directors have recommended a dividend (1) at 7½ per cent (subject to tax) on preference shares amounting to Rs. 70,950; (2) at 6 per cent (subject to tax) on equity shares amounting to Rs. 3.83 lakhs. The balance of Rs. 62,097 is carried forward.

During the year under review, the factory crushed 2.24 lakh metric tons of cane and produced 21,628 tons of sugar as against 1.92 lakh tons of cane and 18,740 tonnes of sugar in the previous year. Although the quantity of cane crushed and sugar produced were higher than that of the previous year, the profit declined due to the very low ex-mill prices fixed for sugar factories in Mysore State by the Centre, restricted release of sugar which has resulted in the decline in sales and increase of stock necessitating heavier interest charges. Work relating to the expansion scheme could not be completed in time due to unsettled labour conditions and the late receipt of important machinery from foreign and local manufacturers.

Salar Jung Sugar

The Salar Jung Sugar Mills, a subsidiary of the India Sugars & Refineries Ltd., has shown a net profit of Rs. 2.34 lakhs for the year ended June 30, 1965. This figure is arrived at after providing Rs. 3.81 lakhs for depreciation, Rs. 32,963 for depreciation on agricultural assets and Rs. 1.05 lakhs for development reserve. The profit on agricultural operations being Rs. 1.33 lakhs made during the year is included in the profit and loss account. A sum of Rs. 1.60 lakhs, being the arrears of depreciation of previous years, has been provided. An amount of Rs. 61,469, together with last year's carry forward amount of Rs. 34,339, totalling Rs. 95,808, is being carried to next year's account.

Hindustan Lever

HINDUSTAN Lever Limited has achieved a turnover of Rs. 71.48 crores in 1965—an improvement of 15.5 per cent over the turnover of Rs. 61.87 crores in 1964. The increase of Rs. 9.61 crores in the turnover is shared by almost all the products of the Company. The restrictions on the exports of edible oils and their products continued throughout 1965. The Company was nevertheless able to achieve an export turnover of Rs. 137 lakhs, a notable feature being the export for the first time of the Company's non-soap detergent to Russia.

There was a general increase in costs and a squeeze on margins. However, the higher profit (before tax) of Rs. 4.37 crores reflects the increase of 15.5 per cent in turnover. The net profit for the year

of Rs. 1.71 crores, after tax, is only marginally higher than the net profit in 1964 (Rs. 1.65 lakhs). The Company paid, in October last, an interim dividend of 60 paise per share, subject to deduction of tax (as in 1964) on the capital of Rs. 8.24 crores before the October rights issue. The Directors recommend a final dividend of 80 paise per share subject to deduction of tax (as in 1964) but on the increased share capital of Rs. 9.14 crores payable on April 28, 1966. The total dividend for 1965 will absorb Rs. 1.22 crores as against Rs. 1.15 crores for 1964.

Union Carbide

THE operations of the Union Carbide India Limited for the year ended December 25, 1965, have shown satisfactory results. Sales in 1965 were Rs. 18.77 crores (figures rounded) representing a substantial increase of 18 per cent over 1964 sales. After allowing Rs. 67 lakhs for depreciation and Rs. 15.50 lakhs for development rebate, the net profit for the year before tax was Rs. 2.94 crores which is slightly lower than the 1964 figure of Rs. 3.01 crore. This was largely because of higher import duties and increased interest charges. Dividend is maintained at 15 per cent, but on the increased capital. An interim dividend of 7½ per cent has already been paid and a final dividend of 7½ per cent will be paid to all shareholders as on May 17, 1966. Transfer to General Reserves from the 1965 profits is Rs. 63 lakhs against Rs. 74 lakhs for 1964. An amount of Rs. 3 lakhs has been transferred to sinking fund

reserves, to finance the redemption of Rs. one crore 6½ per cent 15-year debentures.

To meet difficulties in procuring raw materials and other supplies due to the acute shortage of foreign exchange, the company is making efforts towards import substitution and export promotion. The Company's export sales in 1965 reached an all-time high, increasing by 39 per cent over the previous year. The total expenditure for construction amounted to Rs. 6.28 crores compared to Rs. 3.06 in 1964. The major portion of the capital expenditure in 1965 was towards expansion of capacity to manufacture chemicals and plastics at the Trombay plant and the installation of related processing facilities there.

Pfizer's New Issue

THE Rs. 46.20 lakh issue of Pfizer Limited, which opened for public subscription on March 28, is reported to have elicited good response. The issue is for a total sum of Rs. 66 lakhs of which the Directors and the employees have taken up Rs. 19.80 lakhs. The balance of Rs. 46.20 lakhs is thrown open to the public in the shape of 4.62 lakh equity shares of Rs. 10 each, at a premium of Rs. 15 per share. The amount now being raised forms part of the total capital outlay of Rs. 4.52 crores required for the new projects and expansion scheme of the Company.

The Company has at present two plants in India, one at Darukhana, Bombay, and the other in Chandigarh. A 75-acre plot has now been acquired by Pfizer in the Trans-Thana Creek industrial area, where the Company will put up a modern pharmaceutical manufacturing plant, expanded units for basic production of existing and new items, chemical process development plant, research and quality control laboratories. The expansion schemes are to be completed early 1968. This will be in addition

to the expanded plant for PROTINEX which is expected to be completed well before the end of 1966. These units will replace the existing ones at Darukhana. The proceeds of the present issue will be utilised for this expansion programme.

Pfizer has a good operating record, both in respect of sales and earnings. In 1965, its sales amounted to Rs. 10.31 crores compared to Rs. 5.88 crores in 1964. The Company's net profit, after tax, amounted to Rs. 92.86 lakhs in 1965 compared to Rs. 54.08 lakhs in 1964. The pre-tax profit of the Company stood at Rs. 3.01 crores.

Barring unforeseen eventualities and on the basis of the rates of corporate taxation according to the Finance Bill, 1966, the Directors expect that the Company would be in a position to pay a dividend of 22½ per cent (subject to tax payable by shareholders) for the accounting year ending November 30, 1966. In view of the dividend entitlement and the terms of payment of the issue and assuming that the first "call" were payable on October 1, 1966, the dividend of 22½ per cent would give a return of about 14 per cent per annum for the year 1966 on the average investment of the new shareholders made under public subscription. The Directors also state that the premium received on the present issue of shares will be credited to the share premium account. The Directors will consider the possibility of issuing bonus shares at appropriate occasions by capitalising the share premium account.

United Bank of India

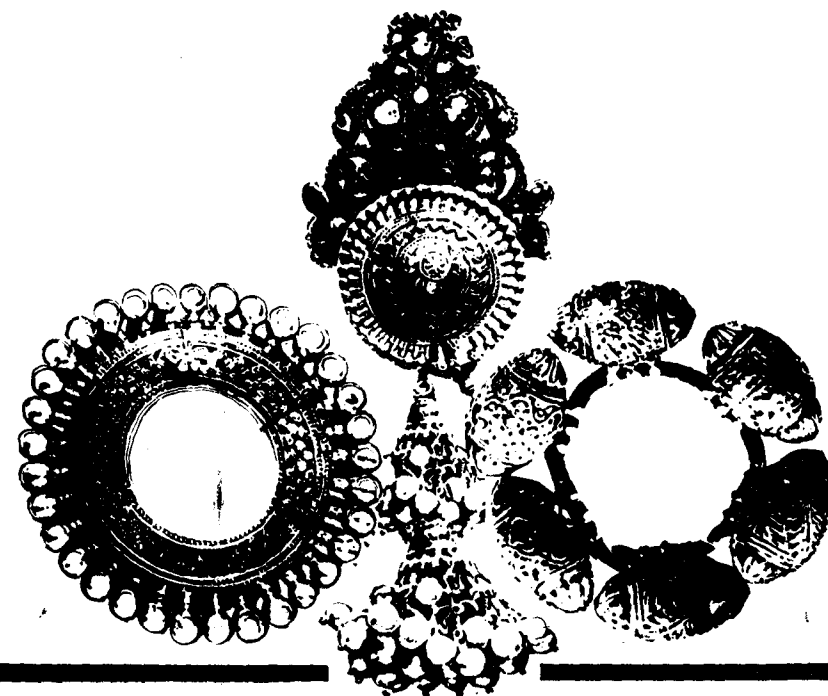
THE net profit of the United Bank of India for the year 1965, after paying bonus to staff amounting to Rs. 23.88 lakhs (against Rs. 16.91 lakhs in 1964), was Rs. 26.32 lakhs against Rs. 26.34 lakhs in 1964. The directors have recommended a dividend at 7½ per cent, subject to the deduc-

tion of tax, which is the same as last year. Deposits of the Bank crossed Rs. 100-crore mark and amounted to Rs. 102.68 crores, against Rs. 88.59 crores at the end of 1964, showing an increase of 16 per cent over the year, against a rise of 13.5 per cent in deposits of all scheduled banks during the same period. Bulk of the increase in 1965 was confined to Fixed and Savings Deposits. Advances increased from Rs. 55.33 crore in 1964 to Rs. 69.77 crores at the end of 1965, showing a rise of Rs. 14.44 crores. The advance-deposit ratio worked out to 68 per cent. Investment in Government securities and other trustee securities amounted to Rs. 26.94 crores at the end of 1965 against Rs. 28.28 crores in 1964.

(Continued from page 7)

Indian and foreign, speak of a failure of communication. The message of farm improvement is yet to reach the remoter villages. The elaborate administrative machinery for block development evidently does not include enough trained personnel to carry new ideas and techniques to the villages.

But the current migration to cities in search of employment may in some ways prove beneficial; it may lead to mechanization of agriculture. So might the crop insurance scheme to induce farmers to use improved methods of farming and employ better inputs. Although the Government's new agricultural strategy emphasizes the use of improved varieties of seed responsive to the application of fertilizers, present arrangements under which the Centre lays down the agricultural policy and coordinates the programmes, leaving their implementation to the States have not always worked well. It has been conceded however that land reforms, though desirable in itself, should not impede rapid modernization of agriculture.



DA 65/66

You are looking at 2,000 grammes of gold. These ornaments can earn a tax-free income of Rs. 6,000 in 15 years. Unlock your safe and your bank vault where your gold lies idle. Unlock your heart and release your gold for the national good. We shall refine your gold to 23.88 carats. We shall purify it on the altar of service to our sacred motherland. The gold will be returned to you after 15 years, blessed, burnished and brighter.

Serve your country—get Gold Bonds

Gold locked up is idle gold. Gold invested in Gold Bonds is active gold—you earn Rs. 2 per 10 grammes every year. (One tola equals 11.66 grammes. A sovereign weighs 8 grammes).

No questions asked

When you exchange gold, gold coins or gold ornaments for Gold Bonds, nobody will ask you how you got them. No action will be taken under the Gold Control Order or Customs rules.

You get purer gold back

Old ornaments have only 18 to 22 carats purity. (Sovereigns are of 22-carat gold). When you exchange these for Gold Bonds, the gold will be refined to 23.88 carats. You get this purer gold after 15 years. Use this golden opportunity to earn an income on your old-fashioned ornaments; when these come back to you as purer gold, you can convert it into ornaments of any purity in designs that are more pleasing to your eye. The full benefit of any increase in the value of gold is also yours.

Compensation for making charges

If you tender ornaments, you get Rs. 3 per 10 grammes of refined gold as compensation for making charges.

Gold Bonds help business and industry

Gold with the Government means foreign exchange, badly needed for machinery, raw

materials and defence equipment. Lack of foreign exchange may disrupt business and industry and threaten your family's prosperity.

Gold Bonds as security

You can borrow money from banks with Gold Bonds as security.

Exemption from taxes

The earnings from Gold Bonds are free of income-tax.

Gold Bonds do not attract wealth tax. Profits from the sale of Gold Bonds are tax-free.

Gold Bonds are exempt from gift tax for the first subscriber up to 5,000 grammes (about 429 tolas) in a year.

No estate duty is leviable on Gold Bonds when they are inherited for the first time, up to 50,000 grammes (about 4,288 tolas).

Where to get Gold Bonds

Gold Bonds are issued at the office of Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi and all branches of the State Bank in India and its subsidiaries.

Help the country

The future of the nation and of those who are close to your heart depends on how much gold you exchange NOW. Put your gold to work in the service of the country.

Issued by the Ministry of Finance, Government of India

KEEP YOUR GOLD IN TRUST FOR THOSE YOU LOVE

Budget
Analysis

southern economist

April 15, 1966, Vol. 1V : No. 24 : 42 Paise

industry • banking • commerce • finance

Trends and Portents

By our Market Analyst

A SIGNIFICANT aspect of the stock markets' behaviour has been the growing resiliency of this financial mechanism, despite the presence of several hurdles in the way of a durable recovery. While the post-budget performance of the equity market has reflected beyond doubt, the beneficial effect of the removal of bonus tax, industry's growing awareness of the difficulties in working the industry to full capacity in the face of declining supply of raw materials, and the tightness of money supply, are impeding the onset of the much needed buoyancy in the market.

Spate of Bonus Offers

If the opening of the gates for the freer issue of bonus shares has led to a spate of bonus proposals, the marketmen believe that many more companies will be coming out with their bonus issues in the coming months. Already, the bonus proposals of several companies in Madras and other outside markets, have revived fresh support for the scrips of these companies. If the Rs. 2 paid-up shares like Chembra Peak, and Kil Kotagiri in Madras are quoted now at a high premium, this is not only because of the dividend rates, but primarily because of the bonus proposals. The performance of some leading scrips in Calcutta and Bombay has been quite encouraging. While the higher tax burden imposed by the budget for 1966-67 cannot be helpful for higher savings by individuals, and higher dividends by companies, it is

obvious that the growth prospects which had been shattered in the recent years, by unfriendly tax measures and monetary climate have now been revived to some extent by Mr. Chaudhuri. Investment in equity is not mainly sought for a return. The scope for capital appreciation which in turn rests on profit outlook, and bonus outlook, plays a major role in diverting funds to equity. In so far as the budget has done something favourable in this direction, the stock markets cannot relapse into a period of worse stagnation. The lack of offerings in first class scrips, and the reluctance of holders to liquidate at a loss indicate the faith in the future of equity as a whole. While economically, equity investment is essential for speeding up industrialisation which alone can give any meaning to our talks of socialism, politically, there is no greater substitute to an ever increasing equity participation by the growing population, in the matter of strengthening the democratic forces. The political and economic future of the country which is assuredly bright, cannot but raise the equity to its rightful place before long.

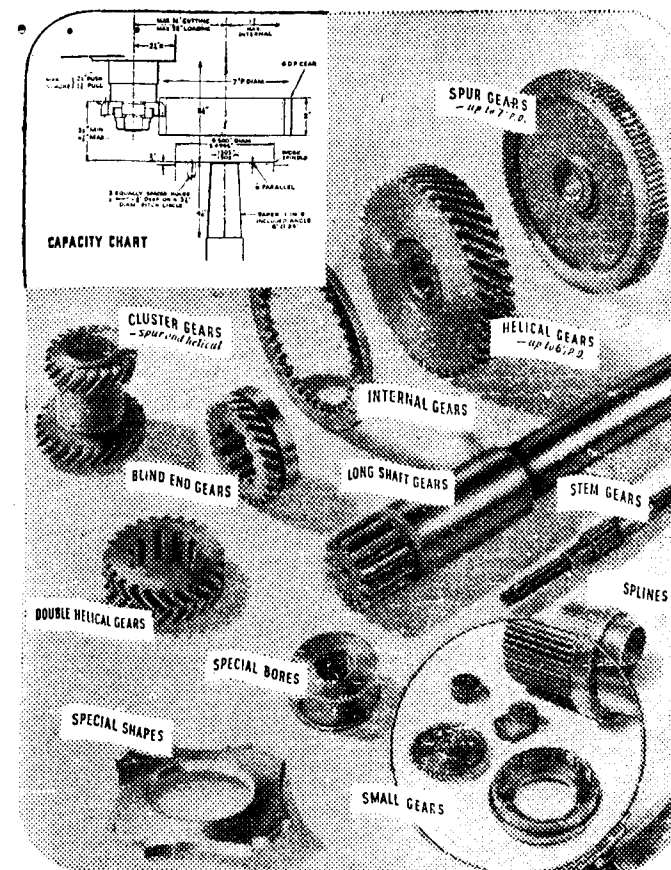
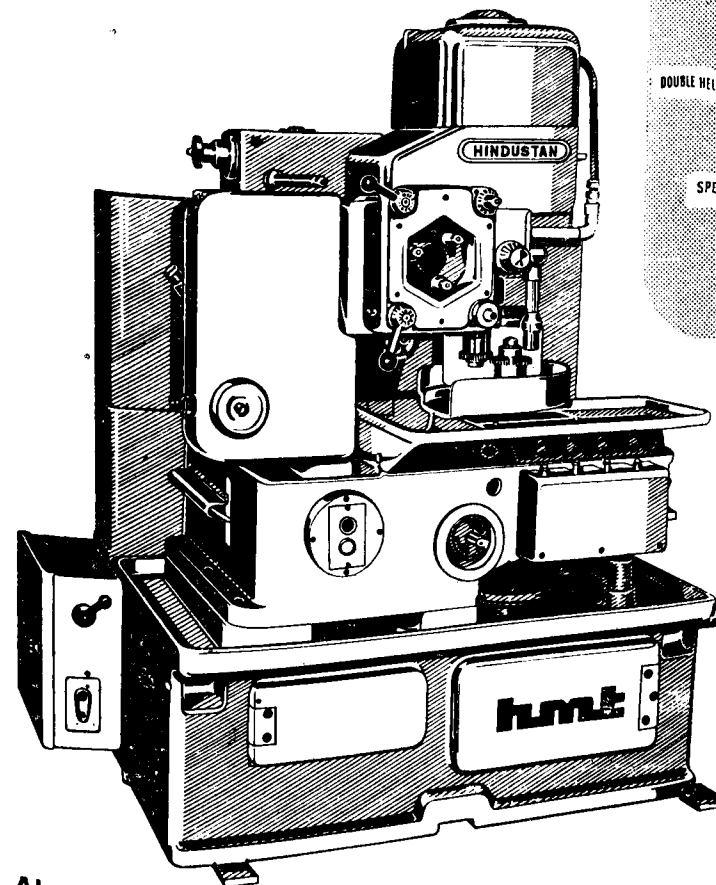
Lower Interest Rates?

Economic thinking at the moment is rather confused in matters of controls and dear money. But, there is no doubt that experience and our particular requirements would be the best guide in framing our policies. Opposition to the credit squeeze by industrialists who point out the

adverse effect of dear money on productive efforts, is gaining support in other quarters. The Chairman of the State Bank of India has called for a second look at our interest rate structure with a view to lowering the rates on deposits and advances. The difficulties experienced by the sugar industry in carrying a large stock and the consequent strain on the financial resources of companies and banks only highlight the problem of adjusting our policy of controls and monetary mechanism to our needs.

Industrial circles attach considerable importance to the visit of our Prime Minister to U. S. A. It is obvious that this visit will have far-reaching effect on political and economic trends. What is particularly significant at the moment is the immediate outlook for the resumption of aid. If the objective of the U. S. Government is to help democratic countries to stand on their own legs, by assuring adequate aid to supplement domestic resources, and to contain China, there is no obvious alternative to appreciate and understand fully India's stand, her foreign policy in their right perspective. Much harm has obviously been done in the past in linking aid to India with that of Pakistan. India stands by her own merit and should be judged by what she does, and not by what Pakistan does. The visit of our Prime Minister to Washington is expected to improve the economic understanding between these countries.

HINDUSTAN High Speed Gear Shaper Just what the engineer wants!



- The absolute involute form by the process of generation
- The cutter rolling into the work piece as it shapes, generates its form irrespective of the number of teeth cut. Hence one cutter for all gears of a particular pitch
- Easy regrinding of cutters
- Shaping provides flanks of high surface finish which makes further grinding operations unnecessary in most applications
- Capacity—pitch diameter up to 177 mm external and 107 mm internal, up to 6 D.P.

PLEASE CONSULT US ON YOUR GEAR PRODUCTION PROBLEMS

Also available: MILLING MACHINES AUTOMATED FOR PRODUCTION • TURRET & CENTRE LATHES • RADIAL DRILLS • HYDRAULIC CYLINDRICAL GRINDERS • SINGLE SPINDLE AUTOMATICS • FINE BORING MACHINES • FACING & CENTERING MACHINES AND SPECIAL PURPOSE MACHINES

HINDUSTAN MACHINE TOOLS LIMITED, BANGALORE 31.
 FACTORIES AT: I & II BANGALORE (Mysore) III PINJORE (Punjab) IV KALAMASSERY (Kerala)
 V HYDERABAD (Andhra Pradesh)

in the service of
Agriculture

FACTAMFOS

(Ammonium Phosphate 16:20)

ULTRAFOS

(Finely ground
mineral phosphate)

**AMMONIUM SULPHATE
SUPERPHOSPHATE
NPK FERTILISER MIXTURES**

in the service of
Industry

**ANHYDROUS AMMONIA
SULPHURIC ACID
SULPHUR DIOXIDE
AMMONIUM CHLORIDE
SODIUM FLUORIDE**

FACT
first in the field!

**THE FERTILISERS AND CHEMICALS
TRAVANCORE LIMITED**

Regd. Office: Eloor, Udyogamandal P.O. Kerala State

Criterion-FT-511

**SOUTHERN
ECONOMIST**
April 15, 1966

CONTENTS

EDITORIAL	1
Arid Arithmetic	
NOTES OF THE FORTNIGHT	2
Interest Rates; Asian Bank	
GLASS HOUSE GOSSIP	5
SPECIAL ARTICLES	7
Union Budget of 1966-67 — An Economist's View	
— By Dr. M. H. Gopal	
Role of Small-Scale and Household Industries in Mysore's Economy	
— By M. S. Krishnamurthy	
PLANTATION NOTES	15
Relief Welcome but not Enough	
AVIATION NOTES	17
Streamlining I.A.C.'s Operations	
BOOKS	19
Exchange Control; Fertiliser Statistics; Automobile Industry; Penguin Science Survey	
COMPANY NOTES	21
Mahindra and Mahindra; E. I. D.-Parry; New Issues	
STOCK MARKETS	24
Looking For Bargains	

SOUTHERN ECONOMIST
Published on 1st and 15th of
every month

24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Subscription Rates
ANNUAL Rs. 10 (Inland)
\$ 3 or 20 s (Foreign)
Single Copy 42 Paise

Arid Arithmetic

FOR indulging in the arid arithmetic of growth-comparisons, the ECAFE got a well-deserved rebuke from the Indian planners, at its 22nd session, held in New Delhi. Statistical comparisons have their uses but the practitioners in the game always run the risk of being drowned by clutching at the wrong objects. That India's growth rate has not been up to the mark is known to every novice in economic planning. That in *per capita* terms, it is more dismal is also common knowledge. But what angered our planners was the statement, made in the ECAFE annual survey, that at the present rate of increase of 1.5 per cent per annum in *per capita* income, it would take 137 years for India to reach the present income-level in Japan and 206 years to reach the present level in New Zealand. The ECAFE could as well have added to the average Indian's mental agony by flaunting a few more sets of figures about the availability of cars, television sets and hairdressers per thousand population. It is an open secret that our national income, at constant prices, increased at a modest rate of 3.4 per cent in the First Plan, 4 per cent in the Second Plan and at about the same rate in the Third Plan. The national income, in *per capita* terms, has shown, over these 15 years, a disappointingly small rate of annual growth with, in fact, some years showing a negative rate. In the First Plan, the *per capita* income rose at the annual rate of 1.6 per cent, in the Second Plan, it grew at 1.9 per cent and in the Third Plan, for which the figures are not yet available, it will have revealed an average of not more than one per cent.

But the Indian Planners can derive some comfort from the fact that the performance of the other developing countries of Asia has been equally disappointing. For the entire region, the average *per capita* growth during the decade, 1950-60, was 2.1 per cent. There can be no room for complacency, but the *per capita* growth-rate, even in the developed economies, has not been very startling during this decade. But one cannot offer the same prescription to countries which have already reached the stage of "affluence" and those that are struggling on the borderline of subsistence. Those who are aware of the pitfalls and perils of planning in developing economies recognise this fact but are reluctant—for understandable reasons—to enter the race because they know that more often than not, it is the tortoise, and not the hare, that is seen first at the winning post. For growth is as much a matter of planned investment as of extraneous factors like the performance of the agricultural sector—which is the predominant sector in these economies—and the rate of population-increase over which, strictly speaking, the planner has no control. While the Union Minister, Mr. Bhagat was perfectly justified in pointing out an unintended flaw in the ECAFE survey, he was a bit too hasty, one thought, in asserting, with the cocksureness of the Yojana Bhavan experts, that India can achieve a *per capita* growth-rate of 3 to 4 per cent during the Fourth Plan. He even prophesied a growth-rate of 4 to 5 per cent if the family planning measures elicited favourable response. Mr. Bhagat is right but can he order Cupid and the rain-god Varuna not to play truant with our perspective planners?

NOTES OF THE FORTNIGHT

Interest Rates

Bankers Differ

THE Chairman of the State Bank of India, Mr V.T. Dehejia, fired the first shot when he opted in favour of a structure of lower interest rates, at a press conference he addressed last month. The battle has now been joined by the other leaders of the banking industry. The interest rate-controversy has been raging for quite some time, with the emphasis varying from one aspect of it to another. From the recent speeches of the Chairmen, it would appear that the small and medium-sized banks have kept out of the interest rates controversy while the big banks, with the possible exception of one or two, have generally favoured a lowering of the interest rate structure. Whether complete identity of views prevails between the spokesmen of the public sector banking and those of the private sector banks it is difficult to say because they seem to argue from different premises. Surprisingly, Mr. Dehejia has not asked for an outright lowering of the Bank rate although his plea for a revision of the interest rate structure indirectly strengthens the case for a cut in the Bank rate.

Since the Reserve Bank, in recent years, has learnt to vary its effective lending rate by selective and discriminatory devices, Mr. Dehejia appears to think that a downward revision of the Bank rate is not a precondition for a general downward revision of the interest rates. His case, in a nutshell, is that the increase in the interest rate structure has not succeeded in serving its twin purpose of (i) reducing

the demand for advances and (ii) encouraging the flow of deposits into the banking sector. That both these contentions are open to dispute is beside the point. Since, in Mr. Dehejia's view, the higher interest rates have not served their purpose and have in fact caused a flight from equity investment, by lowering the yield expectations, a lowering of the rates—so the argument runs—may narrow down the gap between the gilt-edged yields and equity yields. The question may legitimately be asked as to why the spokesman of the public sector banks should be greatly concerned over the fate of the equity market? The answer can well be (this has not been clearly stated by Mr. Dehejia) that an improvement in the demand for equities may reduce the private sector's demand for bank funds or, in other words, its excessive reliance on loan finance. However, this cannot be taken for granted because a lowering of interest rates, particularly at the advances-end, may actually encourage the private sector to borrow more from the banking system. All the same, Mr. Dehejia is right in asserting that it will help to reduce the cost of Government borrowing.

If the private sector banks have backed Mr. Dehejia's plea for a lowering of the interest rates, it is largely because most of the private sector banks feel that the higher interest rates on deposits have not made their task of deposit-mobilisation easier. On the other hand, the higher rates paid on deposits, particularly long-term deposits, have boosted banking costs, thereby reducing their profit-margin. Even this contention is not fully borne out

by the common trend since many of the big banks have actually benefited from the increased rates allowed on their advances, in the present regime of dearer credit. Their main contention seems to be that deposits are not interest-elastic, that is to say, they are not responsive to changes in interest rates. Dr. S. B. Dutt, Chairman of the United Bank of India, has observed that higher interest rates, in addition to boosting costs, may add to the inflationary spiral. To quote Dr. Dutt:

Interest as a reward to depositors adds to the money-income and higher rates result in higher money-income. With the composition of ownership of deposits in the country remaining as it is, where nearly 50 per cent of all deposits is owned by individuals (this proportion would be higher if the State Bank of India is excluded from this calculation), such increase in money-income adds to the inflationary potential in the economy.

While this contention cannot be endorsed without a study of the actual impact of the earnings from this source on the price-level, there is no denying that "high interest rates adversely affect industrial progress not only because they add to costs but also because the capital market is demoralised by high yield expectations." Dr. Dutt therefore suggests a lowering of the Bank rate, after providing the necessary safeguards such as the establishment of a proper relationship between the rates permitted on deposits and the rates allowed on advances. While the logical validity of Dr. Dutt's analysis cannot be seriously questioned, one is inclined to feel that Dr. Dutt is placing excessive reliance on the Bank rate weapon which has not been very effective as a device to regulate credit in India.

Mr. I. P. Goenka, Chairman of the United Commercial Bank, has also endorsed, with some minor qualifications, the plea of Mr. Dehejia, for a lowering of the interest rates. But Mr. Goenka seems to take the private sector's reliance on bank finance as an unalterable fact of life and thinks that the higher Bank rate is a major cause of cost-escalation. He says:

Bank rate touches upon each of the phases leading to the final availability of the manufactured goods to the consumer. Thus, finance is costlier in the form of raw material, as manufactured stocks lying with the industry, as inventory in the hands of wholesalers and as ready distribution with the retailer. The cumulative effect of such enhancement in costs cannot but make its impress upon the final price to the consumer... The inability of many of our manufactured goods to compete in the world markets would be due, at least in part, to such escalation in costs directly attributable to the dear money conditions attaching to the different stages of manufacture and sale.

Unexceptionable, but like Dr. Dutt, Mr. Goenka seems to want the best of both world. Boiled down, Mr. Goenka's suggestion is for a lowering of the Bank rate and for placing a ceiling on the rates to be paid on deposits—the ceiling being the Bank rate—and thirdly for fixing minimum rates for advances so as to enable the banks to maintain a reasonable profit-margin. It is precisely here that Mr. Goenka enters controversial grounds. He makes the somewhat startling suggestion that the Banks "should do away with deposits for periods beyond one to two years" since they introduce an element of inflexibility into the operation of commercial banks. As Mr. Goenka points out, interest rates on deposits vary from 5 per cent for periods ranging from 91 days to 6 months, to 7½ per cent for 9 years and over. And the smaller banks are allowed to quote one-eighth of one per cent to one-fourth of one per cent more. In other words, Mr. Goenka wants the commercial banks to go back to

their traditional function of providing short-term accommodation for trade and industry.

While many of the fellow-bankers will "readily" share Mr. Goenka's view on the need to revise the interest rate structure, they may hesitate to endorse his suggestion for doing away with long-term deposits. On the other hand, they may forcefully point out that such a course will strengthen the hands of non-banking sector which, even at present, is offering stiff competition to the banks by offering higher rates for long-term deposits. The public's preference for long-term deposits which fetch a higher rate of interest, is in tune with the Reserve Bank's policy of encouraging the "spread" between the rates on short-term deposits and long-term deposits. Unless the banks maintain a well-diversified deposit portfolio, with a sizable part of the deposits being kept on a long-term basis, they will not be in a position to freely accommodate their clientele even in respect of medium-term loans. Mr. Goenka is certainly entitled to his view that term-lending is mainly a function of financial intermediaries like I.F.C., I.C.I.C.I., and I.D.B.I. but the long-term interests of our banking system will not be best served by "playing safe". In the pre-Independence days, the banks were criticised for adopting an unduly cautious attitude in regard to industrial finance. Now, when they are hesitantly entering this field, Mr. Goenka hoists the warning signal, by suggesting a retreat to the '30s.

Asian Bank

A Landmark

A THOUSAND million dollars, equivalent to about Rs. 475 crores, is not enough even to put up a major steel mill in one of the Asian countries. Nevertheless, the Asian Development Bank, which will soon come

into existence, probably with its headquarters in Manila, may well have a significant impact on the development of the Asian region. At the recent New Delhi meeting of the ECAFE, its Executive Secretary U Nyun, announced that the pledges of subscriptions to the Asian Development Bank exceeded the Bank's authorised capital of 1,000 million dollars.

Although ADB is primarily a regional organisation, the participation of non-regional members is crucial to its success since very few Asian countries have the capacity to export capital goods on any significant scale. In fact, this is a special feature of the Asian Bank as can be seen from the fact that the pledges of non-regional members constitute 35 per cent of the Bank's authorised capital. If the contributions of the developed countries within the region, viz., Japan, Australia and New Zealand are added to this, the total share of the developed countries adds up to about 65 per cent. This underlines the fact that while the Asian countries, with their total contribution amounting to 65 per cent of the capital, can derive the satisfaction of having an effective voice in the shaping of the Bank's policy, the composition of the capital is characterised by a preponderance of the developed countries within the region and outside.

There is, besides, the Special Fund, created at the instance of the U. S. A. which has made an initial pledge of 100 million dollars. Since matching contributions from other non-regional members can be expected for this Special Fund, a sum of 200 million dollars, or even more, may be available for specific projects to be taken up to the south-east Asian region through this source. American initiative in creating this special fund, to be held in trust with the Bank is not without

even savings in the private sector; that is, the growth rate in the economy has been retarded.

This is partly due to the inability of business and of the individual to save but largely to their reluctance to practise economy and even austerity. Here enters the more important psychological aspect of production-incentives and of taking the private sector with you. To a small extent by giving selective reliefs to the corporate sector—in discontinuing the 12½ per cent tax on bonus shares, raising the untaxed limit in the Dividends Tax to 10 per cent of the paid-up equity capital and reducing the rate of the Company Profits Tax from 40 per cent to 35 per cent—and to the individual, by abolishing the Expenditure Tax and the tax on national capital gains on bonus shares and raising the exemption limits in the personal Income and Gift taxes—the Budget recognises the importance of removing the psychological irritants.

But in burdening anew the individual four fold and the corporations seven fold the Budget has completely missed the psychological facet of growth.

Exaggerated View

I am however not prepared to accept the business man's criticism that the existing or even the proposed tax burden is so inordinately heavy in tangible terms that his back is almost breaking. It is true that in the country today and continuously for the last few years, the tax burden has been added to. It is also true that India is one of the highest taxed countries in the world both in the total tax burden and in some taxes individually; for instance, the rate of the Income Tax on the highest slab of unearned incomes plus the Annuity Deposit is about 90 per cent. But, these rates and burden affect only a very few at the top and, therefore, their real, as against the psychological, significance to the community—

individual and corporate—is not what big business currently claims it to be.

There is, however, the more important, though intangible, facet of the burden. If private business honestly feels—let us assume that it really feels and that its vociferous complaint is honest and not mere agitation—that it is not worth saving, investing, expanding, and producing any more *because of taxation*, the budget must face this situation. The shift in the budgetary policy must in this context be from physical therapy to psychotherapy. Confidence must be restored in the private sector; it must be assured that it is worth its while to plough back profits, to attract fresh equity and loan capital and to start new enterprises, risky but with opportunities for gain.

Psychological Stimulus

This all-important side of economic growth has unfortunately not been recognised in the Indian Budgets of the last half a dozen years, and even the 1966 Budget has only reluctantly and inadequately conceded it, though making small adjustments in corporate and personal taxation. Look at the many whimsical and nuisance taxes—perhaps theoretically defensible and partially worth experimenting in stabilised and mature economies—or the high tax rates on corporations introduced during the last decade, now wisely and largely abolished; but vestiges of the old order still remain in the 1966 Budget as in the retention of the Equity Dividend Tax and in the 55 per cent rate in Corporation Taxation. This year's Budget is characterised, therefore, by yet another important drawback, namely, the attitude of "I dare not wait upon I would." Even if some of the taxes or rates are ultimately justified, the fact that they are irritating the individual saver and the private sector should be enough to counsel modification

till the imposts are theoretically perfected, the tax administration becomes more efficient, the private sector has saved, invested and expanded adequately and the economy itself has grown sufficiently mature to develop on its own.

Many of these observations hold good even of the real tangible tax burden on the corporate sector and on the individual in the enhanced direct tax rates, and on the community in general in the increased indirect levies. The *net* addition to direct taxation is of the order of Rs. 58 crores and of indirect taxation Rs. 53 crores including the share of the States. Looking at the total investment and profitability in the private sector and at the number of income tax assesseees—though this is relatively small compared to the size of the population or the numbers in other countries—the real increase in incidence does not appear to be so heavy as to justify the whole of the current opposition in the community. A considerable part of this cry against tax changes is the common stock-in-trade, particularly of big business, in all countries and at all times whenever any change takes place; and sooner or later, it will die down; the share market will adjust itself; business will go on its usual way; and a new equilibrium of stability emerges.

Impact on Cost

But the psychological effect of this increase, particularly in direct taxation and more particularly on business is *at this juncture* the crucial factor to consider. The effective rate of the basic corporate income tax has been raised roughly by 10 per cent, for example in the case of closely held domestic companies the increase, is from 60 per cent to 65 per cent, while it is from 47.5 per cent to 52.5 per cent for certain types of domestic companies in the Life Insurance business. Hardly 7 years ago in 1959 the general rate

of corporate taxation was about 38 per cent but now it is 55 per cent and in some cases much more. In the same period, the real role of the private sector in the economy, has been growing. The tax changes proposed in 1966 are likely to undermine cost-consciousness in the private sector, and this would reduce competitiveness in the export market and add to inflation within the country.

The admittedly low performance of the public sector—and only last week in Bombay the Finance Minister himself conceded that the public sector projects would "improve in fullness of time"—is evident (Table 1).

The increasing and wasteful expenditure in both the developmental and the non-develop-

the major economic consideration that attracts them is tax treatment and concessions which even as they are, have not been adequate to draw out capital. Instead of further concessions, short of discriminating against indigenous enterprise, the 1966 Budget makes, for instance, no change in the present 50 per cent tax on royalty and technical service fee, but on other incomes, raises the tax from 65 per cent to 70 per cent. The increased rates would hinder capital inflow. Where, however, it gives a real concession is in relaxing the definition of closely-held companies. The test of public being substantially interested is now satisfied if 40 per cent of the equity is held by the Government. The foreigner can now get the benefit

TABLE 1

	1960-61	1964-65
	(in Rs. crores)	
Paid up capital	547	1,067
Net Revenue contribution (per cent)	5.4	23.6

mental wings and the king-pin position the private sector occupies in a mixed economy, support the view that it would be wisdom not to be doctrinaire and rigid but to stoop now in order to conquer later. The art of budgetary policy, like that of government in general, consists in achieving the end even by conceding ground at the earlier stages. The budgetary end in India today is primarily to accelerate production through the efforts and expansion of the private sector and to induce more of corporate and industrial savings as much as possible to collect larger resources for the Plans and the Government. This is where the budget could have been more imaginative, bolder and less hesitant.

Lack of Vision

Yet another facet of the lack of vision in the proposals is the treatment of foreign investment. India badly needs today both external capital and know-how and

of lower tax rates allowed to closely-held companies, even though he holds only 49 per cent of the equity and if his is a priority company. But this concession by itself is not enough.

The explanation for this hesitant, almost contradictory approach lies far deeper than in the 1966 or any single budget. Although the Finance Ministers have thought and even talked of a long-term fiscal policy, there has so far been none such in India. What is intriguing in recent Indian budgetary experience is that, in spite of the same party being in power for 18 years, the Finance Ministers have changed frequently and basic financial policies have changed still more frequently, even the same Minister not being sure of himself. No other country except Soviet Russia has had the same party in power for such a long time, and not even in France, before de Gaulle, where Govern-

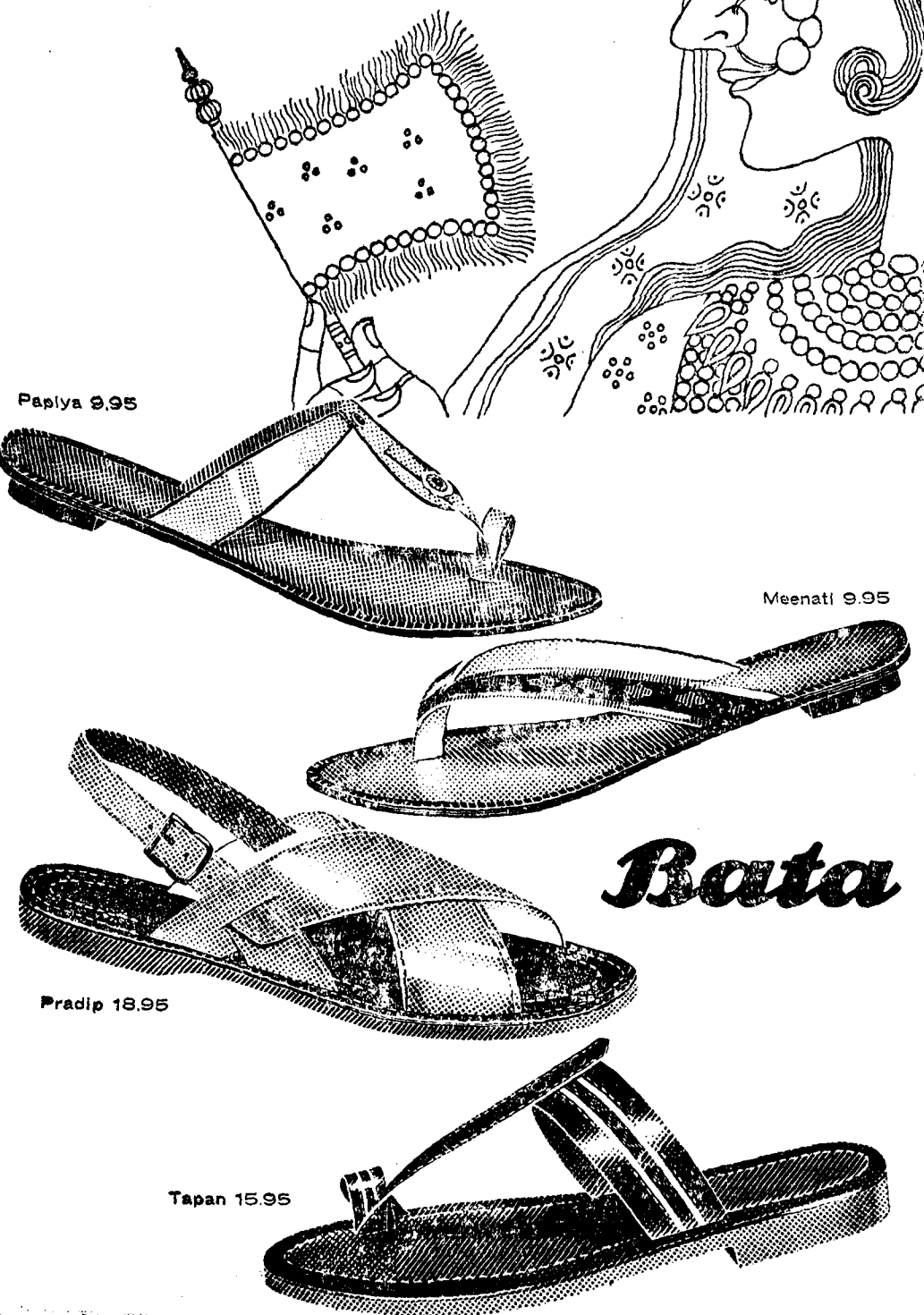
ments changed almost annually, have budgetary policies and structure changed so often as in India. This instability in budgetary policies is due to the lack of a long-range fiscal plan, for, even today the developmental role of the budget has not been seriously taken and the budget is regarded, not as a specialised, flexible, delicate instrument of high developmental value but as a blunt knife in the hands of a general practitioner.

Main Role Ignored

Another feature of the current budget as of the earlier ones is regarding the budget as a revenue-raising camp-follower of the Administration and the Plans; and this must be ascribed largely to the lack of realism in the Plans and of restraint in administrative spending. It is common knowledge that both the size and pattern of the Plans are unrelated to available resources and the administrative capacity in the public sector. Since the Plan expenditure has to be met, the budget has, willy-nilly, to raise the resources which alone has become its primary objective. It is here that the current criticism, and also that which is being repeated since Second Plan—that a great deal of taxation could be avoided if the Plans could be a little more realistic—is almost literally true. No doubt, for various reasons, the 1966-67 outlay on the Fourth Plan is about 170 crores less than in 1965-66; but the explanation of the Government spokesmen in extenuation of the still large expenditure, *vis a vis* available resources will not convince many that in an outlay of over 2,000 crores, a reduction of 3 to 4 per cent is impossible, even if only temporarily for this year, or convince the private sector and the citizen that the government means business. Such a cut or even half of it, would avoid the direct tax increases and assure the private sector.

The breeziest way to walk

Feel free as all outdoors. Feel light afoot.
Feel foot-happy as you follow the sun.
Buy yourself a Bata Sandal. When you first try
them on, you'll feel the effect of their built-in
comfort. And you'll welcome their variety of style,
that lets you choose the just-right for you.



Again, the reluctance of the Finance Minister to slow down in order to strike later is traceable to the non-stop expansion in non-development civil expenditure.

It is true that, in a growing economy, expenditure tends to

ties, and rationalisation of certain aspects of corporate taxation. Instead of a gross rate of 80 per cent with a multitude of rebates and reductions, the effective rates of tax applicable to each class of company have now been

TABLE 2
Growth of Non-development Expenditure

	1955-56	1960-61	1966-67
	Actuals		B. E.
Administrative Services	33.5	58.6	110.0
General Administration	10.6	14.3	24.1
Audit	5.4	8.3	13.7
External Affairs	5.9	9.7	14.0

increase, and to increase more rapidly in a new large democracy. Expenditure seems to have expanded in India during the last decade for reasons other than absolute need for strict efficiency, partly due to enthusiasm, more so due to inexperience, but largely due to the exercise of new power in the hands of the policy makers. Here, again, the explanation of the Finance Department that the increases are small, inevitable and in items almost beyond government control, for example, debt services, border and external security is not fully convincing. Take, for instance, the expansion of the Planning Commission itself, its personnel and its sections, in relation to its growing functions and responsibilities. The unhealthy extension is obvious. One feels that considerable restraint is possible.

Welcome Features

Of the welcome features of the proposals, two may be noted: one is largely procedural and the other is substantive. Indian tax laws are unnecessarily complicated. The process of simplification has been continued in 1966, for instance by small changes such as rounding off of incomes and tax liabilities,

and rationalisation of certain aspects of corporate taxation. More of such procedural reforms is needed and may be confidently expected from the Finance Minister, the expert that he is in company law.

The welcome feature on the substantive side is the tax reliefs proposed. Of these, the raising of the tax exemption limit in the personal Income Tax and in the Gift Tax, along with modifications in the latter tax rate, are somewhat tangible concessions and so are the changes in the Dividend Tax and the rate reduction in the Company Profits Tax. But these are in themselves small mercies, although even small mercies are welcome as psychological props. These few reliefs have, no doubt, been designed either as incentives to saving and investment or as means to reduce the burden on the lower income groups, but being of the order of about 6 crores on the personal tax side and of 7 crores on corporation account can serve only as a gesture. It is therefore on the substantive side that the Budget is a disappointment.

The new net burden of Rs. 36 crores on corporations and Rs. 22 crores on individuals making a net addition of 58 crores in direct taxation, and the increases in

indirect taxation of over 53 crores including the States' share — in all a burden of about 111 crores is by itself not small. It, however, becomes considerable in the present economic context and against the background of successive tax increases during the last decade. In the course of hardly a year, since the little Budget of February 1965, there already had been added 180 crores to taxation and since 1950, the total tax burden has been up by Rs. 1,326 crores i.e., from 356 crores in 1950 to 1,682 crores in 1966. And this is, indeed, something serious. For, the art of budget making is not one of merely imposing new burdens but is one of reducing the number of taxes and simplifying their structure, at the same time increasing the yield and encouraging economic growth. And this again is where the 1966 Budget, like its predecessors, fails.

Likely Effects

The likely effects of the new changes on capital formation, exports and prices as well as on the economy as a whole and on the revenue receipts is largely a matter for surmise. The tax payer, particularly big business, appears to be convinced that the tax changes will retard capital formation, reducing business savings as well as those of individuals, and dampening initiative and enterprise of corporations in taking up new activities and of individuals in equity participation. The Government on the other hand, is equally convinced that these fears are unfounded.

The truth, however, lies midway. Even though the new taxes impinge on profits and profitability, there seems to be sufficient margin for considerable corporate savings. The individual who now has to pay a ten per cent surcharge on his income belong to the middle and richer strata of society. His capacity to

save is only slightly reduced, while his *willingness* to go in for equities would depend upon how investment opportunities are publicised and made available to him, although in specific industries such as textiles and sugar the scope for profit may be limited. By and large, therefore the opportunities for higher returns would increase and so would savings of the individuals and to this extent, the Finance Minister's anticipations of only limited adverse effects on capital formation appear well-founded.

It is generally feared that the indirect tax increases will react on prices, particularly of sugar, finer fabrics and tobacco products. This fear is to some extent well-founded, although the degree of the price-rise in these particular commodities would depend on the scope for tax shifting. But these commodities do not play a major part in the total cost of living and so, the direct effect of the increased excise duties on the general price level would necessarily be limited.

I shall now venture to suggest some *broad policy changes* and a few particular *structural adjustments* possible and desirable in the 1966 Budget. It is time for the Union Government to think of a five-year budget plan and policy, particularly regarding tax policy and tax efforts similar to the long term defence plan and the five year economic plans already operating. Further, the present budgetary approach should change over from being merely a financial device to an overall fiscal policy; that is, the modern role of the budget as a delicate, flexible and important instrument to influence the course and pattern of economic growth must be recognised *more fully* and applied with *greater determination* than is being done today. Moreover, emphasis in expenditure both on the revenue and on the capital sides

should shift to operational efficiency than mere expansion, i. e., reduction in amount without affecting returns or efficiency should be the 'driving consideration'.

Finally, the Centre must insist on closer cooperation and co-ordination between the budgetary policies and structure of the Union and of the States—on the tax, expenditure and debt sides and their administration—though this insistence may lead to some interference in the States' autonomy. This can be effected indirectly by controlling grants-in-aid and loans and directly by Constitutional amendments regarding inter-Governmental relations, if and wherever necessary. The recently evident financial irresponsibility in spending and indifference in raising resources of the States and the defiance by them of Central policies, even when the same political party rules in the Centre and the Units is certainly not healthy, and forebodes conflicts when a different party gets into power in any of the States.

The recent story of the States recklessly overdrawing from the Reserve Bank and the Centre's admitted helplessness to intervene, except, like a fond, weak mother, to regularise the overdrafts and to provide the States more funds to spend, is another warning signal. The lesson is that the Union budgetary policy and pattern, to be fully effective, must be linked with those of the Units.

Turning to the *specific adjustments* desirable and feasible in the 1966 Budget proposals, it appears to me to be wise to accommodate in certain directions in the present context of the economy—the role of the private sector in expanding production, the need for capital formation and the continuous rise in prices arising from short supplies. Firstly,

drop a *large* part of the proposed increases in the corporate taxes and the ten per cent surcharge on personal incomes. This may reduce the anticipated additional revenue by about Rs. 50 crores but this can be neutralised in the following manner. Retain the Corporate and personal tax reliefs given and the changes made in the Central excises and sales tax.

Increase market borrowings by 30 to 40 crores. Cut the Plan outlay by about 2 per cent, if not by the whole excess over 2,000 crores; and this would give about 40 crores. Avoid religiously all further increases in Government expenditure above the 1965-66 level. For more revenue, concentrate on improving efficiency in tax administration, and on the expectation of greater economic activity and increased incomes and profits leading to larger receipts from existing taxes. These adjustments are practicable; but may look formidable and even as a surrender to organised business agitation. They are, in fact, not so and must be viewed in the setting of the long term needs of the economy and as merely part of the strategy of taking one step backward only to advance two a little later.

These measures would not only avoid much of the additional taxation but also fill up the uncovered gap of Rs. 25 crores. The withdrawal of a part of the new taxation and the gap would together amount to about Rs. 75 crores, and the 2 per cent cut in the Plan outlay *Plus* Rs. 30 crores of market loans would balance this amount; and except as a token, there would be few cuts, but only no increases, in civil expenditure. If the response of the private sector to these concessions is unsatisfactory, supplementary taxes and modifications can be introduced at any moment, as it happened in 1965.

Role of Small-Scale and Household Industries in Mysore's Economy

By M. S. Krishnamurthy

IT has been recognised all round that the existence of a well-established small-scale industries sector is not merely incidental to a developing economy and that small industry plays a role of paramount significance even in industrially advanced countries. In the economy of India as well as Mysore, this sector occupies a prominent place, as regards its contribution to both income and employment. Small industry in Mysore gives larger employment and contributes more to State income than large industry, as borne out by the following figures:

the fact that cotton weaving in hand-looms is the largest industry under this group with 14,262 units. The few small factories are concentrated in Hubli, Gadag, Anigeri, Nargund, Bailhongal and Bagalkot. Cotton weaving in powerlooms covers 1,249 units and is becoming a serious competitor to handloom in the State.

The making of textile garments, including rain coats and headgear, which is mainly in the unorganised sector, is the second largest industry in the minor group, accounting for 11,300 units. The cotton hosiery industry is a

lies are engaged in the industry. Mysore, being the biggest producer of mulberry, accounts for a production of nearly 75 per cent of the Indian production. This industry has been fostered and encouraged by the State Government. Pure silk weaving has been mainly carried on handlooms. It depicts horizontal shifting of an industry from the traditional pure silk weaving to modern art silk weaving. Handlooms are also fastly replaced by powerlooms. The jute industry, last in the group, accounts for 326 units.

Agro-based Units

The manufacture of foodstuffs, beverages and tobacco products ranks next to the textile industry. In this group, agro-based industrial units like rice-mills, oil-exPELLERS, etc. predominate. There were 10,159 units manufacturing tobacco products, of which the manufacture of bidi alone covered 9890 units. The manufacture of foodstuffs follows with 10,041 units. In this, production of rice, atta, flour, etc. by milling, dehulling and processing of crops and food-grains alone accounts for 6,875 units; production of edible fats and oil other than hydrogenated oil accounts for 1366 units; and production of other food products such as sweetmeat, muri, murki, chira, etc. accounts for 1,117 units. Last comes the manufacture of beverages which covers 1,151 units.

The manufacture of basic metals and their products, machinery, electrical equipment and transport equipment comes next in the list, with 12,151 establishments. Units of engineering industries predominate in this group. The manufacture of basic

TABLE 1

Table showing the number of persons engaged and contribution to State income in small and large industries in Mysore State

Sector	Number of persons engaged	Contribution to State income.
Large industry	1,49,498	Rs. 35,50,15,000.
Small industry	2,85,795	Rs. 36,46,87,000.
Household industry	5,24,747	Rs. 17,41,49,000.

(Source: National Council of Applied Economic Research: "Distribution of National Income by States, 1960-61.")

According to the 1961 Census of India, there were 45 units under large industry, as against 48,799 units under small and household industry in the rural sector of Mysore State; there were 286 units under large industry, as against 44,071 units (including household) in the urban sector.

Textile Industry

Textile industry occupies the premier place and accounts for 36 per cent of the total number of units under small industry. Cotton textile industry leads with 16,715 units. But the cottage units are by far larger than the small factories. This is established by

growing industry. Woollen textile industry follows with 3,235 units, of which wool weaving in handloom alone accounts for 3,180 units. The main item produced is Kambli and woollen Kamblies of Bijapur are famous.

Next in importance comes the silk textile industry, with 1831 units. Mysore has earned reputation both in respect of pure silk fabrics and art silk. As an important cottage industry, sericulture has been practised widely for nearly two centuries, affording steady employment to women and children at home and to ryots during the off-season. It is estimated that about one lakh fami-

metals and their products accounts for 7,591 units; of this, the manufacture of sundry hardware such as G.I. pipe, wire net, bolt, screw, bucket, cutlery and sundry engineering products alone covers 6,546 units. The manufacture of transport equipment follows with 4,228 units, of which the number of establishments for repairing and servicing of motor vehicles is 692. Last comes the manufacture of machinery and electrical equipment with 332 units.

Forest-based industries rank next in the list. With 18.11 per cent of the land area covered by forests, the State has good forest resources. North Kanara, South Kanara and Mysore have more than one third of their area covered by forests. The *per capita* availability of forests in Mysore is 0.37 acre, which is more than the average of the country which is 0.29 acre. The manufacture of wood and wooden products covers 8,143 units. Products of teak and soft wood are made. Sandalwood and bamboo products are of great commercial value.

Impact of Gold Order

The manufacture of jewellery, silverware and wares using gold and other precious metals comes next, with 5560 units. But this is a handicraft carried on by specialised artisans like goldsmiths as a household occupation and not a small-scale industry. As there is a good market for these wares, it is a flourishing business, but the imposition of Gold Control Order under the Emergency and the measures taken to discourage the private holdings of gold in any form have hit the business hard in recent years.

Next in the rank comes the manufacture of petroleum, coal and other non-metallic mineral products, rubber, earthenware and earthen pottery, having 4,986 units in all. The production of leather and leather products follows with

3,415 units. These are livestock-based industries and most units work on a cottage scale. The manufacture of shoes and other leather footwear accounts for 2,648 units. Bangalore and Dharwar are the only two important centres of shoe manufacture. Printing and publishing, the manufacture of chemicals and chemical products and the manufacture of paper and paper products cover 951, 763 and 28 units respectively and come last in the list.

Small industries have vast possibilities in terms of employment and increased output and capacity to augment consumer goods, to serve as ancillaries to large units and to help in the decentralisation of economic activity. The problems in the starting and functioning of these industries are usually lack of finance, want of machinery and equipment, lack of raw materials, absence of quality marking, difficulty in the marketing of these products, lack of facilities for acquisition of technical and other skill and want of cheap power like electricity. Lack of fixed and working capital has led to inefficient production and marketing and low profits.

To remedy this situation, the Mysore Government has begun to extend financial assistance under the "State Aid to Industries Act." The Mysore Financial Corporation has extended Rs. 24.16 lakhs in 1962-63 and Rs. 14.38 lakhs in 1963-64 by way of financial assistance to small industries. The Rural Industrial Finance Bank has given Rs. 3 lakhs in 1961-62, Rs. 9 lakhs in 1962-63 and Rs. 4.76 lakhs in 1963-64 as assistance. The State Bank of India, under its liberalised financial assistance scheme, has helped 218 small units with a credit line of Rs. 79,18,000 up to the end of June, 1964. A liberalisation of the rules framed under the State Aid to Industries Act will go further in remedying the

situation. Want of machinery and equipment has also been sought to be remedied.

Kirloskar group of Companies and Hindustan Machine Tools in the State are playing a leading role in assisting small units. The National Small Industries Corporation has done good work in the supply of machines on hire-purchase basis. The Corporation has assisted 468 units in the State with hire purchase machinery worth Rs. 1,76,41,000 upto the end of March, 1964.

A more effective functioning of the Mysore Small Industries Corporation in this important field is called for. Scarcity of raw materials has sometimes been due to lack of knowledge about the requirements of the small units. The Small Industries Service Institute, in collaboration with the State Directorate of Industries has begun to estimate the requirements and it is expected that this problem will also be solved in due course. There is also necessity to introduce, at the State Government level, a Market Research and Information Service. Publicity of products of individual units should be undertaken by a Government agency. Standardisation and quality-marking of products, wherever feasible, should be undertaken to enhance the reputation and marketability of these products. In the matter of acquisition of skill, 21 Rural Artisan Training Institutes are working in different districts of Mysore State, imparting training in crafts like carpentry, smithy, wool-weaving, leather-stitching, tailoring, lacquerware, etc. Before the end of the Third Plan, 10 new such institutes are expected to be set up.

Industrial estates serve as nuclei, leading to further industrialisation in other areas, as they would have tremendous "demonstrable effect". In many cases, they have proved to be an effective machinery for accelerating the progress of small industry.

Plantation Notes

Relief Welcome but Not Enough

THE liberalised development allowance, announced in the 1966-67 budget, has not satisfied the tea industry in the South as well as in the North. While the increase in the allowance from 40 per cent to 50 per cent on new planting and from 20 per cent to 30 per cent on replanting is welcomed, spokesmen of the industry do not concede that the tea industry is the major beneficiary of the budget proposals. Mr. M. M. Appaiya, President of the United Planters' Association of Southern India, has observed that actually, the tax burden on the industry has increased by approximately 10 per cent.

Commenting on the budget proposals, the UPASI Chairman pointed out that the tax rates have been put up from 50 to 55 per cent for domestic companies and from 65 to 70 per cent for foreign companies. It was true that the industry is entitled to a "priority industry" deduction of 8 per cent of profits in the computation of income for tax purposes, but this was only in substitution of the special rebate of 10 per cent already enjoyed under the 1965 Finance Act. Even after the deduction, the effective rate of income tax was over 50 per cent, compared to the existing effective rate of only 45 per cent.

Enhanced Allowance

Mr. Appaiya added that probably much of the misconception seemed to surround the value of the enhancement of the rate of development allowance to 50 per cent for new planting and 30 per cent for replanting. It had been

suggested that this concession would help accumulation of internal resources even though this falls short of the recommendation of the Tea Finance Committee for a 40 per cent development allowance for replanting. Before this concession was claimed, one had to find the internal resources and had to incur the necessary expenditure. Accumulation of internal resources could come by way of a depreciation and by way of retaining part of the taxed profits. In the case of the tea industry, it is well-known that no depreciation is allowed on the most important field asset, viz., standing tea. So far as ploughing back of profits is concerned, the major section of the industry would pay a higher tax hereafter with less left to provide for the future.

What the industry required, Mr. Appaiya pointed out, was not piecemeal concessions without a prior examination of the consequences of the concession or their benefits, but a thorough investigation of its economics, the burdens placed on it and recommendation of remedial measures. He requested the Finance Minister to appoint a very small committee to have a *de novo* look at the whole industry.

* * *

ADDRESSING the Tea Packers' Association of India at Calcutta, Mr. K. Ghosh, President struck a similar note. While he felt gratified over the liberal development allowances given in the 1966-67 budget, he expressed disappointment that no direct incentive for export, in the

shape of a refund of at least a part of the excise duty, has been given. Such an incentive was necessary in view of the fact that India's share in world exports had declined over the past 15 years because of competition from common teas grown in Africa.

Tax Credit Scheme

Mr. Ghosh pointed out, however, that the tax credit scheme would help the industry in its export drive. He urged, in this connection, that the procedure laid down for tax refund should be streamlined in order to ensure prompt payment. He added: Central Government's taxation on tea is levied in two separate places—one on the garden and another at the time of packing for internal consumption, if the tea is packed. State Governments also impose heavy taxation, largely sales tax, and in addition, State taxes have been levied in Assam and West Bengal. Thus we have a complicated system of tax collection at many points, involving a great deal of trouble and inviting a great deal of evasion. Let there be a simple and all-embracing levy on tea which could be refunded at the point of export.

Referring to the production-trend in the country, Mr. Ghosh observed that there was a decline in production in 1965. Production of tea which reached the record figures of 372.1 m.kg. in 1964 from 346.4 m.kg. in the previous year, fell to 367.4 m.kg. in 1965. The production of North and Eastern India in 1964 was a record output of 229 m.kg.; this large output in 1964 was sold

without any difficulty. In the early months of 1965, there was an optimistic view that the 1965 production would be a little higher than in 1966. But from October, 1965 onwards, the production suddenly dropped because of the serious drought affecting many parts of North India, and the latest figure shows an estimated decrease this season of about 16.8 m.kg. South Indian crop shows an increase of about 12.1 m.kg.

Other producing countries, notably Ceylon and Africa, have also grown bigger crops. According to the provisional estimate, the total world supply of tea during 1964 was 787 m.kg. while total absorption was 784 m.kg., thus leaving a nominal surplus of 3 m.kg. The total world supply and absorption are fairly balanced and there is no possibility of any serious imbalance arising in the near future. The volume of tea consumption in U.K. remains almost static. But some producing countries are consuming more tea at home now, particularly in India and in Indonesia. The position of world demand and supply seem to be in a balance or there might be surplus in 1965. But the long-term balance could be disturbed quite easily if Africa and Ceylon increase their sale to the world market. In 1965, Ceylonese production was higher than 1964 while her domestic consumption did not increase much. Thus Ceylon sold more tea in the international market.

Export Performance

The Export performance has been a cause for concern during the year 1965. Total quantity and value of tea exported from India during 1965 were 199.5 m.kg and Rs. 115 crores compared to 210 m.kg. and Rs. 125 crores respectively during 1964. Thus the quantity and value of tea exported during 1965 have registered a decline by 11.0 m.kg.

and Rs. 10.0 crores respectively compared to 1964. Yet, there has been improvement in our exports to countries like, Irish Republic, U.S.S.R., Iran, and U.A.R. Exports to West Germany, Netherlands and Sudan have been practically the same as in 1964, but the most disquieting feature of 1965 has been the decline in exports of tea to some important markets for Indian tea, viz., U.K., Afghanistan, Iraq, Canada, U.S.A. and Australia. Mr. Ghosh listed the following reasons for this decline :

- (1) Higher prices of tea obtaining in Calcutta auctions than in other world markets, particularly London auctions.
- (2) Tea stocks in London were high due to larger imports during 1964. This, combined with static off-take and the British credit squeeze, prevented London buyers from buying the usual quantities.
- (3) The availability of tea for exports was also reduced by a fall in tea production and seizure of some 7 m.lbs. of North-East-Indian tea by Pakistan during September, 1965.
- (4) Tea exports to U.K. were also affected by rising off-take by those countries whose demand is subject to Government agreements such as U.S.S.R. and U.A.R. and by a rise in internal consumption, which took place during 1965 due to inflation and better sugar position.

Dealing with tea promotion, Mr. Ghosh said that the industry was fully alive to the need for exporting more tea because tea is one of the largest earners of foreign exchange for the country. The Tea Board has attuned itself to the task and has set up various committees to look into the ways and means of promoting Indian tea. India has, as a result, regained some lost ground in the world tea market. India's share in the global tea exports rose to about 40 per cent in 1964 from a little over 36 per cent in 1961. Besides opening tea centres in Britain, Ireland and the U.A.R., Tea Councils were formed in Australia and France by the Tea Board. India was the first to open a special office

for tea promotion in European Economic Community countries following the suspension by them of the import duty on tea.

As a result of the Board's effort in Brussels, Indian tea has come to be widely known in an area where Ceylon tea used to hold sway. Indian tea exports to European Common Market countries have gone up by nearly 30 per cent and a significant increase has been recorded in exports to Australia. India is also contributing to the tea campaign launched jointly with the U. K. Tea Trade and Ceylon in Britain. Referring to the suspension of the Tea Board's propaganda in India, Mr. Ghosh said this was not desirable. Plain teas have been the mainstay of the industry and the most solid foundation for any export drive is a thriving domestic market. Unless production expanded at the rate stipulated, export surplus must diminish as a result of increasing home demand, though this demand, like any other, must never be taken for granted.

BANKING NUMBER

(February 15)

A few copies of Southern Economist (February 15) containing the Banking Survey are still available. They can be had on remittance of Rs. 1.25 either by money order or by sending stamps of equivalent value to:

Southern Economist

24, Haudin Road,

BANGALORE - 1.

Phone : 75439

AVIATION

Streamlining IAC's Operations

THE announcement of new passenger facilities by the Indian Airlines Corporation has strangely coincided with the criticisms of IAC's working, voiced by the Parliament's Committee on Public Undertakings. The facilities introduced from April 1 cover a wide range, from point-to-point fares to free hotel accommodation for passengers affected by cancelled flights or missed connections. The introduction of point-to-point fares involves a reduction in the fare for the passengers travelling longer distances. At present, when an air passenger travels between two points which are not connected by a direct service, he will be charged on the basis of fares for the two sectors. The new arrangement will work out cheaper to the passengers. The point-to-point fares, however, are not available for passengers travelling in Dakota services east of Calcutta, since the fares in these services are already low.

The passenger will also be entitled to hotel accommodation for one night when there is no other flight to his destination till the next day as a result of any missed connection or cancellation of a flight. The facility of a break of journey is also now available. For instance, a passenger travelling from Delhi to Bombay via Jaipur and Ahmedabad can halt at these places. The new facilities include a wider choice of routings. For instance, a Delhi-bound passenger from Cochin can either go via Bombay or Hyderabad and Bangalore or Madras. There are 11 such alternative routings under the new scheme. From

April 1, the IAC has however withdrawn the discount on return fares.

Delays at Counters

The Parliament's Committee on Public Undertakings has, in its report presented to the Lok Sabha criticised the working of the IAC. Some of the complaints listed by the Committee are of a routine nature. These complaints and suggestions thereon can be summarised as follows: The booking counters are not manned adequately, leading to delays in the issuance of tickets. It would be desirable, at least in big cities, to have separate counters for major routes and for minor routes. Enquiries should be attended to, more promptly. A proper procedure should be laid for the allotment of seats in planes. The present VIP-bias in the IAC's flights are, rightly or wrongly, attributed to a lack of a spirit of service among the staff. Such delays lower IAC's utility as a fast carrier. They can be reduced by inculcating a greater sense of discipline among the staff and by improving the organisation's set up.

The report of the Ministry of Transport (Department of Aviation) for 1965-66, covering the period, 1964-65, reveals that the Indian Airlines Corporation has achieved good results in 1964-65. The year 1964-65 ended with an operating surplus of Rs. 1.64 crores. This was achieved despite substantial addition to the wage bill of the Corporation amounting to Rs. 1.15 crores.

The operating profits are the highest on record and indicate that the Corporation which experienced recurring losses of nearly one crore of rupees in the first six years and which, in the succeeding four years, made marginal profits due largely to the popularity of the Viscounts has now stepped into years of substantial profits since 1963-64.

Operating Expenses

The operating expenditure during 1964-65 rose to Rs. 2,117.09 lakhs as against Rs. 1,863.75 lakhs in 1963-64 and the revenue from Rs. 1,937.82 lakhs to Rs. 2,280.96 lakhs. The first three Caravelles, together with spares and equipment purchased from Sud Aviation of France, were financed out of the French Credit amounting to Rs. 576.97 lakhs and is repayable by the Corporation over a period of 10 years. Instalments amounting to Rs. 45.36 lakhs were paid by the Corporation up to 31st March, 1965. During the year, one more Caravelle from Sud Aviation was delivered. The purchase of this aircraft has been financed by a direct credit extended by the manufacturers. The credit amounting to Rs. 129.46 lakhs in respect of fourth Caravelle only is repayable by the Corporation over a period of 7 years. The first instalment amounting to Rs. 9.25 lakhs was paid on the 26th May, 1965. Although mainly a domestic operator, the IAC earned through the IATA Clearing House and on direct bookings by the Travel Agents and charters, foreign exchange of the order of Rupees four crores during the year 1964-65.

STATE BANK OF MYSORE

Head Office : Bangalore - 9

ABRIDGED BALANCE SHEET AS AT 31st DECEMBER, 1965.

CAPITAL AND LIABILITIES		PROPERTY AND ASSETS	
	Rs. P.		Rs. P.
1. CAPITAL		1. Cash	1,87,64,497.80
Authorised Capital	2,00,00,000.00	2. Balances with other Banks	6,61,051.81
Paid - up Capital	1,00,00,000.00	3. Money at Call & Short Notice	3,35,00,000.00
2. Reserve Fund and Other Reserves	77,50,000.00	4. Investments	11,66,63,815.40
3. Deposits and Other Accounts	34,56,20,676.46	5. Advances	19,97,26,870.76
4. Bills Payable	37,08,969.92	6. Bills Receivable being bills for collection per contra	2,64,39,887.72
5. Bills for Collection being bills receivable per contra	2,64,39,887.72	7. Constituents' liabilities for acceptances, endorsements and other obligations per contra	85,10,939.94
6. Other Liabilities	1,24,13,577.41	8. Premises	22,94,083.41
7. Acceptances, Endorsements and other obligations per contra	85,10,939.94	9. Furniture and Fixtures	9,93,327.22
8. Profit and Loss	42,909.39	10. Other Assets	68,82,486.78
		11. Non-banking assets acquired in satisfaction of claims	50,000.00
Total ...	41,44,86,960.84	Total ...	41,44,86,960.84

BOARD OF DIRECTORS

- | | | |
|--------------------------|--------------------------|-------------------------|
| 1. V. T. Dehejia | 4. V. T. Krishna Moorthy | 7. N. Ramanand Rao |
| 2. S. M. Ramakrishna Rao | 5. D. M. Shankarappa | 8. V. H. Channabasaviah |
| 3. S. Ramanathan | 6. A. H. Elias | 9. P. N. T. Chary |

S. Balakrishnan
General Manager

BOOKS

Exchange Control in India

Outline of Exchange Control in India: Second Edition 1966. Published by the Reserve Bank of India, Bombay-1. Price 60 paise, pp. 66 with appendices.

This is the second Edition of the "outline" published in 1960. Mr. B. N. Adarkar, Deputy Governor of the Reserve Bank, says in his foreword that the publication is intended for a general understanding and appreciation of the exchange control regulations in India. Those interested in details of exchange control, can refer to the fifth edition of the Exchange Control Manual. The brochure under review gives fairly intelligible but brief picture of the regulations now in force.

Fertiliser Statistics, 1964-65: Published by the Fertiliser Association of India, New Delhi. Price Rs. 15, Pp. 366.

The tenth edition of this authentic and highly useful annual publication gives, within the covers of a single volume, everything that one needs to know about fertiliser production and distribution in India. The importance of fertiliser statistics is highlighted by the present food shortage and the urgent need to increase fertiliser production. The tables on "related statistics" given in Part 2 of the publication greatly enhances its value. Here, one can find a state-wide breakdown of agricultural production and yield in respect of different crops.

Automobile Industry of India 1964-65, Published by the Association of India Automobile Manufacturers, Army and Navy Building, 3rd Floor, M.G. Road, Bombay-1.

The Automobile Manufacturers' Association has done a distinct service by compiling an

array of useful facts about the automobile and ancillary industries in the country, and publishing them in the form of an attractive, illustrated brochure. At a time when the country is in the throes of an economic transition and the present generation is looking forward to an era of better living, the role of the automobile industry cannot be over-emphasised. The industry is at present facing several handicaps like the shortage of foreign exchange, high labour costs and oppressive taxation. It is however confident of overcoming these transitory problems in carrying out the task assigned to it by the Fourth Plan of increasing the "population" of Motor vehicles in the country for a little over a million to well over two million vehicles at the end of 1970-71. The Brochure gives, in addition to a general review of the progress of the industry, details about the products manufactured by individual companies, not excluding ancillaries.

Journal of the Institute of Economic Research: Dharwar-4, Vol. 1. No. 1. January 1966. Price Rs. 6. Annual Subscription Rs. 10.

The Institute of Economic Research, Dharwar, which is doing commendable work in the field of rural and regional economics, has commenced publication of this bi-annual. The inaugural issue contains several interesting and well-documented articles of which one can make mention of "India's rice shortage and how to meet it" by Dr. N. P. Patil and "Family planning knowledge and attitudes in a high population growth rate area" by B. D. Kale. Dr. J. N. Sinha of the

Institute of Economic Growth, Delhi, has contributed an article on the population riddle. Specialised journals like this fill a real void in the field of research publications.

Penguin Science Survey-1965. Penguin Books, England.

It is difficult for the layman today to keep abreast of the scientific and technological developments. This book, which the publishers call "a survey of science", does not, in the nature of things, cover all the technological advances. It covers only topics of current interest. It will enable the reader to see what goes on in the technological world. As the editor explains, it has become impossible to draw the line between any two branches of science. For instance, a decade ago, it would have been unthinkable for a botanist to know integral calculus. The book contains a number of essays on different topics. Though a layman may get a little puzzled by the numerous equations, he need not really bother about them so long as he is able to get at the gist of the essays. The essay on supersonic passenger aircraft deals with the problems facing the designers and of air traffic control.

As the writer points out that there can be no escape from supersonic air travel, one hopes the traffic control would have improved by the time the Supersonics take to the air. The essays on rubber and diamond are among the interesting pieces. This Book is a must for the book lovers.

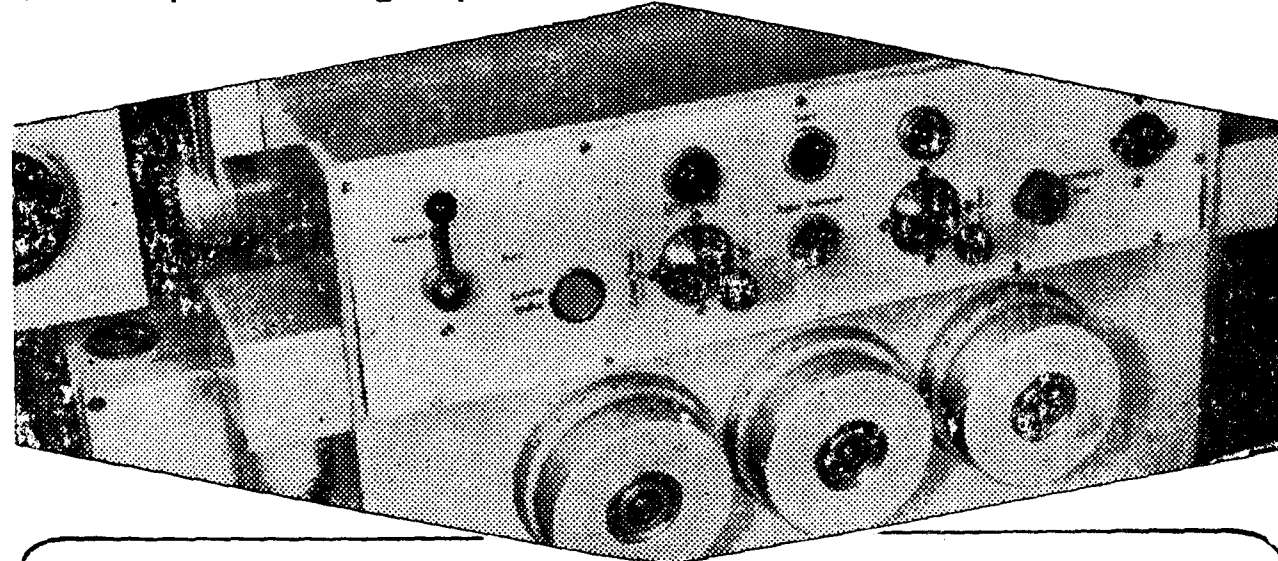
— J. M. Reddy.

HMT Hindustan Electrically Controlled Milling Machine

TYPE 'E2' designed and built by HMT engineers.

Abreast with the latest Technological advances in Milling Practice HMT presents its new Electrical E2 Milling Machines, designed for vibration free power and finger tip control.

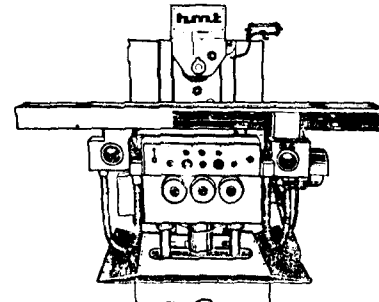
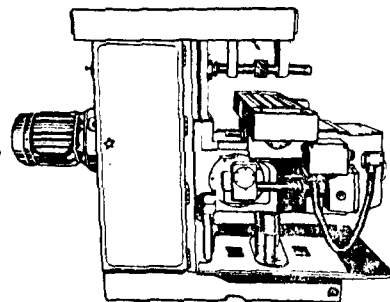
ASP-HMT-7



- RIGID COLUMN WITH RECTANGULAR DOUBLE WALL SECTION-CROSS RIBBED OVERARM
- HYDRAULICALLY COUNTERBALANCED KNEE ■ COMPLETELY AUTOMATIC LUBRICATION
- WIDE RANGE OF INSTANTANEOUS DIAL-SELECTED SPEEDS: two overlapping ranges of 12 speeds giving a total of 18 speeds
- HIGH POWER AVAILABLE AT SPINDLE
- WIDER FEED RANGE THAN ANY OTHER MACHINE OF THIS CLASS: 24 feeds (7.1 to 1420 mm/Min) dial selected by electro-magnetic standard drive unit.
- EXTRA WIDE RECTANGULAR SLIDWAYS FOR HIGH POWER MILLING

High rapid traverse speeds. Leverless control: Simple panel with push buttons and joy sticks Built-in programme control in longitudinal direction. Built-in back-lash eliminator for table movement. Unit construction throughout, permitting easy maintenance. Priced at less than 65% landed cost of nearest equivalent imported machine.

ORDERS FOR
275 MACHINES
ALREADY IN
HAND



Also available: MILLING MACHINES AUTOMATED FOR PRODUCTION-TURRET, CENTRE, COPYING AND SPECIAL LATHES-RADIAL DRILLS-HYDRAULIC CYLINDRICAL AND SURFACE GRINDERS-SINGLE SPINDLE AND MULTI-SPINDLE AUTOMATICS-FINE BORING MACHINES-FACING AND CENTRING MACHINES AND SPECIAL PURPOSE MACHINES.

HMT

HINDUSTAN MACHINE TOOLS LTD., BANGALORE-31

Factories at: I & II: BANGALORE (Mysore), III: PINJORE (Punjab), IV: KALAMASSERY (Kerala), V: HYDERABAD (Andhra Pradesh)

COMPANY NOTES

Difficult year for Mahindra

THE directors' report of Mahindra and Mahindra Limited for 1964-65 reveals that there has been a decline both in the turnover and in the profits. The turnover has declined from Rs. 21 crores to Rs. 19.68 crores during the year ended October 1965. The pre-tax profit, after allowing for depreciation, interest and bonus to staff, amounts to Rs. 1.27 crores compared to Rs. 1.69 crores in the previous year. After the deduction of taxation provision and development rebate reserve, the balance of profit amounts to Rs. 45.14 lakhs against Rs. 80.62 lakhs for the previous year. The lower earnings are stated to be due to a general contraction of the Company's activities combined with a drop in the production of vehicles. The necessity to maintain larger inventories, the increased interest rates and higher wages caused further erosion in the Company's earnings. In spite of these adverse factors, the directors have recommended an equity dividend of 15 per cent and have also recommended an appropriation of Rs. 12 lakhs for the general reserve.

Considering that the company had to face serious foreign exchange difficulties, the production of 10,000 Jeeps is no mean achievement. The indigenous content of the Jeep Universal is now over 90 per cent. The directors' report says that further increases in production depends, to some extent, on the capacity of the ancillary producers who account for 40 per cent of the cost of Jeeps. The company has taken steps to increase the manufacturing capacity from 10,000 vehicles to 25,000 vehicles for which the Govern-

ment's sanction has been received. The report says that the tooling required for the new 3-ton Forward Control Trucks has been received. It is expected that they will be marketed next year.

Integrated Operations of Mahindra Ugin Steel Company—an associate—are expected to commence in 1967. The company proposes to increase the capacity of finished steel from 18,000 tons to 31,000 tons, in two stages. The plant is now designed to produce 24,000 tons. The directors' report states that the implementation of this programme requires an additional sum of Rs. 2.50 crores out of which Rs. 67.50 lakhs will be in the form of additional equity capital and Rs. 1.82 crores in the form of long-term loans. To carry out the revised programme, the company has secured the collaboration of a French firm.

E. I. D. - Parry

ALTHOUGH the profit of the E.I.D.-Parry Limited, before tax, is higher than in 1964, the profit after taxation is substantially lower, being only £ 428,775 compared to £ 613,959 in 1964. This is due to the fact that in 1964, the company had a substantial tax relief by way of claim for development rebate. The extent of such relief for the year 1965 was much smaller. As such, the company has to make a larger provision of £ 510,274 towards taxation against a provision of Rs. 223,575 in 1964. Out of the net profit of £ 428,775, an amount of £ 68,400 has been placed to the credit of development rebate reserve, leaving a sum of £ 367,188 (including the balance brought forward of £ 6,813) for payment

of dividends and for transfer to reserves.

After providing for preference dividend and the interim dividend of 7 per cent already paid on the ordinary share capital, there remains a balance of £ 270,249. The Directors have recommended the payment of a final dividend of 11 per cent, making a total of 18 per cent for the year—same as in 1964. The final dividend is payable on the ordinary share capital, including the rights share issue made on August 25, 1965.

LARGE SPATE OF BONUS ISSUES

A record issue of bonus shares is a feature of the capital issues for the week ended March 26, 1966. Out of 26 companies, 23 are issuing bonus shares approximating Rs. 2.3 crores. It may be recalled that Finance Minister Chaudhuri, while presenting the budget, had announced that the Company Tax on bonus issues and the Capital Gains Tax on the bonus shares in the hands of the shareholders will be discontinued. Bonus capital of 23 companies ranges from Rs. 25,000 by a Calcutta company to Rs. 30 lakhs each by two Bombay companies. In fact most of these 23 companies are registered in Bombay and Calcutta. Altogether, the new issues are for Rs. 5.84 crores and include a new company, a Central Government undertaking and State Company.

Great Eastern Shipping Co. Ltd., Bombay, is to issue further capital of Rs. 30 lakhs in 3,00,000 equity shares of Rs. 10 each as bonus shares on capitalisation of its reserves to a like extent. The bonus shares will be offered in

the ratio of one share for every 5 shares held.

J. B. Advani-Oerlikon Electrodes Private Ltd., Bombay, is to issue further capital of Rs. 30 lakhs consisting of Rs. 20 lakhs as bonus shares on capitalisation of a part of the company's general reserves and balance Rs. 10 lakhs in 9.3 per cent preference shares of Rs. 100 each for cash at par. The cash proceeds will be issued for financing partly the factory being set up at Madras.

Century Spg. & Mfg. Co. Ltd., Bombay, is to issue further capital of Rs. 25,49,100 in equity shares of Rs. 100 each to be issued as bonus shares in the proportion of one bonus for every ten equity shares held, on capitalisation of the company's general reserve to like extent.

Godavari Corporation Ltd., Gwalior, is to issue further capital of Rs. 20 lakhs in equity shares of Rs. 100 each as bonus shares by capitalising a like amount from the company's reserves.

The Podar Mills Ltd., Bombay, will be issuing further capital of Rs. 10 lakhs in equity shares of Rs. 10 each as bonus shares by capitalising a like amount from the company's reserves.

Caprihans (India) Private Ltd., Bombay, is to issue further capital of Rs. 15,75,000 in equity shares of Rs. 100 each, by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of one for one equity share held.

Asian Distributors Ltd., Bombay, (with registered office at Pilani, Rajasthan), will be issuing further capital of Rs. 15 lakhs in equity shares of Rs. 100 each by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of 1½ shares for every one equity share held.

Harbans Lal Malhotra & Sons Private Ltd., Calcutta, will be issuing further capital of Rs. 13,80,000 in equity shares of Rs. 100 each, by capitalising a like amount from the company's general reserves. The bonus shares will be offered in the ratio of one bonus share for every existing equity share.

Grindwell Abrasives Ltd., Bombay, will be issuing further capital of Rs. 12,85,000 in equity shares of Rs. 100 each, by capitalising a like amount from company's reserves. The bonus shares will be allotted on *pro-rata* basis to the company's existing shareholders.

Standard Pharmaceuticals Ltd., Calcutta, is to issue further capital of Rs. 10,97,088 in equity shares of Rs. 10 each, by capitalising a like amount from the company's general reserve. The bonus will be offered in the ratio of two bonus shares for every five equity shares held.

Bharat Sugar Mills Ltd., Calcutta, will be issuing further capital of Rs. 7,50,000 in 75,000 ordinary shares of Rs. 10 each as bonus shares by capitalising a like amount from the company's general reserves.

New Ambadi Estates Private Ltd., Nagercoil, is to issue further capital of Rs. 7 lakhs in equity shares of Rs. 2 each by capitalising the general reserve. The bonus shares will be offered in the ratio of one bonus share for every two equity shares held.

Ahura Chemical Products Pvt. Ltd., Bombay, is to issue further capital of Rs. 7 lakhs in 7,000 ordinary shares of Rs. 100 each by capitalising a like amount from the company's reserves. The bonus shares will be offered in the ratio of two new shares for every three shares held.

New Chumta Tea Co. Ltd., is to issue further capital of Rs. 6 lakhs in equity shares of Rs. 10 each, by capitalising a like amount from the company's

general reserve. The bonus shares will be offered to the existing shareholders in the ratio of two bonus shares for one existing share.

Plastics Packaging Private Ltd., Bombay, is to issue further capital of Rs. 4 lakhs in 40,000 equity shares of Rs. 10 each as bonus shares to the existing equity shareholders on capitalisation of the company's general reserve to a like extent.

Levka Private Ltd., Bombay, is to further issue Rs. 3 lakhs in 3,000 equity shares of Rs. 100 each to be issued as bonus shares to the existing shareholders of the company on capitalisation of capital redemption reserve to a like extent.

Laxmi Starch Factory Ltd., Kundara (Kerala State), is to issue further capital of Rs. 2,50,100 in equity (bonus) shares of Rs. 100 each, on capitalisation of company's general reserves to a like extent. These bonus shares will be offered to the existing equity shareholders in the ratio of one bonus share for every 10 equity shares held.

Garware Plastics Private Ltd., Bombay, is to issue further capital of Rs. 2,25,000 in 25,000 equity shares of Rs. 10 each as bonus shares by capitalising a like amount from the company's general reserve.

Refrigeration Accessories Private Ltd., Calcutta, will be issuing further capital of Rs. 1,89,000 in equity shares of Rs. 100 each by capitalising a like amount from the company's general reserves. The bonus shares will be offered in the ratio of two bonus shares for every three shares held.

Biological Evans Ltd., Bombay, is to issue further capital of Rs. 1,69,000 in the form of bonus shares of Rs. 1,000 each on capitalisation of the share premium account to a like extent.

Narendra Udyog Pvt. Ltd., Bombay, is to issue further capital of Rs. 1,00,000 in 1,000 equity

shares of Rs. 100 each, by capitalising a like amount from the company's general reserves. The bonus shares will be offered in the ratio of one for every two equity shares held.

Taparia Private Ltd., Bombay, will be issuing further capital of Rs. 50,000 in 5,000 equity shares of Rs. 10 each, by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of one for every six equity shares held.

Ram Saran Das & Bros. Private Ltd., Calcutta, will be issuing further capital of Rs. 25,000 in equity shares of Rs. 100 each by capitalising a like amount from the company's general reserves. The bonus shares will be offered

to the existing shareholders in the ratio of one bonus share for every four shares held.

National Instruments Ltd., Calcutta, a Government of India undertaking, is to issue share capital of Rs. 40 lakhs consisting of 4,000 equity of Rs. 1,000 each all for cash at par. The money will be utilised for manufacturing ophthalmic glass and lenses.

Chowgule Textile Mills Ltd., a new company incorporated on March 16, 1965 in Maharashtra and having its registered office at Marmugao Harbour, Goa, is to issue capital of Rs. 90 lakhs divided as Rs. 67.50 lakhs in equity shares of Rs. 10 each and Rs. 22.50 lakhs in 9.5 per cent preference shares of Rs. 100 each

to be issued for cash at par. Out of the issue, such number of shares of each kind as would enable the company's scrip being listed on a recognised stock exchange will be offered for public subscription. The money will be utilised for setting up a textile mills having 25,000 spindles and 500 automatic looms.

Madras State Industrial Development Corpn., Ltd., a State Government undertaking, is to issue capital of Rs. 225 lakhs, divided into 22,500 equity shares of Rs. 1,000 each to be issued partly for cash and partly for consideration other than cash. The capital will be utilised for financing continuous casting plant at Arakonam and cement plant at Alangulam.

SYNDICATE BANK LIMITED

Regd. Office: MANIPAL

Consolidated Statement of Affairs * as on 31st December 1965.

CAPITAL & LIABILITIES

	Rs.
1) Paid-up Capital	99,72,556
2) Reserve Fund & Other Reserves	1,00,00,000
3) Deposits & Other Accounts	59,11,12,449
4) Borrowings from Other Banking Companies, Agents Etc.	2,58,44,704
5) Bills payable	82,91,559
6) Bills for collection being bills receivable per contra	4,89,82,355
7) Other Liabilities	2,41,78,320
8) Acceptances, endorsements & other obligations as per contra.	7,15,76,748
9) Profits after taxation and bonus and transfer to statutory Reserve Fund	16,33,003
	79,15,91,694

PROPERTY & ASSETS

	Rs.
1) Cash	5,71,13,296
2) Balances with other Banks	1,75,77,347
3) Money at call & short notice	4,50,000
4) Investments at cost	18,94,30,051
5) Advances	37,25,37,620
6) Bills Receivable	4,89,82,355
7) Constituents' Liabilities for acceptances, endorsements & other obligations	7,15,76,749
8) Premises at cost	62,03,000
9) Furniture, fittings, etc.	41,00,000
10) Other Assets	2,33,71,776
11) Non-banking assets	2,49,500
	79,15,91,694

* Rounded to the nearest rupee

Looking for Bargains

BRIGHTER economic outlook and encouraging corporate news had their pull on the Stock Markets in the country during the last fortnight. Perhaps for the first time after the commencement of the stagnation of the capital market since Chinese aggression marketmen had a taste of bullish thinking. Dalal Street, Clive Street and Madras witnessed active conditions with a rising price trend in equities. The bonus issue announcements which came in quick succession had a bullish effect on prices, and smart advances were made by several shares. The rise in some of these shares surprised even the usually optimistic men of the market. Despite profit-taking by bulls, there was good absorption without seriously jeopardising the buying momentum.

Plantings in limelight

In the Madras market, there was considerable backing for selected plantings which had higher bids. Among notable features, mention should be made of Cons Coffee which, after being done at Rs. 29.85 on April 7 continued in demand at Rs. 30.50. Periakaramalai surprised the marketmen by its strident advance, accounting for a large turnover, the scrip closing at Rs. 4.60 on April, 7, after showing fluctuations. The stagnation in Blue Mountain was broken, the scrip rising to Rs. 2.11. Among other plantings, Devon evoked interest at Rs. 14 on the news of one-for-two right issue at par. E. I. D. Parry announced one-for-one bonus proposal which resulted in a sharp rise in the scrip which noted business at Rs. 34.25 XD. on April 7.

By our Market Analyst

Deccan sugar, which remained stagnant for sometime past, had a sudden spurt to Rs. 11.25 from Rs. 8.60 on the news of one-for-two bonus issue proposal.

The larger demand for Parry's Confectionery at Rs. 2.85 was again due to expectations of bonus issue. Though textiles were dull, South India Viscose had speculative support up to Rs. 121.50 on rumours of encouraging performance and a prospect of a higher dividend. Travancore Rayon evoked interest at Rs. 18.20, while the rise in Ashok Leyland to Rs. 6.06 was a notable feature. The rumours of a right issue by Kailas Rubber at a premium persisted. The general tone of plantation shares was bullish and sellers were scarce. The easier tone in Mettur Chemicals was due to fears of a lower dividend.

In Dalal Street, bears were pushed out of the scene. The outstanding feature was Tata ordinary, which touched a high level of Rs. 149 on April 7 and Indian Iron a level of Rs. 26.55. Standard Mill and Century were prominent. There was fresh support for Hindustan Motor and Premier Automobiles, while Tata Locomotives were in good demand. Scindia Steam, despite profit taking, touched Rs. 13.16. B. B. Petrol, Indian Copper and West Coast Paper met better demand.

Hindustan Aluminium noted support on expectations of encouraging results, while Chemicals and Fibers and Indian Explosives came in for renewed support. The one-for-five bonus issue announcement by Victoria

Mills was in accord with expectations. The rise in dividend to Rs. 20 per share and the bonus issue had a good effect on sentiment. The scrip rose to Rs. 282.50 on April 5. In Clive Street, Guest Keen provided a bright spot, touching Rs. 19.69 on April 7. The hint at a right issue by Indian Explosives Ltd. was a notable feature in the context of the long-term outlook for this company.

Bullish Fervour

The bullish behaviour of the Stock markets has evoked considerable interest among the marketmen and also in official circles. No doubt, this bullish performance is not due to the outlook for higher corporate profits, or to a higher dividend. But, this is mainly due to the spate of bonus issues. What is more significant in this connection is the improvement in the sentiment arising out of brighter economic outlook assessment. As the stock market has now reacted favourably to the bonus issues, with a predominant stress on sentiment and psychology, any sustained upward trend should naturally require more continued favourable factors. Bargain-hunting is on the increase because of the opportunities for short-term gains. It is advisable to book profit, though the market has been able to discard pessimism and take a line of more constructive approach to investments in equity. But, it should be remembered that in the past few weeks' trading, the market has developed some bull position and this may need some correction at any time, despite the scope for further appreciation in some shares.

MMGI

is now within the first 10

Five years ago it was not even among the first 20

MMGI's gross premium in 1964 increased by 27% over 1963. Its claims cost in terms of premium income at 41% is the lowest among larger insurance companies.

It is the customer confidence in its prompt settlement of claims and personalised service that has made MMGI the fastest growing general insurance company in India today.



MADRAS MOTOR & GENERAL INSURANCE COMPANY LIMITED

52, Peters Road, Madras-14

Offices: Bangalore - Bombay - Bellary - Calcutta - Coimbatore - Cochin - Cuddalore - Davangere - Goa - Hubli - Madurai - Mangalore - Nellore - Salem - Secunderabad - Tiruchirapalli - Tirunelveli - Trivandrum - Vellore - Vijayawada - Visakhapatnam

JNT-K.M. 111



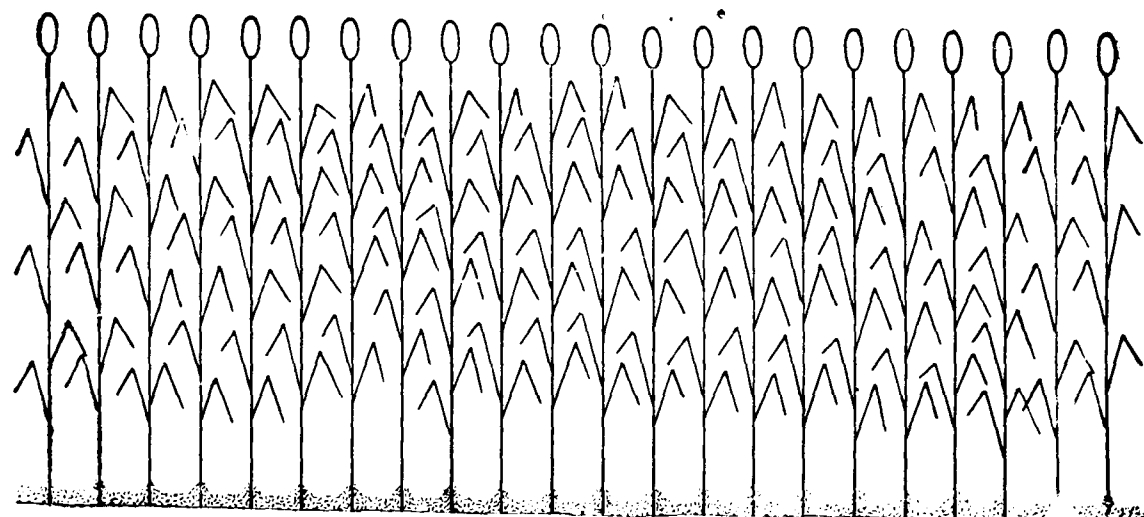
MAY 1, 1966



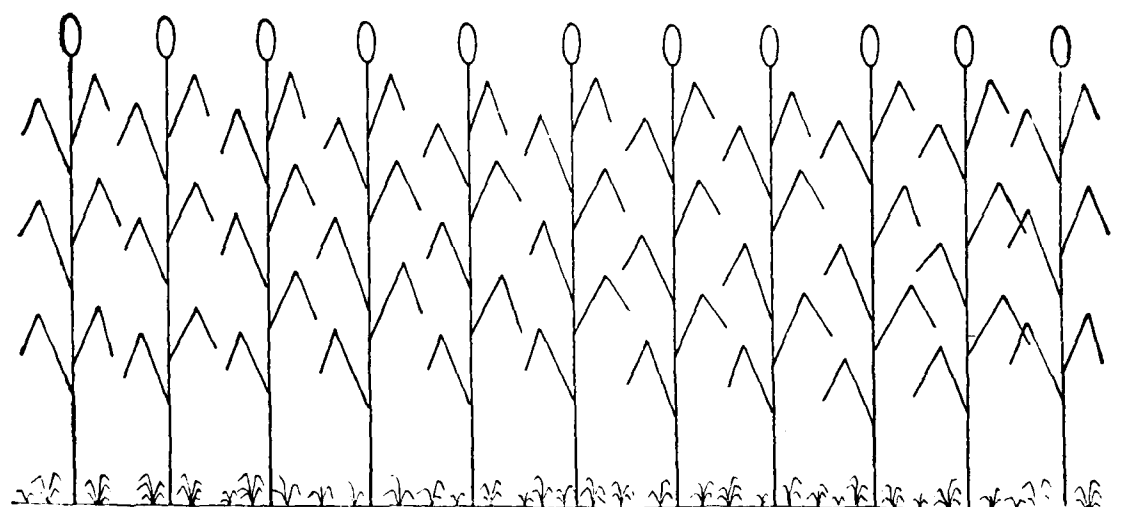
The Ghrib Dam in Algeria built of compacted ungraded materials, presents an interesting example of the versatility of asphalt waterproof coating. After it was filled with 10,700 million cubic feet of water, heavy settling caused seepage. Gradually seepage stopped as the asphalt facing, submitting to outer pressures, was forced into leaks stopping them completely. ■ Asphalt is an ideal material for lining canals, stabilising river banks, protecting dykes and waterproofing earth dams. It is flexible, unaffected by chemicals, easy to apply, resists aging and is readily available. ■ Esso engineers and technicians in France played an important role in developing asphalt lining for canals in the Rhone river valley. Asphalt lining on the Donzere canal is still in service after 14 years. In similar circumstances, cement concrete slabs had broken up 5 years earlier. Prefabricated asphalt mattresses have also been used on the Mississippi river and the Suez canal. ■ With its vast experience and worldwide research facilities, Esso is continually widening the horizon of progress for the prosperity of man—today and tomorrow.

Esso IS OIL AND SO MUCH MORE



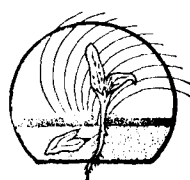


22222 2 FOR EVERY 11111



Many seeds do not germinate or they die at the seedling stage due to the natural forces governing soil environment. If these seeds and seedlings could be saved, crop yields would increase substantially. ■ The traditional safeguard used by farmers is a mulch of straw and leaves. But now with the increasing need to grow more food, Esso Research have developed a more effective and simpler 'magic' mulch from petroleum. This mulch when sprayed on cultivated earth, promotes growth because it prolongs available soil moisture and generally improves soil environment. It also protects seedlings against soil erosion. ■ Field tests conducted in India, with this mulch, on hybrid corn sown in winter showed a 70% yield increase. The yield of fodder crops and legumes increased by 50% to 75% in Bihar. Compost piles treated with this mulch were ready in less than half the usual time with a 50% increase of the nitrogen content. ■ With its vast experience and worldwide research facilities, Esso is continually widening the horizon of progress for the prosperity of man—today and tomorrow.

Esso IS OIL AND SO MUCH MORE



SOUTHERN ECONOMIST May 1, 1966

CONTENTS

EDITORIAL	3
Planners in the Dock	
NOTES OF THE FORTNIGHT	5
Small Car; Devaluation; Fertiliser Policy; Foreign Assistance	
SPECIAL ARTICLES	9
Need for Redefining Socialism in India: A Case Study — By S. R. Nath	
Can we do away with Planning? — By Prof. K. S. Sonachalam	
Pros and cons of Devaluation — By Prof. M. Dasgupta	
Our Foreign Exchange Crisis — By Jagadish Chandra Debnath	
Need for Regional Planning in Mysore — By M. B. Nanjappa	
Planning in Mysore State — By A. Kalappa	
Industrial Location in Andhra Pradesh — By B. Sudhakar Rao	
Industrialisation of Madras — By A. Raman	
Self-Sufficiency in Food Production — By Dr. T. K. Lakshman	
Search for New Ways to Accelerate Growth — By George D. Woods	
Shipping in Fourth Plan — By M. A. Master	
MARKETS	50
Boom Gathers Momentum	

SOUTHERN ECONOMIST
24 (New), Haudin Road
Bangalore 1
Telephone : 75439

Subscription Rates
ANNUAL Rs. 10 (Inland)
\$ 3 or 20 s (Foreign)
THIS ISSUE : One Rupee

MEI

MEI HV & LV CIRCUIT BREAKERS

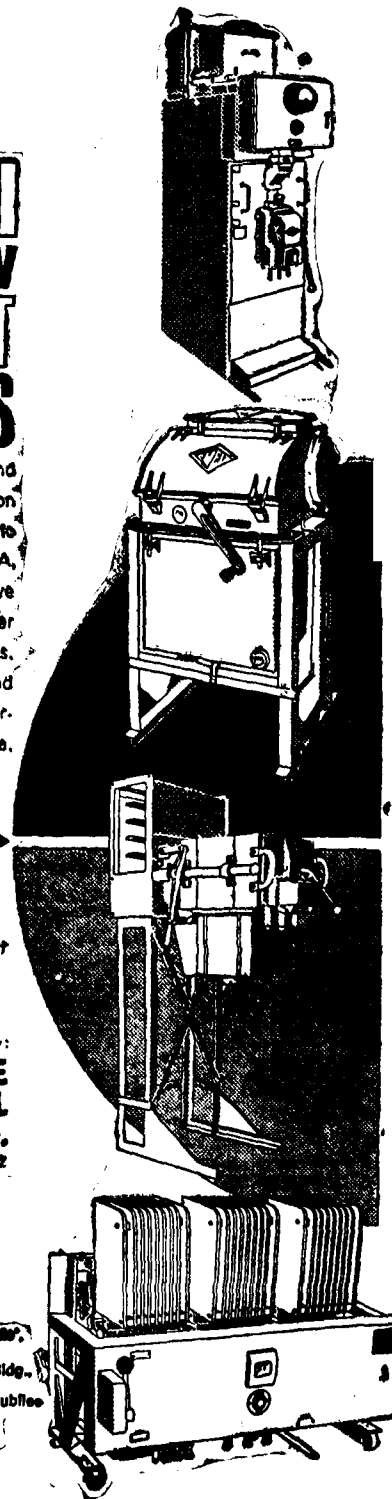
of all types (air break and oil-immersed) for use on LV and HV systems up to 11 KV and 250 MVA, rupturing capacity, have been installed in power houses, sub-stations, railway workshops and other large public undertakings all over India.



Manufactured by:
**THE MYSORE
ELECTRICAL
INDUSTRIES LTD.**
P.O. Box 1801, Bangalore 12

BAEG

BAEG (Madras) Pvt. Ltd., "Omnia Estate",
200, Mount Road, Madras 2.
BAEG (Hyderabad) Pvt. Ltd., Barmen Bldg.,
Banamundry, Hyderabad.
BAEG (Mysore) Pvt. Ltd., 64-65, Silver Jubilee
Park Road, Bangalore City.
Associated Offices: BOMBAY, DELHI,
CHENNAI.



NOW INDIANOIL REFUELS INDIAN AIRLINES



INDIANOIL takes pride in extending its refuelling service to the Indian Airlines Corporation at Bombay, New Delhi, Calcutta and Madras. Air India International already uses INDIANOIL's refuelling service at these airports.

INDIANOIL ensures that only quality products are delivered by a staff who are fully trained to handle any aircraft with confidence.



—A National Trust for Economic Prosperity
INDIAN OIL CORPORATION LIMITED

maa. IOC.

Planners in the Dock

THE fierce controversies raging in the country over major economic issues may not have left our planners unperturbed. Perhaps at no time during the past 19 years was public opinion so sharply divided as at present. If internal criticism of the distortions and shortfalls caused by the plans is particularly sharp, criticism from outside quarters has been no less severe. It is not correct to say however that the Government has remained uninfluenced by these trends of opinion. To what extent they have compelled our planners to change their policies is a question which calls for a deeper study. A candid appraisal of the situation reveals that our economic difficulties may not be entirely the result of faulty planning. Planning of course implies priorities and every student of economics knows how difficult it is, in a democratic system, to work out the ideal order of priorities and stick to them with the thoroughness of totalitarian planners.

Mixed Economy

After all, in our mixed economy, where the motivation of the private sector differs from that of the public sector, distortions are not only unavoidable but they seem at times to be a characteristic feature of this type of planning. Even Pandit Nehru, under whose aegis the entire process was set in motion, genuinely but vaguely believed that planning is a kind of adventure the pursuit of which will do good to the country. Not that Mr. Nehru was oblivious of the attendant risks—inflation had already assumed serious proportions during the Second Plan—but in his eagerness to get the country moving on the path of progress, he encouraged the kind of planning which lacked internal consistency and was decidedly biased in favour of heavy industries involving long periods of gestation. The needs of agriculture were not entirely overlooked but effort in this sector was too diluted to have any serious impact on productivity.

With sufficient reserves of foreign exchange and with an agricultural sector capable of yielding a sizable surplus, any economist with average can work out a passable growth model for our planners' use but unfortunately, such conditions have ceased to exist in India, after the First Five-Year Plan. This absence of ballast actually lent an air of unreality to our Second and Third Five-Year Plans. The surpluses generated by the agricultural sector fluctuated sharply from year to year while the country's dependence on external assistance

actually increased from Plan to Plan. From about 6 per cent of the total investment in the First Plan, foreign aid increased to 21 per cent in the Second Plan and to nearly 25 per cent in the Third Plan.

If the present trend is any indication, the ratio of foreign aid to total investment may even go up during the Fourth Plan. While these adverse circumstances cannot be overlooked, a major unsettling factor was undoubtedly the Chinese invasion that took place in October 1962. The slogan, "defence and development go hand-in-hand", not only fell flat but it soon became evident that increased defence outlay affected the development plan in two ways: firstly by reducing the resources available for plan investment and secondly by aggravating inflation through sizable additions to the stream of money-supply.

After Mr. Nehru's death, Mr. Shastri made an earnest attempt to remedy some of the distortions caused by faulty planning and other unforeseen developments. He even tried to shift the emphasis from heavy industries to consumer goods industries and to push agriculture to a higher priority. His efforts would perhaps have yielded tangible results if there were no external threats. Unfortunately, the India-Pakistan war of last September frustrated the attempts of our planners to restore price-stability. With the defence expenditure running at the rate of Rs. 3 crores a day (there may have been a small reduction, after the Tashkent declaration) and with the country's food imports going up month by month, there has been a worsening of the country's balance of payments and a sharp increase in prices all-round. An indirect consequence of the India-Pakistan war has been the "freezing" of aid committed by the Consortium countries. This sudden stoppage of aid has led to a slow-down in industrial production and the problem of under-utilised capacity has now assumed alarming proportions. This, coupled with the acute shortage of foodgrains, caused by this year's disastrous crop failure, has gravely disturbed the internal as well as the external viability of the Fourth Plan which is yet to be given the final shape.

Internal Deficiencies

The experience of our five-year plans thus reveals that while planning, as an adventure, can be quite exhilarating, it can also prove to be quite costly for a developing country facing external threats and internal deficiencies which are not capable of being remedied by mere improvisations. Mrs. Indira Gandhi, on whom the mantle of

MAY 1, 1966

leadership has fallen will not be slow, one hopes, in realising the need for saving the economy both from the ideological zealots of the extreme left and from the forces of the extreme right who advocate a return to *laissez faire*. There is ample evidence that Mrs. Gandhi will continue the pragmatic policies adopted by her late predecessor and save the country from the consequences of erratic planning.

Ivory tower enthusiasts of planning may argue, on the other hand, that faulty planning is better than having no plan since, in their view, a planless society can be equated with a stagnant society. But the costly experience of our planners shows that where planning is used as a device to bolster national prestige and pride instead of being used as a tool to achieve certain desirable social ends, it has invariably undermined stability. The Indian planners, one hopes, will realise the futility of preparing elaborate blue-prints or ambitious projections when the basic ingredients of success are conspicuous by their absence. The ingredients of success in planning are, among other things, an efficient administration which has the capacity to look at planning as something more than mere paper-work; absence of corruption, nepotism and political jobbery; the availability of internal and external resources on a scale commensurate with the magnitude of the Plan and most important, the readiness of the people to make the necessary sacrifice for the sake of a brighter and happier tomorrow.

When the planning process was initiated, fifteen years ago, the country was perhaps poorer and the people worse off than today, but the agricultural situation was fairly good and the availability of a comfortable "cushion" of foreign exchange rendered the achievement of the modest targets of the First Plan relatively easy. If the situation worsened in each successive plan, it was largely because the organisational effort to modernise agriculture was disjointed and feeble and also because financing the foreign exchange component of the plans was precariously dependent on the attitudes and moods of foreign Governments and international institutions. The time may now be ripe for a reconsideration of the techniques of planning and the method of Plan implementation because comprehensive planning of the kind now in operation has caused serious distortions in the economy which have nearly brought about a crisis of confidence.

The first thing to do should be to restore a balance between the aggregate demand and aggregate supply.

For instance, the increase in the money-supply, caused partly by increased public spending, if unaccompanied by increased production of consumer goods, gives rise to a steep rise in prices. This was exactly what happened during the Second and the Third Five-Year-Plans. The Government's licensing and fiscal policies should be designed to encourage the production of wage-goods and generation of larger savings. In their desire to build a larger export surplus—unexceptionable in itself—the planners should not starve the domestic market of the basic necessities which include, apart from foodgrains, cloth, sugar, tea, coffee and so on. Under the present system of planning, the Government seems to be too preoccupied with aggregates to pay attention to the immediate impact of planning on the Standard of living.

Planning of this kind works in a totalitarian system but in a democracy, it breeds cynicism. You cannot condemn the whole people to semi-starvation for the sake of an indefinite goal. This journal is all for planning, but it is not in favour of plans which have no immediate relevance to the problems of the day. Our planning is not only divorced from reality but also has a built-in tendency to bring about periodical crises from which the country is extricated only with massive "rescue operations" by other countries. With every new plan, the ratio of debt-servicing charges to tax revenue goes up and a larger part of the loans raised—both at home and abroad—is used, not to finance new projects but to service or repay the old loans. Another serious shortcoming of our Plans is our excessive dependence on imported technology. If only top priority had been assigned to research and the development of technology which is truly indigenous, during the last fifteen years of planning, the country would not be witnessing the present scramble for collaboration agreements on terms which are hardly consistent with our vital national interests.

This should not detract from the impressive achievements recorded, during the three five-year plans, in the field of social services—particularly health and education—and in building the infrastructure. But there is the danger of these facilities being diluted under the stress of a serious population explosion on the one hand and extraneous considerations on the other. The present leadership has shown a high degree of adaptability to new situations and an awareness of the need to place first things first but it has yet to regain its *sang froid*. The spectacle of the present scramble for foreign aid is hardly edifying.

NOTES OF THE FORTNIGHT

Small Car

GREEN LIGHT ON

THE assurance of Government spokesmen that a decision would be taken, one way or another, over the small car project within a month is hardly likely to be taken seriously by the industry or the general public since the issue is kept alive for the past five years without anything tangible being done about it. Not that the general public, which is more interested in basic necessities like food than in a "luxury" like car, is greatly agitated over the delay. But the heavy backlog of demand for the three "makes" manufactured in the country and the exorbitant prices they fetch even in the second-hand market underline the need for revamping the automobile industry through rationalisation and expansion. The small car project gains significance only in this context, although the term "small car" is a misnomer since what the people need is a cheap and durable vehicle and not a "toy" automobile.

The idea, however, does not seem to have found favour with the private sector manufacturers who are thriving, in a fashion, in the sheltered market which is completely insulated from the impact of changes abroad. The cost argument is often used in support of the small car project but under the existing conditions, it can also be used against it. The question is asked: Will it be possible to manufacture the small car within the price-range of Rs. 6,000 to 7,000? The obvious answer is "no" because, if the private sector cannot produce a

car below a price of 13,000 the public sector cannot in all conscience be expected to do it, except through heavy subsidies or a measure of discrimination in taxation.

That the automobile industry has not geared itself to meet the demand of a potential mass market is obvious. The production in 1965, in all the three units put together, did not exceed 25,000 against the Third Plan target of 30,000 cars which admittedly errs on the conservative side. By the industry's own reckoning, the target for the Fourth Plan should not be less than 75,000 cars per year. The expansion schemes the private sector units have on hand (or under consideration) do not indicate that a three-fold increase will materialise in the next five years. One way out of the difficulty is to assist the private sector units by providing the necessary foreign exchange, to expand the installed capacity to the required extent. In that case, each one of the three units will have to be expanded to a minimum annual capacity of 50,000 cars in order to derive, at least partly, the benefits of large-scale production. In that event, their total output will go up to 1.5 lakh cars. And even the Government is not psychologically prepared to think in terms of any target exceeding one lakh cars, at present.

The industry is more cautious in making demand-projections. Its spokesmen point out that with the present exceedingly low *per capita* income, the effective demand, that is to say, the demand backed up by the power

to buy, is not likely to be large in the next five or ten years. This point cannot be completely brushed aside since even today the pattern of car-ownership is biased in favour of corporate entities. This factor, coupled with the present acute stringency of foreign exchange, seems to have influenced the views of the Planning Commission which assigns a low priority to the small car project although the Industry Ministry takes a different view. It is possible to argue, however, that if the industry had spoken in one voice and had agreed, in the ultimate analysis, to merge their individual identities in one unit, in order to achieve the economies of scale, the Government could have been persuaded to give up the small car project. Now, this rules out the possibility of the small car project being assigned to the private sector.

Taxation, it is true, is a major hurdle in the way of any drastic price-reduction since it constitutes about 33 per cent of the "on the road" price of a car. But the private sector's case for tax reduction is weakened, to some extent, by its apparent reluctance to cater to a mass market. In a way, this constitutes a vicious circle. Unless a mass market is created, the private sector will not be inclined to expand production on a substantial scale to derive the benefit of lower costs and unless costs are lowered, a mass market for cars may not emerge. This vicious circle can perhaps be broken if the Government takes a decision in favour of setting up a large car-manu-

facturing unit in the public sector, with a minimum annual capacity of 50,000 cars and a built-in provision for further expansion up to one lakh cars. This will indirectly spur the private sector units to merge, for the sake of sheer survival. The country will then have two large units—one in the public sector and another in the private sector—at the end of the Fourth Plan, capable of fully meeting the present *effective* demand and of further expansion to meet the *potential* mass demand that may emerge at the end of the present decade.

The capital cost of this expansion programme is not likely to prove unduly burdensome since most of the machine tools needed for the public sector unit (and for the expansion of private sector capacity) can be met by the Hindustan Machine Tools which is already producing these machines under a collaboration agreement with the well-known French firm of Renault. Another factor which, at present, militates against drastic cost-reduction is the haphazard growth of the ancillary industry which has yet to produce parts and components at costs comparable with the foreign makes. Reorganisation and rationalisation is the *sine qua non* of the stabilisation of costs in the automobile ancillary industry. The public sector's likely entry into the automobile industry only strengthens the case of the ancillary industry for a better deal.

Devaluation

MR BELL'S CAT

THE Government is being subjected to various pulls and pressures on the question of devaluation. Mr. Asoka Mehta's refusal to discuss the question, during his U. S. tour, has strengthened the view that the Government may not resort to a revision of the exchange rate of the rupee.

There have also been official denials in the Lok Sabha but in the face of the continuing foreign exchange crisis, and the persistence of a wide gap between the official and unofficial exchange rates of the Rupee, the chances of the Government yielding to pressure are even.

One strong argument in favour of devaluation is that the internal purchasing power of the Rupee has suffered a steady erosion over the recent years. This has tended to not only weaken the competitiveness of our exports but also to reduce the quantum of goods that are available for exports, as a result of an increase in the internal prices of goods produced. While no one questions the theoretical validity of this line of reasoning, the country's export performance does not fully support this view. This point was forcefully put by the Commerce Minister, Mr. Manubhai Shah, who refuted the contention that Indian goods have priced themselves out of the foreign markets. Mr. Shah's view has been elaborated, at some length, in the latest Annual Report of the Ministry of Commerce. It points out that nearly 83 per cent of our exports are sold at or around world parity prices and only about 17 per cent of our exports are supported by subsidies ranging from 30 to 80 per cent. The report points out that if, in order to push up the export of these products, the Rupee was devalued, it would result in a heavy loss in foreign exchange earnings in respect of the remaining 83 per cent of our exports. In addition to this loss, which is unlikely to be made good by an increase in the quantum, devaluation will add to the burden of our external indebtedness. The cost of production in the industries depending on imported raw materials will also go up and—to the extent these industries are export-oriented—their competitiveness

will be again reduced as a result.

Ethics of the international trade demands that a rough parity is maintained in the purchasing power of the trading nations' currencies but inflation has been a familiar feature of most economies in the post-war era. The problem of the developing countries is rendered more acute by the inflexible nature of their imports and the steady deterioration in the terms of trade in respect of primary products. A dispassionate discussion of the problem of the deterioration of currency values *vis a vis* the dollar seems pointless so long as the staple exports of these countries are not allowed free access into the industrial nations. This should not, however, divert attention from the urgent need for adopting prudent fiscal and monetary policies designed to keep inflationary forces at bay. We may have good reasons to spurn the advice of the World Bank's experts but false pride should not stand in the way of implementing some of the sound suggestions made by the Bell mission.

A country with an over-valued currency is hardly likely to inspire the confidence of the creditor countries. Devaluation may not be the right remedy but the Government cannot afford to shut its eyes to the decline that the Rupee has suffered in the "free" markets. The motivating reason as to why the earners of foreign exchange in India prefer devious ways of realising their earnings in the home currency yet remains to be explained convincingly. If smuggling is the basic cause of the problem of foreign exchange "leaks", what has the government done to put a stop to it?

Fertiliser Policy

RED HERRINGS

BY announcing further concessions to foreign investors intending

to participate in the setting up of new fertiliser units, during the Fourth Plan, the government appears to have strengthened the hands of its critics and weakened the argument of the supporters of a pragmatic policy. The Prime Minister, Mrs. Gandhi, however did well to retrieve part of the damage by declaring, in her last press conference that "majority participation" did not mean that the public sector would agree to minority share-holding in any new venture. For reasons which are hard to understand, the World Bank President has been urging our planners to offer, in addition to the "seven-year price and distribution holiday" offered in December last (see *Southern Economist*, April 1) further concessions, including majority participation for foreign investors. He has also suggested that instead of naphtha, a raw material in which India is surplus, to some extent, the foreign collaborators may be allowed to import their own raw material—liquid ammonia from Persian Gulf, for example—for use in the new fertiliser plants.

Sensing what might be in store, Mrs. Indira Gandhi very wisely came forward with the explanation that the Government has not totally accepted the World Bank's advice and "majority participation" can only be with the private sector parties. What is the reaction of the private sector in India to this concession is difficult to guess, since a section of it has always opposed the proposals to allow the foreigners to have majority ownership in Indian concerns. However, there has been a softening of the private sector's attitude towards foreign participation. In fact, the private sector has spontaneously welcomed the new fertiliser policy. But even the most pragmatic among the industrialists who know the problems involved in wooing foreign capital, may be wondering whether the Govern-

ment has gone rather too far in offering concessions which make Bechtel's terms look unattractive in comparison.

Incidentally, Bechtel would have been satisfied with a 50:50 offer. They would even have waived their insistence on 20 per cent return if our planners had offered them a seven-year price holiday. The question is not whether the Government is working against the country's basic, long-term interests—this can be ruled out, so long as persons like Indira Gandhi and Asoka Mehta have a decisive voice in the shaping of economic policy—but whether the Government has taken the people into confidence. From the way the news about further concessions are allowed to leak out from unlikely sources, it appears that the Government is keeping the cards too close to its chest. When the ruling party was at sixes and sevens over the question, at Jaipur, the leaders quite adroitly side-stepped the issue by asking the Planning Commission to prepare a note on the subject. It has now come out with a tailor-made essay which underlines the "inescapable necessity" to attract foreign investors, particularly from the U.S. which alone has developed the ammonia technology which is said to be the most economical. What is deplorable about the Government's new policy is not (leaving aside questions like "majority participation") what it has offered by way of concessions but the lack of poise and firmness in the Government's stand.

As the Planning Commission's report rightly points out, there can be no question of the foreign investor exploiting the Indian consumer since nearly two-thirds of the indigenous production will be accounted for by the public sector. That the position is not entirely hopeless is illustrated by the praiseworthy role that FACT—a public sector unit in

the south—is playing in the planning and designing of new units. It is already committed to the setting up of the Cochin fertiliser project and there are fair chances of its participating in the new units that may be set up (one in Mangalore, for example) in the southern region. The Government's decision to fabricate two fertiliser units in the public sector, at Cochin and at Durgapur, is indicative of its desire to secure a commanding position for the public sector in the field of fertilisers. On the question whether, with the commissioning of new units expected to come up under the new dispensation, fertiliser prices would come down to reasonable levels, the Government appears to be diffident although the adoption of the latest technology and the freedom of pricing may lead to a fall in the prices. Even so, the chances are that the prices will continue to be beyond the reach of the average Indian farmer.

Foreign Assistance

AID Versus PRIDE

IN the Yojana Bhavan, aid expectations continue to be reckoned in fanciful figures. No serious objections can be raised against such harmless exercises so long as the ultimate objective is to secure the maximum of assistance with the minimum of policy commitments but in its excessive preoccupation with foreign aid, the country seems to be losing its self-confidence. In its assessment of resources made on the eve of the India-Pakistan flare-up, the Planning Commission had estimated the Fourth Plan requirements of external assistance at Rs. 4,000 crores of which nearly one-third was earmarked for meeting external debt-servicing obligations. The planners pointed out that the requirement of net assistance would be actually Rs. 2,650 crores compared to the net assistance of

Rs. 2,100 crores during the Third Plan.

Cost-escalation and the defence-orientation of the Plan have however necessitated an upward revision of the expectation of foreign assistance. A recent assessment has placed it at Rs. 4,800 crores—Rs. 800 crores in excess of the earlier exercise. Out of this sum, assistance from the U. S. S. R. was estimated at Rs. 500 crores and the balance of Rs. 4,300 crores was to have come from the Western consortium, including sources like the World Bank and IDA. This expectation, over and above the anticipated export earnings amounting to Rs. 5,100 crores during the Fourth Plan, has again been up-dated by our Planning Minister, Mr. Asoka Mehta, according to reports of his talks with the World Bank officials in Washington. Mr. Mehta's brief was to ask for Rs. 4,000 crores of assistance and Rs. 300 crores of Private investment by way of collaboration. Instead of Rs. 4,000 crores, Mr. Mehta is pleading the case on the basis of a requirement of Rs. 4,800 crores. Whether this figure includes the aid pledged by the Western consortium for 1965-66 (but later "frozen", for political reasons) is not clear. The World Bank never had any misgivings about the aid-absorbing potential of India but it has reasons to be genuinely concerned about the unsatisfactory manner in which external assistance was put to use.

The Bank seems to take a more serious view of the idle capacity

in our industries—caused partly by non-availability of imported raw materials—and it is this rather than the overall plan requirement that is the subject of criticism by the Consortium. Whether Mr. Mehta will succumb to the temptation of securing a "stabilisation credit" of about 1.5 billion dollars reported to have been offered (but never officially confirmed) in exchange for liberalisation of import controls is a matter of conjecture. Pragmatic considerations demand that our planners should not hesitate to permit the aid-giving countries from initiating a "rescue operation", particularly in view of the virtual absence of any foreign exchange "cushion" vitally needed for keeping the economy "ticking".

Whatever may be the outcome of Mr. Mehta's Washington par-

leys, one thing is clear. There will be a gradual shift in emphasis from project-wise assistance to general purpose assistance and from "hard" loans to "soft" loans. A re-phasing of the repayment of the earlier loans will also be quite in order, considering that India badly needs a breathing space. Short-term imperatives notwithstanding, many have begun to wonder whether our planners' increasing reliance on external aid squares with the accepted policy of achieving self-sufficiency. Paradoxically enough, our reliance on foreign aid is increasing from Plan to Plan. From about 6 per cent of the total investment in the First Plan, it increased to 21 per cent in the Second Plan and to about 25 per cent in the Third Plan. It is likely to be of the same order (if not more) in the Fourth Plan.

: Our Diamond Jubilee Year :

The Canara Banking Corporation Ltd.,

Regd. Office
UDIPI

Adm. Office
MANGALORE

NEVER MIND

Interest at

4° p.a.

On Savings

Bank

Accounts

Some people are wondering what to save and why to have a Bank account with a meagre amount of Saving. We say never mind, you can open a savings bank account with a small amount of Rs. 10/- only at CORPORATION BANK. Some day your Pass Book may show a four figure amount. Because, once you open a Savings Bank account, it will give you a greater confidence to save more and invest more at

CORPORATION BANK

Resolve today to open a Savings Bank Account

K. Ramadas Nayak
General Manager

Announcement

On the occasion of the fourth anniversary of the publication of *Southern Economist*, the Editor thanks all the well-wishers, subscribers and advertisers for their continued support. In view of the Annual Number, there will be no issue dated May 15, 1966. The next issue will be dated June 1.

SPECIAL ARTICLES

Need for Redefining Socialism India: A Case Study

By S. R. NATH

THE objective of this paper is to examine the applicability of tools and techniques of socialism as practiced in "Industry-based" economies of western Countries, to "agriculture-based" and underdeveloped economies of Africa and Asia. As a case study, India has been chosen in this context for a detailed analysis because. Planning on socialistic pattern has been in operation for over fifteen years under a stable and uninterrupted rule by a single political party. Since almost all these countries have one thing in common, viz., arrested economic development with agriculture as the predominant economic environment, the conclusions that emerge from the Indian case will broadly be applicable to others also.

Imported Concept

2. Socialism is an imported concept in Asia and Africa. It has been adopted by many countries in these areas both as a political philosophy and as an economic technique with a view to ameliorating the poverty-ridden societies from socio-economic backwardness. Either with undertones of fabianism or overtones of communism, many of these countries have been trying to implement socialistic ideas in their economic

¹ Oscar. Lange: "Essays on Economic Planning" (1959), P. 39.

The Indian Planners affirm that "the growth of agriculture and development of human resources alike hinge upon the advance made by industry. Not only does industry provide the new tools, but it begins to change the mental outlook of the peasant." Third Five-Year Plan, Chapter I, P. 7.

programmes. Translated into practice, socialism in these countries means, in essence, increased participation by the State in industrialization of the country through the creation of an expanding public sector in the economy. Thus, in underdeveloped economies, State has to step in to bridge the gap between the required quantum of investment for attaining a given growth rate in the economy and the available resources. "Compared with the inherited stage of backwardness", observed Prof. Oscar Lange, "public investment and the creation of a nationalized sector of a state capitalist in nature are a step forward for an underdeveloped country".¹ The State, thus, endeavours to attain a commanding position in the economy as a whole by virtue of its control over strategic points in productive sector as well as over a large volume of investment. The implication is that the State attempts to bring about infra-structural changes in the economy through its direct participation in industrialization on a large-scale. In the process, a segment of industrial sector and agricultural sector as a whole, are left out for private initiative and enterprise.

Basic Assumption

3. The basic assumption of the State in developing economies is that a higher growth rate in the economy which would effect cultural change from stagnation and stratification to dynamism and flexibility is possible only when the society is released from its age-old agrarian moorings and is transformed into modern

industrial complex. The entire development strategy is planned on the following basis, viz., export should be expanded and through this further imports of capital machinery should be made possible for a higher degree of industrialization which would in turn facilitate greater employment, large incomes, with their concomitant savings and investment; the process repeats itself with greater velocity with the passage of time as industrialization gains momentum.

Further, an industrially advanced society will be free from tribalism, groupism, feudalism and casteism which are generally associated with an agrarian-based society. Thus, economic development through large-scale industrialization would bring about cultural change from primitivism to modernity.² The model is apparently simple and therefore is attractive for many developing economies. That is how planned economic development has come to mean State's direct participation in industrial development only and agriculture as an industry has been relegated to secondary place by leaving it to private initiative and enterprise. The objective of this paper is to examine the fallacy of this assumption by analysing the position of India in this context.

The Indian Case

4. That agriculture as an industry can make a significant contribution to rapid economic development through increased capital formation and national

income is vindicated by the experience of such countries as Japan and Taiwan,³ and Australia. Yet, when India launched her first Five-Year Plan in 1951, the long-term objective was decided in favour of large-scale industrialization through State capitalism; agriculture has been left to private enterprise. The role of the State in agricultural development, is confined only to such assistance as facilitating finance, irrigation, fertilizers etc. The State proclaims its faith in "socialism" and asserts that its economic policies are "socialistic". Since 1951, the country has been experimenting with economic planning. So far, three Five Year Plans have been implemented and more than Rs. 20,000 crores (about \$ 4,000 million) of investment has been made; State's share alone amounted to a little more than half of the total investment in the economy. In spite of all this, the growth-rate in the economy has been, on average, 3 per cent. Obviously, the performance is disappointing. Then, what is wrong with India's planning? Has "socialism", the magic nostrum for all economic ills, failed in the Country?

To answer the second question first, it is necessary to find out where the "malaise" lies. The Indian plans are inverted pyramids with no broad base on which they could stand firmly. Whether it is Harrod-Domar model or Mahalanobis model, the focus of attention has been Industry. The "Socialist" plans assign the role of an entrepreneur, manager, financier and

even distributor to State in the sphere of industry only. The implication is that since private enterprise cannot and in some cases should not, enter into certain sectors of the industry, it becomes imperative that the State should intervene and obtain a commanding position in the economy. The Indian Planning authority makes this clear in the following words:

For creating the appropriate conditions (of a Socialist pattern of society), the State has to take on heavy respon-

sibilities as the principal agency speaking for and acting on behalf of the community as a whole. It has not only to initiate developments which the private sector is either unwilling or unable to undertake; it has to play the dominant role in shaping the entire pattern of investments in the economy, whether it makes the investments directly or whether these are made by the private sector.

Through an enlarged role in industry, the State is assumed to facilitate the generation of increased national income and thereby ensure higher standard

State Bank of Hyderabad

Small Scale Industrialists — step up Production
With Our Assistance!



DO you want to increase production yet lack the means? This is a common situation. But now we are here to give you the financial help you need.

ALL we consider before giving you an advance is the quality and marketability of your goods, the efficiency of your unit and your integrity. We are in a position to offer you a wide range of assistance.

WE grant Small Scale Industrialists advances against Security of raw materials and finished goods.

FACTORY type advances where security cannot be kept under the Bank's lock and key. Borrowers have free access to raw materials.

CLEAN Credit Facilities where no securities are available.

MEDIUM-Term Loans for modernisation and expansion

INSTALMENT Credit for purchase of machinery.

INTEREST is as low as 8% per annum.

BIG SCALE HELP FOR SMALL SCALE INDUSTRIES



³ For an interesting analysis of the contribution of agriculture to economic development of Taiwan, see "The Factor Contribution of Agriculture to Economic Development: A Study of Taiwan, by Charles H. C. Kao "Asian Survey" Vol. V. No. 11, November 1965.

⁴ Second Five-Year Plan, Chapter II, P. 22.

of living to the people. It may be pointed out that there is nothing "original" in all this. Even in the so-called capitalistic countries, the role of the State in industrial sector has been increasing especially since the end of the Second World War. The originality, if any, in the official Indian socialism, lies in too much dramatization of the word "socialism" while neglecting the "Indianness" of it!

This is precisely the Achilles heel of Indian planning. The dispute is not over the question whether socialism is a "must" for under developed countries, but how to define socialism and evolve techniques for application in the context of the economies which are totally different from those of the West where "socialism" proved fairly successful. Socialism as a tool for economic development, calls for redefinition. State should no doubt enlarge its role in economic development but the strategy has to be different from that obtained in socialist economies in the West. In under developed economies, the roots of socialism lie in agriculture.

Role of Agriculture

5. In underdeveloped economies in general, and in India in particular, agriculture is the life-blood of millions of people. More than 65 per cent of population depends on it and about 50 per cent of national income is derived from it.⁵ For these economies, agriculture is the Achille's heel. Societies move forward or sink beneath, depending on the progress of agriculture. But one conspicuous feature in all these economies is that such

an important and vital sector is virtually unorganised and functions in a chaotic way. In India, the fluctuating fortunes of agriculture is left to the mercy of monsoon. The State does assist agriculture (and measured by volume there has been a significant increase in this direction) but such assistance is confined only to facilitating irrigation, finance, fertilizers etc. This was so even when India was under the British; after independence, only the scope was enlarged under the Plans. The Indian planners admit that "more than any other factor, the success of the (Third) Plan will turn on the fulfilment of its agricultural targets." But, while the diagnosis is correct, the remedy applied is wrong, because it is believed that once adequate finance is provided, all the problems of agriculture can be solved.⁶ What agriculture calls for, are organization, enterprise and initiative.

The private enterprise has failed in this context. Large-scale, mechanized farming, which alone will increase productivity, requires sophisticated techniques, complex management and larger capital. Only the State can respond to these requirements. The food problem India is facing today is due to this basic blunder committed by the State viz., leaving agriculture to its own fate. In recent years, when food crisis has been threatening the very progress of the economy, more emphasis is being laid on attaining greater yield and through reduction in demand for food by means of rationing and family planning. On the production front, facts are not encouraging. There has not been any substantial rise in production of cereals during the period 1960-61 to 1963-64; while total volume of cereals produced remained around 60 million tons, population has been rising at about 2.4 per cent per annum;

the annual average income rose by about 4 per cent during this period.

There was considerable demand-inflation, especially for foodgrains. Consequently, the country has been importing foodgrains on a large scale. In 1960 and 1961 alone the import bill amounted to Rs. 195 crores (5 million tons) and Rs. 120 crores (3 million tons) respectively, thus causing a huge drain on India's precarious foreign exchange balances; the latest estimates of import requirements of foodgrains are about 10 million tons! This trend is likely to continue adding pecuniary poverty to human misery.

Need For New Definition

6. It may appear an eternal paradox to a distant observer of the Indian economy that while investment is progressively stepped up and industrialization on a larger scale is attained, how the economy can be stagnant? The reason is simple. The obstacle to rapid economic progress in underdeveloped economies is inflation, and this is largely influenced by prices of "food and drinks". Investigations in India revealed that in recent years, as consumer expenditure increased, the expenditure on consumption of food also tended to rise; expenditure on food consumption constituted more than two-thirds of total consumer expenditure.⁷ If the latter gets out of the gear, price inflation gains momentum. "Real incomes" are depleted, savings get drained and there will be dearth of the required quantum of investment with its concomitant unemployment, to attain a given growth rate in the economy. This circle gains momentum as price spiral rises further. By discarding agriculture in general and food grains production in particular and by its over-emphasis on industrialization to achieve a higher growth rate, the State

⁵ India: Pocket Book of Economic Information, 1964 (Government of India).

⁶ Third Five Year Plan (Government of India Chapter XIX, p. 304.

⁷ National Sample Survey, (Sixteenth Round), July 1960 to June 1961.

will be defeating its own objectives. The strategy should be to keep the prices under control, which can be done only by keeping the prices of foodgrains under control. It must be admitted that in these underdeveloped economies which profess democratic political set-up, rationing and controls are ineffective mainly due to inefficiency, corruption and lack of coordination of policies in the administrative machinery. Therefore, it becomes imperative for the State to become the producer and distributor of foodgrains. This alone can break the vicious circle described above and quicken pace of economic development.

Food Problem

7. That fifteen years of planning

⁸ India: Pocket Book of Economic Information, 1965. Ministry of Finance Department of Economic Affairs, Government of India.

⁹ The cost of import of foodgrains should be deducted from this

has placed the country perpetually dependant on food imports, clearly warrant a redefinition of socialism as applicable to an underdeveloped economy like India. Socialism as an economic philosophy in this context, should invariably mean State's active and direct participation in production, organization and distribution in agriculture in general and foodgrains sector in particular. This redefinition and application of "socialism" which alone can solve the developmental problems of the economy and the food problem of the people, has wide scope in India. The following table⁸ shows the extent of land utilisation in the Country and the scope for State's participation in foodgrains production.

From the table, it can be seen that uncultivated land and total fallow land which constitute about one-fifth of total reporting area are left unutilized. As a first-step, the State must step in

and by making available the necessary inputs, should bring these lands under cultivation for producing foodgrains. In the beginning the yield is bound to be low and costs higher. But by gradually increasing the inputs the yield can be raised. The difference between the higher costs involved in bringing these lands for foodgrains production⁹ and the "economic cost" should be taken as "substitution cost for P. L. 480" or "alternate cost for starvation".

These lands, even on minimal estimate should yield six million tons of foodgrains. Secondly, while the State has followed "nationalization with compensation" as ethically justified in case of "zamindari abolition" or for acquisition of urban land and property, there is no reason why the same thing should not be pursued in agriculture also. National Sample Survey rounds revealed that about two-fifth of land holders have less than one

acre and three-tenth hold between 1-5 acres; the average size of land holdings in India is about 7.5 acres.¹⁰ If these uneconomic holdings are "nationalised" the State would get additional 50 million acres of cultivated land. Consolidation, to the possible extent, should be attempted by procuring adjacent lands of equal measure by exchange of those which the State has "nationalized",¹¹ or through acquisition by compensation. Through better organization, fertilization and irrigation, this land should yield an addition of at least three million tons of foodgrains. The form of management of food production is nevertheless a significant question. The alternatives are collective farming (community farming), farming under joint-stock company organization, or, setting up of a special Food Production Corporation. Under the Indian conditions the last mentioned appears to be appropriate and is likely to appeal to the imagination of the people also. Simultaneously, the State can also accelerate its assistance to the "private sector in agriculture" by promoting co-operative farming and by facilitating larger net work of irrigation at cheaper rates and by providing fertilizers etc. This should yield at least two million tons of additional foodgrains.

State's Participation

8. State's direct participation in agriculture as producer of foodgrains will have the demonstrative effect on the hoarders, speculators, profiteers etc. in foodgrains. This will

¹⁰ National Sample Survey; 8th round.

¹¹ This is legally done by the State in India in case of urban land and property.

¹² The estimates of India's food deficit vary. The Bell Mission in its recent report has placed it around 14 million tons.

TABLE I

(Million Acres)
1958-59 1960-61

I. Total Geographical Area		
By Surveyor General of India	806.3	806.3
By Village papers (Reporting Area)	724.1	738.8
II. Classification of Reporting Areas		
(a) Forests	128.1	138.5
(b) Area not available for cultivation	115.6	120.0
(c) Other uncultivated land (excluding fallow land)	97.4	96.0
(d) Total Fallow Land	59.4	56.3
(e) Net Area Sown	323.6	328.0
(f) Total cropped area	372.2	376.2

TABLE II

Year	Population (millions)	Net Production of cereals (million tons)	Net imports (million tons)
1960	432.7	56.77	5.13
1961	442.7	60.65	3.49
1962	453.4	62.08	3.64
1963	464.3	58.63	4.55
1964	475.5	61.41	6.26
1965	487.0	66.52	7.45

Notes:—(1) Population figures relate to mid-year revised estimates
(2) Production figures relate to agricultural year July-June
(3) Figures for 1963, 1964 and 1965 are provisional.

Source: Economic Survey, (Government of India) 1965-1966.

compel this group of people to bring out the stocks into market. Consequently, the artificially maintained food prices will slump. In India, at least three million tons are estimated to be hoarded annually and its de-hoarding will ease the food situation to a great extent. Thus, a net addition to foodgrain production of about 14 million tons can be achieved¹² if the State gives up its present policy of "grand isolation" in regard to agriculture in general and foodgrains production in particular and adopts a realistic definition of socialism which is suited to underdeveloped economies like India.

Secondly, the impact on the price structure of the country deserves special mention. Since the State will be the producer of foodgrains and the weightage of foodgrains is relatively large in the price structure, the fluctuations in price level can be controlled within reasonable limits. This will greatly

facilitate larger exports, greater industrialization and higher growth rate in the economy which are the corner-stones of any planned economic development.

Conclusion

9. In conclusion, it may be said that the major ills of underdeveloped economies are due to adoption of alien and misconceived ideas of socialism as practiced in "industry-based economies" of the West. Socialism, as applicable to these "agriculture-based economies" should be so re-oriented as to make it obligatory for the State to take direct and active participation in production, organization, financing and distribution in agriculture and allied industries, especially in foodgrains. While the State's participation in the industrial sector need not be curbed, it has to be curtailed to the minimum essential in order to enable the State to divert large resources and energy for foodgrains production.

ALIND CABLES FOR LIGHT AND POWER

ALIND ALL-WEATHER and
ALIND ENDUR-AL
Weather-proof wires

ALIND KER-AL-LITE and
ALIND AL-VINYL
Indoor power and light wiring

ALIND SOLIDAL
Underground
aluminium power cable



ALIND
Where forward thinking
is a force of habit

THE ALUMINIUM INDUSTRIES LTD.
India's largest manufacturers of
aluminium conductors and accessories
Registered Office: Bangalore (Kerala)
Plants: Mundara - Miraj - Hyderabad
Managing Agents:
SASIRAYEY BROS. (PVT.) PRIVATE LIMITED





**Buy dependable FARGO
through Rs. 27,000/- hire purchase finance*
Repay in 29 easy monthly instalments**

A FARGO is ideal for making quick deliveries. It is so reasonably priced that you can buy more of them and use them in different places.

6 reasons why FARGO is so dependable: Robust chassis frame ■ Rockwell Standard Timken Axles to withstand road and load shock and for better payload ■ Choice of three engines ■ Five-speed transmission for finer selection in different operating conditions ■ 330 mm (13") single dry plate type clutch disc specially designed to withstand heavy torque ■ Positive stop on the front spring rear shackle bracket.

FARGO

(A Product of The Premier Automobiles Limited, Bombay)

*Sundaram Finance will advance you finance for purchase of a new Fargo upto Rs. 27,000 for lorries and Rs. 37,000 for buses. Repay this amount in 29 easy monthly instalments out of the profits the Fargo will fetch you month after month. You may start the first payment after 60 days from the date of invoicing.

**T. V. SUNDARAM IYENGAR & SONS
PRIVATE LIMITED**

Madurai - Tiruchirapalli - Tirunelveli - Pudukkottai -
Salem - Coimbatore - Trivandrum

SUNDARAM MOTORS PRIVATE LIMITED
Madras - Bangalore - Secunderabad



JWT-TVS-599A

Can We do away with Planning ?

By Prof. K. S. SONACHALAM

IN answering this question, it is needless to elaborate the nearly half-a-century old debate on the theoretical merits of planning *versus* free enterprise, accentuated particularly since the October Revolution. The economic criteria, coupled with concepts of Value and Welfare, had been frequently used to abstract the economic merits of the different systems. This controversy is no longer alive and it will be wide of the mark to stir the embers and try to recapitulate the judgements on such issues as individual freedom, consumers' preference *vi-a-vis* planners' preference, the sacrifice of the present for betterment in the future or for coming generations, the suppression of the profit-motivated private enterprise, the risk-taker and the Schumpeterian innovator, the creation of government or public sector entrepreneurship, the bureaucratization of the public economic enterprise, the over-centralisation and clustering of decision-making at the top and at other intermediate levels, the conflict between the public and the private sector in less than communist planning etc.

Keynesian Technique

Because, since the crash of the *laissez-faire* economy during the Great Depression and the adoption of the Keynesian technique for putting it, as it were, in an oxygen tent to achieve and maintain full employment, the price system has accommodated itself to coexist with planning to lesser or greater extent. For progress with stability in mature economies and for rapid economic growth in underdeveloped economies, planning has not only become respectable but also

imperative. The shrewd observation of Peter Wiles of the City University of New York that "Nearly all governments plan—no modern State feels well dressed without it", has an element of truth.

2. When the experience and wisdom of the world has demonstrated the universal faith in the planning technique for economic development, the question that is raised in this paper would be intriguing, but for the recent crisis on the two fronts of food and foreign exchange. There are three classes of critics of Indian planning *viz.*, Jeremiahs, Jacques and Calibans; in other words the alarmists, the cynics and the maliciously mischievous, actuated by their respective ideological, political or economic slant or squint. They bemoan that the public debt of India has reached a peak of Rs. 8,960 crores, the debt servicing charges mount up to several hundreds of crores, the food production curve has dipped sharply, foreign exchange resources have evaporated, bottle-necks, shortages and vicious circles bedevil our projects and programmes with the result that the gaps between targets and achievements progressively widen. Ergo, planning should be abandoned or a plan holiday is an urgent necessity.

3. These critics do not care to look at things objectively. They overlook the Acts of God, for example, in the unprecedented, prolonged drought as well as the unprovoked acts of aggression by two biggest neighbours. They discover a distinction where no difference really exists—between defence and development planning, suppressing the basic truth that the objectives of the

former coincide with those of the latter in respect of food and raw material production, diversification of industries, regional balance, establishment of strategic, heavy and basic industries, the high priorities given to electricity—hydel and thermal—atomic energy, transport and communication, ports and harbours, mining and metallurgy, capital goods and machine tool industries, and the colossal outlay on education, medical care and public health, essential investments in the development of the human factor leading to increased efficiency and greater preference for work to leisure as well as the enormous parliamentary time devoted to institutional changes in agrarian system and to induce changes in the pre-Newtonian, feudal mores and socio-psychological attitudes. The fact that whatever is achieved in these several spheres in the name of development will constitute preparation and equipment for defence is either honestly not appreciated or conveniently ignored by the critics in their anxiety to score debating points.

Likely Consequences

4. Assuming that the critics are right and the planners are wrong and planning is halted or cold-storaged, what would happen is not a problem of mystic forecasting. The economy will revert to *laissez-faire*, pure and orthodox, if we understand the argument and purpose of the critics aright. Profit motive and market mechanism will jump back to the saddle. Concentration of economic power, conglomeration of factories in the already overgrown cities, establishment of industries with a view to realizing excessive and quick profits,

myopic exploitation of scarce exhaustible natural resources, disruption of ecological balance by wholesale denudation of forests and fisheries, absence of any enterprise in all public works and institutions the development of which Adam Smith characterised as the third duty of the Government, such as the exploration of oil, generation of power, extension of roads and railways—provision, in short, of all external economies and complementarities petering out of linkage effects due to lack of purposeful stimuli as in well conceived planning, expansion of plantation and cash crop cultivation at the risk of mounting food deficits, proliferation of consumer goods industries along the well trodden lines by imitative entrepreneurs, utter neglect of basic industries necessary for self-reliance and self-sufficiency, inequality of wealth and income, mushroom-

ing of the “U Sector”, and swelling unemployment will follow as night follows day. All the seven-fold objectives inscribed in the opening page of First Five-Year Plan will become moribund and the law of the jungle—each for himself and the devil take the hindmost—will begin to rule.

5. Economic development to achieve the objectives indicated as above is no longer today the hobby-horse of the planners or the party in power. It will be a travesty of truth to declare, as some hyper-critics do, that the very programme of planning is the *bete noire* of the people at large. Since the pronouncement of the objectives and procedure of planning, in successive elections, the sovereign people in this democratic State have expressed their faith in planning. If transistors and limousines, 22-carat gold and pleasure trips abroad

are not so easily available under the aegis of planning, no government agency is to blame. With the imprematur of the people for the implementation of the Plan, it would therefore be a dereliction of duty if the Government jettisons the philosophy and practice of planning.

6. The foregoing should not be misconstrued as the opinionated argument of a self-styled advocate of economic planning *at any price, under any circumstance*. The author is not oblivious of the errors committed, priorities wrongly set and the grafting of non-economic ideologies on to the trunk of our economic planning. The smug self-complacency on the food front at the end of the First Plan—and even vague hints of exporting rice—the big slant towards heavy industries in the Second and the scant attention to fertilizers, the earlier dissipa-

tion of sterling balances for importing consumer goods to curb inflationary pressures, the ceiling on production imposed on organised large-scale industries for encouraging cottage and home industries (e.g. handloom *versus* mill) or what is delineated as common production programme, the hasty improvisation of scheme of one-teacher schools, less for the promotion of literacy and education than for providing employment to the educated unemployed and several other projects, not easily justifiable, if strict economic criteria are applied, are indeed some of the shortcomings and pitfalls of the decade and a half of planning. But they are not irremediable defects, nor insurmountable obstacles. With the rich experience, learnt the hard way, we are today better informed in the technique of physical as well as financial planning.

Regimentation

7. Development planning is not to be judged on its absolute merits but as a *pis aller*. The other alternative is development under the aegis of free enterprise economy dominated by the price system. The operation of invisible hand with its inscrutable outcome is anybody's guess. But a social and economic development plan is the blue print of a dynamic process with a fairly detailed programme of action to carry out the accepted policies to attain the desired objectives and targets. Such a plan aims at a specified rate of growth in *per capita* income, optimal resource allocation and equitable distribution of the gross national product.

It is based on achieving a stipulated savings and investment ratio with an insistence upon the triple equilibria of (i) $I = S$, (ii) $M = X$ and (iii) $G = t$ in which I is investment, S saving, M imports, X exports, G government outlay and t budgetary

revenue. In the attainment of this delicate balance, the skill and energies of the Planning Commission and the Government are bend with varying degrees of success. In this game of working towards a balance, the question is not exactly whether success has come but how well the game is played to reach success.

The outcome of planning on these lines does not always coincide precisely with the expectations but instead of being tainted with an element of a gamble as in “free-for-all fight” that is *laissez faire*, it is a constant endeavour towards approximation to the ideals. Kenneth R. Hanson of the Bureau of the Census has a thoughtful and wise caveat to register in this context: “Disappointment is often as great for the planner as for those who mistakably look upon the plans as a faultless and pristine instrumentality of economic growth and social development There is some danger that disillusionment with plans and planning might cause throwing out the baby with bath”. It appears as though we in India are passing through this psychological crisis overlooking the real facts of the situation indicated earlier in this paper.

A less emotional and more sober view of the short-comings seems appropriate. It should not be forgotten that planning calls for constant vigilance, suitable revision and adjustment, compression if necessary to the “hard core” and expansion if possible in response to the financial and real resources availability but never abandonment, not even a holiday. For planning is a continuing dynamic process, invoking and involving unceasing endeavour. Any suspension or stoppage of this process, let it not be fondly imagined, will leave the economy on a comfortable plateau; on the other hand, once the steering wheel of planning is put out of gear, the economy will

slide backward and register a retrogression. In India, with her explosive population-growth, prediction or project is not a mystic art. Once the framework of planning is shattered or withdrawn, there is bound to be distortion of growth forces, and the economy will slip into the low level of equilibrium trap.

Objective Assessments

8. Lest what has been argued in the preceding pages should be brushed aside as mere theory, divorced from operational significance, it is necessary to subject the 15 years of planning to an objective assessment. The point at issue here is not whether planning is good or bad. Planning as a technique for accelerated economic development has been accepted by all countries and it has been lifted beyond the realm of controversy. A sound line of empirical testing will be a comparison of the growth rates in a 15 or 20 years prior to planning with those attained during the decade and a half of planning. However for such a comparison to be valid, some objections are likely to be raised. The 20-year period prior to planning has been marked by the Great Depression, the world War II and its aftermath and above all, the partition of the country which has rendered most of the statistics of the pre-Independence era non-comparable. Nor could we go back to the *ante bellum* world which was radically distinct from the world of the Fifties and after in respect of the mobility of technology and technical personnel, the emergence of several agencies of international technical and financial collaboration with I. B. R. D. and its affiliates topping the list, followed by Truman's Point Four Programme and several bilateral assistance including consortia, the political status of the colonial countries and the aspirations of the newly liberated countries and the revolt of rising expectations, visible

THE MADRAS CO-OPERATIVE CENTRAL LAND MORTGAGE BANK LIMITED

Grams: “CENMORBANK”
Phone: 71061

Post Box No: 609
Luz, Mylapore, Madras-4.

Authorised Capital	Rs. 2,50,00,000.00
Paid-up Capital	Rs. 1,14,08,400.00
Reserves	Rs. 43,43,582.00

The Bank is the Apex Co-operative Bank for advancing long term agricultural credit and issues debentures for 15 and 10 years on the security of first mortgages transferred to it by Primary Land Mortgage Banks and its other assets.

During the year 1964-65, the Bank has sanctioned a special scheme of Rs. 10.80 crores for reclaiming 1.80 lakhs acres of lands in Parambikulam-Aliyar Project area. Increasing attention is being paid for such schemes and for lending for purposes of land improvements generally, in the recent years and 80% of the loans are issued for such purposes only from this year.

N.S. Ramalingam, B.A., M.L.A.,
President.

Plan Progress - Significant Facts.

Items	Unit	1950-51	III Plan Target	1965-66 Achievement	Rate of Growth per annum
(1)	(2)	(3)	(4)	(5)	(6)
AREA					
Agriculture.					
Area sown - Net	Mn. acres	293	—	334	1.0
Gross	"	326	—	385	1.2
Area Irrigated-Net	"	51.5	80.0	61.2	1.3
Gross	"	55.8	—	70.1	1.9
Area under food crops	"	240	—	283	1.2
Area under cotton	"	14.5	—	19.7	2.4
Area under sugarcane	"	4.2	—	6.0	3.0
Area under jute	"	1.4	—	2.3	4.0
PRODUCTION.					
Foodgrains	Mn. Tons	52.2	100	88	2.6
Oil seeds	"	5.1	9.8	7	2.6
Cotton	Mn. Bales	2.9	7.0	5.3	8.1
Sugar (Gur)	Mn. Tons	5.6	10	12.1	7.6
Consumer Goods Industries					
Cotton Textiles	Mn. Yards	3,720	5,800	5,500	3.0
Cotton Yarns	Mn. Kg	533	—	965	5.3
Jute Textiles	Mn. Tons	1.1	—	1.2	0.6
Capital Goods					
Iron Ore	Mn. Tons	3.0	32.0	16	30
Coal	"	32.3	98.6	66	6.6
Cement	"	1.7	23	10.4	20
New Strategic Industries					
Finished Steel	Mn. Tons	1.0	6.2	2.0	6.6
Electricity : Installed capacity	Mn. Kw	2.3	29.5	18	45.5
Generated	Billion Kwh	6.6	45	43	36.6
Ammonium Sulphate	Mn. Tons	9	800	418	303
Super Phosphate	Mn. Tons	9	400	197	141
*1964-65					
Education					
Expenditure on Education	(Rs. crores)	114.38	408	448	20.0
School going children : Primary					
Stage 6-11 age group (%)		42.6	76.4	77.8	2.3
Middle Stage (11-14 age group)		12.7	28.6	31.6	5.6
Higher Secondary (14-17 age group)		5.3	15.6	17.8	7.6
Technical Education					
Diploma Level	000 Nos.	5.9	38.3	50.7	50
Degree Level	000 Nos.	4.1	19.1	27.2	37.6
Health					
Hospital beds	000	113	240	240	7.5
Doctors practising	000	56	81	85	3.5
Economic Overhead					
Railways-Freight Traffic (originating)	Mn. Tons	91.5	245	365	19
Road - Surface roads	000 Miles	110	169	156	3
National Income (Rs.)	Crorers	9,530	17,260	17,200	5.3
Investment%		5	13.7	12.5	10.0
Population Mn		356	434	450	2.0

and perceptible in most of them. Hence a rough and ready appraisal of the achievements of the planning era *vis a vis* the alternative of *laissez faire*, of course an exercise in imagination not too difficult to do except by the unwilling, could be attempted.

9. In this statistical evaluation, there is no need for elaborate documentation as all the relevant statistics are wellknown and easily accessible in the mid-term Appraisal. What is done in the table appended is to present illustratively certain facets of the growth process.

10. The statistics given in the table are grouped into 6 categories viz. (i) agriculture, (ii) consumer goods industries, (iii) capital goods and basic industries, (iv) New strategic industries (v) human development through education, medical care and (vi) economic overhead.

11. In interpreting the first group of data relating to agriculture, it will be proper to omit the unprecedented drought year of 1965-66 and apply the achievement to the peak year agricultural production of 1961-62. In irrigation, it may be observed that in 15 years of planning, our achievement has exceeded more than the development in the preceding 100 years. The second category of the traditional consumer goods industries, started in the latter part of the 19th century, could have progressed at this rate, even without planning, perhaps at even a higher rate. But the third and fourth category of industries would not have registered this rate of progress under *laissez faire*. This is an indubitable fact resulting in the broadening and the deepening of the industrial structure of this country. It is the progress made in these vital sectors that bids fair to make the Indian economy fulfil the preconditions for take-off.

Social Services

12. The capital outlay on social

services including education, medical care, public health, housing and sanitation amount to Rs.3,400crores is a phenomenal achievement, entirely attributable to planning. Growth economists of today like Schultze, Harbison and others harp on the urgency of outlay on education, characterised as the most potent factor capable of bringing about the much needed cultural and psychological revolution. This investment more than any other, will have a major contribution to the break-through. The public health revolution has had a remarkable impact in raising the rate of growth of population to 2.4 per cent per annum. Although it is simultaneously contributing to reduce *per capita* income, the economy, be it realized, has outgrown the age of epidemics and gruesome infant mortality. The family planning programme, a corrective, is already launched. This shows the planners' awareness of the problem of teeming millions and also demonstrates the flexibility of the planning mechanism.

13. Lastly, the enormous strides made in the construction of the infra-structure, particularly the black topped highways, bridges, ports etc., and the village roads, market centers and communications are mostly the outcome of planning.

14. If we look back over this 15-years period without the huge outlay of nearly Rs. 20,000 crores for development, the economy would have still continued in semi-slumber. The period of teething troubles seems to be nearing the end. No doubt the foreign loans have run up to a big figure of Rs. 3,700 crores. But all this money has not been spent on a consumption spree, nor put in a stocking, nor thrown into the sea. All the project-tied loans have given rise to factories and mines and they constitute productive assets, capable of yielding enough dividends to

pay off the interest and repay the loans as well as to build up an amortization fund. Institutions like I. B. R. D. have teams of experts, who investigate into the projects and flash the green signal for the sanction of loans only when these satisfy sound economic criteria. Today the public debt is about 50 per cent of our national income. It is 115 per cent in U. K., 84 per cent in U. S. A. Like individuals, nations could also borrow for investment in self-liquidating assets.

15. In this paper, no reference has been made to the concepts of optimum social welfare, conflict between the public and the private sector, public sector monopolies, price policy, inflation, laggard sectors, depressed pockets and backward regions, inequality of incomes etc. These are built-in problems of economic growth and they should and will be solved *ad hoc* in the usual efflux of time. To exaggerate their seriousness is another type of allergy.

16. The answer then to the question which led to this discussion is that to do away with planning is to jettison rational and orderly way of life and growth and to court with open eyes a shoal of troubles.

Read Throughout the World

ECONOMIC AFFAIRS

A Monthly Journal of Theoretical
and
Applied Economics

Edited by

HIMANSU ROY

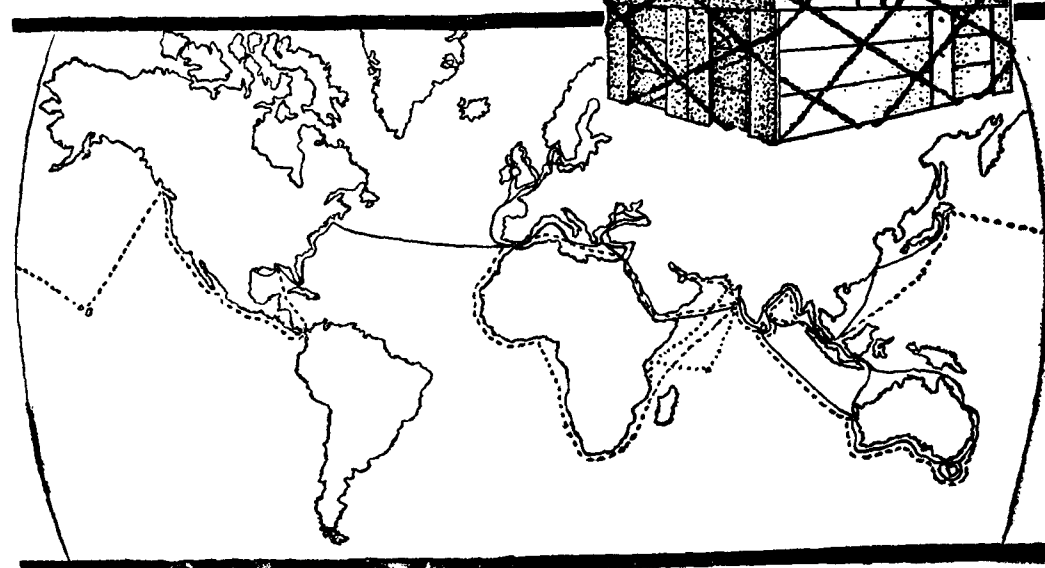
10, GALIFF STREET, BLOCK 5

SUITE 64

CALCUTTA-3



WORLD-WIDE CARGO SERVICES



Fast Cargo Services

INDIA - U.S.A.
INDIA - U.K./CONTINENT/POLAND
INDIA - BLACK SEA PORTS
INDIA - U.A.R.
INDIA - FAR EAST/JAPAN
INDIA - AUSTRALIA

Passenger-cum-Cargo Services

INDIA - EAST AFRICA
INDIA - MALAYSIA/SINGAPORE
INDIA - CEYLON
CALCUTTA / ANDAMANS
MADRAS / NICOBAR ISLANDS

Tankers

IN COASTAL AND
OVERSEAS TRADES

Colliers

ON INDIAN COAST

The Shipping Corporation Of India Ltd.

(A GOVERNMENT OF INDIA UNDERTAKING)
STEELCRETE HOUSE, DINSHAW WACHA RD., BOMBAY-1 TELE 246271 (5 LINES)
BRANCHES AT CALCUTTA & MOMBASA * AGENTS AT ALL PRINCIPAL PORTS OF THE WORLD.
Grams: "SHIPINDIA"

JAY

Pros and Cons of Devaluation

By Prof. M. DASGUPTA

FOR a long time, India has been facing a balance of payments crisis. In order to solve the problem of chronic deficits in the balance of payments, many economists — here and abroad — have suggested devaluation of the rupee. There is a strong presumption that the Indian rupee is overvalued. Countries are normally faced to adjust the size of their deficits to the available reserves rather than *vice versa*. The problem, in the long run, is how in different ways trade deficits can be held down to a certain permissible level — because there is a limit to the availability of internal reserves. The refusal to use exchange rate adjustment to cure deficits leaves deflationary monetary and fiscal policies or direct controls on imports as the only remaining alternatives. But as most of the under-developed countries do not favour deflation and devaluation, the policy variable has been one and only one namely, import control. In India, import control and export subsidy have been used extensively to solve the problem of balance of payment deficits. But all efforts have proved futile. Therefore, it is suggested by many economists that as India's currency is overvalued, there is no way out but to devalue. In the context of overvalued currency, it is said devaluation could only be postponed but never be avoided.

Many experts of the Government have failed to face the question of overvaluation of the rupee squarely. Some, however, argue that rupee is not overvalued. But excepting a few, it is generally accepted that due to

inflation in India and constant deficits in the balance of payments, the rupee has become grossly overvalued. If there is any contrary opinion then onus is on them to show that under the existing condition of India, rupee is not overvalued. In other words, unless otherwise proved, it is "commonsense" to take rupee as an overvalued currency. However, certain instances are given below to show that the presumption of overvaluation is very strong.

1. The Government of India has behaved on many occasions to give the impression that Indian rupee is overvalued. For example, The National Defence Remittance Scheme, by which holders of foreign currency abroad are induced to send money to this country are given the opportunity to convert their currency not at the official rate of exchange but at another rate of exchange. This indicates an awareness that the rupee cannot look the pound or dollar squarely in the face.

2. The foreign bankers as well as the domestic bankers behave in such a fashion which gives the impression that the official rate of exchange is artificial. The rupee's free price abroad varies between Rs. 8 to Rs. 10 per dollar whereas the official rate is \$1 = Rs. 4.76. In the case of sterling, the official rate is £1 = Rs. 13.33 but the 'real' rate varies between Rs. 24 to Rs. 27 per pound. Quite a number of bankers deal with the rupee as if it is overvalued.

3. The large amount of gold smuggling into our country indicates that our rate of exchange is overvalued. Long time ago Prof. Shenoy suggested that gold smuggling could not be stopped if

our real domestic price of gold is out of alignment with the official rate. One of the signs of overvaluation is at what price gold is sold and bought, because after all currencies, in the ultimate analysis, are linked with gold. As the domestic price of gold is higher than the official price then surely rupee is overvalued.

4. The Reserve Bank has pointed out many a time that a thriving "black market" in India's foreign exchange has grown up in most of the capitals of Europe. This is likely to happen if the Indian rupee is overvalued. One example will make clear why a black market is thriving in the foreign countries. Suppose an Indian worker working in England wants to send money to his relatives in India. If he sends his money directly through the official channels his relatives will get Rs. 13.33 per pound. But if he sends through a "broker" by selling his pounds to him his relatives will get (say) Rs. 20 per Pound sent and the broker will get Rs. 7 for each Pound, assuming that in the free market, one pound is equal to Rs. 27. This sort of black market is going on for a long time in Europe and other capitals and our Government has never been able to do anything in this regard. If the official rate of exchange is not changed, the Government is bound to lose a substantial amount of foreign exchange.

5. Existence of an array of import controls and export subsidies is itself an indicator of the overvaluation of the rupee. Historically speaking, the countries whose currency had become overvalued because of inflation

at home and balance of payment crisis abroad, resorted to import controls and exchange subsidies. India might be a typical case of a country which has resorted to import controls and export subsidies, because Indian currency is overvalued. Moreover, from the Indian experience, it can be suggested that any relaxation of import control may result in a flooding of the market with "non-developmental" commodities. In other words, import surplus and export stagnation are more than sufficient indicators of the overvaluation of rupee.

The crux of the problem is not whether rupee is overvalued or not, but whether devaluation will be effective to serve the interests of planning or whether overvaluation of the rupee will best serve the interests of the people. In other words, continuation of the overvaluation with import controls and export subsidies seems to be considered as a better alternative to devaluation.

Against Devaluation

The following arguments are normally given against devaluation.

1. India's export trade is not sufficiently price elastic. In the face of inelastic demand there will be exchange loss if the price of exports in foreign countries are lowered. Moreover, it is argued that most of India's exports are sold at a parity price and these exports are competitive. Therefore, devaluation will make the matter worse and country will lose foreign exchanges.

2. Devaluation will lead to price-inflation at home. This is because after devaluation price of imports will be higher than before. But in the planning context, imports could not be cut any further for all our imports are "pre-planned". So, it is argued, other things remaining same, devaluation will lead to higher price of imports and there

by further accentuate the pressure on domestic price.

3. It is argued that the terms of trade will go against India after devaluation. India's terms of trade is already unfavourable and devaluation will lead to further worsening of the situation. Therefore devaluation is a risk hardly worth taking unless our exports could be expanded substantially.

4. It is further argued devaluation will lead to increase of the burden of foreign debt. This

is because debt burden in terms of the rupee will increase after devaluation. A parallel argument is that devaluation will adversely affect the inflow of private foreign capital in India.

5. It is argued that devaluation of the rupee will invoke parallel retaliatory measures from the competitors of India. Hence the supposed gain from devaluation will be small.

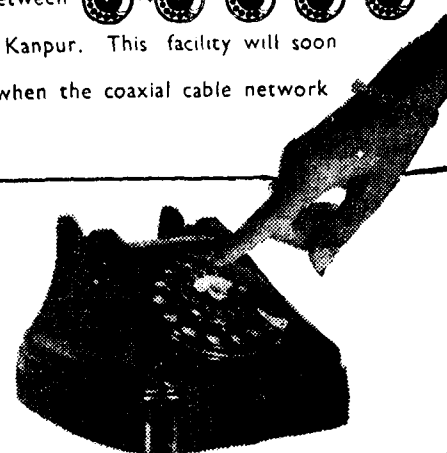
Let us take the arguments against devaluation and see whether these are sufficiently

When you dial a call the Automatic telephone exchange comes to your help. The Automatic telephone exchange is a mechanical brain that replaces the manual telephone operator. It has three main functions. (1) to find out whether the number you dial is engaged. (2) to connect you to the number if the line is free and (3) to inform the dialled party that a telephone call is waiting for him.

The Automatic telephone exchange does these three jobs very efficiently, in fact a thousand times better than a manual operator. The 100,000 telephones in Calcutta and the 85,000 telephones in Bombay are completely operated by Automatic telephone exchanges.

The automatic dialling system manufactured by ITI is now being used on trunk lines as well. Single and multi link operator dialling systems have been installed in most major exchanges. Direct subscriber trunk dialling systems are also functioning between Jaipur, Delhi, Agra, Lucknow and Kanpur. This facility will soon be available on most trunk lines when the coaxial cable network is completed.

**What happens
when you
dial a call?**



**INDIAN TELEPHONE INDUSTRIES LIMITED,
BANGALORE - 16**

strong to stand analysis.

1. The first argument against devaluation is that exports could not be expanded sufficiently in the foreign market because of low elasticity of demand. But it is necessary to say that elasticity concept is useful when the change in price of exports is marginal or devaluation is one per cent. But if India at all devalues, then the change will not be so marginal. It might be (say) 20 per cent or more. In other words, the change will be "structural" and by no means "marginal". Elasticity analysis is a marginal analysis and one cannot say anything, one way or the other, about the structural change of the economy after a large scale devaluation. Therefore, niceties of marginal analysis is not relevant in the context of the structural change after devaluation.

Moreover, in the ordinary elasticity analysis, Marshall-Lerner condition is that the trade is initially balanced. If the trade is not initially balanced, as in the case of India, we cannot just come to any conclusions, without taking other variables. It is no doubt true that all elasticity calculations in the context of India have shown an uniform pattern—namely these are low. But it is necessary to emphasise that elasticity calculations are difficult to build up and easy to criticise. Many economists have thrown considerable doubts on the suitability of existing technique of the measurement of elasticity. It will suffice to say here, without going into elaborate discussion about the techniques of measurement, that attempts at correct estimation of the relevant elasticities appear as wasted effort.

However, Jagdish Bhagwati believes that elasticities are not so low as is often said. According to him, traditional exports can be boosted by the price reduction. We do know that in tea, for instance, the emergence of East

Africa as a rival producer since the war has been facilitated by their price advantage. Similarly in cotton textiles, relative unprofitability of export market has cost us our average share in the growing market. The story is the same in other items like coffee, tobacco etc. Everywhere we have the evidence of others breaking into export market, while we have usually accepted a little too fatalistically the difficulties of increasing sales.

In case of Engineering goods, there will be a clear advantage if the export price is lowered. Most of the Indian industries have excess capacity. These industries could not be expanded because of lack of purchasing power at home and high cost of production due to non-utilisation of the economies of scale to the fullest extent. These industries are facing great difficulties in exporting their commodities because of keen competition from abroad. It is unnecessary to say that if India wants to solve the problem of deficits in the balance of payments permanently then "dynamic commodities" must be expanded in the foreign markets. This could be done if—and only if—there is a clear price-advantage which will more than compensate for its poorer quality.

To sum up: a) Elasticity approach is applicable when the change is marginal and when the change is structural, elasticity approach is not helpful. b) One can naturally be sceptical about elasticity measurement. c) India's elasticities may not be so low after all. d) Engineering goods will be expanded after devaluation. e) If there is a presumption of low elasticity then there is also no case of export subsidies which the Government of India has relied upon so far.

2. The second argument against devaluation is that it is likely to increase price spiral in India through higher import

price. But it is necessary to stress that inflation in underdeveloped countries like India does not depend so much on the price of imported commodities or rate of exchange but mainly on the supply and demand of foodstuffs. It is generally accepted that availability of food stocks is the crucial factor in the generation of inflation. It might well be the case, that in the year of a bumper crop, devaluation will not affect significantly the general level of the price in the country. On the theoretical level, there is considerable doubt whether devaluation must necessarily raise the price. It would be so if commodities could at all time move across international boundaries unimpeded by restrictions, no matter what exchange rate is in effect at any moment. In practice this prerequisite is almost universally violated—namely trade restrictions do exist in countries with overvalued currency. It is possible that the removal of import controls, likely to be made possible by devaluation, must lower import prices in spite of the optical illusion that a less favourable exchange rate tends to raise them. Therefore, it is better to state there is no unambiguous presumption that devaluation will raise the price, if exchange controls and other import restrictions had been in force before devaluation.

3. The third argument against devaluation is that terms of trade will move against India. But it is necessary to state here that there is no automatic relationship between devaluation and worsening of the terms of trade. The controversy over whether depreciation may as a rule be expected to worsen or to improve the terms of trade of the devaluing countries has filled many volumes. The issue is by no means simple. We have to get various types of information before we arrive at a definite

conclusion. We have to know whether exchange market is stable or unstable; we have to know elasticities of the home country as well as elasticities of the foreign countries. Mrs. Robinson has warned us against the identification of exchange rate changes with changes in the terms of trade. Exchange rate adjustment primarily affect the relationship between price level of different countries, whereas terms of trade express relative prices of different goods within a country.

It is by no means clear that a change in the rate of exchange in a given direction should also lead to a change in relative prices of individual commodities in a certain direction. Mrs. Robinson has pointed out that depreciation of a country's terms of trade whenever the product of the two countries' elasticity of supply of exports exceeds the product of elasticities of their demands for imports. If we just concentrate on Mrs. Robinson's condition, it will be obvious that before we can come to any conclusion regarding the effect of devaluation on the terms of trade, we have to know, supply elasticities of India and other countries of the world as well as demand elasticities of India and other countries of the world. It is necessarily a tall order.

4. Another argument against devaluation is that devaluation will increase the burden of foreign debt. Jagdish Bhagwati has denied this possibility. According to him, the best way to look at the problem would be to argue that repayment of aid plus interest payments are known given draft on the country's exchange reserves. Given this, a devaluation would increase the exchange available to utilise the idle capacity and for other purposes and increase in income resulting from this plus any allocative efficiency that results from higher available

exchanges, would more than offset the loss of real income resulting from the fact that previous exports are being sold cheaper. Framed in this way, the burden of debt is already included in the problem and its solution. This analysis however, takes for granted that exports are going to increase after devaluation.

Another argument which is made in this context is that devaluation will affect adversely the flow of private foreign capital to India. But this argument is

not as strong as advocates against devaluation believe. It is a well known fact that international flow of private capital has been pitifully small in India. Of course, many factors are responsible for this state of affairs. The most important factor usually cited is the security of foreign investment occasioned by the risk of default or expropriation. The establishment of a favourable political and legal climate for foreign investment remains an indispensable condition for a large

capital inflow irrespective of any exchange rate. However, it is equally true that an overvalued currency inhibits the inflow of private developmental capital even if no obstacles stand in its way. If a currency is held at a rate grossly out of line with its true equilibrium value and if the authority does not change the artificial rate, there will be always speculation of devaluation. The acquisition of claims denominated in the currency of such a country does not merely involve exchange risk but an exchange loss known with certainty in advance. The fear could be avoided if the Government guarantees the reconversion of any capital inflow into the foreigner's currency at the exchange rate at which it came in. This guarantee is most likely to be given if and only if there is a chance of export promotion. This can best be done if the overvalued currency is devalued and exports are given chance for expansion. Superficially, direct investment denominated in the lender's currency seem to be unaffected by exchange risk. But it is also true that if the borrower's currency becomes overvalued, there is a legitimate fear that controls on the repatriation of funds may be imposed. Enough evidence is available to show that this factor decisively influences the magnitude of direct investment.

5. Another argument against devaluation is that if India devalues, then other countries will retaliate and devalue. But this argument does not go very far. This is because in order to increase exports, India has adopted exchange subsidies on quite a number of commodities. Exchange subsidies might also be retaliated. In fact, India has to take this risk and devalue, because there is no point in allowing the artificial rate of exchange to continue indefinitely.

The Government has taken the attitude that "selective devaluation" is a much better weapon than general devaluation to combat the recent balance of payment crisis. Selective devaluation is another name for export subsidies. But export subsidy is a tax burden on the community. There is no reason why one section of people should be subsidised at the cost of all the tax payers. Export subsidy presupposes existence of an efficient administration. It is quite an open question whether our administration can be called efficient and incorruptible. If we take stock of our present administration and rely upon our past experiences then there is a case of general devaluation.

If India's rate of exchange is really overvalued, then there is a clear case of devaluation. In the face of overvaluation of the Rupee, devaluation can only be postponed but could never be avoided. Unless otherwise proved, there are signs which will suggest that Indian rupee is grossly overvalued. Moreover, officials of Government and bankers have started to behave in such a fashion which gives the very strong presumption that rupee is overvalued.

Those who argue against devaluation may point out that our exports are inelastic. If this is so, there is no case for export subsidy on which our Government has relied so heavily; in which case the future of India's exports is for ever doomed. But this might not be the case. Devaluation may or may not affect the domestic price level but it is enough to suggest the relationship is by no means automatic, in the presence of an array of import controls. Devaluation may or may not worsen the terms of trade and nothing can be said *a priori*, for we have yet to know the nature of a host of variables which is difficult to know before

devaluation is actually made. Foreign capital inflow does not primarily depend on rate of exchange and therefore, there is no clear indication that it might not flow in after devaluation. But it might well be the case that devaluation will bring certain distinct advantages namely, greater utilisation of domestic resources and expansion of new products in the international trade and a check on the gold smuggling into India.

JUBILEE YEAR FOR CANARA BANK

The operating results of the Canara Bank Ltd., for the year 1965 reveal a surplus of Rs. 35,94,686.92, after making the usual and necessary provisions including the provision for taxation, which the Directors have resolved to dispose of as under: (i) To statutory reserve fund Rs. 7,25,000; (ii) To special reserve Rs. 28,69,686.92. The Directors recommended that payment of dividend on 5 per cent cumulative preference shares amounting to Rs. 58,380 and dividend at 15 per cent on equity shares amounting to Rs. 12,90,000 (both subject to tax) be made out of the sum allocated to special reserve. (The equity shares issued during the year do not rank for dividend.) The balance thereafter in the special reserve will be subject to payment of bonus to staff.

During the year, new branches were opened at Vellore and Delhi. In commemoration of the Founder of the Bank late Mr. Ammembal Subbarao Pai, the City-Mangalore branch, where the Bank first commenced its business, when shifted to new premises, (which was at one time the founder's residence) was renamed "Founder's Branch". The Bank will be completing this mid-year, 60 eventful years of service to the country.

STATE BANK OF BIKANER AND JAIPUR

(Subsidiary of the State Bank of India)

Head Office: JAIPUR

Having 117 branches within Rajasthan and 26 offices at commercially important centres in the rest of the country

Offers comprehensive banking services through collection of bills and issue of demand drafts telegraphic transfers etc. on all places in India where there is either a branch of the State Bank of India or of any its Subsidiaries (There are over 1900 such centres).

The Bank is fully equipped to transact foreign exchange business through a network of foreign correspondents in all important countries of the world.

Financial assistance is given to small scale industries under the Bank's Liberalised Scheme.

Safe deposit lockers are available at moderate rates at several branches. General banking business of all types transacted.

Our Foreign Exchange Crisis

By JAGADISH CHANDRA DEBNATH

OUR recent crisis in the field of foreign exchange began with the introduction of the Second Five-Year Plan because of accelerated investment activities. The total deficit in the balance of payments during the Plan period was estimated by Planning Commission to be of the order of Rs. 1,015 crores whereas the actual deficit during the Plan period was more than Rs. 2,000 crores. As a result, at the time of the finalisation of the Third Five-Year Plan our foreign exchange reserves stood at only Rs. 136 crores. Though at the beginning of the Third Five-Year Plan, there were signs of recovery, towards the end of the Plan the situation worsened again.

Foreign Trade

The two factors of increased imports and diminishing exports have served to precipitate our recent foreign exchange crisis. As against the total imports of Rs. 890.76 crores for the eight months from April to November, 1964 the total imports of India for the same period in 1965 was worth Rs. 931.29 crores. On the other hand, there was no sizeable increase, and in most cases, there was decrease in our exports. The *Economic Survey*, has revealed certain disturbing trends in our export trade which are worth mentioning: "During the last 15 years, India's share of world exports of tea, jute manufactures and cotton textiles has been declining. In manganese ore, the fall in exports has been steady and substantial. In tea, it is the growing competition from Africa; in jute goods, it is the shift to synthetic substitutes and the rise in indigenous consumption. In cotton textiles, although the

share of traditional exporters like the U. K. and the U. S. A. has been falling, India has not availed herself of this opportunity to step up her exports as Japan and Hong Kong have done. In oilseeds and vegetable oils, a rising domestic demand has hindered our exports.

It is surprising to note that agricultural commodities which are the mainstay of our exports, are in short supply even in the domestic market. After so many years of planning, we are not yet self-sufficient in food. The recent food riots in West Bengal and elsewhere have not only disorganised our socio-economic structure but it has also compelled us to import a huge quantity of foodgrains from abroad. One wonders how we could neglect agriculture during the last three Five Year plans in an economy which is primarily dominated by the agricultural sector.

According to the latest official estimates of production and development for 1965-66, the last year of the Third Plan, several Third Plan targets still remain unfulfilled. The "largest" shortfall is in the agricultural sector, though here the picture is stated to have been seriously distorted by the unusually adverse weather conditions. Most of the production estimates for 1965-66 are even lower than the actual level of output reached in the previous year.

Food output in 1965-66 is expected to be only 74 million tonnes against the Plan target of 100 million tonnes and oilseeds production seven million tonnes against 9.8 million tonnes. The production of jute is estimated at 3.36 million bales against the target of 6.2 million bales and that of cotton at 5.27

million bales against the target of 7.1 million bales.

However, it can be shown that while the inclement weather in 1965-66 played a major part in widening the gaps between the plan targets and the actual production of most of the agricultural commodities, the failure to provide adequate inputs like fertilizers, improved seeds, pesticides and irrigation has been an equally important factor in the debacle on the agricultural front.

The trend in industrial production also has been disappointing. In 1965-66, the increase is estimated to be only 6 per cent as compared to 11 per cent which was the target of the Third Plan. As an excuse for that, our Finance Minister says: "The shortage of domestic raw materials and our inability to compensate this by larger imports have seriously contributed to the sluggishness of industrial production. Table one would highlight the situation in a few export industries.

The table 1 shows that our draw-back in agriculture has not been compensated by an adequate increase in the export of manufactured articles. Though in some cases there has been an increase in export, on the whole we have a deficit balance. It is high time therefore, we probed into the matter.

Governmental Measures

Many positive measures have so far been adopted to augment our export trade. The setting up of the Export Promotion Council for a large number of exportable commodities, the constitution of the Export Risk Insurance Corporation to provide protection to exporters against risks arising in export trade, the setting up of

TABLE 1
Trend of Export of Some New Manufactured Goods
(Value in Rs lakhs)

Commodity	Unit	April—October 1964		April—October 1965	
		Quantity	Value	Quantity	Value
a) Ferro-Manganese and Ferro-Alloys	'000 tonnes	61.4	453	33.3	208
b) Iron and Steel Scrap	" "	199.7	239	255.9	330
c) Engineering Goods	Value	—	771	—	952
d) Chemicals and allied products	Value	—	368	—	459
e) Foot wear	Lakh pairs	34	235	26	127
f) Mineral Fuels, Lubricants and related materials	Value	—	649	—	486

(Source: Commerce, 26th March 1966)

the Board of Trade to co-ordinate export promotion policies, the decision to bring export bills within the jurisdiction of the bill market scheme of the Reserve Bank of India, the provision of larger and cheaper bank credit through the Refinance Corporation and through the recent amendments of the Reserve Bank of India Act, the sponsoring of industrial-cum-goodwill missions to some of the important buying countries, reduction of export duties, the simplification of the procedure for the refund of export duties in respect of certain goods and the introduction of an element of compulsion if the private industrialists fail to boost up exports — these are some of the important steps taken by the Government to tackle the crisis of foreign exchange.

To meet the challenge on our foreign exchange front the Union Finance Minister, in his budget speech this year, has laid considerable stress on export promotion. But unfortunately, the

budget does not seem to provide adequate impetus to exports. The Central budget provides Rs. 19.70 crores for the export tax credit scheme in 1966-67, as compared with Rs. 5 crores in 1965-66. The commodities eligible for export tax credit certificates include tea, jute, iron ore, coal and ferro-manganese. The budget also provides Rs. 7.12 crores for the Market Development Fund in 1966-67 against Rs. 405 crores in 1965-66. The larger provision for these purposes is welcome, but this by itself will not bring much benefit so long as production continues to stagnate and the economy as a whole does not develop in a dynamic manner.

A Few suggestions

In this connection, we may put forth a few suggestions for consideration of our export authorities. To start with, our efforts should be concentrated towards geographical and quantitative diversification of our exports. The two countries — the U. K. and the U. S. A. — account for

nearly 50 per cent of our exports, which means that any change in economic condition of these countries or a change in trade relation therewith will lead to a drastic repercussion on our exports. Our attempts, should, therefore, be to develop new trade agreements with the emerging economies of Africa and Asia. Moreover, we should no more depend on our traditional items of exports only such as tea, jute, textiles etc. but try to diversify our exports. The precarious position of our balance of payment just after the partition was the result of such a dependence.

At the same time, the exporters must maintain and improve the quality of our goods and the Government should come forward with subsidy and help for the production of quality goods at minimum costs. Day by day, we are facing keener competition in the world market both with respect to price and quality. The State Trading Corporation and the Indian exporters should co-operate with a view to maintaining the standard in the international market.

In this context we must remember that there is a good demand in foreign markets for our handicrafts and products of cottage industry. In recent years, light engineering articles such as sewing machines, electric fans, bicycles etc. are being exported by a few Indian firms to the African and South-East Asian countries. Therefore, it is urged that our Government should pay special attention for the development and rearing of those industries in this critical hour of foreign exchange crisis.

The Ramaswamy Mudaliar Committee on Import and Export Policy, whose recommendations were submitted during the first quarter of 1962, has stressed the need for providing the necessary fillip to our exports and counteracting the strong attraction of the internal market. The Com-

mittee also recommends specific imports to remove the bottlenecks on exports. In this connection, the committee suggests the creation of an "Import-Export Stabilization Fund" and an "Import-Export Stabilization Board" for the import of raw materials which are necessary for the export industries. Though many of the recommendations of the Mudaliar Committee have been adopted, there are many yet to be. For example, the latest information about the fulfilment of the targets of the Third Plan reveals that one of the main reasons for deficit in the balance of payment for a number of industries was the non-availability of raw materials that cannot but be imported.

We have also a lot to learn from Sir Donald Mac-Dougall, who was invited by the Planning Commission of India to study our export problems. Sir Mac-Dougall, stressed the need for the setting up of an effective

machinery to cut through conflicting departmental rivalries and delays, the attainment of maximum efficiency by the extensive use of large scale plants, restraints on the consumption of exportable goods, selling of exports at prices below the cost of production if it becomes necessary and considerable expenditure of foreign exchange on trade promotion abroad. He also proposes that the stimulus to exports should be as much as will result from a devaluation of about 25 per cent.

In order that India might achieve substantial independence of foreign aid by the Fifth Plan and yet maintain rapid growth, Sir Mac-Dougall says that our exports will have to be increased by more than double from the present level of Rs. 650 crores to close upon Rs. 1,500 crores per annum. Of course, Sir Mac-Dougall admits that the task is a tremendous one, but it is not impossible for us, for with po-

tentially cheap steel and low wages, India is capable of competing in the world market over a wide range of manufactured articles.

Recently, the World Bank's report on the Third Plan has recommended devaluation of the rupee or a 40 per cent surcharge on imports to meet the present situation (this has been done—Ed.). However, the effect of devaluation is transitory. Apart from the question of terms of trade and the possibility of retaliation it may also lead to unwanted speculation at home and abroad and the resulting aggravation of our foreign exchange crisis. There is no short-cut to a real problem and we must correct any imbalance in our foreign trade through a self-sustaining process. I cannot thus fully share Dr. M. Dasgupta's views on devaluation. I would plead for more judicious thinking before plunging headlong into this enticing device.

Need For Regional Planning In Mysore

By M. B. NANJAPPA

"Man may artificially erect regionalisms, but their test of endurance is environmental."

—Roderick Peattie.

THE idea of regional planning and development has been receiving a large measure of emphasis in current literature on planning and the region is rapidly becoming a matter of general interest in social investigation, planning and administration. In any country, the distribution of economic resources is not uniform over the entire territory and some areas are relatively richer than others. As a result, different regions differ in their stages of economic development. In such a context it will be more rational to have a regional approach to planning since such an approach will have a greater degree of realism in the planning as well as the execution of planned development.

Mysore State, like the rest of India, has now completed the implementation of three five-year plans of economic development, and on April 1, 1966, has commenced the operation of the Fourth plan. During this past decade and a half of planning, there has been considerable expansion of the State's economy. New ground has been broken in many directions—agricultural output, industrial expansion, power generation, and provision of facilities for transport, education, health and social welfare.

Slow Growth

But economic development is never an even process. When compared to some other States, the rate of economic growth in Mysore is slow. Again, the general and overall picture of economic development of the State conceals wide regional imbalances within the State. For instance, the per capita income

in 1960-61 varied from Rs. 223 in Bidar district to Rs. 558 in Coorg district. The districts lying in the Western and South-western zones are agriculturally better developed, while the districts of Bijapur, Raichur, Gulbarga and Bidar are backward. The four districts, namely Bangalore, Dharwar, South Kanara and Belgaum account for 63 per cent of the factories and 62 per cent of total factory employment. Power distribution is at present more concentrated in Bangalore-Kolar area, Bhadravathi-Davanagere area and the Dandeli area. Although the districts of Gulbarga, Bidar, Raichur and Bellary constitute nearly a fourth of the area of the State, they together account for only 9 per cent of the State's road mileage. As regards employment pattern, Bangalore district has the highest proportion of the working force engaged in secondary and tertiary occupations, while Hassan and Mandya districts represent the other extreme. It is, therefore, evident that there are wide disparities in development from one region to another.

Apart from these regional disparities in development, there are also local disparities in the same district or region. For example, conditions in urban areas are quite different from rural conditions. Even among the villages, those which are situated near cities and towns or on railway lines and highways have better facilities for progress than villages in the interior.

Resource Endowment

These disparities may be due to various factors such as resources endowment—both

natural and human—population growth, lack of local initiative, insufficient investment and due to long period working of historical forces. It is the existence of these imbalances in the levels of development and prosperity in different regions that is the cause of some of the current political, social and economic problems and local tensions. Any planning strategy must recognise these facts and if economic development is to be truly national, it is very important that these regional imbalances should be corrected. The presence of regional imbalances, therefore, calls for a regional approach to planning and entails a regional treatment. Such a micro approach to planning is necessary to reduce the disparities in development, and policies suited for each region should be adopted for accelerating the rate of growth in different regions.

Even the advanced countries have realized the need for regional planning, and have pursued regional policies wherever significant regional differences in income and employment levels exist. For instance, in the U.S.A., the Area Development Programme has given impetus to regional development. In U.S.S.R., regional planning is in an advanced stage. In Great Britain, the country has been made the planning unit. In Italy, special measures were initiated to develop the backward southern Italy. Similarly in France, where large parts of southern and western France are economically backward, special steps were taken to bring new life to these backward regions by modernizing

WITHIN EARSHOT

You can whisper sweet nothings into dainty ears—inaudibly! But you have to do better if you want a scattered group of people to listen to you. They must hear—and clearly, too! They will—if you have a Belhaler handy.

BELHALER

TRANSISTORISED MEGAPHONE

The Belhaler is operated from self-contained dry cells and has a built-in microphone in addition to an external microphone.

The Belhaler is ideal for use outdoors—at sports fields, meetings, rallies, airports and shipyards.

The Belhaler is easy to operate and can be carried or fitted onto vehicles.

BHARAT ELECTRONICS LTD.

REGD. OFFICE: JALAHALLI, BANGALORE-12.

and diversifying the economic structure.

What is "Region"?

But what is a region? It is possible to consider regions at different levels of size or geographical area for different purposes and there are various distinct kinds of regions. There is "town and country planning" approach as advocated by Sir Raymond Unwin. In U.S.S.R. regions are taken as hierarchical units of the national plan. The T. V. A. approach takes a geographical area—the river basin—as the region for planning. A problem area also may serve as a planning region for a special purpose. In India, the Planning Commission has called for a more even distribution of industrial activity and for an extension of development to more backward regions. In our river-valley projects, some

methods of the T.V.A. approach are adopted. Recently, some town planning authorities have been established for the planned development of towns and cities. Some districts have also been selected on a pilot basis for shaping plan techniques for formulation of integrated District plans based on actual surveys. Thus the examination of all the factors is in an exploratory stage, and no definite model is adopted as yet.

Regional planning aims at exploitation and utilization of available resources in a given geographical region, and extension of the benefits of economic progress to the backward or less developed regions. Therefore, from the point of view of regional planning, two categories of regionalization can be envisaged: 1) regionalization from the point of view of resource

development, and 2) regionalization from the point of view of development of backward areas. In addition, the regions which have special problems have also to be delimited.

Geographers work primarily with physiographic patterns of regionalism and this basic pattern is fundamental to sound regional study or planning. The most elemental fact underlying the concept of the region is the natural landscape with its fairly uniform and distinctive topography, climate and natural resources. This is characterized by Carl O. Sauer as "cultural landscape." Dr. Radhakamal Mukherji's human ecological approach expands the theory that there is a balance and a mutual pressure of human along with other living and non-living communities in the region and it stresses the environmental adjustment which evolves the

labour, occupation and economic type that can best utilize the resources and possibilities of the region. This approach should arouse more interest in future and the social-psychological aspects of regionalism are yet to be fully explored by the sociologists and anthropologists.

The Indian Statistical Institutes pilot project in regional survey for planning purposes in Mysore State has demonstrated a method of regional delimitation on the basis of regional characteristics and administrative viability. Based on physioagronomic characteristics, the State is divided into four major regions, namely, the Coastal, Malnad, North Maidan and Southern Maidan Regions, and these in turn have been divided into sub-regions on the basis of the pattern of land use and main crops. Within the framework of these broad regions, some changes in the existing administrative boundaries are proposed, since the existing boundaries of 4 Divisions and 19 districts are considered arbitrary or out of date. The study has proposed the division of the State into 6 major regions (Divisions) and 22 sub-regions (Planning districts) for overall resource planning.

The proposed regions are much more viable in terms of homogeneity of problems, communications and regional patterns or resource pattern than the existing set-up. It is to be stated that this study has established some new knowledge about regional distributions and patterns of physical and economic resources within the State, and will help to further regional planning techniques. The techno-economic survey of Mysore recently conducted by the National Council of Applied Economic Research and the economic surveys that are being conducted by the Small Industries Service Institute of the Govern-

ment of India also will be of great use in this context.

But it is also necessary that the geographer's method of study should be united closely with the economist's approach to location of economic activity. Such a co-ordination of the two approaches will be of great use for the purpose of regional planning. There is also great need for bringing in such disciplines as sociology and anthropology into studies on regional planning. The inter-relation of all these factors—physiographic, economic and cultural—need to be studied in a systematic manner for a scientific delimitation of a region.

An accurate knowledge of economic disparities is essential to secure a balanced development of all parts in the State. The economically backward areas are to be specifically located and systematic surveys for assessing their needs and potentialities are to be carried out for formulating programmes for their development. In each backward region, the nature of the problem and the impediments to rapid development in particular fields should be carefully studied and appropriate measures devised for accelerated development. "Justice for one region is not Justice for the other."

Regional planning should not mean planning and development of any region in isolation nor does it mean self-sufficiency in each region. It only means that the development of any particular area has to be based on the foundations of the human and material resources available in the area and implies the determination of the contribution that the region can make to national prosperity. Therefore, the development of different regions and of the State's economy have to be treated as parts of a single process. But a regional planning approach takes into consideration the limitations

and advantages of the situation and other conditions obtainable in the area.

Obviously, therefore, regional planning does not mean that all regions will be developed to an equal degree. It only means that wide differences in development should not persist but that these disparities should be narrowed down. We have to take account of the endowments, talents and skill, and capital resources available in the area and we have necessarily to select areas where growth facilities abound, because we cannot afford to slow down the overall maximum growth of the State.

In the case of backward regions, reasonably equal opportunities should be provided to people in these areas for development and additional steps will have to be taken to speed up development. Provisions of certain economic and social overheads—especially power, transport and communications, and facilities for education and training and improvement of skills—will act as a powerful corrective to regional disparities. Even in the case of backward regions, it may be necessary in the beginning to concentrate on "growth points" or on certain centres as poles of development instead of distribution of assistance over too large an area which may become too much dispersed and therefore ineffectual.

The problems involved in the delimitation of a region and the assessment of its natural and human resources and its potentialities for development and such other connected issues are too complex and require continuous study and analysis. But such an attempt has to be made in the formulation of plans for development of different regions in our State if the State should move forward not only fast enough but on an even keel.

Kerala State Industrial Development Corporation Limited

Vellayambalam, Trivandrum-1

accepts
FIXED DEPOSITS
at following rates of interest

	Deposits up to and including Rs. 50,000/-	Deposits above Rs. 50,000/-
12 months and over but less than 24 months.	6½%	5½%
24 months and over but less than 36 months.	6½%	5½%
36 months and over but less than 48 months.	6½%	6%
48 months and over but less than 60 months.	6½%	6½%
60 months and over	7½%	6½%

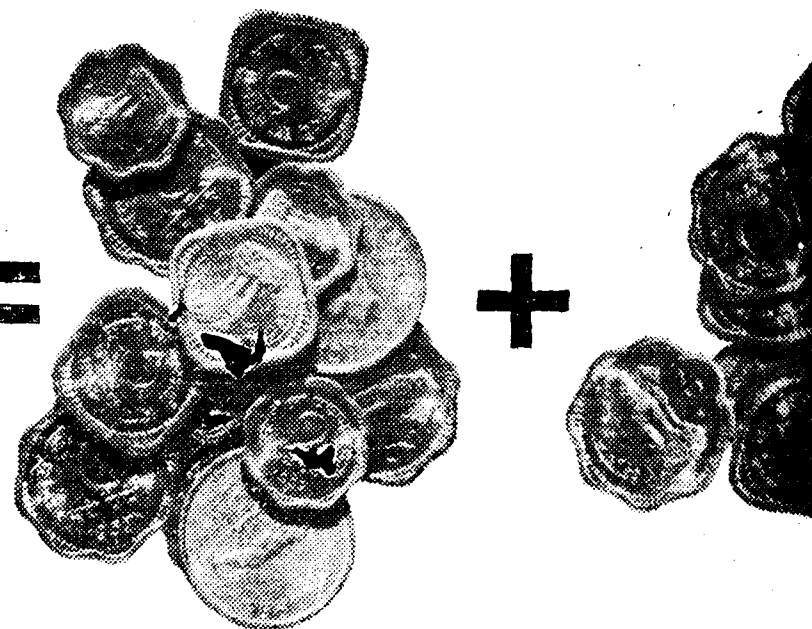
PRINCIPAL AMOUNT AND INTEREST GUARANTEED BY THE GOVT. OF KERALA

For particulars please apply to the Secretary of the Corporation.

K. R. K. MENON
Chairman.

M. ABDUSSALAM, I. A. S.
Managing Director.

UNITS =



**UNITS ARE AS GOOD AS MONEY...
WITH ONE DIFFERENCE...
THEY EARN YOU EVEN MORE MONEY!**

Buy Units! The safest investment you can make today. Units bring you good returns (6.1% last year) and offer you valuable tax concessions. What's more, Units are easily encashed when you are in need of money.

Invest in Units! There are prospects of higher return this year!

Units are available at all branches of leading banks.

Change of Address

Unit Holders are requested to intimate the Head Office of Unit Trust in Bombay before 30th June 1966, of any change in address, to enable it to send income distribution warrants to the correct address.

INVEST IN THE BEST-INVEST IN UNIT TRUST



THE UNIT TRUST OF INDIA

Bombay Life Building, 45, Veer Nariman Road, Bombay 1.

* 8, Council House Street, Calcutta 1 * Reserve Bank Building, South Beach Road, Fort Glacis, Madras 1.

Planning in Mysore State

By A. KALAPPA*

THE plans in Mysore State are based on a realistic appraisal of the existing resources plus the resources that will be made available by the Centre. This paper purports to make a critical evaluation of the economic development of the State with a view to providing some guidelines for the Fourth Plan. The broad pattern of allocation of resources over various sectors under the three Plans in the Mysore State are given in Table I. From this table, it can be noticed that there is a gap between outlay and expenditure in all the three Plans. Further, top priority has been accorded to agriculture, minor and major irrigation, community development and power in all the three Plans. The proportion of outlay for these sectors is 77 per cent in the First Plan, 85 per cent in the Second Plan, and 89 per cent in the Third Plan.

The outlay towards industrial development, mining, transport and communications is 14.73 per cent in the First Plan, 15 per cent in the Second Plan and 11 per cent in the Third Plan. The overall picture indicates that in all these three five-year Plans, greater emphasis has been laid on power, irrigation, social services and agricultural production. The industrial sector has received less importance. There is, therefore, much scope for accelerating the tempo of industrial development in the State as it will increase the employment opportunities, besides raising the prosperity of the State.

Short Falls

Comparing the total outlay and the actual expenditure,

The Editor does not agree with some of the views expressed in this article.

sectorwise, in the first two Plans, it can be noticed from Table I that in respect of sectors like agriculture, minor irrigation, community development and co-operation, major and medium irrigation works, etc., the actual expenditure has fallen short of the target, to some extent. In industrial sector as well as in the sectors of power, transport and communications and social services, the expenditure has actually exceeded the outlay.

Further, during the First Plan the lags between outlay and expenditure appear in almost every sector whereas in the Second Plan, these lags have been particularly overcome in the sectors of power, industry, transport and social services. In the Third Plan period also, the lags have appeared between the target and actual expenditure. The overall outlay was Rs. 250 crores whereas the actual expenditure at the end of the five-year period is expected to be only Rs. 245 crores.

With this background, an assessment of the performance in the various sectors is made. Investment over the last 15 years in the agricultural sector, including the irrigation projects, fertilizers, improved seeds and implements, credit, land improvement and of plant protection schemes is Rs. 254.59 crores as against a total outlay of Rs. 442.5 crores. Agricultural sector has thus received relatively greater attention. In spite of this sizeable investment in agriculture, the performance of the agricultural sector has not been very significant.

Food Production

The overall increase in food output has been from 24.78 lakh tons in 1949-50 to 38.5 lakh tons

in 1960-61. At the end of the Third Plan period, the target to be reached was 48.5 lakh tons. Thus, over the first decade of planning, the rise has been of the order of 13.72 lakh tons or an average of 1.37 lakh tons per year. The population of the State has been increasing at the rate of 2.6 per cent per annum, thus exceeding the rate of growth of food output.

Agricultural "Lag"

Although there was an increase of 13.72 lakh tons of foodgrains over a period of ten years, it was not one of a linear rise. Some years of the period under review have faced a setback in agricultural output. The year 1960-61 suffered a setback as compared with the preceding year. Even in the year 1961-62, there was no recovery. The overall agricultural production declined actually in 1961-62 by 3.2 per cent as compared with the 1960-61 level. The year 1962-63, of course, witnessed an increase of 8.7 per cent in agricultural production. Particularly, foodgrains production was higher by 7.2 per cent. In 1964-65, the food output increased only by about 1.68 lakh tons. The rate of increase in 1964-65 was smaller as compared with the previous year. The year 1965 witnessed a sharp decline in food output. This is reflected in a continuous rise in agricultural price index.

Taking 1952-53 as base year, the index rose continuously from 160.8 in January 1964 to 220 in January 1965. The price index for all agricultural commodities which stood at 191.9 in September 1964, rose to 210.6 in September 1965. The overall picture thus indicates that a sound agricultural base has not been laid

for a take-off in the agricultural sector. In the face of a rapid rise in the rate of population growth, the performance in the sphere of food production is not at all satisfactory. Even in respect of non-food crops, though there has been a shift from the production of food crops to the production of non-food crops the rate of increase has not been impressive. This shortfall in agricultural output has to be viewed in relation to the inadequacy of inputs such as fertilizers, pesticides, better seeds and implements.

Irrigation Potential

An irrigation potential of 8½ million acres was created out of a cultivable area of 35 million acres by the end of the Second Plan period. As against this potential, the actual utilisation was of the order of 2.1 million acres, i.e., only 5.9 per cent of the total. At the end of the Third Plan, it is expected that the cumulative

irrigation potential from major and medium irrigation projects would be of the order of 8.23 lakh acres. The probable utilisation is expected to be about 6.67 lakh acres from major and medium irrigation works. This indicates that although a larger potential has been created, its use has been very small in the first two five-year Plans and in the Third Plan, even the anticipated use of the potential is not commensurate with the total potential created.

The current consumption of fertilizers per year in Mysore State is 17,500 tons of nitrogenous and 3,200 tons of phosphatic fertilizers or a total of 20,700 tons a year. This quantum, as viewed against the average consumption of 1,60,200 tons of fertilizers per year in India, is relatively small. The average consumption of fertilizers in Mysore is hardly one pound per acre. There is, therefore, immense scope for increased consump-

tion of fertilizers. So also in the case of pesticides, seeds and implements.

No doubt, in the industrial sector, the Plan programmes have given a great fillip to industrial production which registered a decisive upward trend in the small-scale industries sector as well as large-scale industries. But considering the potential available in terms of resources and manpower, and particularly electric power, there is scope for tremendous development of industrial sector. For instance, the growth of installed capacity of electric power was 107,000 KW. in 1950-51 and it increased to 210,000 KW. by 1963-64. Subsequently many new power projects, including Sharavathi, have been completed, generating surplus power.

Income-Generation

The income growth in Mysore (at current prices) is from Rs 499.06 crores in 1956-57 to Rs

TABLE I
MYSORE STATE PLANS
Distribution of Outlay and Expenditure (1950-51 to 1965-66)

Particulars	I Plan		II Plan		III Plan	
	(1950 - 51 - 55 - 56)		(1955 - 56 - 60 - 61)		(1960 - 61 - 65 - 66)	
	Outlay (Rs. Crores)	Expenditure (Rs. Crores)	Outlay (Rs. Crores)	Expenditure (Rs. Crores)	Outlay (Rs. Crores)	Expenditure (Rs. Crores)
Agriculture, Minor Irrigation, C. D. NES Co-operation etc.	6.90 (14.52%) ¹	5.80 (15%)	31.00 (21%)	29.94 (21%)	62.00 (25%)	NA ²
Major and Medium Irrigation and Power	29.90 (62.90%)	25.80 (62%)	60.00 (42%)	56.29 (39.5%)	111.00 (44%)	NA
Industries and Mining	2.10 (4.42%)	1.30 (3%)	12.00 (8%)	7.94 (5.5%)	16.00 (6%)	NA
Transport and Communications	4.90 (10.31%)	4.83 (12%)	10.00 (7%)	13.52 (9.5%)	13.00 (5%)	NA
Social Services, and Inventories	3.70 (7.8%)	2.8 (8%)	32.00 (22%)	34.93 (24.5%)	48.00 (20%)	NA
Total	47.50	40.50 (85.3%)	145	142.52 (98.3%)	250.00	245.00 (98%)

Source: (a) Mysore Govt. III Five Year Plan Report, Vol. 1. pp. 33, 41, 62 and 64.

(b) Budget Estimates for the year 1966-67, Govt. of Mysore, Speech delivered by Sri Ramakrishna Hedge, Finance Minister, on 2nd March 1966. p. 9.

(1) Figures in brackets indicate the percentage to total amount.

(2) Break-up figures not available except the estimated total expenditure over the III Plan period.

671.01 crores in 1960-61.¹ Since the data on income for the whole plan period is not available, it is difficult to compare the trends of income-growth in the State. But the existing data helps us to know the relative shares of income from different sectors. As it is the case with India, the agricultural sector in Mysore State is responsible for 59.05 per cent of the total income. Factory establishments and small enterprises contribute 12.29 per cent of the income. Communications, transport, insurance and various other services contribute the remaining portion of the income. Thus the agricultural sector contributes an overwhelmingly large proportion of the income in the State's economy. This picture is better presented by Table 2.

TABLE 2
Sectoral Composition of State Income
(At current prices²)

	1956-57	1960-61
Primary	61.02	60.72
Secondary	12.53	13.31
Tertiary	26.45	25.97
Total	100.00	100.00

Further, the rate of the growth of the total income is not impressive. The total income-growth has been from 16.4 per cent to 19.9 per cent between 1956-66 and 1960-61 in Mysore, whereas the rate of growth in India is from 20.4 per cent to 30.8 per cent. The *per capita* income of India was Rs. 276 in 1956 and increased to Rs. 421 in 1965. In Mysore State the *per capita* income increased from Rs. 243 in 1956 to Rs. 298 in 1966 or in terms of percentage, the rate of growth in Mysore in the same period was

from 9.5 per cent to 12.0 per cent as against the all-India figure of 9.4 and 17.2 per cent respectively. These figures reveal that the rate of the growth of *per capita* income and the total income have fallen behind the all-India average.

Unemployment

Another major objective of Planning is to increase employment opportunities to the maximum possible extent. The backlog of unemployment during the Second Plan period was 2.24 lakhs and the addition to the labour force was 5.17 lakhs. Thus the overall total employment potential to be created during the above period was 7.41 lakhs. But the actual estimate of the employment provided at the end of the Second Plan was 4.10 lakhs, leaving a backlog of 3.31 lakhs. This burden has to be carried over to the Third Plan. The addition to the labour force during the Third Plan was estimated to be 9.39 lakh persons, making the total employment to be created to 12.70 lakhs. But the actual estimated employment was again 4.67 lakhs. The backlog is, therefore, of the order of 7.03 lakhs which is considerable. Unless greater industrial opportunities are created by the development of both large and small scale industries, the coverage of backlog plus the addition to the labour force will pose a formidable problem to the planners.

The preceding analysis throws up the following problems. (1) Overemphasis on agriculture and relatively less emphasis on industry; (2) Lower productivity in spite of considerable emphasis on agriculture; (3) The lag between outlay and expenditure in all the sectors in all the three Plans, and failure to realise the targets; (4) The limited progress in the industrial sector; (5) Greater scope for expansion of education, social services, transport and public health; (6)

Lower *per capita* income as compared to the all-India average; (7) Aggravated unemployment position in the State.

Although the present need is for the development of agriculture, particularly food production, the emphasis on industry should continue. In fact, in all the three Plans, there has been an imbalance between the two sectors and the balance always being tipped towards the agricultural sector. If the income of the State has to increase both should progress together, and with the development of agriculture, the rate of industrial growth should be rapid contributing to a greater proportion of the total income of the State, i.e., the economy of the State should tend towards a structural transformation where the proportion of the income both from the industrial and tertiary sectors, will be greater than the agricultural sector.

As has been analysed in the preceding pages, no doubt, the problem is one of using the irrigation potential to the maximum extent and ensure larger supplies of fertilizers, pesticides, better seeds, and implements. Another serious problem is one of variation between the outlays and the actual expenditure. In most of the sectors, whether it is agriculture, industry, transport or social services, the expenditure has lagged behind the original outlay. This shows lack of proper planning and execution of the projects. Attempt should be made to evolve better planning techniques.

New TVS Venture

T. V. Sundaram Iyengar & Sons Ltd., Madras and Fried-Krupp, West Germany, have to jointly erect a machine-tool factory in Bangalore. Of the total paid up capital of Rs. 2.50 crores, 60 per cent is to be held by Fried-Krupp. The new plant will be completed in two years.

Industrial Location in Andhra Pradesh *

By B. SUDHAKAR RAO

JUST as under-development of many countries is understood to be a serious impediment to the progress of the world as a whole, regional imbalance within a country can be viewed as a factor depressing the level of development of the country as a whole. The argument can be pushed one step further. Imbalance as between the well-marked regions *within a single state* within a country can be an adverse factor retarding the growth of the economy of that state. The relatively backward state of the regions of Telangana (minus Hyderabad) and of Rayalaseema within the State of Andhra Pradesh, is a good illustration of this argument.

The resources of investment, if governed entirely by the free play of the market forces, will flow only into those regions which are already well developed, thereby aggravating existing regional imbalances. That is why regional planning is required to correct regional imbalances. Since development in India is to take place by deliberate planning, and since the Public Sector plays an expanding role, a gradual reduction of regional imbalances may be expected. The basic theory of regional development has been aptly expressed by Dickinson: "Economics is fundamentally regional, since sources of food materials and power, conditions of transport are of nature's making

* I am grateful to Dr. B. K. Narayan for his valuable guidance and advice in the preparation of this paper.

1 "City, Region and Regionalism" — Robert E. Dickinson — quoted by the author from Patrick Geddes and Victor Branford.

2 Third Five Year Plan — Planning Commission, 1961.

which we utilise more than we modify".¹ The need for regional development has been fully recognised in Indian planning: "Balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and *widespread diffusion of industry* are among the major aims of planned development."²

Still, there is evidence to infer that the performance of three development plans in India has not corrected existing regional imbalances. We focus our attention in this Paper on the glaring imbalance *within the Andhra State*, as between the four well-marked regions of Hyderabad township, coastal Circars, on the one hand, and Telangana and Rayalaseema on the other. Indeed, unless active steps are taken in the course of the implementation of the Fourth Five-Year

Plan of the State, there is every danger of these economic disparities becoming wider than ever.

The argument of this Paper is confined, by choice, to the Rayalaseema region; secondly, the argument is based on the assumption that economic improvement of this region is to be significantly effected by industrial expansion. The industrial backwardness, as shown in Table I, is to be corrected by a joint action of the Public and Private Sectors.

Thus, two inferences are forced on us by the data shown in Table I: firstly, the income originating from the manufacturing sector is the lowest in the Rayalaseema; and this fact has depressed the *per capita* income of the region. The importance and the stage of development of a sector is indicated by the contribution it makes

TABLE I
Per Capita and Sectoral Income by Districts 1955-56.

Districts and Regions	per capita income in Rs.	Percentage of income originating from manufacturing
Coastal Andhra North (Srikakulam and Vishakhapatnam)	178	15.75
Coastal Andhra South (E. Godavari, W. Godavari, Krishna and Guntur.)	292	11.79
Rayalaseema (Nellore, Chittoor, Cuddapah, Anantapur and Kurnool)	226	9.05
Telangana (Mahaboobnagar, Medak, Nizamabad, Adilabad, Karimnagar, Warangal, Khammam and Nalgonda)	188	21.66
Hyderabad	273	11.76
Total State	229	13.65

Source: "Fourth Five-Year Plan, Working Papers Vol. 1" Andhra Pradesh, Planning Dept., 1964, P. 224

to national income. Judged by this standard it is seen from the data in Table I that in Rayalaseema its contribution is only 9.05 per cent, as compared to 11.79 per cent in Coastal Andhra (South) and 21.66 per cent in Telangana (minus Hyderabad). It is true that income originating from the secondary sector is not high as a percentage even in Coastal Andhra (South) and in Hyderabad, but in the first case it is compensated by high income from agriculture and in the second case by high income from the services sector.

The same industrial disparity is brought out even more prominently by the data shown in Table II; this time attention is drawn to the decisive factor of large scale industrial establishments which are generally known to produce important spread effects, leading to the establishment of ancillary activities.

TABLE II
Industrial output from Large Factories, 1960

Districts	Gross value in lakh rupees	Per capita output
Coastal Andhra North (Srikakulam and Visakhapatnam)	1712.58	37.0
Coastal Andhra, South (E. Godavari, W. Godavari, Krishna and Guntur)	4868.98	50.3
Rayalaseema (Nellore, Chittoor, Cuddapah, Anantapur & Kurnool)	1221.37	13.6
Telangana (Mahaboobnagar, Medak, Nizamabad, Adilabad, Karimnagar, Warangal, Khammam & Nalgonda)	1554.04	14.6
Hyderabad	2025.62	98.2
Total State:	11382.59	31.6

Source: "Fourth Five Year Plan, Working Papers", op. cit., P. 217.

It is clear that industrial output both total and *per capita* in Rayalaseema is the lowest in the whole of the State. The gross value of industrial output from large factories in Rayalaseema in

1960 was Rs. 1221.37 lakhs and *per capita* was only Rs. 13.6; which is very low when compared to that in Hyderabad and Coastal Andhra, where *per capita* output is Rs. 98.2 and 50.3 respectively. Even Telangana which is a backward region has to its credit a far higher total output of Rs. 1554.04 and *per capita* output of Rs. 14.6. If it is argued that the location of large factories is purely governed by unit cost considerations, private finance and enterprise, then the possibilities of small-scale establishments and co-operative sector management have to be explored in regard to the Rayalaseema.

Investment Pattern

To a large extent the regional imbalance of the entire State of Andhra Pradesh may be attributed to the investment pattern of the previous three development plans. The First Plan of the State allotted only 1.2 per cent of

to stimulate the growth of industrial complexes around them. It is precisely this advantage that the State could not obtain from the Union Government till now.

However, the point more relevant to this paper is that investment pattern of the State Plans shows heavy concentration in certain localities. This, as revealed by a study of the distribution of the industrial projects envisaged in the Public Sector in the State's Third Plan, shows that the Proposed industries are to be concentrated in the manner shown in table III.

Thus, instead of some sort of planned dispersal of industries, there is a tendency of concentration in some restricted localities. The first of the three industries mentioned above are to be located in and around Hyderabad; the expectation is that as a result industrial activity will spread to the surrounding areas. But the experience in this State so far does not give promise of such spread effects. Further, the industrial location pattern till the end of the Third Plan has tended to contribute relatively to greater progress in Telangana rather than in Rayalaseema.

Upto the end of the Second Plan, so far as large scale industries in the Public Sector are concerned, Rayalaseema benefited only from two projects — the expansion of the Government Ceramic Factory at Gudur and one out of four co-operative sugar factories at Chittoor, the other three going to the Circars; the proposed revival of the Sri Venkateswara Paper and Straw Board Mills has not materialised to this day either in the Public Sector or in the Private Sector.³

Factors of Location

The principal factors governing the location of industries are: Materials, power, markets, transport, finance and management. Although all these factors are essential for locating an industry,

the total outlay to manufacturing industries; the Second Plan 5.8 per cent and the Third Plan 6.3 per cent. Evidently, investment in manufacturing industries was inadequate. That apart, the State failed to obtain its due share of the Central Projects from the national plan. Not only is investment on all these Central Projects large, but also they tend

³ "Second Five Year Plan, Andhra Pradesh—Review of Progress 1956-57 to 1960-61"—Bureau of Economic and Statistics, Govt. of A. P., Hyderabad 1962—PP. 345-346.

TABLE III
Location of Public Sector Projects

Project	Location
Synthetic Drugs Project	Sanatnagar
Heavy Electrical Project	Ramachandrapuram
Praga Tools (Expansion)	Secunderabad
Hindustan Shipyard (Expansion)	Visakhapatnam
Dry Dock Project	Visakhapatnam

ordinarily one or two of them play a decisive role. Till now in this State the availability of the requisite raw materials has been the strongest factors in favour of locating an industry. In this regard Rayalaseema is not lacking especially in respect of agro-based industries. If the Government supplies the necessary overheads in the form of electric or other power, and transport, the necessary industrial base will have been created; private enterprise might be expected to take advantage afterwards.

The recent decision of the International Consortium in favour of locating the fifth steel plant at Visakhapatnam appears to be based on two important factors—the availability of raw-material in the hinterland of Visakhapatnam port, and facilities for export of output and import of inputs. Of course the location of such heavy industries in Rayalaseema does not seem a practical proposition in the near future; but the establishment of small industries should be feasible. Out of 15 States studied, from the point of view of net output in 1960-61, it has been found that Andhra State stands sixth in rank in medium manufacturing establishments and seventh in household manufacturing industries.⁴

⁴ "Distribution of National Income by States 1960-61"—N.C.A.E.R. January 1965, pp. 142-143.

⁵ "Power Progress in the South"—Eastern Economist, May 28, 1965, pp. 1219-1220.

⁶ "Location of Sugar Industry in India"—D.U.V. Sastry (unpublished) tables 4 & 6 in the annexure—Institute of Economic Growth, Delhi.

Out of the seven locational factors mentioned above, only three seem to be available in some degree. Materials, power and transport; finance and management seem to be coming from outside the State in the Private Sector. In any case, the Government have to undertake a positive programme of providing industrial estates, granting of loans, provision of adequate power and transport facilities, assistance of management and technical problems, conduct of research, technical training of workers and dissemination of useful information.

Future Programme

If a programme of regional development with a view to reducing regional imbalances is to be undertaken in the Fourth Plan period, serious consideration should be given to the following points:

The National Council of Applied Economic Research in 1962 suggested a number of industries to be established in

Andhra State; of them the following are mentioned in Table IV as pertaining to Rayalaseema.

It is true that power supply in this State is inadequate; for instance, power capacity in Andhra Pradesh has been increased only by 35 per cent since 1959-60 whereas in Madras it has almost doubled; *per capita* consumption in Madras is as high as 82 units as against 22 units in Andhra Pradesh. Still, the establishment of a big thermal station at Nellore should be taken advantage of for manufacturing insulating bricks with the mica available at nearby Gudur.

The rural electrification programme in the State is known to have fallen behind schedule; however, the provision of a number of pump sets in the Chittoor district is widespread so that ample water supply has led to a substantial increase in sugarcane cultivation; therefore there is room for one more sugar mill at say Kalahasti. In fact, Andhra Pradesh compares very favourably with other states like Bihar, and Uttar Pradesh where sugar cane cultivation is prominent; in Andhra Pradesh the per acre yield is 31.46 tons while production amount to only 158.5 thousand tons, as against per acre yield of 11.11 tons and production of 1312.5 thousand tons in U.P.⁶

TABLE IV

Type of Industry	Name of Industry	Location
Forest-based Industry	Particle (chip) board plants	Renigunta, Cuddapah and Giddalur.
Mineral-based Industries	Paints and Varnishes	Cuddapah
do	Sanitary ware and insulators	Gudur
do	Cement Factories	Kurnool
do	Rotary lime burning kiln	Guntakal & Cuddapah
Industries based on basic chemicals	Calcium carbide	Guntakal, Gooty & Kurnool.

Source: "Techno-Economic Survey of Andhra Pradesh"—NCAER-PP. 271-274.

Industrialisation of Madras

By A. RAMAN

BEFORE dealing with the subject of industrialisation of Madras, it may probably be pertinent to make a few observations with regard to the character of the economy of the State. The State has an area of 50,331 square miles; in this respect, it stands twelfth among the States of India. According to the 1961 Census, it had a population of 3.37 crores and it stands sixth in this regard. The density of population is 669 per square mile: and the percentage of urban population is quite high. On account of the smallness of the area and the high percentage of the urban population, the need for quick industrialization assumes importance. Rapid industrialization will also help in moving the surplus labour in the agricultural sector to the non-agricultural sectors.

In regard to industrialization Madras has some advantages. Of course, the State does not have adequate natural supplies of raw materials and minerals. However, it has adequate skilled man-power. Besides, there are able and talented entrepreneurs, who have shown great initiative and enterprise. Further, adequate capital has been provided for rapid industrialization by institutions such as the Madras Industrial and Investment Corporation, the Industrial Finance Corporation and the Industrial Credit and Investment Corporation. Moreover, consequent on the passing of land legislation, a number of people, who would ordinarily have preferred to invest their resources in land, are now interested in investing their money in industrial enterprises. Again, infrastructure facilities like road transport are fairly well-developed.

Perhaps, it may not be possible to give a very detailed account of the various central schemes of development in this paper. However, a few important details may be given. As far as industries are concerned, we find that the Government of India has undertaken important projects like the setting up of steel plants, heavy machinery plants, fertilizers units etc. in the various States in the Madras State. According to estimates, the Central Government have invested more than Rs. 170 crores on the various projects, which has created employment opportunities for more than 39,000 people. Mention may be made of the Neyveli Lignite project, with a capital investment of more than Rs. 100 crores. About 6 to 6½ million tons of lignite would be mined by the project every year. A thermal plant with a capacity of 250 M. W. has already been installed; and there are proposals for increasing the capacity to 400 M. W., 600 M. W. and finally to 1,000 M. W. The lignite extracted would be helpful in the working of this plant. Urea for fertilizers and lignite Briquettes are also produced at Neyveli.

A factory for the manufacture of coaches has also been established at Perambur with Swiss co-operation with an outlay of about Rs. 12 crores. It has a capacity for producing 700 coaches every year. Another important project in the State is the High Pressure Boiler Plant at Tiruverambur near Trichinopoly, for producing the boilers needed by the thermal power plants. A company for manufacturing teleprinters and other related equipments has been set up at Guindy in Madras. The capital invest-

ment on this project is about Rs. 2 crores. A factory for the manufacture of surgical instruments has been set up at Nandambakkam near Guindy with Russian collaboration, as a result of the initiative of the Indian Drugs and Pharmaceuticals Limited. The capital investment on this project is more than Rs. 5 crores.

A number of industries in the private sector such as textiles, automobile, cement, sugar and engineering Units have developed in the State. The K. C.P. Limited and the Binny Engineering works Ltd. have received licences for manufacturing sugar plants, cement plants etc. With regard to the automobile industry, Standard Motors, Ashok Leyland, Simpson and Royal Enfield have embarked on expansion schemes. More than 2,800 trucks are produced every year by the Ashok Leyland which also produces about 6,600 commercial vehicles. Progress has also been made in regard to the manufacture of tractors for agricultural purposes. Licences have also been granted to two units for manufacturing ammonium phosphate to the extent of 4,52,000 tons per year. One of them is at Ennore.

Generally speaking, the private sector has contributed to a very appreciable extent, to the development of industries in the State. From 52 during the period of the first Plan, the number of licences issued to the private sector rose to 370 during the years of the Second Plan: and the private sector has been quite prompt in using these licences and has utilised them to the maximum extent. If it has not utilised all the licences, this is due to the difficulties such as the paucity of

foreign exchange, the shortage of power etc., over which the industrialists have no control. As many as 586 companies with a total authorised capital of Rs. 45.26 crores were registered during the years of the First Plan while 979 companies with a total authorised capital of Rs. 187 crores were registered during the years of the Second Plan.

Small Industries

Small-Scale industries have also been developed during the last fifteen years. A sum of only Rs. 12 lakhs was spent on these industries during the period of the First Plan. But, during the Second Plan period and the Third Plan period, the outlay on these industries has aggregated to Rs. 5.6 crores and Rs. 11.2 crores respectively. Provision has been made for the development of tool rooms and establishing rural workshops, industrial estates and

industrial co-operatives. The progress of industries in the State has been encouraging. Among the industrialised States, Madras stands third, the other two being Maharashtra and West Bengal.

The State does not seem to have adequate supplies of power though it has taken measures to augment the supply of power. The present demand for power has been estimated at 1,600 M.W. Since the existing projects may perhaps not be able to supply power to this extent, it becomes necessary to think of more projects. In this connection, the decision of the Government of India to establish an atomic power plant at Kalpakkam near Mahabalipuram is significant. Further, a steel plant at Salem is also desirable.

Sufficient attention does not seem to have been paid to the subject of Railway transport.

Of late, the need for undertaking some important schemes in this respect has however been recognised. The electrification of the Madras Villupuram Railway Line has been undertaken and construction of a Railway line between Salem and Bangalore has been taken on hand. In the matter of rural electrification, the State has fared well. As at the end of the Second Plan, the Rural Electrification Scheme covered 10,700 villages; and as on October 1st, 1965 the number of electrified towns, villages and hamlets stood at 20,387.

The income of the State of Madras for 1962-1963, at current prices, was Rs. 130481 lakhs which increased to Rs. 154805 lakhs in 1964-1965. The State has the highest income when compared with the other States in the Southern Region viz. Kerala, Mysore, and Andhra Pradesh.

Self-sufficiency in Food Production*

By Dr. T. K. LAKSHMAN

FOOD Problem, particularly with the failure of the crop of 1965 in many parts of the country, has become alarming and has been the concern of one and all today. This problem raises the following questions:

- (1) How is it that the country has not become self-sufficient in food production in spite of three Five-Year Plans with considerable emphasis and efforts on Agricultural Development?
- (2) When is the country going to be self-sufficient?
- (3) Should we continue to depend on foreign assistance for food supplies for an indefinitely long period?
- (4) What is wrong with our agricultural sector?

These questions are seriously lurking in the minds of common men, experts, administrators and planners. The late Prime Minister, Mr. Shastri, realising the country's unstable position in respect of food supply, categorically stated that self-sufficiency in food production is no less important than an impregnable defence system, for the preservation of freedom. This statement is of much significance. The food problem appears more alarming when viewed in the background of the pre-independent period. The problem was acute during the British rule, as the colonial power followed a policy of complete indifference towards Indian agriculture. During the period of Provincial Autonomy,

although the popular ministries in the provinces showed active interest to step up agricultural output, much could not be achieved due to the absence of an overall agricultural plan. The disastrous Bengal famine of 1943 initiated the grow-more-food campaign. But this did not produce the expected results since it was not supplemented by a comprehensive and integrated plan for overall agricultural development and re-organisation. The National Government in 1949 started a comprehensive food self-sufficiency drive. This drive prepared the ground for comprehensive agricultural planning. Thus, with all these efforts the country is yet struggling for self-sufficiency. The solution to the problem of self-sufficiency in food, therefore, needs a careful examination of the questions involved.

Broad Trends

The answer to the first question needs a re-examination of broad trends over the plan period in productivity and area in the country as a whole and also the relative performance of different states and crops; material input utilisation such as irrigation, credit, fertilizers, pesticides and seeds etc., benefits of research and extensions, institutional reforms like land reforms; co-operative servicing and economic incentives like price support or subsidies. This calls for a re-examination of the organisational, institutional and policy changes over the plan period and their impact on the performance of the agricultural sector. The answer to the second and third questions depends on how soon productivity would be revolutionised and the agricultural

sector would "take off." The answer to the fourth question needs, once again, a re-examination of the nature of emphasis and allocation of outlay over the agricultural sector in the three five-year plans.

Output Trends

The total cropped area has increased from 325.9 million acres in 1950-51 to 384.6 million acres in 1961-62—an increase of 12.5 per cent. The gross irrigated area in the same period has increased from 55.8 million to 70.1 million acres—an increase of 21.4 per cent, whereas the increase in the net irrigated area is only 16.4 per cent. The increase in the canal irrigation is by 20 per cent (i.e. from 20.4 million acres to 25.9 million acres between 1950-51 and 1961-62) and in the well and tank irrigation by 3.3 million and 2.5 million acres respectively. According to the data given in the monograph of the Ministry of Food and Agriculture for the period 1949-50 to 1961-62, the area under food crops has increased at the linear growth rate of 1.10 per annum particularly from 1952-53 to 1961-62, the significant fact being that the increase in the area as a source of growth had tapered off in the Second Plan and had almost exhausted at the beginning of the Third Plan. Apart from the lesser prospects of bringing more area under cultivation, the increase in the area under food crops is only by 0.7 per cent as against an increase of one per cent in the area under all crops. Thus, considering the relatively lesser scope of expanding the cultivable area, the other alternative is one of increasing productivity.

Food production increased at the average linear rate of 2.66



This time Daddy will bring my doll and mummy's sari. He can't lose his money!

Now STATE BANK TRAVELLERS CHEQUES ARE FREE OF COMMISSION!

Now—you don't pay commission when you buy our Travellers Cheques in India. Yet you get the same safety and convenience. No worries. No problems!

We issue our own Rupee Travellers Cheques of Rs. 50/- and Rs. 100/-. Cash them at any one of the over 1900 offices of the Bank or its Subsidiaries. Or at Encashing Agents in airports, hotels and shops—here and abroad. They're good anywhere, any time—even after banking hours!

STATE BANK FOR SERVICE

LPE-Aiyara S. 123 B

- 1—The emphasis has been by a sizeable allocation of the total outlay on agricultural development.
- 2—The efforts have been in the form of developing major, medium and minor irrigation works, providing necessary inputs to some extent and imparting improved skills and services through Community Projects and N. E. S. Schemes

* The article is based on the data taken from the Eastern Economist Annual number.

per cent per annum between 1952-53 and 1961-62. This is relatively a small rate of growth as compared with 5.49 per cent in Malaya, 4.84 per cent in Japan, 3.53 per cent in Phillipines and 3.35 per cent in Thailand, 4.73 per cent in Turkey and 3.21 per cent in United Arab Republic—the Near Eastern countries; and 3.32 per cent in Australia and 3.07 per cent in New Zealand—the Oceanic countries. Moreover, the average annual growth rate of food grains by 2.66 per cent (between 1951-63) as compared with the rate of growth of population of 2.26 per cent annually is insignificant.

As compared between the growth rate of output of food grains and non-food grains, the rate of growth of output of the latter between 1952-53 and 1961-62 is 4.40 per cent per annum as against 2.66 per cent of the former. The higher rate of growth of non-food grains has been ascribed to the increase in the area than in productivity. This indicates a trend towards a fall in the area under food grains.

All this data goes to prove the importance of increased productivity.

Apart from the relatively lower rate of growth of output of food grains in India than in some of the Far Eastern countries and Oceanic countries, there are inter-State disparities in the growth rates of agricultural output between 1952-53 and 1961-62, indicating wide variations in State's performances. Seven States—Punjab, Madras, Himachal Pradesh, Madhya Pradesh, Maharashtra, Mysore and Bihar—showed rates of growth of production higher than the all-India average; with Punjab at the top, being 5.62 per cent per annum. The States of Rajasthan, Kerala, Gujarat, Uttar Pradesh and Andhra Pradesh showed moderate rates of growth but lower than the all-India average. The Eastern States of Assam, Orissa and West Bengal showed very low rates of growth.

There are wide variations within the States between two major groups of crops, e.g., food grains and non-food grains. In

Gujarat and Bengal, the rate of growth of food grains was negative whereas that of non-food crops was positive. For Andhra Pradesh and Orissa, non-food grains registered a negative growth rate. The States of Punjab, Madras, Madhya Pradesh and Mysore did well in respect of both.

The achievement at the end of the First Plan Period, as against a target of 61.6 million tonnes of food grains, was 65.8 million tonnes—thus exceeded the target by 4.2 million tonnes. During the Second Plan period, the target was 80.5 million tonnes and the achievement was 79.7 million tonnes of food grains—a short fall of 0.8 million tonnes. The Third Plan target was more ambitious, being 100 million tonnes and the actual output was 88.4 million tonnes in 1964-65 and in 1965-66, the output of food grains is expected to be only 76 million tonnes due to the failure of the monsoon. The above data indicates that although the rise in the output of food grains was quite impressive at the end of the First Plan period, the

trends in the Second and the Third Plan periods struck a pessimistic note.

During the Second Plan period, the year 1957-58 witnessed a downward trend—the index of food grains falling from 115.3 in 1955-56 to 107.9 in 1957-58.* In the Third Plan period, the index of food grains rose slightly from 135.6 to 137.5 in 1961-62 but the very next year, the fall in the index was considerable being 130.4 or a fall of 5 per cent. In the two subsequent years, the index of food grains registered a rise, the rise being spectacular in 1964-65. Again, the year 1965-66 was disastrous due to the very poor harvests in many parts of the country due to the failure of monsoon. Thus the unsteady rise in output of food grains to square up with the targets accompanied by serious downward trends in some years and particularly the present has had serious repercussions. They have caused a great pressure on prices, depleted the private stocks and increased the necessity of imports.†

Irrigated Area

Irrigation is the first basic input necessary for intensive cultivation in India. It is evident from the several farm management studies, that the output per acre for irrigated crop is significantly higher than the dry ones ranging from 150 per cent to 400 per cent, in different regions. Besides, irrigation increases output by making possible double cropping. Thus the aggregate output would increase at least by 4 per cent per annum, if there is economic and optimum use of created irrigation potential. Keeping in view that only 21 per cent of the 286 million acres under food crops in the country is being irrigated, the question of extending irrigation facilities assumes spe-

cial importance. Irrigation potential, economic and optimal utilisation of the available irrigation potential is important. The irrigation potential created and utilised by major and medium irrigation projects during the first two plan periods and the potential likely to be created and utilised by the end of the Third Plan is as below.

The above table indicates that there is a considerable gap between the potential created and the actual utilisation. The fact was recognised at the end of the First Plan and the State Governments concerned were asked to investigate the reasons for the delay in utilising water for irrigation. But the lags continued to the Second and the Third Plan

distributaries and drainage channels were complete. Although irrigation was available to one million acres, no irrigation took place.

Construction, expansion and maintenance of field channels in addition to the spread of irrigation wells country-wide are, therefore, necessary to make the maximum use of the irrigation potential available. Though certain States have enacted legislation in this direction its impact is insignificant. This failure to make use of the available irrigation potential illustrates the fact that vagaries of the monsoon is not the main cause, although it is one of the factors for the uncertain output of foodgrains.

Years	Potential in million acres	Utilisation in million acres
1951-56	6.5	3.1
1956-61	11.5	8.2
1961-62	12.2	9.1
1962-63	13.3	10.3
1963-64	14.5	11.3
1964-65	16.1	13.0
1965-66	19.5	15.0

Other Inputs

Next important input in addition to irrigation is the fertilizer. Sufficient use of fertilizers increases productivity in addition to widening the range of crops. But the consumption of fertilizers not only varies from State to State but is also inadequate. The consumption of fertilizers per acre in different States is as below:

State	Year 1960-61; Consumption per acre of gross area sown in lbs.
Madras	.. 3
Mysore	.. 1
Bihar	.. 0.8
Punjab	.. 0.7
Madhya Pradesh	.. 0.3
Assam	.. 1
Remaining 8 States	1 to 2

periods in spite of the Planning Commission's emphasis on consolidation of irrigation schemes. This delay in the use of water, therefore, leads not only to investment remaining idle but acts as a drag on developmental efforts. This delay has been further attributed to the fact that although major irrigation works are complete, minor and tributary field channels to irrigatable areas for finally delivering the water to the cultivator have not been developed. For example, the main Durgapur barrage of Damodar Valley Project was completed in April 1955, but by the end of the First Plan only 58 per cent of the excavation work of the main canals, branches and

* National Income of India, 1950-51 to 1960-6. Growth and Distribution, Fact and Problems.
† India, 1965

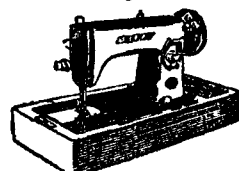
USHA THE NAME SPANS SIX CONTINENTS

Over the years we've spread the name USHA across six continents and over 50 foreign markets. It represents quality sewing machines and fans—reputed for streamlined styling, superb finish, top performance...features which enable USHA to compete successfully with well-known foreign brands.

Today, our company has emerged as the largest manufacturer of sewing machines in Asia, and we can rightly claim that we operate the biggest single-unit fan factory in the world. Our network of selling and servicing centres is the widest in India. Our technical services have helped set up USHA plants in Saigon and Colombo. Today USHA is earning the country vital foreign exchange...it is the symbol of national progress.



USHA ACCLAIMED
THE WORLD OVER
THE JAY ENGINEERING WORKS LIMITED,
CALCUTTA-31



JE/G/S17

Thus the consumption of fertilizers per acre is the highest in Madras being 3 lbs and the lowest being 0.3 lb in Madhya Pradesh. In other States, it varies from 0.7 lb to 2 lbs per acre. This is quite inadequate, if productivity has to considerably increase. How inadequate it is can be pointed out by comparing the consumption in India with other advanced countries.

are important. The former, with the new pattern of land reforms, aims at the creation of compact optimum or large-sized holdings and thus helps the consolidation of the uneconomic holdings. The latter aims at carrying enough resources to the former. Attempts to introduce and to develop joint co-operative farming societies or co-operative farming societies have not achieved much success.

index of food production was 134.9 whereas the index in the case of non-food grains was 151. This rise in the index of non-food grains has continued uninterrupted from 1950-51. This shift in trend may be wholly ascribed to relatively better prices and the consequent higher returns, than that of foodgrain sector. Price policy in the foodgrain sector must consider this problem in particular and the floor price must be fixed so as to create more incentive to producers of food grains. The agricultural taxation imposed should not kill the incentive of the farmer.

The question as to when we reach self-sufficiency and reduce our dependence on imports depends upon how soon we improve the quality and quantity of material inputs and improve the organisation in terms of co-operative servicing, land reforms, research and extension besides developing fiscal and price incentives. The first year of the Fourth Plan has begun well. The success of the food sector depends on how well and how quickly the administrative machinery is able to cope with the task.

The problems of development of the agricultural sector are also closely connected with the plan outlays. The outlay on the development of agriculture and irrigation in the public sector during the First Plan was 30.6 per cent of the total, whereas in the Second and the Third Plan, it was 20.6 per cent and 21.6 per cent respectively. Thus the emphasis in terms of financial outlay declined. This shift in emphasis has affected the "take-off" in the agricultural sector. The agricultural revolution preceding the industrial revolution in most of the developed countries was responsible for accelerated development of their economies. Such a revolution in agricultural production has not occurred so far.

Under these circumstances, the service co-operatives are more important from the producer's point of view. Since these societies aim to ensure that every family engaged in agricultural production is represented in the service co-operatives and that every one obtains credit and other essential facilities to farmers in close co-ordination with the production programmes in addition to arranging the supply of fertilizers, seeds, manures, ploughs, insecticides, etc. and carrying out advisory and extension function, their role in increasing productivity is important. All is not well with the development of the co-operative agencies, although they are considered to be of particular importance for the re-generation of the rural economy. If they have to succeed and help farmers to raise productivity, they must be self-dependent.

Economic Incentives

The trend as between the food grains and non-food grain sector is towards relatively greater shifts to non-food sector. For example, in the year 1963-64, the

Consumption of fertilizers in 000 tonnes

Countries	1962-63	
	Nitrogen	Phosphate
U. S. A.	3,434.0	2,717.0
U. K.	541.0	433.1
West Germany	768.1	707.0
France	682.8	1,034.0
Japan	669.3	464.9
U. S. S. R.	1,070.0	853.9
India	439.9	130.6

Apart from the use of chemical fertilizers as an important basic input, locally available compost manure, green manure and night soil should be made use of to the maximum extent. Even the progress in the area covered under improved seeds, plant protection and locust control is not very significant. The inputs in the form of improved seeds, fertilizers and implements has not reached even 50 per cent of the targeted levels. In respect of plant protection, the area covered is hardly 12 per cent of the plan target. The productivity will increase only, when all the inputs like irrigation, fertilizers better seeds, implements and pesticides work together.

Co-operative Credit

There has been no doubt a phenomenal growth in various types of co-operative agencies covering credit, joint farming, servicing, marketing, processing, ware-housing and storage societies. From the point of view of increasing productivity—apart from co-operative credit societies—joint co-operative farming and service co-operative societies

Search for New Ways to Accelerate Growth

* By George D. Woods

OPTIMUM deployment of development assistance requires close co-ordination among the aid-giving nations; more important still, it requires full understanding and co-operation between them and the recipient countries. As I see it, a primary task of the World Bank Group is to facilitate this essential collaboration. We have already organized groups consisting of interested aid-giving governments and international financing agencies, to co-ordinate the finance provided to six of our member countries. Now, we are undertaking to strengthen and intensify the work of these groups and considering the formation of similar groups for other countries.

Consortium Approach

Each consultative group has one essential objective. To accelerate economic growth; and it seeks to accomplish this purpose in several ways. In the first place, it aims at enhancing the absorptive capacity of the developing country by helping in the planning of development, in the preparation and screening of projects, and by advising on administrative or financial problems and the like. Second, it is designed to provide the several aid-givers with informed, objective analyses of the country's needs for external finance and technical assistance—not only the amounts it could effectively use, but also the appropriate terms of financing and the purposes that deserve priority. It also undertakes a continuous assessment, in co-operation with the International Monetary Fund and the recipient country, of the latter's economic progress, and attempts to work out agreed

* President, World Bank

solutions to its problems. We expect that these consultations will help to bring about a more adequate and assured flow of aid to the countries with a good record of effective use; and, equally important, encourage the co-operation and mutual trust that is so necessary to our common purpose.

It is our aim over the course of time to bring into this consultative system perhaps a score of developing countries comprising the recipients of much of the largest share of international development finance. The Inter-American Committee for the Alliance for Progress—CIAP—is already working in this direction, and our own activities with respect to countries of Latin America will be carried on in co-operation with CIAP and the Inter-American Development Bank. As regional organs evolve for Africa and Asia we shall expect to co-operate with them also. And we look especially to the International Monetary Fund for strength and counsel in all these consultative arrangements.

Development, to be successful, requires a dedication and singleness of purpose. However, thus far, no means have been devised to deeply stir patriotic emotions for massive and intensive economic development in agriculture or in extractive and manufacturing and service industry. Yet development should be waged as a war against intolerable living conditions that must be carried on with a determination to overcome all obstacles.

Let us not forget that the World Bank itself is the child of adversity—its charter was written when one of the most violent battles of World War II was raging on the

European continent, and at a time well before the end of the war in Asia was in sight. The Bank has not hesitated to carry on in countries faced by adverse and extraordinary circumstances, when it believed that in spite of these circumstances, the objectives of economic development, in the end, could be achieved. We have carried forward projects without interruption in African, Middle Eastern, South-East Asian and Latin American countries affected by alarms of war and violent political upheavals which sometimes threatened internal order. It is our sincere belief that intensive economic development is the indicated antidote in the 20th century for the age-old instinct for military encounters.

Development is not a short-run problem: it is not something we can give marginal attention to for a period of time and then forget. The developing countries need time to accomplish deep-seated changes; in outlook, in social institutions, in economic organization. We have to measure this time in terms of at least a generation.

Challenging Task

While progress may at times seem slow, there is no doubt that the ability of the developing countries to make effective use of capital is increasing. Many of the developing countries are far ahead of where they were a decade or two ago—in the ability to formulate and carry out development policy, in the number of institutions able to conceive and administer measures for economic development, in the number of individuals able to direct private and public enterprises.

ONE DECADE OF PROGRESS

IN FABRICATION LINE OF ALL STEEL STRUCTURALS,
TRUSSES, AUTOMOBILE BODY BUILDING ETC.



Now Announcing

Manufacture of Rolling Shutters Within a Short Period



M/s. B. NARSOJI

IRON WORKSHOP & BODY BUILDERS

6-4-45, BHOLAKPUR, SECUNDERABAD—A.P., INDIA

Phone: 74748

SYNDICATE BANK LIMITED

have pleasure in announcing that their 4th Branch in
Goa has been opened on 25th April, 1966 at:

AVENIDA DO BRAZIL, NEAR PANJIM FERRY, PANJIM (GOA).

Other Branches in Goa:

1. CURCHOREM (Goa) 2. SANQUILIM (Goa) 3. BETIM, Bardez (Goa)



SYNDICATE BANK LIMITED

Regd. Office: MANIPAL

Branches: Over 200.

Resources Exceed: Rs. 80 Crores.

**THE BANK THAT CONSIDERS
NO MAN TOO SMALL FOR A BANK ACCOUNT**

Shipping in Fourth Plan

By M. A. MASTER

LET us first examine how the tonnage of India has increased during the period of planned-economy before we decide what the target of the shipping tonnage should be, by the end of the 4th Plan. Just on the eve of Independence, India owned on the 1st January, 1946, 42 ships of 98,286 GRT. During the period of the next five years and three months, India made a net addition (acquisition of 75 ships of 333,114 GRT. less tonnage of 20 ships sold, scrapped or lost of 45,105 GRT.) of 55 ships of 288,009 GRT. There was no financial assistance from the Government at that time. It was the spirit of enterprise and the initiative of the shipowners, which led them to augment the shipping tonnage of India.

At the beginning of the 1st Plan, i. e. on the 1st April, 1951, India owned, as stated above, 97 ships of 386,295 GRT. There was no consultation with the shipowners, as regards the target of shipping to be fixed for the 1st Plan. That was decided independently by the Planning Commission. The actual tonnage added during the 1st Plan was (tonnage acquired 73 ships of 310,038 GRT. less ships sold, scrapped or lost—33 ships of 84,072 GRT.) 40 ships of 225,966 GRT. The tonnage at the end of the 1st Plan, therefore, stood at 137 ships of 612,261 GRT. The Planning Commission did consult the shipowners in regard to the shipping target for the 2nd Plan. The shipowners strongly urged that the tonnage at the end of the 2nd plan should reach 10.45 lakhs GRT. and that the financial accommodation that should be given for the purpose should be Rs. 80 crores. The Planning

Commission, however drastically cut down that figure. It decided that the tonnage at the end of the 2nd Plan should be only 9 lakhs GRT. and that the financial assistance to be given for the purpose should only be Rs. 37 crores.

Port Traffic

The trades, which passed through the ports of India, were continuously increasing. From 23.94 million tons in 1951-52, they rose to 32.67 million tons in 1957-58. These figures only include the volume of trades which passed through the six major ports and the ports of Okha, Saurashtra and Kutch. Figures for other ports are not available. The tonnage, which was in operation at the end of the 2nd Plan, i. e. on March 31, 1961, came to 157,397 GRT. The net addition of the tonnage during that plan period came to only 245,136 GRT.

Although the Government laid down in 1947, that India should carry at least 50 per cent of her overseas trades in Indian bottoms, the Planning Commission thought that, if India could carry only 15 per cent of her overseas trades, it would consider it satisfactory. Unfortunately, the actual result was that India could only carry 84 per cent of her overseas trades in the last year of the 2nd Plan. So far as the 3rd Plan is concerned, the National Shipping Board strongly recommended that the shipping tonnage at the end of the 3rd Plan, should reach the target of 14.22 lakhs GRT. This was certainly less than what was indicated by Mr. S. K. Patil, when he was the Minister of Transport. History, however, repeated itself and the Planning Commission reduced the tonnage

target from 14.22 lakhs GRT. to 11 lakhs GRT. and the finance to be allotted for that purpose from Rs. 119 crores to Rs. 55 crores. It was difficult to appreciate the attitude of the Planning Commission in making such a drastic reduction, when Indian ships, at the beginning of the 3rd Plan, were carrying only 8½ per cent of India's overseas trades, as against the extremely moderate figure fixed by the Planning Commission itself of 15 per cent. India had to make a long leeway for carrying at least 50 per cent of her overseas trades in Indian bottoms, in accordance with the Shipping Policy announced by the Government in 1947.

Overseas Trade

In the meantime, our overseas trades were continuously on the increase. They went up from 32.54 million tonnes in 1961-62 to 37.35 million tonnes in 1963-64. According to the figures supplied to the National Shipping Board, the actual tonnage in operation on March 1, 1966, was 220 ships of 1,513,986 GRT. The net additions made to the shipping tonnage of India from January 1, 1946 upto the 1st March 1966, may be summarised as under:

It will be noted that considerable progress has been achieved, so far as the rise in tonnage is concerned, during the 3rd Five Year Plan. It was nearly two and a half times more than the tonnage added in the pre-plan period and the two Five-Year Plan periods. Satisfactory as it is, so far as it goes, even this rise in tonnage has not enabled India to carry her own overseas trades in her own bottoms of more than 11-12 per cent. According to the figures given to the National Shipping Board, the

Growth of Tonnage

	(In lakhs, G. R. T)	
Pre-Plan	(1-1-1946 to 31-3-1951)	2.88
1st Plan	(1-4-1951 to 31-3-1956)	2.26
2nd Plan	(1-4-1956 to 31-3-1961)	2.45
3rd Plan	(1-4-1961 to 1-3-1966)	6.57

total overseas trades of India in 1964-65 exceeded 40 million tonnes. The actual quantity of cargo brought or carried by Indian ships was a little over 46 lakhs of tonnes. Indian ships, therefore, carried only 11.5 per cent of India's overseas trades. The fact to be remembered is that while it was announced in 1947, by the Government of India, that Indian ships should

carry at least 50 per cent of her overseas trades within a period of 5-7 years, even after a period of 19 years, India has only been able to carry 11.5 per cent of her overseas trades. It is from this background that we have to examine the problem in regard to the tonnage target, which should be fixed for the 4th Plan. A remarkable feature of the development of Indian tonnage

is the addition of tankers, tramps and bulk-carriers, for building up a balanced Merchant Navy for India. With the delivery, by the end of 1966 or at the beginning of 1967, of 39 ships of 539,500 GRT. which are actually under construction today, the Indian tonnage will cross the 2 million tonnes mark. It will then have a fleet of 259 vessels. India's Merchant Fleet will then include 23 bulk-carriers of 502,683 GRT. constituting nearly 25 per cent of Indian tonnage—27 tramps of 236,684 GRT., 9 tankers (6 overseas and 3 coastal) of 177,027 GRT and 21 passenger ships of 71,826 GRT.

Shipping must earn a reasonable profit on the capital employed. The idea of profit has undergone a vital change in the thinking of authorities at New Delhi. The Planning Commission now wants a minimum return of 12 per cent on capital employed in the undertakings of the public sector. It is urged by the Congress, as well as by the Finance Ministers, that the amounts necessary for the amortisation of loans, for the expansion of the industry and for making contribution, by way of finance, for other industries must come out of the profits of the public sector undertakings. Unless the expansion of shipping is approached from this fundamental view point, it will be recognised that there can't be sufficient capital formation for shipping in the private sector. As a matter of fact, the National Shipping Board has urged that if the coastal tonnage necessary for the strengthening of Indian economy and ensuring the national security, of at least 4 lakhs GRT. is to be built up during the 4th Plan, it is also the opinion of that august Body, with which all reasonable men will agree, that not only should the Government create conditions for the coastal ships to carry cargo both on the inward and

the outward runs, but they should also grant to coastal shipping economic rates of freight, which they do not do at present. Moreover, the coastal ships are getting very old.

On the 1st March, 1966, 35 coastal vessels of 114,462 GRT. were of an age varying from 15 to 19 years and 24 vessels of 56,886 GRT. were over 20 years of age. All these 59 vessels, aggregating to 171,348 GRT. will have, therefore, to be replaced during the early years of the 4th Plan. Coastal ships do not earn foreign-exchange. Unless the Government, therefore, release the necessary foreign exchange for the acquisition of the coastal vessels to be replaced, and the coastal vessels to be newly constructed, just as they do in connection with the plants and machinery of other industries, it will not be possible to build up an adequate coastal fleet, vital for Indian economy and indispensable for India's security. It is well known that the coastal trade has been reserved to Indian ships since 1950. It is, however, regrettable that over Rs. 16 crores have been paid to foreign tankers carrying petroleum products round the coast of India, since 1957. During the year 1964, out of a total quantity of petroleum products aggregating to 29.39 lakhs of tonnes, carried round the coast, Indian tankers carried only 4.43 lakhs of tonnes, or say less than 16 per cent. Both, therefore, for completing the reservation of the coastal trade to Indian ships and for the saving of the foreign exchange, which is paid to foreign tankers, new tankers should be obtained for the coastal trade on an urgent basis, as recommended by the National Shipping Board. It is difficult either to endorse or to justify the existing policy of the Government whereby they are not prepared to release foreign exchange for the acquisition of

coastal ships, while they spend nearly Rs. 3 crores of foreign-exchange annually to be paid as charter-hire to foreign tankers running on the coast. This policy should be completely reversed now without any further delay.

The volume of overseas trades, which passed through Indian ports, in 1964-65 exceeded 40 million tonnes. With the prospects of the exports of iron-ores reaching 25 million tonnes by the end of the 4th Plan, with the necessity of importing larger quantities of foodgrains than the quantities imported in previous years, and with the necessity of increasing the volume of exports in new lines as Sugar and Steel, it will be fair to conclude that our overseas trades will reach nearly 55-60 million tonnes per year by the end of the 4th Plan. With our present overseas tonnage, consisting of 120 ships of 1,183,978 GRT., we have been carrying today only about 11-12 per cent of our international trades. Even if we have to carry only 25 per cent and not 50 per cent of our overseas trades, as urged by our Government, we would need a very substantial addition to our overseas fleet. It is difficult to make any accurate calculation as to the tonnage that may be required to carry 25 per cent of our overseas trades, by the end of the 4th Plan, since the volume of our overseas trades has been constantly on the increase.

With the tonnage under construction, which is expected to be delivered by the beginning of 1967, India's Merchant Navy will, as stated above, cross the two million tonnes mark. In view of a number of difficulties, which Indian shipping has been facing, the National Shipping Board recommended that the Indian tonnage should reach at least 35 million tonnes by 1971. Since

then, considered opinion has been urging that the Indian tonnage should not be less than 4 million tonnes by the end of March, 1971. It will, however, neither meet the demand of the situation, nor will it also make a substantial advance in the percentage of overseas trades that we carry today. It is, therefore, heartening to find the President of India, giving an inspiring message on the last National Maritime Day, that India should build up at least 5 million tonnes of shipping before the end of the 4th Plan. This is both a realistic and attainable target within the resources that are at our disposal.

Moreover, our Government has now become the largest single importer and exporter of cargoes moving in international waters. According to the figures given to the National Shipping Board, 15 million tonnes, out of a total of 40 million tonnes of cargoes, which constituted India's foreign trades during 1964-65, were carried on account of the Government—Central and the States. This means that the Government have got the patronage of at least 37 per cent of our present overseas trades, in their own hands. It is well known that the tonnage, which the Government would be handling, would witness a very substantial rise during the 4th Plan. They may be handling more than 50 per cent of our international trades. They have thus got a great opportunity and a continuously increasing power and patronage in their hands, for assisting India in building up her own Merchant Navy. Our Government should devise such ways and means as would induce and help the Indian Shipowners to go in for an increasing number of ships, for the carriage of India's overseas trades. That would go a very long way in building up the target of 5 million tonnes by 1971.

HERE COMES THE BLUSHING BRIDE



Yes, indeed—this is the finest and sweetest hour of her life: wedding bells and prospects of many years of happily married life. And a wealth of gratitude to father for his thoughtful planning and **SAVING** to make her future so secure.

Your **SAVINGS ACCOUNT** assures you financial security. You are welcome to open your account at any of our branch nearest to you.

INTEREST 4% p.a.

Unlimited number of withdrawals.



THE ANDHRA BANK LIMITED

(The Bank For Friendly Service)

Regd. Office: Machilipatnam. — Central Office: Hyderabad (A. P.)

K. S. DUTT
Chairman

T. R. CHAGAVAT
General Manager



Boom Gathers Momentum

By OUR MARKET ANALYST

FURTHER evidence of returning confidence in equity cult was provided by the trading pattern and price performance of the stock markets during the last fortnight. The end of frustration led to the overlooking of the financial sacrifice involved in carrying burdensome equities during the past few years. The chain reactions caused by a more optimistic outlook and rising equity prices, following many bonus issue proposals, have provided some cheer to the market. Bonus issue proposals visited the markets, releasing fresh speculative support, and enquiries from investors broadened.

The outstanding feature was the return of those investors, who had, for obvious reasons, lost interest in the market for the past one or two years. Will this trend gain strength in the days ahead? Although profit-taking at higher levels was seen in some of the more active shares, the fact that such profit-selling was well absorbed, with further gains in some equities, underlined the fact that the recovery was not illusory.

Among the highlights of the Madras market, the sustained demand for Conscofee lifting the price further to Rs. 32.10 on 22nd April, and the strong demand for Binny group of shares on the bonus proposals needed mention. The one-for-one bonus issue proposal by Buckingham and Carnatic as well as Bangalore Woollen produced a tonic effect on sentiment. The two-for-five bonus issue proposal by Binny & Co.

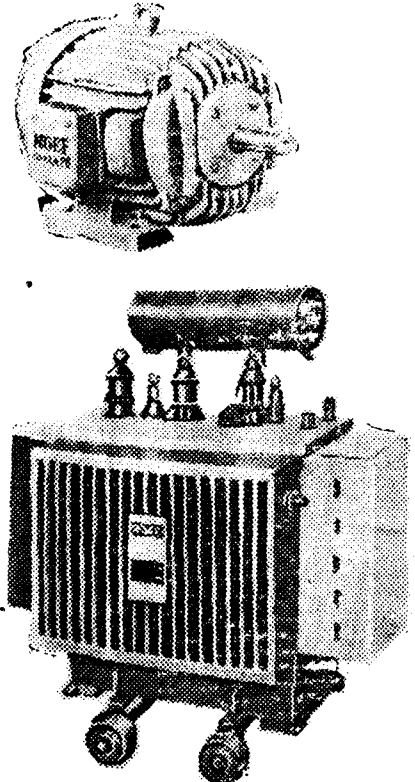
was well received by the market. While Periakaramalai enjoyed a measure of pause at Rs. 4.60 on 22nd April, after the recent rise, offerings were quickly absorbed. There was some sign of shifting influence to Ouchterlony with business at Rs. 3.50. The return of favour to Blue Mountain at Rs. 2.21 has caused some investigation into the near term outlook for this share, though it has been conceded that the dividend and profit outlook for this company depended on the working results of the Fertilizer project of this company. The quiet trend in E. I. D. at Rs. 33 was understandable after the recent rise. The maintenance of 12½ per cent dividend by Travancore Rayons, despite a lower after-tax profit when compared to previous year (gross profit was higher than previous year) the market was disappointed in its bonus anticipations, at least for the time being. The shares were offered lower at Rs. 17.75 on 22nd April.

Dalal Street had the pride of taking steel shares to further heights. Tata Iron had good demand up to Rs. 155 while TELCO touched Rs. 255. Indian Iron met support at Rs. 27.20 on April 21. The possibility of Tata Iron considering the issue of bonus shares sometime about June/July this year, added strength to the scrip. The prospect of further increase in steel price before June, had also its impact. The gradual return of sugar to a free market, as evidenced by larger releases, drew more support for sugar shares.

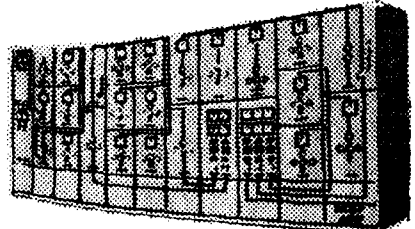
Profit-taking was there in Dalal Street. But, what was

encouraging was the firmer undertone and the growing support for cash shares also. The interim dividend of 10 per cent by Indian Explosives was well received. Voltas touched Rs. 224 on April 21 on hopes of bonus issue. The new high touched by Alcock, Ashdown at Rs. 278 on April 21, was due to the one-for-two bonus issue proposal. Kirloskar Brothers noted support at Rs. 43 and the company's one-for-two bonus proposal was well received. The encouraging working results of Ceat Tyres and their maiden dividend of 5 per cent provided another feature. Hindusthan Aluminium had good backing. In Clive Street, buoyancy persisted, despite profit-taking now and then. Indian Copper maintained support up to Rs. 3.58. Sellers were generally reserved with hopes of further rise. There was marked support for Hindusthan Motor, Guest Keen, Dunlop Rubber and Indian Aluminium. Texmaco was done at Rs. 22.50 on April 21.

The Bull position in the market may give rise to profit-taking. But, this cannot be considered a sign of vulnerability in the context of the general optimism about economic outlook, and the expected success for the Asoka Mehta mission. The present spate of bonus issues by companies will benefit the industry through a saving in tax payments arising out of the helpful dividend tax over 10 per cent, apart from the beneficial impact of a broader equity base on bonus charges.



POWER PRESAGES PROGRESS...



... AND WE AT **NGEF** HELP USHER IN AN ERA OF PROGRESS FOR THE COUNTRY BY MAKING AND MARKETING TRANSFORMERS: UPTO 20,000 KVA 132 KV □ MOTORS: UPTO 1500 HP 6.6 KV □ SWITCH-BOARDS: L.T. & H.T. UPTO 250 MVA 11 KV □ CONTROL PANELS □ HIGH RUPTURING CAPACITY FUSES ETC.

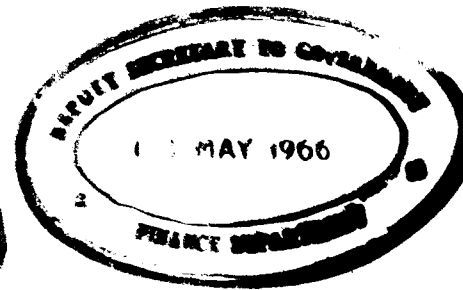
NGEF LTD

LICENCEES AND AGENTS OF

AEG

Post Bag No. 384 BANGALORE

Branches: Bangalore • Bombay • Calcutta • Delhi • Rourkela



Lead in Fashion

Mysore Government
Silks are
*so smooth
so alluring and
so rich in their
attractive shades*

They are fashion's choice everywhere



MYSORE GOVERNMENT
SILK WEAVING FACTORY
Manathody Road, Mysore-4

Showrooms at:

GUPTA MARKET
Kempergowda Road
Bangalore-9.

MYSORE SILK PALACE

Luz Corner
92, Royapettah High Road,
Mylapore, Madras-4.

"Visvesvaraya Bhavan," No. 8, Krishnarajendra Circle,
MYSORE-1

South Kanara Central Co-operative Wholesale Stores Ltd.,
Post Box No. 124, Sahakari Mahal, MANGALORE-1

Printed by C. Krishna Rao at The Phoenix Press, Visveswaraipuram, Bangalore-4. Edited and Published by Mrs. Susheela Subrahmanya, M.A., from 24 (New), Haudin Road, Bangalore-1. Editorial Adviser: K. N. SUBRAHMANYA.

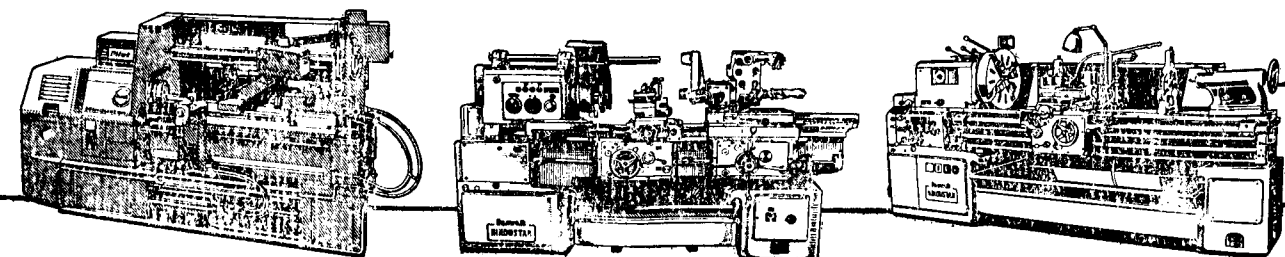


Price Riddle

southern economist

July 1, 1966; Vol. V; No. 5; Price 42 Paise

industry • banking • commerce • finance



hunt

HINDUSTAN MACHINE TOOLS LTD.

Factories at: I & II BANGALORE (Mysore) III PINJORE (Punjab)
IV KALAMASSERY (Kerala) V HYDERABAD (A.P.)

maa.HMT. 6024 A

**SOUTHERN
ECONOMIST**

July 1, 1966

CONTENTS

EDITORIAL

Idealism's Holiday

NOTES OF THE FORTNIGHT

Price-Riddle ; Import Liberalisation ; Tirupati Meeting ; Banking Trends

GLASS HOUSE GOSSIP

SPECIAL ARTICLES

Economic Consequences of Devaluation

—By Dr. S. R. Nath

Devaluation and our Agriculture
—By K. Thiruvengkatachari

—By K. Thiruvenkatachari

Need for Rethinking on Rural Credit

—By *V. Tirupati Naidu*

Whither Co-operative Banking ?

—By D. Srinivasa Murthy

SOUTHERN SCENE

KERALA—Kalamassery Unit of
H.M.T.

**MYSORE—B. E. L.'s Progress ;
Mangalore Project**

MADRAS—Fertilizer Deal; Rural Electrification

ANDHRA—Diary Development ;
State's Economy

COMPANY NOTES

Straw Products ; National Insurance ; New Issues

STOCK MARKETS

Outlook after Devaluation

—By Our Market Analyst

SOUTHERN ECONOMIST

24, HAUDIN ROAD, BANGALORE-1

Phone : 75439

Subscription Rates

ANNUAL Rs. 10 (Inland)

£ 3 or 20 s (Foreign)

Single Copy 42 Paise

IDEALISM'S HOLIDAY

THE spectacle of our ministers flitting about the financial capitals of the world soliciting sympathy and aid may not fit into the image of an upright nation holding the banner of non-alignment high but in this hour of crisis, inaction may well lead to further demoralisation. Asoka Mehta and Sachindra Choudhuri are already out on their respective errands and the Prime Minister is busy packing her suitcase for a tour of the Middle East. This looks deceptively like an exercise in escapism. It is not. On the other hand, they are engaged in an all-out effort to pull the country out of the morass of stagnation into which it has fallen. Goodwill missions foster better understanding; but they may not greatly help in solving our problems. The West is quite pleased that our planners—often admonished in the past for their imperiousness to advice—have gone more than half way in meeting the view-points of creditor nations. Devaluation has caused a de-freezing of attitudes and a loosening of the purse-strings. But the danger lies not in the creditors' assurances falling short of our planners' expectations but in the country becoming, by force of habit, excessively reliant on foreign aid.

We appear to be hovering precariously between Miss Ward on the one hand and Prof. Bauer on the other. What are the implications of the promised aid in the context of the changed exchange rate? For one thing, there is optimism among our planners that the foreign exchange component of the investment programme envisaged for the Fourth Plan would be readily forthcoming. There are, however, many loose-ends. For example, there is no certainty as to whether we are going to get \$ 4,000 million worth of assistance or \$ 4,800 million. Even this \$ 4,800 million, which corresponded to the earlier outlay of Rs. 21,500 crores, will buy much less, in physical terms since devaluation has reduced the rupee-value by more than one-third and increased the import-costs by more than 50 per cent. In other words, the burden of aid, in terms of the local currency, is bound to go up sharply. This is the main reason why our policy in regard to foreign aid needs to be subjected to an agonising reappraisal. The present project-biased aid-receiving policy under which more and more assistance is sought under highly unfavourable terms should give place to a policy which places greater reliance on non-project aid in the short run than on project-wise assistance which, even if secured, should taper off within say, five or 10 years. But in these matters, there can be no hard and fast rules. If, for instance, the aid climate undergoes a thorough change in favour of the developing countries, there can be no objection to securing what Miss Barbara Ward calls "rolling investment." This has the merit of not conflicting with the host country's goal of achieving "economic independence" within a measurable period of time. In Miss Ward's words :

Under such schemes, a private firm goes into the foreign country for a specific period and opens up a new field of investment. During that time, high profits are earned and the capital is completely amortised. But by the end of say, 30 to 40 years, local ownership will have taken over.

The second reason why a reappraisal of our borrowing policy is called for is that aid has become a major ingredient in the present distorted pattern of our balance of payments. Foreign aid, instead of helping to reduce the gap, has tended, over the past decade and a half, to widen the payments gap by adding to the country's repayment and debt-servicing commitments. Absence of the necessary skills to use the imported technology in the most fruitful manner and the other organisational bottlenecks have tended to reduce the usefulness of external assistance. It is time our planners changed their development strategy in order to reduce the aid element in the future plans and to rely more on the country's export earnings for the financing of imports vitally needed for completing the "priority" projects. Since the economy has achieved a fair measure of industrial diversification and has already a hard core of machine building capacity, import-substitution can be attempted on a sufficiently large scale so that foreign aid can be kept within prudent limits.

NOTES OF THE FORTNIGHT

Price-Riddle

CONTROL ROOM DEVICE

THREE weeks after devaluation, the Government seems to be still struggling to grasp the nettle of runaway prices. If an incomes, prices and wages policy was in the embryonic stage, as assumed in some quarters, there are unmistakable signs that devaluation gave a fatal blow to such a policy in the making. The simple truth seems to be that in spite of the talk of "nationalising" retail trade, there has been a steep rise in prices all over the country, the rise being more pronounced after the Rupee-devaluation. The reassuring statements of the Prime Minister and the Finance Minister notwithstanding, the manufacturers and the traders have developed a cynical disregard of the Government's warnings and a total disbelief in official statistics. Even where the product marketed at home has no import content (or negligible import content) prices have been furtively put up under some pretext or the other. For an incomes policy to be successful, there will have to be restraints—both on public spending, on the profits of the private sector and on the wages of workers and the salariat.

These restraints are just not there in the present situation. The

Government has not shown any determination to keep its plan and non-plan expenditure within certain well-defined limits. As a result of devaluation, there will be reductions in revenue under certain heads like import duties and the cost of imports on Government account—not excluding the freight paid on foodgrain imports—will go up by nearly 60 per cent. Even taking account of certain items on the plus side, like the wind-fall additions to export duty accruals, the Government will be spending more in the coming months. There is not even the remotest hint that the outlay on the Fourth Plan will be reduced to prudent levels. Actually, from the earlier figure of Rs. 21,500 crores, it is proposed to be raised to over Rs. 24,500 crores. How can the Government then talk of reducing public expenditure? Another essential ingredient of an incomes policy, viz., profits, is not easily amenable to any kind of restraint—voluntary or otherwise. At any rate, the private sector, which has gone through a very difficult phase in regard to the supply of raw materials, not to speak of several rounds of wage increases and a meaningless credit-squeeze, is in no mood to submit itself to a regime of profit-squeeze.

While the desirability of a profit-squeeze in the present inflationary situation need not be seriously questioned, its imposition, even on a

voluntary basis, may aggravate further the problem of raising Rupee resources which are already scarce. When it comes to the repatriation of his own profits, the foreigner would like to have as large a packet as possible although he would very much like the host country's economy to be maintained on an even keel. In a country wedded to mixed economy, such contradictions may perhaps be unavoidable. Larger profits mean larger dividends which in turn will add to the pressure of money-supply.

There is then the third element, namely, wages and salaries which need to be held within reasonable limits or, in other words, the limits set by the growth of national income in any given period. The bankmen have already set the pattern by securing wage-increases and in the atmosphere of high prices prevailing now, there will be pressure from organised trade unions for conceding further neutralisation. Since such claims are always backed up by the official indices of price-rise, neither the private sector nor the public sector will be in a position to resist such demands. The net result of all this will be to give a further push to prices which have already reached dizzy heights. The inevitable conclusion thus is that any concerted attempt to hold the price-line is unlikely to succeed so long as no firm assurance is forthcoming

there would be drastic curtailment of public expenditure and the price-rise resulting from devaluation is not "imported" into the country; or if imported, will not be transmitted into the prices of essential commodities.

shown reluctance to enforce the provisions of the Essential Commodities Act in bringing the anti-social elements to book.

Import Policy

LIBERALISATION

It is in this context that Mr. H. V. R. Iengar, a former Governor of the Reserve Bank, observed in Bangalore that it would be futile to expect the price-line to be held by issuing ordinances or by opening a few departmental stores. For the problem is not merely one of preventing profiteering. There is imperative need to exercise restraint all along the line, while at the same time ensuring adequate supplies to the market. The control room mechanism that Mrs. Indira Gandhi has pressed into action will succeed only if there is no hoarding at intermediate stages. It remains to be seen whether the Government will succeed in the task of holding the price-line—at least in regard to essential commodities—through the measure of "socialisation" which, in the present context, will mean nothing more than opening more co-operatives and departmental stores to handle the retail sales.

Considering the vast size of the country, it may not be feasible, in the foreseeable future, to transfer the distributive function from the private retailers entirely to co-operatives since they need working capital which will add up to a formidable figure. But there can be no denying that even a fair sprinkling of them—mostly concentrated in urban areas—may act as a brake on profiteering provided they function effectively. This remains a big "if". The appointment of a Commissioner of Civil Supplies smacks of a war-time regime but the civil supplies organisation will have a useful role to play in keeping a vigil on prices. The control tower may not find it difficult to locate possible sources of hoarding and profiteering but the state governments have always

PARADOXICAL as it may sound, one of the indirect results of the Rupee devaluation has been a liberalisation of the import of raw materials, components and spare parts. If one goes by text book criteria, devaluation will render imports costlier (in the case of the Rupee devaluation, the import cost has gone up by 57.5 per cent) and this in turn should lead to a reduction in imports coupled with a larger measure of import substitution. This remains the ostensible goal of our Government but the fact remains that it devalued the Rupee in the expectation of a larger flow of project and non-project aid. To the extent that our factories, with their inventories run down to ridiculously low levels, will be assured of a regular supply of raw materials as a result of the liberalised import policy announced on June 21, one should welcome devaluation as an unavoidable necessity.

As many as 59 "priority" industries will benefit from this liberalised import policy and they cover a fairly wide range of manufactured goods whose production had been curtailed as a result of the shortage of components, spares and raw materials. That the Open General Licence (O.G.L.) is introduced—albeit in a very limited way—is not without its significance but by and large, the industries cannot afford to throw prudence to the winds in the matter of inventory management. The higher cost of imports will itself act as a limiting factor since no cost-conscious industry can afford to allow a larger import element in the final product than is absolutely necessary. How much each

industry in the "priority" category can expect from this measure of liberalisation and how long the supplies will last is still a matter of guess-work. On a rough calculation, the planners seem to have received assurances of non-project aid to the tune of \$1,900 million (Rs. 675 crores) but a more reliable estimate of non-project aid that we may get this year will be available only after the return of the Finance Minister from his tour.

However, now that the "priority" industries and small-scale units are assured a better deal, under the liberalised import policy, they should be able to start drawing from their "bare bone" inventories and reduce idle capacity by stages. Actual imports may take a few months more to reach the Indian ports and one can expect some significant improvement in industrial production from August or September. Last year's performance, for a variety of reasons, has been dismal and the rate of industrial growth in 1965-66 may not exceed 4 per cent, compared to an average growth rate of 7.5 per cent in the first four years of the Third Plan. Even assuming that industrial production in the second half of 1966-67 will look up as a result of improved supplies of raw materials, the annual rate is not likely to go up beyond 6 per cent in view of the shortfalls in the first two quarters. In the present state of the country's balance of payments difficulties, it seems prudent not to embark on new ventures unless the planners are sure of securing project-wise assistance on a massive scale. Many of the expansion projects will, of course, be financed from out the existing lines of credit but institutional credit on a long-term basis may be slow in coming. This is likely to lead to increased private investment which is offered special inducements. Understandably, indigenous entrepreneurs see some hidden danger in this new trend. In fact, this may prod them on to give up their complacency.

COMMON POLICY FOR FAMINE RELIEF

In the midst of parochial cries heard everywhere, it is refreshing to know that the Ministers of the Southern States, including Maharashtra, who met at Tirupati recently, urged the Centre to formulate a plan for the eradication of famine in these States. This "regional approach" is to be commended since it will enable the States to pool their resources for tackling the common problem in the most effective manner. A highlight of the Tirupati conference is the mooted of a 10-year plan, costing Rs. 600 crores, to bring permanent relief to areas exposed to famine. The Andhra Chief Minister, who outlined this proposal, rightly urged the Centre to incorporate this scheme in the Fourth Plan.

This deserves a high priority considering that even in an agriculturally prosperous state like Andhra Pradesh, about 98,000 square miles of area and 2.5 crores of population were exposed to scarcity and famine conditions. As Mr. Nijalingappa revealed, about 12 districts in Mysore, comprising some 72,000 square miles, are frequently affected by drought. In Maharashtra, 16,000 villages out of a total of 35,000 are exposed to famine, while in Madras, areas like Tirunelveli, Madurai and Pudukottai are similarly affected. To the extent that arid belts in the neighbouring states overlap each other, the problem can be tackled only on a regional basis. It is for this reason that the Chief Ministers, meeting at Tirupati, called for an intensified survey of the geological and natural resources of the area—particularly water resources.

It may interest these States to know that such a survey is already contemplated by the experts in the Planning Commission. A study of the problems of arid regions will

be preceded by an aerial survey (including aerial photography) of these areas with a view to identifying the nature of different soils and also to locate possible sources of ground water. Rethinking is also needed on the question of locating dam sites and the use of the waters of inter-state rivers in order to avoid problems of water as well as soil wastage. In this connection, the Maharashtra Chief Minister, Mr. V. P. Naik's suggestion for the formation of a "water grid" is quite timely in the context of the present unseemly wrangle over the use of the waters of some of the major rivers. It is regrettable that even after 18 years of independence, and three five-year plans, nothing worthwhile has been done for removing the spectre of famine in large areas in the country.

A permanent solution to the problem is not possible so long as the State Governments are left to tackle the problem piecemeal through *ad hoc* measures. Location of major irrigation projects in the areas of poor rainfall is necessary although the Planning Commission is right in suggesting a shift in emphasis from major irrigation projects to minor ones. In the utilisation of irrigation facilities made available by major projects, the completion of main channels should synchronise with the completion of field channels. If the planners have failed in the task of affording adequate relief to scarcity pockets, it is partly because the five-year plans have not given due importance to regional planning. The example of Italy where the regional concept is pushed to its limits in removing the backwardness of its southern region commends itself to India where investment decisions are made more on parochial and political grounds than on the basis of sound economic criteria. Lack of irrigation facilities may be one of the reasons of backwardness but it is wrong to think that the solution lies only in providing water for growing crops in areas of poor

rainfall. If, for example, region affords scope for mining and for the location of industries based on available raw materials, there need be no undue emphasis on agriculture. In a country of continental proportions, the concept of territorial specialisation can be applied to good purpose.

Banking Trends

CHEAPER CREDIT?

AN INDICATION that the future credit policy is likely to be more liberal than in the previous seasons came from an unlikely quarter, namely, the Union Food Minister. What shape this "production-oriented" credit policy hinted at by Mr. C. Subramaniam will take remains to be seen. Considering that the banking system will have to take care of not only the Government's borrowing programme but also a likely spurt of demand for funds from industry and trade, following the recent import liberalisation, the banks' resources will be put to severe strain in the coming months, in spite of the onset of the slack season.

If the facts revealed in the Reserve Bank's report on the *Trend and Progress of Banking* in 1965 are any guide, the banks seem to be better equipped to meet the challenge, provided the Reserve Bank extends the necessary support. For one thing, deposit-accretion in 1965 amounted to 14 per cent as against 12 per cent in 1964. In absolute terms, the expansion has been of the order of Rs. 363 crores compared to Rs. 271 crores in 1964. This is exclusive of the transfer to RBI of the P.L. 480 funds from S.B.I., amounting to Rs. 33 crores. There has been a rise of Rs. 448 crores in the total resources of the banking system, compared to Rs. 331 crores in 1964. Percentage-wise, the rate of increase in resources in 1965 has been of the order of 35 per cent against 21 per cent in the previous year.

This may be attributed partly to the tighter credit policy for the 1965-66 busy season and partly to the general slack in the industrial sector and the poor harvest. Although the increase in bank credit has been of the order of Rs. 293.8 crores in 1965, compared to Rs. 230 crores in 1964, a relatively lower percentage of additional resources was used for credit expansion.

Granting the limitation of operating in a dual-sector economy (monetised and non-monetised sectors) the Reserve Bank's credit policy can be said to have made its impact on banking trends. For example, advances to industry, as a percentage of total advances, have risen from 57.2 per cent at the end of March 1963 to 59.2 per cent at this time in 1964 and 61.5 per cent in 1965. As against this, advances for commerce showed a decline from 27.6 per cent and 26.1 per cent to 25.6

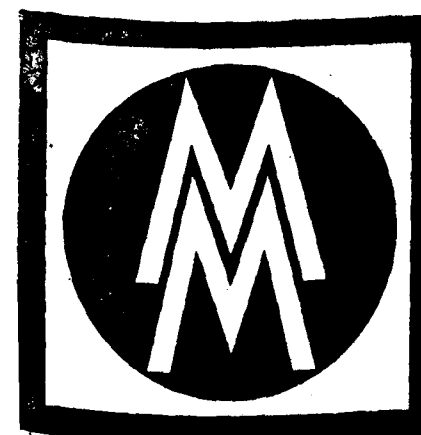
per cent. Surprisingly, advances to agriculture remained negligible and, in fact, have shown a decline in 1965.

Several interesting changes were noted in the evolving pattern of deposits. The increase in demand deposits, as compared to time deposits, was partly due to the transfer of P.L. 480 funds from the State Bank to the Reserve Bank. Secondly, as the report notes: "88.5 per cent of the savings deposits were classified by the Bank as demand deposits compared to 87.6 per cent in 1964. A factor which assisted in relatively higher growth of savings deposits was the increase in the rate of interest paid on the deposits from 3½ per cent to 4 per cent with effect from February 1, 1965." Although a causal connection cannot be easily established between the higher structure of deposit interest rates and the faster

growth of bank deposits, the influence of interest rates on these trends cannot be entirely overlooked. As the Reserve Bank's report rightly notes:

The growth in term funds with banks enables them to take a greater share in the term financing needs of industry and constitutes another channel for the transmission of the community's savings into investments; this is of particular importance at a time when capital market conditions have been sluggish.

On the investment side, the banks have reduced their holdings of Government securities within the limits set by liquidity requirements. This is understandable in the context of the higher Bank rate and the relatively unattractive yield of Government paper. While the banks can be expected to respond more favourably to the new loans to be floated in the course of this month, in view of the sizable deposit-accretion that has taken place,



LEIPZIG

INFORMATION CONTACTS BUSINESS

LEIPZIG offers you:

- 800,000 exhibits, all the latest and best of their kind—an unequalled international display of consumer goods—arranged in 30 trade sections occupying 17 fair buildings—plus on-site offices of many enterprises importing and exporting capital equipment
- Opportunities of comparative evaluation on a world-wide scale covering products from 6,500 exhibitors in 60 states—possibilities for valuable discussions and exchanges of experience—demonstrations of international co-operation—outstanding conditions for trade
- Unrivalled chances to meet leading representatives of trade, industry, science and technology from both EAST and WEST.

Seize the opportunity and visit LEIPZIG!

Information and Fair Cards can be obtained from: Leipzig Fair Agency, P. O. Box No. 1993, Bombay 1 D-7, Nizamuddin East, New Delhi 13, 34-A Brabourne Road, Calcutta 1 38, G. N. Chetty Road, Madras-17. or at the frontier of the GDR.

CONSUMERGOODS

4-11.9.1966

LEIPZIG TRADE FAIR IN THE GERMAN DEMOCRATIC REPUBLIC

subscriptions are unlikely to come forth on any excessive scale.

It is interesting to note that in spite of adverse factors like growing costs, bank profits have actually increased in 1965. The profits of 33 scheduled banks covered by the R.B.I. report amounted to Rs. 190 crores. Percentage-wise, the increase has been of the order of 33 per cent. However, the rise in banking expenses has been of the

higher order of 35 per cent. Whether the present happy trend of profits will be maintained in 1966 depends as much on the future trend of the Bank rate as on the extent of credit expansion. In this context, one cannot rule out the possibility of a downward revision of the Bank rate from the present high level of 6 per cent. Announcement of a Bank rate reduction of say, one per cent from 6 to 5 per cent, will be quite opportune at this

time of the slack season, particularly in the context of the Government's borrowing strategy for 1966-67. A lower Bank rate will greatly help the borrowing programme while at the same time making the liberalised, production-oriented credit policy more meaningful. But there can be difference of opinion on whether a lowering of the Bank rate will slow down deposit-accretion. The bankers are sharply divided on this question.



meet The Pigmy

My name is Pigmy. Born in the African Jungle? Oh, no! He — I mean the African Pigmy — is just my namesake. I am the pigmy. I am wherever Syndicate Bank is.

My food is your saving — monies set aside. Of course, I am regular in my food. I wish to have it daily — from you and others like you so that I can get bigger and stronger. But I am not too fastidious and will accept anything from you whenever it pleases you — at your convenience. I give you in return more than what you give me — but after a lapse of seven years. Yes, it takes that much time for me to grow and be able to return your debt with interest.

Give me regularly 25 Paise daily. I send my man to your doors to fetch it. You will get from me at the end of seven years Rs. 700/- that is more than what you pay. Likewise, a daily contribution of Re. I will fetch you Rs. 2,800/-, and Rs. 10/-, Rs. 28,000/- and so on.

WANT TO MEET ME?

Come to any one of the Branches of

SYNDICATE BANK LTD

I would be glad to meet you and we must know each other better.

GLASS HOUSE GOSSIP

ONE of the amiable weaknesses of our Government is its incapacity to "brainwash" people. If this means giving a good "chit" to the Press Information Bureau, one should have no hesitation to do so, even at the risk of being misunderstood by one's colleagues. I am referring here to the dialogue — I am almost tempted to say, harangue — between the gentlemen of the economic press and the spokesmen of the economic ministries so thoughtfully arranged, for the first time, by the PIB in New Delhi. I really enjoyed the verbal thrust and parry although many of my colleagues may, with some justification, point out that one did not always observe the rules of the game. But when one confronts a press representing a broad spectrum of opinion, emission of some heat is perhaps unavoidable.

The Finance Minister did not have to face awkward questions; he only made a brief appearance. I wouldn't say he was profoundly original or brilliant but I liked Sachindra Choudhuri's workman-like approach. Somebody had to bear the cross and he seemed to do it without any trace of annoyance. His exhortation to the financial press to take things with philosophic calm and treat devaluation as a fact of life, I know, did not go home well. But what was the point in crying over spilt milk? Personally, I do not think devaluation had anything to do with the economic editors' conference (or vice versa) since it was planned several weeks earlier. But it is as well that we met after the event. After all we had something to talk about.

Incidentally, I have nothing but praise for the top officialdom which has shown an amazingly high degree of adaptability of new situations.

Till June 5, almost every one was busy arguing the case against devaluation. The moment the Government took the fateful decision, the secretaries, deputy secretaries and joint secretaries — in short, the entire administration — were only too ready to clutch at any straw to justify the *volte face*. After all, consistency is a quality associated with small minds.

Lest I be accused of drawing a red herring, let me hasten to point out that there are some really competent men in the administrative hierarchy, who can rise to any occasion. What I liked about them is that they were communicative, if not actually garrulous. This, I should say, is a quality seldom associated with the "steel-frame." In the three-day "post mortem" that took place, I did not discern any significant clue as to who killed red robin and why it was done at all. I do not however blame the officials for not giving a satisfactory reply to all our questions.

Frankly, I do not feel tremendously dignified, as an Indian, over the fact that we had to devalue the rupee under pressure. But I agree with Mr. Sachindra Choudhuri that it was rendered necessary by our inability to live within our means. As to its budgetary impact, there appears to be a feeling in official quarters that the plus and minus sides cancel out each other. It would be nice if they did, but I have my own doubts. If devaluation results in a bigger budget deficit — it looks quite like it — I am afraid we will be in for another bout of inflation. I have not yet become a convert to the view that money has become "worthless." At any rate, I have not turned so reckless as to literally burn it.

TILL Quite recently, I had a feeling that investment decisions are taken in the light of the economic outlook prevailing at a given point of time. An *arrebhoy* type (a la Henry Miller) of businessman with whom, I was travelling recently disabused me of that notion. To kill time, I was displaying my scanty knowledge of the bulls and bears in the presence of a group of Delhi-bound travellers when Lalaji descended with the impact of a meteor. "You people know next to nothing," he interjected. Nonplussed, I was at a loss to know what Lalaji meant but I implored him to let go. He did. He told us, to our utter amazement, that he never made an investment decision before consulting an astrologer. What the astrologer did not know was not worth knowing.

Since Lalaji hit the jackpot every time he heeded the advice of his astrologer, I was not at all surprised at his cocksureness. Probably one of the reasons why people in this country rush to astrologers is that our problems do not easily lend themselves to easy, logical solutions. This, I know, is not a scientific explanation, but people need something to cling on to. Ask Pandit Haveli Ram, if you have any doubt. This being an election year, astrologers, I hear, are in great demand everywhere. Even aspirants to the editorial *gadi* sometimes consult them. That is one of the reasons why you find so many duds sitting on the top. Who cares, so long as *Shukra* smiles from a vantage position!

* * *

IF I usually avoid inter-State controversies, it is not because of my reluctance to say disagreeable things but for the simple reason that angry people seldom listen to any advice. In any case, since *satyagrahas*, "bundhs" and stay-in strikes are the order of the day, I sometimes feel that one should learn to live with them. There's

no go. Besides, I am not a good judge of mob psychology. Squatting on rail tracks may not be the most civilized form of showing one's protest—it is more comfortable to squat, for example, on the lawns of *Vidhana Soudha*—but I do not too strongly criticise the “border” satyagrahis because our trains run usually behind schedule, in any case. As I wrote earlier, I am quite clear in my mind that the decision taken at the Bombay A-I.C.C. to appoint a Commission to look into the so-called border disputes between Mysore and Maharashtra was inopportune.

If you will forgive my being frank, I must say that committees and commissions are appointed not to find solutions to problems but to find an excuse to shelve the issues. And, as it sometimes happens, they are also appointed to “queer the pitch” for trundling in a decision which might have been already taken behind the doors. Chandigarh is the latest instance but there may be many others. In the first place, I do not quite under-

stand what tangible benefit Maharashtra would derive by the inclusion of Belgaum and some other border towns in that State. ‘Why disturb the *status quo*?’ The reorganisation of the boundaries of the States on the basis of the linguistic principle (shall I say, expediency?) was perhaps politically unavoidable. But I have a feeling that we are carrying the thing rather too far. In fact, a certain overlapping is to the good of the country. Why not hand over a few Kannada speaking districts to Maharashtra in exchange for some Marathi speaking areas? In Bangalore itself, there is such a large number of Tamilians that I am sometimes afraid of speaking in my own mother tongue. Even my servant-maid resents my addressing her in *Kannada*.

CONSIDERING that devaluation is a *fait accompli* and that all values—including human values—are now at a discount, I see no point in the demand to provide insurance cover to the public travelling on the country's nationalised railways. Cy-

nicus may wonder: Is life worth anything at all? Not that I remain unmoved by the Matunga disaster—I am as much shocked by these accidents as the Railway Minister—but I am reluctant to support the demand for Mr. S. K. Patil's resignation on that score. Mr. Lal Bahadur Shastri's resignation, after the Ariyalur disaster was, to my mind, an act of political far-sightedness. If a convention is to be set up whereby the concerned minister should resign after every train or plane accident, then we will have a new Transport Minister every six months if not at more frequent intervals. There can be no causal connection between the competence of a minister and the incidence of accidents. The causes of accidents can be many and varied. They can be due to human or mechanical failure. They can be due to sabotage. They can be due to natural causes like floods. I think it is unreasonable to hold a minister responsible for things over which he has no control. Unfortunately in this country, even accidents become election issues. —*Plebeian*.

SPECIAL ARTICLES

Economic Consequences of Devaluation

By DR. S. R. NATH

LITTLE attention has been paid to the economic consequences of devaluation. While the arguments put forth in defence of devaluation by the official spokesmen sound textual and academic, criticism by opposition is more political than economic. It is high time that the general public is informed about the implications of devaluation and their impact on the country's internal and external economies.

Though rupee is devalued in terms of gold by 36.5 per cent, from the point of view of the Indian importer, it is devalued by about 57.5 per cent in terms of sterling, dollar and rouble, etc. Before devaluation, for every unit of goods and services worth a pound sterling imported by him, the importer had to pay Rs. 13.33, but now he has to pay Rs. 21.0 which means, the worth of his rupee has gone down by about 57.5 per cent in terms of pound sterling. (Rs. 7.67 depreciation as a percentage of Rs. 13.33 will be 57.5). Similarly in the case of dollar, Rs. 2.74 depreciation as a ratio of the earlier official rate of Rs. 4.76 will be 57.5 per cent. Another way of looking at this phenomenon, from the exporter's point of view, is as follows: For every Rs. 100 worth of goods and services exported, the exporter gets, after devaluation, Rs. 63.5 worth of pound sterling, dollar or rouble. This means, 36.5 per cent devaluation in relation to Rs. 63.5 that he gets which works out to 57.5 per cent. This, in effect, is the real devaluation he suffers for the export of goods and services worth Rs. 100 he has made.

UNOFFICIAL RATE

For some time past, especially for the last 2 or 3 years, the official exchange rate of the rupee had lost touch with the reality of the situation. An extensive black market had grown up in the big cities of

India where dollar and sterling were offered at a higher rate by private parties than the official one. Indian exports had not increased substantially over the Third Plan period to off-set the widening deficits in balance of payments. In short, the rupee had lost its ‘prestige’ in international market; a dollar, a pound sterling or a rouble was worth much more in terms of rupees than what was officially fixed. This had its own repercussion on any prospects of foreign investment in India, either on Government-to-Government basis, between private parties or in collaboration projects. Foreign currency invested in India would, under these conditions obtain much less rupee worth of goods and services than it could under natural circumstances. Further, when remittances of profits or service charges or interest were to be made, the foreign investor got much less in terms of his currency at the official rate. Naturally, therefore, foreign capital was reluctant to flow on a large scale into the country.

The Government of India was aware of these developments for some time past. When the Bell Mission visited this country some time back and suggested devaluation, the idea was frowned upon by the Government. Both in the Parliament and outside, the Government spokesmen denied that the Rupee would be devalued. The Government believed that somehow the internal position could be improved so as to restore the ‘prestige’ of the rupee. But on June 5, 1966, at 11 P.M., the Finance Minister announced that the rupee was devalued by 36.5 per cent in terms of gold. How come this dramatic change of conviction? The finance Minister however denied that external pressure (by the World Bank and U.S.A.) had anything to do with the Government's decision to devalue. Then what was that sudden development in the economy which forced the Government to devalue? It is a pity that the public is not taken into confidence

on such a vital issue by the Government. It becomes obligatory on the part of the Government not only to take the people into confidence by telling frankly the truth but also to let them know the politico-economic implications and consequences of the measure. The simple truth is that the World Bank and U.S.A. refused to assist India unless the Rupee is devalued and made attractive for foreign investment. One-quarter of our Fourth Plan is dependent directly on foreign capital. Without an attractive and big plan, the Party in power cannot face the electorate next year with promises of honey and milk and a prosperous paradise! No amount of hackneyed, text-book type and academic arguments can cover this truth.

CONSEQUENCES

What are the economic consequences of devaluation? It is true that rupee is devalued only in terms of its exchange rate and internally, it remains the same. But the impact of devaluation of the external value of the Rupee will invariably be felt on its internal value also. Imports will now become costly. Many articles and commodities of daily use are influenced either directly or indirectly by the import elements. Foodgrains imported on P.L. 480, kerosene* and petroleum, and fertilizers will be the worst sufferers. It is naive on the part of the Government to assume that the rise in the prices of these will be subsidised and thus will not be passed on to consumer. To the extent of this subsidy, there will be a deficit in the budget (unless expenditure on other items is drastically cut down) and to that extent taxes will be raised. Thus, what in the first stage is a ‘gift’ from Government to the consumer becomes a ‘liability’ in the final stage. He meets the rise in price under a different label. Prices are bound to rise. With an incompetent administration which can neither book the profiteers and black marketers nor punish them severely, if caught, prices are

THE MYSORE STATE CO-OPERATIVE APEX BANK LTD.

No. 1, Pampamahakavi Road, Chamarajapet, BANGALORE-18

Golden Jubilee Celebrations

Golden Jubilee Deposits at very attractive rates of interest are accepted repayable after three years and certificates will be issued in the following denominations:

IO	Face Value	Issue	8.25
100	“	“	82.50
1,000	“	“	825.00
1,00,000	“	“	82,500.00

The Certificates are issued under various denominations like 25,000, 50,000 at the above rates.

Special rate of interest is offered for the Golden Jubilee Certificates. Avail of this opportunity to save money to help yourself and agricultural production.

The Bank accepts deposits for various periods with interest ranging from 2½ per cent to 7½ per cent. Affords all types of Banking Facilities such as Demand Drafts, etc.

G. RUDRAPPA
Secretary

*The impact of devaluation on some of these articles is offset by appropriate duty-reductions—Ed!

going to rise substantially. Secondly major items of our exports such as tea, jute are not price-elastic. There cannot be any spectacular rise in exports which can offset the inflationary potential of devaluation. Further, wages are bound to rise; coupled with this, the prices of imported materials. Thus the cost structure will go up and India may lose its export markets! Thirdly, even the foreign aid, for the sake of which the Rupee is devalued, will prove a 'villain' rather than a 'saviour' because of devaluation. It is true that World Bank, and A.I.D., U.S.A. will offer significant amounts but mostly they will be tied-up with project programmes or in such industries where fructification of investment will take a long time*. In other words, the return on investment of this foreign aid will not be quick and will take relatively long period. Consequently, inflationary pressures develop due to devaluation which cannot be nullified. Lastly, devaluation is only a means, that too a temporary means, and not an end in itself.

PAST EXPERIENCE

If past experience is any guide, the present measure taken by the Government will not improve the situation. In 1949, the Rupee was devalued by about 30 per cent. More than anything else, the Government has been assuring all the time that the 'price line' will be held firmly. But in these 17 years, what has happened? The price situation worsened in the country, exports did not show any justifiable increase, imports on Government account rose enormously at the expense of imports on private account. Thanks to exchange restrictions, P-Form, import licences, etc., a huge black market for foreign currencies grew. The gap between the official exchange rate and the 'actual' exchange rate widened considerably. Within 17 years, all these and the ambitious Plan too, led to the inevitable situation of a further devaluation on a larger scale! What guarantee is there that this is the end of the journey of the rupee in the international market?

The Government of India and the "Darbar economists" do not realise the inflationary potential of this measure. To make devaluation

meaningful, three alternatives are available: Cut the imports to the barest minimum; encourage import substitution and enlarge the exports. Let us examine these in detail. First, reduction in imports: In a developing economy like ours, imports of (a) raw materials and spares, and maintenance imports and (b) capital and machinery are bound to increase from year to year with the rise in tempo of industrialization. Imports on private account have already been cut to the minimum and there is little scope left for any further pruning. Therefore this alternative has to be given up. Secondly, import substitution which cannot be achieved overnight. It is a slow process and there will be a time-lag between its initiation and fulfilment. In the meantime, import substitution calls for imports! As an example, let me give the need of a machine which has to be imported with which you can manufacture a machine which can produce certain type of goods for which we were formerly dependent on foreign countries. Thus, "import substitution" is not a magic wand which stops our dependence on imports all at once. What happens during the intervening period? We can't completely dispense with imports; we may have to import to make import substitution effective, but devaluation makes imports costlier than before. Naturally, the cost-structure goes up, our export products become less competitive in foreign markets and the objective of devaluation will thus be defeated. Thirdly, in regard to the expansion of our exports, most of our exports are not price-elastic. Further, they are agriculture-based and as an alternative, have a large domestic market. It is doubtful whether under these circumstances, exports will increase substantially so as to neutralize the inflationary spiral generated by devaluation.

However much the modern economists decry and debunk the quantity theory of money and purchasing power parity theory, their basic truths still hold good for economies like ours. The external strength of the monetary unit depends on its internal purchasing power and the latter is influenced by the quantity of money that is in circulation. India violated this beyond excuse or justification and found herself in a mess. A less ambitious plan with less dependence on foreign

aid will enable drastic control of money supply. A larger concentration on consumer goods production and foodgrains production will restore imbalance between demand and supply thus bringing down the price level. The Government should use the weapon of physical controls to keep the prices under control. It should take over the distribution of major consumer goods into its hands and prohibit all private trading in them. The next step is to make it obligatory on the part of employers to open co-operative societies in all urban areas through which these goods should be made available to employers at fair prices. This is not an impossible task. During the days of World War II the then alien Government did it to some extent fairly successfully. This will insulate the "fixed income" group concentrated in urban areas, from the inflationary effects of devaluation. In India, where there is a significant non-monetized sector and unorganised banking in the economy, the price-line cannot be held through monetary and credit policies. Fiscal policies will not be effective because of the inefficiency in implementing them. Therefore, physical controls alone can be tried to hold the price-line on which depends the success of realising the objective of devaluation.

L & T BAGS NEW CONTRACT

HINDUSTAN Steel Limited, has awarded a turn-key contract to a well-known Japanese firm for its iron ore beneficiation plant at Barsua near Rourkela. The ore will be utilised by the Rourkela steel plant. The Japanese firm Sumitomo Machinery Company will in turn rely on Larsen & Toubro Limited. The work done by Larsen & Toubro Limited and Engineering Construction Corporation Limited, will account for approximately 60 per cent value of the total contract of about Rs. 3 crores awarded to the Japanese firm.

Subscribe to
SOUTHERN ECONOMIST
24, HAUDIN ROAD
BANGALORE-1

Devaluation and Our Agriculture

By K. THIRUVENKATACHARI

WITH effect from Monday, the 5th June 1966, the external value of the Indian Rupee has been devalued by 36.5 per cent. This measure had been originally suggested by the World Bank, in view of our deteriorating foreign exchange situation. As an alternative, the Bank has also suggested a smaller size for the Fourth Plan. Discussions among the financial wizards had been going on for the past one year and the Government has decided upon devaluation all of a sudden. Though it is primarily intended to correct the imbalances with regard to our deteriorating balance of payments position, it is fraught with far-reaching consequences on the internal economic situation. Here an attempt is made to analyse the impact of this move on the agricultural sector of our economy.

Agricultural goods like raw cotton, oilseeds, hides and skins, coffee, tea, etc., form a good portion of our export trade. Because of devaluation, their value in terms of foreign currency will diminish. To earn the same amount of income, as before, in terms of foreign currency, we have to export more of these goods. Since the supply of these goods are intractable to changes in demand, the Indian agriculture cannot derive the full advantage of devaluation by way of increasing the exports. The value of some of the average annual exports of these commodities as on 1964 is: Tea about Rs. 124 crores, Hides and skins Rs. 32 crores, Tobacco Rs. 19 crores etc. In view of devaluation, the exchange value of these commodities will fall. This will affect agriculture in terms of reduced prices by the traders to producers. This may be a disincentive to production.

To effect a break-through in our agriculture, we are very much depending upon imported fertilizers. The consumption of chemical fertilizers has been increasing. The consumption figures for 1965-66 are likely to be 6,50,000 tonnes of N, 25,000 tonnes of P and 15,000 tonnes of K. The target for the Fourth Plan as stated in the Plan Memorandum are 2 million tonnes of N, 1 million tonnes of P, and 0.35 million tonnes of K.

The Government has taken steps to import a major quantity of fertilizers required since our indigenous production is far below our requirements. We have approached the World Bank for a loan to import fertilizers. Further foreign collaboration in starting new fertilizer plants has been sought from at least 10 countries.

In this context, devaluation will mean an increase in the prices of imported fertilizers, an important component of our agricultural inputs. Devaluation will place the foreign collaborators in our fertilizer production in a more advantageous position, since they can now secure more of equity shares with the same amount of capital which they have already proposed to invest. Though this may be helpful in inviting foreign investment, yet it is dangerous to place our entire bargaining position at the hands of foreign capital, especially in the production of such an important component of our agricultural inputs. In this respect, devaluation will be prejudicial to agriculture.

Since we are importing on an average nearly 5 million tonnes a year under P.L. 480, the Rupee value of imported food will be very high. This places at the hands of the U.S. Government a good deal of Rupee funds, which can be disbursed in India at any time. This will mean a further stimulus to the inflationary trend which we are witnessing in our economy, consequently agricultural prices may also rise. The price of imported wheat will rise, unless subsidised. Imports of agricultural machinery, technical know-how, etc., will cost more. A technological revolution in agriculture will mean the import of a large part of technical know-how and machinery from abroad. They now become costly.

As a consequence of devaluation there may be rise in the prices, in some other sectors. Particularly, industries using foreign components of raw materials and spare parts will have to increase the prices of their goods. It is feared that there may be an inflationary spree. This will have its adverse

effect on agriculture since agricultural prices will not rise as fast as the industrial prices. This will lower the income of the agriculturists in real terms and production will suffer.

Devaluation has distorted the plan priorities. Agriculture, which was accorded the first place in the Fourth Plan, will now be next to industry in terms of allocations, since the schemes taken on hand will cost more and hence increased allocations will have to be made for them. But the Statement of the Food Minister that the food prices will not rise and the impact of devaluation on foodgrains will be almost nil, is reassuring. The import of essential items like fertilizers, etc., it is said, will be subsidised. Already attempts have been made towards removing import restrictions on essential items. These, it is expected, will result in warding off the evil effects of devaluation. The Government is also preparing a comprehensive scheme to safeguard the essential interests of the consumers.

However, all these efforts cause a heavy drain on government's resources. The success of this new monetary strategy can be measured only in terms of increased exports. Our agricultural production must increase and provide an export surplus. Quick schemes for export promotion, automatic promotion of import substitution and increase in home production of both agricultural and industrial commodities will alone solve our difficulties.

A few copies of our Banking Number and Annual Number are still available. They can be had on payment of one rupee (each) by M.O. or by sending stamps of equivalent value to:

SOUTHERN ECONOMIST
24, (New) Haudin Road
Bangalore-1
Phone: 75439

* This is not true in the case of substantial non-project aid offered.—Ed.

Need for Rethinking on Rural Credit

By V. TIRUPATI NAIDU

THE strategic role of credit for farm production and investment cannot be over-emphasized. The significance of farm finance is all the more great under the present conditions of food scarcity. The cultivators can use improved farm practices only when adequate and timely credit is available for them at reasonable rates. Theoretically, co-operatives are the best agencies for providing credit to the farmers. But the performance of the co-operatives has not been quite commensurate with the growing need for farm finance. Further, there is a wide regional disparity in the development of the co-operatives. The co-operatives are fairly well developed only in a few states namely Maharashtra, Madras, Gujarat, Andhra Pradesh and Punjab. Elsewhere, the record is far from satisfactory.

Heavy reliance for funds on the Reserve Bank, excessive dependence on Government agencies, slow accretion of deposits and increasing overdues have been the baneful features of the co-operative credit system of our country. The co-operatives must be organised in a business-like manner and need to be strengthened at all levels and especially at the primary level. The service societies must be made viable if they are to be of real service to the farming community. They must have adequate coverage and enough profits so as to enable them to employ regular paid-staff.

1. Expert opinion favours viability of the co-operatives consistent with their 'co-operative' character. See, for example, the article by Shri R.C. Ryan, on "Co-operatives in Asia" in the International Labour Review, December 1965.
2. Shri S. D. Misra, Deputy Minister for Food and Agriculture, is reported to have said in Lok Sabha that the Government is considering to set up Agricultural Credit Corporation in the states of Bihar, Bengal, Orissa, Assam and Rajasthan.
3. For a discussion on Risks and Uncertainties in Agriculture in Relation to credit see the author's article in the Indian Journal of Agricultural Economics, Jan-Mar. 1964.
4. For details, see Vera Anstey, An Introduction to Economics for Students of India and Pakistan, George Allen and Unwin, London 1964, Pp. 80-81.

Owing to the existing limitations of the co-operatives, several alternative systems are being considered for deploying rural credit. At the last conference of the Chief Ministers and Agricultural Ministers held at New Delhi, it was decided to have an Agricultural Credit Corporation with branches in States where the Co-operative Movement was weak.¹ This decision seems to have been taken in a hurry without carefully examining all its implications. The setting up of the Agricultural Credit Corporation with its branches in the undeveloped States would have deleterious effects on the growth of the Co-operative movement in those States. The money and effort that would be needed for starting such a corporation with branches at the State level could be more fruitfully utilised in strengthening the co-operative credit structure in the country. Such a suggestion had been made even earlier and was rejected.

The Agricultural Finance Sub-Committee recommended the setting up of State Agricultural Credit Corporations. There might have been some justification for such a step in the year 1945 when the committee made its recommendations. At that time, the coverage of the co-operatives was not extensive and many of the co-operatives were weak and helpless with mounting over-dues. The situation now is definitely better than what it was two decades ago. No doubt, as noted earlier, certain weaknesses still remain in the co-operative structure and they need to be rectified as early as possible. The remedy lies in strengthening the co-operatives and not in supplanting them by setting up an alternative agency.

It is indeed surprising why the State Ministers have failed to take note of another agency which might supplement and complement the work of the co-operatives. The commercial banking sector is one such agency. It is a well organised and ready at hand agency. Steps must be taken to actively associate the commercial banks with agricultural finance. They should be

given the same facilities as the State Bank of India in the matter of their branch expansion programmes. The commercial banks of U.S.A. and U.K. play a very useful role in financing agriculture. There is no reason why the commercial banks in our country with the extension of their branches to small towns should not in course of time be able to play a greater role in providing credit to rural areas. The commercial banks of Kerala have set the example and the Banks in other areas should follow suit. The recommendation of the Gadgil Committee needs to be reiterated in this connection. The Committee said, "all reasonable facilities which do not in any way hamper the growth of the Co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit structure."

In all discussions of farm finance there is a tendency to ignore the money-lender. He is often viewed as a dangerous factor to be ruthlessly wiped out from the rural credit scene. No doubt the money lender indulges in many malpractices which need to be curbed in the interests of a sound system of farm finance. The money-lender often charges high rates of interest. The gross rate is often quite high because of the risks and uncertainties involved in financing agriculture², but the net rate (or pure rate) is not always high. Money lending is not necessarily highly profitable because the money-lenders frequently operate under conditions of imperfect competition.³ There are more money-lenders than are necessary to perform the function of money-lending in our rural areas. Their profits, are limited by the restricted size of the market open to each. Under these conditions it will not probably be in their interest to lend more money than they already do, because this would, no doubt, force them to accept lower interest rates, which would, in turn, diminish the net return on their total operation. It will only be to their advantage as a group to lend more money for productive purposes, if the over-all demand for their funds increases consequent upon the introduction of new agricultural techniques and

high 'pay off' inputs which will raise the productivity of capital.⁴

It is in the money-lender's interest to make the cultivators receptive to new production techniques and improved cultivation practices. One of the most fruitful ways of inspiring growth in the rural areas lies in working on the money-lender's receptive intelligence through making plain to him the advantages which will accrue to him if he can

5. For details, see "Credit Expansion and growth in under developed Rural Areas" by Anthony Bottomley in The Indian Economic Review No. 2, Vol. VI. Also by the same author, "The Structure of Interest rates in underdeveloped Rural Areas" Journal of Farm Economics May 1964.

stimulate the farmers to undertake productive investment. The village money-lender is then a potentially vital factor of production and his knowledge and talents should be utilized to the full. This potential will be realized if the gross rates of interest charged by the money-lenders are reduced to a reasonable level.

The high risk premium and the administrative costs are largely responsible for the high rates of interest charged by the money lenders. These things can be reduced through the augmentation and proper certification of the farmer's collateral. The building up of the farmer's security, if it is authenticated by means of the issue of land titles, certification of crop grading and

storing, etc., will give the farmer access to the organized, low-interest urban money market. When a farmer has a satisfactory collateral to offer, he may go to a commercial bank and obtain a loan. The money lender will thus have a competitor and he will have to reduce his rates to match the urban rates. The commercial banks have not played hitherto any significant role in the sphere of farm finance because of "the lack of proper accommodation for storage, and of arrangements for the issue of receipts by licensed warehouses." All these matters deserve careful attention in any scheme of rural credit re-organisation. There is every need for rethinking on rural credit by the planners and policy makers concerned.

Whither Co-operative Banking?

By D. SRINIVASA MURTHY

CO-OPERATIVE Movement, especially its Banking System in Mysore State, has grown by leaps and bounds in the last 10 years. In this context, it is relevant to recollect the evolution of the co-operative structure to assess its performances. In the ten years, the State of Mysore had witnessed far-reaching developments in the Co-operative movement. Consequent on the re-organisation of States, four Districts from Bombay and two districts from Madras, considered to be having better developed movement, were merged with the old Mysore area. Three districts of Hyderabad which were considered as under-developed, were also merged with Mysore. The movement in old Mysore, though 50 years old, had not developed considerably.

The Mysore State Co-operative Apex Bank Ltd. was financing individuals through Primary Societies until the Re-organisation of the Banks in the year 1955. With amendments to its constitution, the membership of individuals and primary societies were replaced by central financing agencies and the institutions having State-wide jurisdiction. Thereafter, the Bank ceased to release funds to primary societies directly.

The three-tier structure consisting of primary agricultural and market-

ing societies at the base, the district central banks at intermediate level and the State Co-operative Bank at the apex, was accepted. The District Co-operative Central Banks were organised in the Old Mysore area, where there were no District Central Banks till then. The Coorg State Co-operative Bank was converted into the District Central of that District. There were Central Banks in other merged Districts. The central banks in Bombay Karnatak area were well developed, but the Central Banks in Hyderabad Karnatak area, were under-developed. While the Co-operative credit system has three tiers, the primary societies doing credit business are not banking establishments and hence, the Co-operative Banking structure has only two tiers, namely, the State Co-operative Banks and District Central Co-operative Banks. In view of this peculiar set up, the bulk of deposits are received by State and Central Co-operative Banks while the primary societies remain only as the advancing agencies to individuals agriculturists.

These two tiers are most important and also absolutely necessary for obtaining funds from the Reserve Bank of India for co-operative credit system; for without them, it would fail to satisfy the requirement of two good signatures of the

Reserve Bank of India. It was also agreed at one time that the three tiers of the structure was not necessary. The organisation of the apex at the top level is indispensable. Would it be possible to do away with the District Co-operative Central Banks and directly deal with primary societies at the base? The experience in some States have shown that in view of the constant growing and continuous development of business, the Bank requires local leaderships. Local leaderships alone can attract deposits, develop and foster the banking system besides build up, intimate and live contact with primaries. Having accepted the three-tier structure, the additional requirements are supplied by the Reserve Bank of India, through the Apex institution.

The three tier structure is primarily concerned with the development of short-term and medium-term credits to agriculturists for agricultural production and marketing activities. Besides, it undertakes to meet the financial requirements of various types of non-agricultural societies like weavers' and consumer societies which can accept deposits from the people, and grant loans and advances besides rendering large variety of Banking services. On the other hand, the Central Land Mortgage Bank with its affiliated primary societies dispense long-term loans

for the redemption of old debts and improvement of land.

The Reserve Bank of India having recognised the need to strengthen the co-operative banks to play their roles in the Planned Economy and having accepted the recommendation of the Rural Credit Survey Committee in State Partnership in the Co-operative Banks in granting loans to the Government, out of the long-term operation Funds to purchase of shares in the Co-operative to strengthen their Share Capital. The Reserve Bank of India is also following a liberal policy for providing financial accommodations to Co-operative Banks. The liberal financial assistance is considered necessary as the Co-operative banks cannot be expected to satisfy the standards prescribed for Commercial Banks nor raise the required resources by themselves within a short period.

The co-operative structure, like genuine co-operative activity, is intended essentially for assisting the poor and weak to gain economic strength. In tune with the true spirit of co-operation, not only credits are being provided to help the production but also adequate credit facilities are made available even to those sections of the agricultural community, which are weak, in the sense that they cannot offer enough tangible securities by adopting crop loan system. Further, the problem in arranging rural credit is not merely one of availability or cheapness, but of ensure in that it is put to the use for which it is meant.

When a loan is sanctioned in a lumpsum to a cultivator, there is no guarantee that it will be put to proper use. Many pressing demands of the farmer may be met out by this loan, and the actual cultivation expenses may remain to be forfeited. It is to tide over this difficulty that the crop loan system has been evolved. The advantage of this scheme is well known since it is production-oriented and the loan for which the member may be considered eligible would be determined with reference to the requirements of production needs based on crops, acreage and repaying capacity.

The development of Central Co-operative Bank can be very well observed by the fact that the total number of branches as on 30th

June 1963 was 165 as against 96 on 30th June 1957. The net work of the branches along with head offices of the Central Banks are solely responsible to maintain contact and supervision over primary societies, besides rendering banking facilities at the Rural areas. While the State Co-operative Banks are cautious in their advance policies, the Central Banks have progressed in many directions. The District Central Banks advance funds not only to primary credit societies, but also other primary Co-operative Institutions. The overwhelmingly large part of borrowings by individuals in the Co-operative sector are from primary credit societies in rural and urban areas.

The gospel of agricultural credit is to assist agriculturists with timely finance at reasonable rate of interest for agricultural production and the marketing of crops. The Reserve Bank is financing the State Co-operative Bank at 2 per cent. below the Bank rate for short term credit and 1 per cent below the Bank rate for medium-term credit requirements. The State Co-operative Banks keep a margin of 1/2 per cent at the pool rate and advances to the District Co-operative Central Bank. The District Central Banks pass this funds at a margin of 1 1/2 per cent to 1 3/4 per cent to the primary societies. The primary societies retain a margin 2 1/4 per cent to 2 3/4 per cent for their advances to individual agriculturists. These margins are considered to be very fair when compared with the administrative burden and the responsibilities undertaken by the various co-operative agencies at various levels.

PROFIT OUTLOOK OF U. S. COMPANIES

U. S. Corporations expect their 1966 profits before taxes to rise six per cent over last year. This is the major finding of the first survey of corporate profit trends conducted by the Economics Department of McGraw-Hill Publications. Other findings include: Nearly half of the corporations answering expect to better their 1965 profit margins. Depreciation allowances are expected to rise eight per cent. A nine-per cent increase is expected in cash flow (earnings plus depreciation),

While the corporate profit trends revealed by this survey suggest that corporations expect that 1966 will be another good business year, they also suggest the profits will not be quite the dynamic force they were last year when pre-tax profits rose 13 per cent, or the previous year when profits climbed 11 per cent.

BOOKS AND PUBLICATIONS RECEIVED

Savings in A Welfare State—By V. R. Mutalik Desai, Pp. 174, Rs. 20.

Unions, Employees and Government—By Van Dusen Kennedy, Published by P. C. Manaktala & Sons, Pvt. Ltd., 6, Fair Field Road, No. 4, Churchgate, Bombay-1., Pp. 227, Rs. 17.

India—Hand Book of Commercial Information: Volume 2—Published by the Department of Commercial Intelligence and Statistics, Government of India, Calcutta, Pp. 366, Rs. 7.50.

Two Views on Aid to Developing Countries—By Barbara Ward, and P. T. Bauer—Published by the Institute of Economic Affairs Ltd., Eaton House, 66-A, Eaton Square, London SW-1. Pp. 58, Price 7sh. 6d.

India's Long Term Food Problem—By V. K. R. V. Rao—An Essay in Food and Nutrition—Published by the Kerala University, Trivendrum.

Ancillary Industries for Automobile Manufacture in Japan—Published by the National Productivity Council, 38, Golf Links, New Delhi-3.

READ

Throughout the World

ECONOMIC AFFAIRS

A Monthly Journal of Theoretical and Applied Economics

Edited by

HIMANSU ROY

10, Galiff Street, Block 5 Suite 64, Calcutta-3

SOUTHERN SCENE

Kalamassery Unit Inaugurated

PRIME Minister Indira Gandhi inaugurated the Rs. 7.75-crore Hindustan Machine Tools Factory, the fourth member of the HMT family, at Kalamassery near Ernakulam on July 1. The factory accounted for the production of machine tools worth Rs. 140 lakhs during the last financial year. The approval of the Central Government for starting the factory and

increase in the factory area. This unit has an ambitious programme of producing 750 machines during this financial year. The Management hopes to reach the "90 machines a month" target fixed for next year. This will bring in a sales income of about Rs. 4 crores. After duplication, the capacity will be doubled when the yearly turnover will be Rs. 10 crores. The rising demand for machines of the lathe family was taken into consideration when the factory decided to specialise in the manufacture of high speed precision centre lathes, copying lathes, turrets, automatics and other turning machines. There is ample scope for export of high speed

KERALA

township at Kalamassery had been given in April 1963. The selection of Kalamassery was later finalised by a technical team, which inspected various sites, taking into account the area's proximity to harbour, airport, and railway stations. The factory, situated about 10 km. from Ernakulam and 22 km. from the National Highway, started production on October 1964. Production shops, technical administration and training centre buildings had been complete by the time production started. But for the delay in getting foreign exchange for some of the imported machines, the factory would have gone into production by July 1964.

A modern foundry, which will be completed within a few months, is located opposite to the production shops to minimise the handling distance of heavy castings. The training centre, situated at a higher level than the other buildings, has the impressive look of a beautiful auditorium. Its attractive design with 'V' roofs allows natural lighting from both sides and, except in the evenings or early mornings, no artificial light is required.

HMT is one of the few modern factories equipped with sophisticated machines and equipment. Some of them are tape-controlled and most of them have a complete programme for cycle production. The factory is expected to be duplicated during 1968-69 with very little re-arrangement of machinery and equipment. This will be done, without much

precision lathes. In fact, one machine has already been exported to New Zealand and further orders have been received from Australia and Germany.

Mysore

BEL's ROLE IN HOLDING PRICE-LINE

REPORTS of shortages in the supply of valves manufactured by Bharat Electronics appear exaggerated when one considers that BEL's annual production of valves has increased from 22.67 lakhs in 1964-65 to 31.05 lakhs in 1965-66. This will be stepped up to 50 lakh valves in the near future. Supplies from BEL to the replacement market have actually increased two-fold this year.

While large-scale radio manufacturers get their supplies directly from BEL, the small-scale assem-

HMT ON EXPORT FRONT

HMT's export performance during the years 1961-62 to 1964-65 totalled to about Rs. 11.20 lakhs. During 1965-66, machine tools worth Rs. 17.61 lakhs were exported and orders to the value of over Rs. 20 lakhs for despatches during this year are being carried over. The targets for 1966-67 is Rs. one crore and exploratory investigations indicate that there is a demand for HMT's machines in many parts of the world. It is held to be not impossible to export machine tools valued at Rs. 5 crores per annum within the next ten years. As conditions vary from country to country it has been HMT's endeavour to concentrate on a few countries where there is a genuine demand for its products and where conditions contribute to the development of export trade.

The export programme of HMT started with the despatch

of a machine to West Germany in 1961. HMT has later exported its machines to Poland, Czechoslovakia, East Germany, Hungary, Bulgaria, Nigeria, New Zealand and Australia. Plans are afoot to open salescum-service centres in America, Middle East and Far Eastern countries. A contract was recently finalized with Poland for the export of HMT machines worth Rs. 24 lakhs. This is the largest single export contract secured for HMT machines and under this contract, Poland will purchase 82 machine tools consisting of radial drills, milling machines and lathes. Similarly, a contract has been finalised for the export of 40 HMT milling machines worth Rs. 10 lakhs to Czechoslovakia. This country being a large export of machine tools, its order for the purchase of HMT machines is of special significance.

—S. M. Patil
Managing Director.

blers and manufacturers get them through the National Small Industries Corporation. For the replacement market, i.e., for the general public, supplies are made through eight distributors who have been chosen on the basis of their standing in the radio trade. They supply valves through their dealers to radio repairers and direct customers, at fixed prices.

Since 1962-63, the year of Chinese invasion, production at BEL has more than trebled, from Rs. 3 crores in 1962-63 to over 9 crores. The sales have increased, during this period, from Rs. 3.61 crores to over Rs. 9 crores. The profits have risen from Rs. 47 lakhs to about Rs. 1.5 crores. In 1964-65, the company declared, for the first time, a dividend of five per cent on the share capital.

Bharat Electronics is expected to play a major role, during the Fourth Plan, in the manufacture of television transmitting equipment and transmitting tubes, thus saving the country considerable foreign exchange. On the possibility of producing these items, BEL has already submitted a report to the Government. BEL has also planned to increase the production of semiconductors from 4.5 millions to 6.5 millions in 1966-67 and later to 10 millions. The company has considerably expanded its design facilities and is well equipped to design and manufacture a wide range of transmitting and receiving equipment both for military and civilian uses.

A NEW fertiliser plant, designed to manufacture 1.32 lakh tons of urea and 5.30 lakh tons of complex fertilisers is proposed to be located at Mangalore. The International Development and Investment Company Limited of the U.S., the sponsor of the proposal, is likely to secure a "letter of intent" from the Government for the purpose. The Indian firm, Dugal Enterprises Limited, will collaborate with its American counterpart. The plant, which will be based on indigenous raw materials, is expected to go into production by 1969. Meanwhile, ESSO is also reported to have evinced keen interest in the Mangalore and Goa fertiliser projects, encouraged by the "seven-year price holiday" offered by the Government.

Madras

PACKAGE DEAL FOR FERTILISER PROJECT

THE agreement for the setting up of a 2 million ton fertiliser complex in Madras was recently signed between the American International Oil Company and the Union Government. The latest newsletter of the Indian Investment Centre hails the agreement as "an important milestone" and points out that it will be one of the most modern projects employing the latest techniques in Ammonia synthesis, urea and complex fertilisers. It will be part of the refinery complex to be located at Madras. The salient features of the agreement are:

1. The Government of India will hold 51 per cent of the equity capital, the remaining 49 per cent being held by the American International Oil Company.
2. There will be a Board of Directors with four members of Government and four of the American firm, with a nominee of the Government of India as the Chairman, who will have a casting vote.
3. Questions such as sales policy, fixation of prices and dividend declaration will be decided by a three-fourths majority with a special arrangement under which the decision of the Secretary to the Government of India and the President of the AMOCO will be final.
4. The Managing Director would be a nominee of the American company and will act under the advice of an Executive Committee on which Government of India and AMOCO will have equal representation.
5. The arrangements regarding management will be valid for a period of 10 years from the date of commencement of production, or the date of full repayment of foreign exchange loans, whichever is earlier. After this period, the Government of India will appoint the Managing Director and the requirements of three-fourths majority for certain decisions of the Board will cease.
6. Though AMOCO will be in charge of the day-to-day management because of the nature of the plant and technology involved, Indian personnel will be fully associated in all aspects of selection of plant, construction, start up and operations.

THE committee on agricultural production, which had been set up by the Government of Madras to review the working of the food production schemes and suggest suitable measures for the fulfilment of the plan target has submitted its

report. It has suggested, *inter alia*, a liberalisation of loans and subsidies to farmers and a more efficient distribution of chemical fertilisers. It has recommended the setting up of a ground water cell for undertaking detailed surveys to locate areas having potentialities for sinking artesian wells. The committee has also recommended the liberalisation of the procedure for providing facilities for rural electrification. In this connection, it has made the significant suggestion for the take-over of private electricity undertakings. Other recommendations of the committee include: the raising of the target for the soil conservation programme, the cultivation of paddy under semi-dry conditions, use of improved strains of millets, reorganisation of seed farms and a soil fertility survey and improvement in the distribution of fertilisers. On the question of farm credit, the Committee has recommended a reduction in the present rate of 8.4 per cent interest charged on co-operative loans. In view of the inadequacy of credit provided through co-operative institutions, the Committee has suggested that the scheduled banks also should supplement the credit facilities provided by co-operatives. In order to stabilise the agricultural economy, the committee has suggested that "support prices should be fixed for a period of years."

COST OF LIVING INDEX IN MADRAS

During the week ended 18th June, 1966 the cost of living index number for working classes in Madras City rose by three points to 653 mainly to an increase in the prices of vegetables, chillies, garlic, cane jaggery and betel leaves.

Tubes and Malleables Limited, Madras, a company having a subscribed capital of Rs. 35,02,390, have been accorded consent to an issue of further capital of Rs. 70 lakhs consisting of Rs. 55 lakhs in equity shares of Rs. 10 each, and Rs. 15 lakhs in preference shares of Rs. 10 each, for cash at par. Out of the issue, a minimum of such number of shares of each kind as would qualify the company's scrip for listing on recognised stock exchange shall be offered for public subscription by prospectus.

Andhra

DAIRY DEVELOPMENT

THE integrated milk project consisting of two units—one at Hyderabad and another at Vijayawada—has made considerable headway. The first large dairy enterprise in the State the Project envisages the setting up of the main dairy at Hyderabad with a handling capacity of 50,000 litres of milk per day and a milk conservation plant with a capacity of 1.25 lakh litres at Vijayawada, in the first phase. The inputs of these units are proposed to be increased, in the second phase, to 2 lakh litres at Hyderabad and 2.5 lakh litres at Vijayawada. Another important feature of this project, as disclosed by the Milk Commissioner, is the manufacture of 1,200 tons of milk powder annually. The dairy at Hyderabad is expected to supply milk of guaranteed quality to 3 lakh consumers in the capital initially. Dairy equipment valued at Rs. 78 lakhs (pre-devaluation figure) is being supplied by the UNICEF. The civil works on the main dairy building has been completed and the erection of equipment, which is entrusted to Larsen and Toubro, is progressing at a fast pace. The dairy is expected to be commissioned by November. The milk products factory at Vijayawada is expected to be completed by the middle of 1967. In order to obtain the necessary experiences of the working of dairy plants, a pilot milk supply scheme is now being implemented in Hyderabad.

A correspondent writes: The budget for 1966-67 of the State of Andhra Pradesh reveals that the State's leaders are executing the plans for the State's development in a cautious manner. For the first year of the State's Fourth Plan, a sum of Rs. 79.25 crores has been allotted. This is far below the expectations. It was thought the State would have Rs. 165 crores for this year. This sum came down to Rs. 131 crores and further to Rs. 120 crores. However, in the context of the present paucity of resources, even Rs. 120 crores seems to be too much to expect. But it is not money alone that matters. Utilisation of the funds available in the most productive ways possible is important. The State aspires to transform the nature of its economy

from agricultural to agro-industrial. The proposed Agro-Industrial Corporation and the Urban Community Development Scheme will help in achieving this objective. The State has been a pioneer in implementing various schemes for rural development and in decentralising democracy. Successful execution of the Urban Community Development programmes will be another feather in its cap.

The help rendered by the Central Government to completing the major irrigation projects of Andhra Pradesh is quite inadequate. This explains why the work on Nagarjunasagar is proceeding at an extremely slow pace. Electrification of our rural areas is a major step towards achieving self-sufficiency in food grains. Almost all the important power projects in the State have reached final stages and in 1966-67, an additional 700 villages and 1,35,000 pumpsets will have electricity.

The State Government intends to establish a college with Telugu as the medium of instruction and about Rs. 50,000 are allotted for encouraging the publication of text books in Telugu on subjects like Economics. However, the experience of Madras in this regard calls for a more cautious approach. The Government of Madras had started a college, in Coimbatore, with Tamil as the medium of instruction. The college has not been much of a success. While there is a complaint that no books are available in Tamil on subjects like politics and economics, books worth some Rs. 6 lakhs whose publication has been assisted by the State Government are remaining unsold! The Government may take a look before it takes the leap.

The Andhra Pradesh Road Transport Corporation is said to be making huge profits. Since the rates charged by the R.T.C. are exorbitant, these profits do not necessarily reflect the efficiency of the Corporation. One feels that if the RTC is more efficient, it can earn more. As it is, the RTC is paying no heed to the convenience of the passengers.

The survey of the States' economy in 1965-66 reveals that the trend of the price-level has been mixed—a rise in some cases and a fall in some others. But the experience

of the common man shows a steady increase in the prices of almost all the commodities. It is time we faced realities and acted in a realistic way. It is also stated that restrictions have been imposed on the movement of foodgrains both in the State and from here to other states. Maximum prices for most of the cereals and pulses have been declared and selling at prices over and above these prices is an offence. But in spite of these restrictions, and the much advertised shortage of foodgrains, ample quantities of rice and other foodgrains are available—here a reversal of Say's law, demand creating the supplies—in the markets, call them black, white or colourless. It appears that nobody bothers about the prices at which goods are actually sold. Enough, if you hang a price-list in the shop. And this speaks of the half-hearted efforts in enforcing the laws. If the State Government can ensure the sale of commodities at reasonable prices, it need not worry much about the mounting expenditure on its non-gazetted officers. The State budget says that there is a shortfall in the collection of land revenue to the extent of Rs. 5.00 crores (30 per cent of the overall deficit). Will it not be interesting to know how many of the landowners do not have the capacity to pay the tax and how many just do not feel like paying it?

SOUTHERN ECONOMIST

HEARTILY
CONGRATULATES

CANARA BANK

ON THE
OCCASION OF ITS

Diamond Jubilee

MAY IT GROW FROM
STRENGTH TO STRENGTH!

Straw Products Show Improved Results

STRAW Products Ltd. has shown better results in 1965. The Directors have recommended the payment of dividend on Preference shares for two years upto the end of 1964. For Ordinary shareholders, they have further recommended to issue bonus shares by capitalising Rs. 56 lakhs from General Reserve. The Bonus shares will be issued in the proportion of two equity shares for every five equity shares held subject to the consent of the Controller of Capital Issues. After capitalisation of this amount, the General Reserve will stand at Rs. 1.24 crores (figures rounded).

Further distribution of cash could not be recommended. As the Directors have explained, the company's cash generation for the last three years, 1963, 1964 and 1965, amounts to Rs. 2.60 crores. Out of this Rs. 1.95 crores have been utilised in payment of deferred instalments and repayment of loans taken for establishment of the Paper Mill. Thus the company is not in a position to distribute more cash. Gross profit before Depreciation has crossed Rupees one crore and stands at Rs. 1.02 crores against Rs. 96.37 lakhs in 1964. The allocations have been raised. Depreciation has been 40.02 lakhs against Rs. 39.06 lakhs while the amount transferred to the General Reserve is Rs. 49 lakhs against Rs. 44 lakhs. Carry forward is Rs. 9,363 against Rs. 35,624. Production of board and paper is higher and is to the tune of 30,576 m. tonnes against 30,331 m. tonnes in the previous year. Gross sales have touched a new figure of Rs. 523.45 lakhs against Rs. 483.65 lakhs in 1964.

The Directors have further mentioned that due to the timely action taken by them, the future requirement of deferred payment in foreign currency has been covered and there will be no adverse effect due to devaluation of rupee on the company's balance of payments position. Otherwise, the company would have been saddled with an additional capital liability of Rs. 54 lakhs to

meet the deficiency created by the devaluation.

NATIONAL INSURANCE

NATIONAL Insurance Co., Ltd., has raised the Dividend on the ordinary shares from 7 per cent to 8 per cent for the year ended December 31, 1965. The company further proposes to issue Bonus shares in the proportion of one share for every five shares held by capitalising a sum of Rs. 5 lakhs from the General Re-serves, subject to the consent of the Controller of Capital Issues.

The Gross Profit for the year, after providing Rs. 5.49 lakhs for depreciation of investment, stands at Rs. 5.67 lakhs compared to Rs. 3.19 lakhs in the previous year. Taking into consideration the tax deducted at source from dividends and interest, it comes to Rs. 4.77 lakhs against Rs. 2.45 lakhs—thus showing a rise of about 95 per cent on previous years' profits. Amongst the allocations, a sum of Rs. 1.15 lakhs has been provided for taxation against Rs. 35,568 in the previous year. A sum of Rs. 1.75 lakhs has been transferred to General Reserves against Rs. 25,000 while Rs. 2 lakhs have been provided for Dividend against Rs. 1.75 lakhs in the previous year. The carry forward is Rs. 9,775 against Rs. 23,111. The total premium income is Rs. 96.75 lakhs against Rs. 99.07 lakhs in 1964. The claims stand at Rs. 44.73 lakhs against Rs. 42.84 lakhs, the Reserve for unexpired risks at Rs. 52.68 lakhs against Rs. 54.60 lakhs and the total funds stand at Rs. 99.27 crores against Rs. 93.83 crores in the previous year.

NEW ISSUES

Southern Roadways Private Limited, Madurai, are to issue further capital of Rs. 69,04,600 in equity shares of Rs. 100 each by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of two

bonus shares for every equity share held.

Dyer Meakin Breweries Limited Simla Hills, have been allowed to capitalise Rs. 60,77,485 and issue 12,15,497 equity shares of Rs. 5 each as bonus shares.

Bombay Dyeing and Manufacturing Co., Ltd., Bombay, have been given consent to capitalise Rs. 50,19,600 from general reserve and issue 2,00,784 equity shares of Rs. 25 each, as bonus shares.

The Birla Cotton Spinning and Weaving Mills Limited, Delhi, has been accorded consent to the issue of capital of Rs. 39,95,950 in fully paid (Bonus) shares of Rs. 10 each to be given to the existing equity share-holders of the company in the proportion of one bonus share for every equity share held.

New Swadeshi Sugar Mills Limited, Bombay, have been accorded consent to issue further capital of Rs. 27,18,000 divided into 27,046 equity shares of Rs. 100 each and 536 quarter equity shares of Rs. 25, each, as bonus shares on capitalisation of the company's general reserve to a like extent.

Automatic Electric Private Limited, Bombay, have been granted consent to issue further capital of Rs. 24,09,600 in equity shares of Rs. 100 each bonus shares by capitalising a like amount from the company's general reserve.

The Bengal Flour Mills Company Limited, Calcutta, are to issue further capital of Rs. 18 lakhs in equity shares of Rs. 10 each, on capitalising company's general reserve to a like extent. The bonus shares will be issued to the existing share-holders in proportion to their holdings of equity shares.

Special Steels Limited, Bombay, have been granted consent to further issue of Rs. 17,50,000 in 17,500 equity shares of Rs. 100 each to be issued as bonus shares on

capitalisation of general reserve to a like extent.

Jaipur Development Company Limited, Jaipur, have been granted consent to issue further capital of Rs. 17,50,000 in equity shares of Rs. 10 each by capitalising a like amount from the company's general reserve.

The Pench Valley Coal Company Limited, Calcutta have been permitted to issue further capital of Rs. 15,75,000 on a capitalising the free reserves to a like extent. The bonus shares will be issued in the ratio of one bonus share for every existing share held.

Gwalior Webbing Company Limited, Calcutta, have been given consent to capitalise Rs. 15 lakhs from the general reserve and issue bonus share in the ratio of one bonus share for every equity share held.

The General Industrial Society Limited, Calcutta, have been allowed to issue further capital of Rs. 10,80,000 in 1,08,000 equity shares of Rs. 10 each to be issued as fully paid-up bonus shares, by capitalising the share premium reserve and the general reserve.

Rane (Madras) Limited, Madras, are to issue further capital of Rs. 6,12,800 in equity shares of Rs. 5 each by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of one bonus share for every three equity shares held.

The Commercial Ahmedabad Mills Company Limited, Ahmedabad, are to issue further capital of Rs. 2,88,750 divided into 1,155 equity shares by capitalising a like amount from the company's general reserve.

Mining and Allied Machinery Corporation Limited, Durgapur, a Government of India undertaking, will be issuing share capital of Rs. 47 lakhs, consisting of 4,700 equity shares of Rs. 1,000 each, all for cash at par. The proceeds will be utilised for manufacture of mining and allied machinery and for general engineering activities.

Jay Shree Tea and Industries Ltd., Calcutta, have been granted consent to issue Rs. 25 lakhs in 9.3 per cent preference shares for

cash each at par. The proceeds will be used for reduction of bank borrowings.

Sirsilk, Hyderabad, has been accorded consent to issue of capital of Rs. 233 lakhs in 4-1/2 per cent debenture to be allotted to Andhra Pradesh Government on conversion of their balance loan and interest outstanding.

Usha Martin Black (Wire Ropes) Limited, Calcutta, have been given consent to issue free equity shares of Rs. 10 each to its foreign collaborators Whitecross Company Limited, U.K., to the value of Rs. 2,08,340 at a premium of Rs. 2 per share for providing technical know-how.

Insulux India Limited, Madras, are to issue share capital of Rs. 90 lakhs, divided as to Rs. 80 lakhs in equity shares of Rs. 10 each and balance of Rs. 10 lakhs in preference shares of Rs. 100 each. Out of this, shares of the value of \$ 7,70,000 may be offered to the foreign collaboration Ambler Corporation of U.S.A. for supply of plant and machinery. The balance of equity and whole of the preference shares, will be got subscribed in India.

Madras Refineries Limited, Madras, has been accorded consent to issue share capital of Rs. 9 crores, consisting of 90,000 equity shares of Rs. 1,000 each, all for cash at par, to be subscribed privately.

India Pistons Limited, Madras, has been granted consent to issue debentures of the value of Rs. 100 lakhs in units of Rs. 100 each, for cash at par. The debenture will carry dividend at 7.75 per cent per annum and will be redeemable at par in 1974-76.

I. C. I. (India) Private Ltd., Calcutta, have been granted consent to issue bonus shares to the value of Rs. 60 lakhs by capitalising its general reserve.

Britannia Biscuit Company Limited, Calcutta, are to issue bonus shares to the value of Rs. 30,64,680 by capitalising its general reserve.

Geoffrey Manners & Co., Ltd., Bombay, have been allowed to capitalise Rs. 24 lakhs from reserves and issue 2,40,000 bonus shares of Rs. 10 each.

Bridge and Roof Company (India) Limited, Calcutta, have been permitted to issue a further capital of Rs. 24 lakhs on capitalising its general reserve to that extent. The bonus shares shall be issued to the existing shareholders in the ratio of two bonus shares for every existing share held.

Payen Talbros Private Limited, New Delhi, has been accorded consent to capitalise Rs. 10 lakhs from the general reserve and issue 1,00,000 bonus shares of Rs. 10 each.

Parrys Confectionery Limited, Madras, are to issue further capital of Rs. 8 lakhs in ordinary shares of Re. 1 each by capitalising a like amount from the company's free reserves. The bonus shares will be offered in the ratio of two bonus shares for every five ordinary shares held.

Shree Mansingka Oil Mills (Private) Limited, Bombay, have been granted consent to further issue of Rs. 7.50 lakhs in equity shares of Rs. 100 each, to be issued as bonus shares on capitalising general reserve to a like extent.

Essex Farms Private Limited, New Delhi, have been accorded consent to the issue of capital of Rs. 6,52,500 in bonus shares of Rs. 10 each, on capitalisation of general reserve of the company to a like extent.

S. P. Virmani & Son (Private) Limited, Delhi, have been given consent to capitalise Rs. 5,07,000 from general reserve and issue 507 fully paid equity shares of Rs. 1,000 each as bonus shares.

Shakti Insulated Wires Private Limited, Bombay, are to issue further capital of Rs. 5 lakhs in 5,000 equity shares of Rs. 100 each, to be issued as bonus shares on capitalisation of general reserve to a like extent.

Amphenol (India) Limited, Bombay, have been given consent to the issue of Rs. 33 lakhs capital in equity shares of Rs. 100 each. Of these, shares of the value of Rs. 16 Berg Electronics Corporation of U.S.A. against supply of plant and machinery to the extent necessary and the balance in cash through inward remittance in foreign exchange. The remaining shares will be issued in India for cash at par

Outlook After Devaluation

By our Market Analyst

THE Stock markets have entered a new phase after the devaluation of the Rupee. The price behaviour during the fortnight reflected the bull struggle against continued pressure for funds. While the announcement of further liberalization of imports to meet the requirements of 59 priority industries was well received in Stock market circles, the general liquidation and profit-taking in pivotal scrips in Dalal Street caused contraction in values. Reports of the selling of some blocks of shares by the L.I.C. had a depressing effect on prices, as the market could not normally absorb large unloading of scrips at this time.

The demand for the shares of export industries was fairly good, and optimism about the profit outlook for export units continued to induce selective buying. The new import policy, which aims at full utilisation of installed capacity was hailed in industrial circles. Full utilisation of capacity is expected to reduce cost and also help better export performance.

The maintenance of dividend at Rs. 12 per share by Tata Iron and Steel Co. Ltd. and the trend of profit for the year were no doubt satisfactory, though market-wise, the price reacted bearishly and the top level was affected by Bull liquidation. While the flow of bonus issue proposals has slackened, in view of the fact that a very large number of companies had already announced their bonus proposals, the market was guided by the prospects envisaged for particular industries, as a consequence of devaluation. As this assessment of the outlook for individual industries and units was rather tough in view of the unpredictable effect of devaluation there was a certain amount of hesitancy on the part of the Bulls. This explained the two-way movements and frequent profit-taking followed by firmness in assorted counters.

The Stock market no doubt expects better conditions for industry and for the economy, as

the present policy of the government is quite conducive to fuller production and increased exports. The one major step is towards a liberalisation of imports and this should make a favourable impact on corporate trends. No doubt, the higher import costs will increase the cost of production in the short term. But, when production goes up substantially with the aid of larger imports of components and raw materials, this cost will be influence beneficially to some extent. There is need for a reduction in the import duties, if the economy is to get the full benefit of devaluation. Further, export duties are also considered an impediment in the way of Indian industry reaping the full benefit of devaluation. Steps that are now to follow the liberal himport policy are expected to be highly fruitful for expansion of production and exports.

Money conditions are very likely to play a prominent role in the days ahead, when fuller utilisation of capacity takes further strides. The liberalization of imports and the consequent impetus to productive activity after devaluation, hold the possibilities of credit-squeeze due to increased demand for funds to sustain the increased production and exports. Further, the liberalised imports will call for larger rupee resources. Where then to find these resources, when it is already clear that industrial units have increased their borrowings substantially. This leads to the inevitable conclusion that unless the Reserve Bank revises its credit policy so as to make larger credit available for industry at special interest rates, one can expect that the productive and export efforts will be thwarted by inadequate finance.

There is one more important side to the devaluation and one must look for solid evidence of what type of deflationary measures would be combined with the series of follow-up measures that are now being taken. It has become painfully obvious that inflation has been fanned in the domestic economy,

after devaluation. The example of Britain in trying to fight inflation through various steps through traditional or ultra-modern techniques, without directly resorting to deflationary measures, is understandable in view of the political difficulties in embarking on a deflationary campaign. While the perpetuation of this trend may as well lead to a devaluation of the Pound sterling, what should be clear to India at this stage after devaluation is the danger lurking in a situation where the external value of the rupee is slashed, while internal inflation is allowed to gain strength. Another bold step now needed on the part of the Government is to slash the Government spending and also reduce the tax burden.

While the several measures for higher production and exports are bound to influence the equity favourably in the longer term, say in a year or more, the short-term prospects which underline the growth in the demand for funds and higher rupee resources, can prove to be a handicap for a rising stock price.

In Dalal Street, Tata Ordinary moved near Rs. 154.50 on the 23rd June while Indian Iron was picked up at Rs. 27.50. Century mills met more selling around Rs. 559.50. Kohinoor and Bombay Dyeing remained softer. The decline in Hindusthan Motor and Tata Locomotive brought some replacement buying around Rs. 17.44 and Rs. 258.50 respectively. Voltas were absorbed at Rs. 239.50. In the Calcutta Market, Guest Keen Williams turned steady at Rs. 19.75 while Burrakur was taken at Rs. 15.50. Dunlop Rubber had some investment enquiry at Rs. 22.94. Indian Aluminium weakened at Rs. 28.87 while Texmaco was taken around Rs. 18.80.

In the Madras market, rubber and tea shares were in better demand. Coffee shares showed a mixed trend. Cochin Malabar was taken at Rs. 7.20 on 21st June. Malankara had demand at Rs. 20.50.

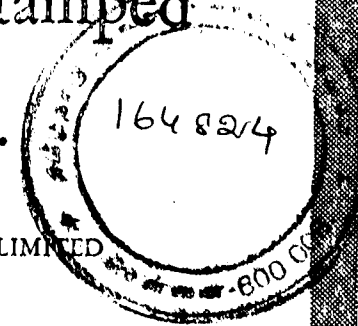
FOOTWEAR PRICES

Bata

wish to inform their
customers that there is
no increase in the
prices of **Bata**
and **BSC** footwear as
the result of
devaluation.

The retail price is stamped
on each shoe.

BATA SHOE COMPANY PRIVATE LIMITED



NATIONAL SAVINGS CERTIFICATES

(First Issue)

A SAFE AND PROFITABLE
INVESTMENT

IN DENOMINATIONS OF

Rs.10 100 1,000

YIELDING AFTER 18 YEARS

18 180 1,800

AVAILABLE AT POST OFFICES

A NEW SERIES

NATIONAL SAVINGS CERTIFICATES

(FIRST ISSUE)

BANK SERIES

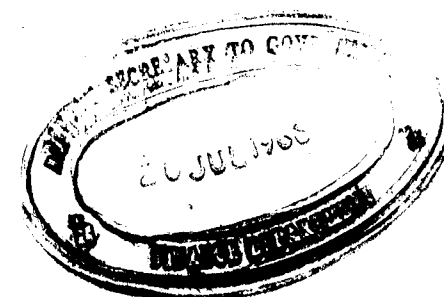
WITH SAME BENEFITS

AVAILABLE AT BRANCHES OF

STATE BANK OF INDIA & ITS SUBSIDIARIES



NATIONAL SAVINGS ORGANIZATION



Planners
at
Cross-roads

southern

July 15, 1966; Vol. V; No. 6; Price 42 Paise

in the service of
Agriculture

FACTAMFOS

(Ammonium Phosphate 16:20)

ULTRAFOS

(Finely ground
mineral phosphate)

AMMONIUM SULPHATE

SUPERPHOSPHATE

NPK FERTILISER MIXTURES

in the service of
Industry

ANHYDROUS AMMONIA

SULPHURIC ACID

SULPHUR DIOXIDE

AMMONIUM CHLORIDE

SODIUM FLUORIDE

FACT

First in the field!

THE FERTILISERS AND CHEMICALS

TRAVANCORE LIMITED

Regd. Office: Eloor, Udyogamandal P. O. Kerala State

Criterion-FT-511

SOUTHERN ECONOMIST

July 15, 1966

CONTENTS

EDITORIAL 1

Not by Three R's Alone

NOTES OF THE FORTNIGHT 2

Aid Outlook; New Loans;
Coffee Prospects

GLASS HOUSE GOSSIP 5

SPECIAL ARTICLES 7

Progress of Planning in India
—Contributed

Housing Conditions in India
—By Meera Reddy

Crisis in Mysore's Powerloom
Industry
—Contributed

AVIATION 19

Boom in Air Traffic

COMPANY NOTES 21

Orissa Cement; Indian Copper;
Bharat Steel Tubes; Vazir
Sultan Tobacco; DENA Bank;
New Issues

STOCK MARKETS 24

Interest Focussed on Aid Prospects

SOUTHERN ECONOMIST
24, HAUDIN ROAD, BANGALORE-1

Phone : 75439

Published on 1st and 15th
of every month

Subscription Rates

ANNUAL Rs. 10 (Inland)

\$ 3 or 20 s (Foreign)

Single Copy 42 Paise

NOT BY THREE R's ALONE

THE Education Commission, which has completed its labours, deserves a *shabhas* from all educationists. Its report—a bulky volume—is truly a monumental work. But the adjective has a static quality which one does not like the Commission to be associated with. That a reconstruction plan has been prepared nearly 18 years after Independence is not flattering to our Government, on any score. This does not mean that education has suffered in the hands of our planners. There has been a phenomenal increase, both in the number of educational institutions and in the number of students seeking admission. A frontal assault has also been made on illiteracy. For a nascent democracy, these are not insignificant achievements. But it is a lamentable fact that the lop-sided pattern woven by the Colonial power for its own purpose still continues, its main flaw being its remoteness to reality of life and to the social context. Lack of proper attention to the need for dove-tailing has created its own distortions—man-power surpluses in some sectors and shortages in others. Further, the persistence of an unfavourable teacher-pupil ratio is reflected in a general dilution of educational standards.

The blue-print of the Commission, which is based on a 20-year projection the country's educational needs, seeks to remedy these distortions although it may be doubted whether the Government will find it possible to readily accept the financial commitments implied in the Commission's recommendations, particularly those which relate to teachers' salaries. For a country which is presumed to be on the threshold of "take off", it is poor consolation to be told, for example, that illiteracy would be wiped out by 1986. For political stability, mere removal of illiteracy is not enough. Indeed, removal of illiteracy, if unaccompanied by the right kind of civic education, may easily expose the neo-literates to the spurious propaganda of political extremists. A breakthrough in agriculture and industry is hardly likely to be achieved by the mere achievement of 100 per cent literacy. For this purpose, the labour force in the country should reach a minimum standard of education—at least matriculation—so that the worker can make the best use of his aptitudes. Even if the goals set by the Commission are achieved, the proportion of matriculates to the total working force will have gone up to only 7.3 per cent by 1986. This is in depressing contrast to the level of nearly 25 per cent achieved by Japan and more than 50 per cent by U.S.A.

There can be no quarrel over the fact that expenditure on education in India is pitifully low, but mere increase in educational outlay by say, four or five times the present level, may not lead to an all-round, qualitative improvement. Of course, there are areas, like the pay-scales of primary teachers, where the fixation of certain civilized norms is desirable. But absolute figures, like the 100-rupee minimum, have little significance in the context of a steady price-rise. For instance, how much will a 100-rupee note be worth in 1986? Again, the wisdom of laying down detailed salary-scales at all levels for a long period of 20 years may be seriously questioned because, as the Commission rightly concedes, these salaries should have a bearing on the society's capacity to pay. Even granting that the Commission's terms of reference are fairly comprehensive, the question of evolving the salary-scales

of teachers, from the primary to the university level, could have been better left to a more specialised body analogous to the Wage Boards.

Another factor that has to be borne in mind while revising the salary structure of the teachers is that the rate of annual increase of these salaries should roughly correspond to the annual rate of the country's economic growth. In absolute terms, the increase in the teachers' salaries envisaged by the Commission will be from Rs. 360 crores in 1965-66 to Rs. 2,400 crores by 1986. This works out to an annual increase of 10 per cent while the planned rate of economic growth is only 6.5 per cent. Where the Commission strikes a realistic

note is in laying special emphasis on the training of teachers, in dovetailing man-power needs to the output of schools and colleges and in recommending a larger outlay on research. On the use of English, the Commission strikes an equivocal note which is regrettable. By this equivocation, the Education Commission leaves the door wide open to political but-inskys who may be eager to impose their pet fads on institutions of learning. While one may not entirely agree with all its recommendations, one need not have any hesitation to compliment the Commission for drafting a *Magna Carta* for the teaching fraternity. It is sure to stimulate public thinking on a subject which has a vital bearing on the country's future progress.

NOTES OF THE FORTNIGHT

Aid Prospects

COUNTING INVISIBLE DOLLARS, ROUBLES

BOTH the Finance Minister and Planning Minister have returned from their tours which enabled them to size up the aid outlook. If the Rupee-devaluation has not proved the open sesame that it was expected to, it has at least caused a softening of attitudes. This is evident from the reactions elicited by Mr. Sachindra Choudhuri who visited the Western countries. In the context of the present foreign exchange crisis, our Ministers were concerned about two major questions, namely, securing a breathing space for the repayment of the loans falling due and getting enough of non-project aid to activate idle capacity in industry. On both these counts, they are reassured that our case will not go by default. As to the exact quantum of aid that India may expect to finance the foreign exchange component of the Fourth Plan, our planners are still in the dark. This uncertainty is not due to any change of attitude on the part of the Consortium countries but to the fact that even the draft of the Fourth Plan is not finalised.

In a way, this represents a vicious circle. Unless the quantum of foreign aid is known, the planners cannot determine the size of the Plan; and unless the Plan size is known, the Consortium and the countries outside the Club will not be in a position to reveal their likely commitments. And negotiations on the basis of even tentative estimates are rendered difficult by the need to secure the Parliament's approval of the draft to be submitted by the Planning Commission. In terms of foreign currencies, the aid estimates prepared earlier should hold good although in terms of India's debt obligations (after all, loans have to be repaid in the new Rupee) the old calculations no longer hold good. This means that even if India's aid expectation remains unaltered at Rs. 4,800 crores—there is nothing sacrosanct about this figure—it will amount to Rs. 7,800 crores in terms of our debt re-payment obligations. Since Rupee resources cannot be stretched *ad lib*, a change in the proportion of foreign aid to total investment appears likely. As our Five-Year Plans have assumed the status of a sacred cow, the Planning Commission will dutifully prepare a neat draft and present it, most probably, in the monsoon session which will commence in the next few weeks. In this pre-

election year, the five-year plan has also become a political necessity for the ruling party. But the foreign exchange crisis has already caused a shift in emphasis from the nebulous five-year exercises to compact (and more realistic) annual plans.

It was not the intention of Mr. Choudhuri or Mr. Mehta, in any case, to secure cast-iron assurances of aid from individual countries for the Fourth Plan. Their purpose was partly to "sell" devaluation and to see that non-project assistance flowed into India on an increasing scale. In this task, they seem to have succeeded in ample measure. Mr. Choudhuri's task was less onerous since it was the West that applied the pressure for devaluation. Now that India has heeded the Consortium's advice, the Finance Minister could elicit sympathy in London, Bonn, Rome and Paris. Having attempted import-liberalisation of on a fairly large scale, the Finance Minister was understandably keen on getting the promised non-project aid of \$900 million "activated" but there was no immediate prospect of the bulk of this assistance being shipped in the next few months. Even so, the raw materials position should ease in future since the U.S.A. has "de-frozen" another \$150 million

by way of non-project assistance, in addition to the earlier "Humphrey credit" of \$100 millions and the fertiliser loan of \$50 millions. Considering that all these loans relate to last year's U. S. commitment of \$435 millions—frozen in the wake of the India-Pakistan war—one can expect from the U. S. further non-project aid in the last quarter of 1966 and in the first quarter of 1967 as part of her new commitment to the promised aid of \$900 millions.

Mr. Asoka Mehta's mission was more delicate in view of the complications created by the devaluation in India's trade with the Rupee-payment countries. In the case of U.S.S.R. in particular, the problem was aggravated by the Soviet Union's insistence on paying for export contracts arrived at before devaluation (but not yet been fulfilled) at the old exchange rate which means that Indian exporters will get less rupees than they would have otherwise got under the new exchange rate.* In the matter of Russian aid for the Fourth Plan, it is gratifying to note that Russia had indicated assistance of the order of Rs. 830 crores which should help in the setting up of Bokaro and in increasing the machine-building capacity in India. The significance of Russian aid cannot be minimised since it is expected to cover nearly one-third of the import requirements of the public sector.

New Loans

IN OLD RUTS

WITH the slack season in full swing, and with the banking system fairly comfortably placed in regard to disposable funds, the two new loans announced by the Government of India are likely to elicit

* Russia has since agreed to mark up the Rupee-value of the unimplemented portion of their contracts by 47.5 per cent. This will still be less than the 57.5 per cent rise in the exchange rate.

good response. Against the target of Rs. 280 crores assumed in the Central budget for 1966-67, the new loans, which will open for subscription on July 18, are expected to net in Rs. 260 crores. Since the conditions in the money market are fairly comfortable, the Government can easily collect another Rs. 20 crores by retaining excess subscription to the extent of 10 per cent, according to the usual practice. Even so, net borrowings will add up to a smaller sum of Rs. 86 crores since the loans that mature during the year will take up a sizable chunk of the gross collections.

Conversion facility is available in respect of the three maturing loans, viz., the 3 per cent funding loan, 1966-68, the 3½ per cent bonds, 1966 and the 3 per cent Bhopal loan, 1966-67. The outstanding amount of the 3 per cent funding loan is Rs. 110.12 crores while that of the 3½ per cent bonds is Rs. 82.65 crores. The holdings of the Bhopal loan add up to only Rs. 1.22 crores. To the extent that these loans are held by institutional investors, conversion will be a matter of routine.

The yields on the new loans, namely, the 4½ per cent loan 1971 (reissue) and the 5½ per cent loan 1991, conform to the prevailing pattern of interest rates. Last year, the 4½ per cent short-dated loan was issued at Rs. 99.50. The same loan, at Rs. 99.25 now carries, a higher discount of 25 paise. As to the long-dated loan, viz., the 5½ per cent 1991 loan, the discount offered is one rupee. The 5½ per cent 1990 loan of last year had been issued at par. The repetition of the previous year's pattern renders improbable any downward revision of the Bank rate from its present high level of 6 per cent. However, the Bank rate issue continues to hang fire.

The year 1966-67 may well witness a restoration of normalcy in the borrowing activity of the

Government. The Reserve Bank, for one thing, is not likely to play any leading role in ensuring the success of these loans, since the size of the net borrowings this year is going to be relatively modest. In his budget speech, the Finance Minister had expressed the hope that "the target for market borrowing next year will be fulfilled without any significant support from the Reserve Bank over the year as a whole." It may be recalled that *ad hoc* treasury bills of the value of Rs. 50 crores were converted, on February 6, 1966, into further issues of 4½ per cent loans, 1971 and 6½ per cent loan, 1990. Secondly, although the credit-squeeze continues, the banking system appears to be in a better position to absorb the two central loans—particularly the 4½ per cent short-dated issue.

Many of the banks, which may have unloaded sizable chunks of Government securities in the recent past, seem to be eager to replenish their investment portfolio in order to keep themselves within safe liquidity limits. It may be doubted, however, if the banks would lend sizable support to the Centre's borrowing programme without some gentle prodding on the part of the Government. The reason for this is that other competing avenues of investment, backed in most cases by the Government, offer a higher yield. Although the wings of the non-banking institutions are clipped by means of closer RBI control, Government paper still appears least attractive by comparison. Besides, the banks will have to set apart some amounts for state loans to be floated a few weeks later.

It is for these reasons that one is inclined to feel that the "captive market" will continue to play a significant role in ensuring the success of the Centre's borrowing programme. One need not frown at this trend so long as the institutions which come under this questionable definition show a keen

awareness of the need to combine security with profitability. The problem for the monetary authority is not one of keeping out of the "captive market" but of maintaining a viable maturity structure, with a bias in favour of long-dated loans. Debt-management in the coming years assumes special importance in view of the high target of market loans (Rs. 1,500 crores of net borrowing) envisaged for the Fourth Plan. How this can be achieved without placing too heavy a strain on the Reserve Bank is a question which can no longer be ducked by the Government. Stagnation in the gilt-edged market is hardly conducive to the success of a dynamic borrowing programme geared to planned investment.

Coffee

HOT OR COLD?

THE planter never had it so good before. This is the impression one gathers from the speech of the Coffee Board Chairman, at its last meeting held on June 29. Prices in the export auctions have registered a sharp increase after the devaluation. Plantation "A", which was fetching between Rs. 215 and Rs. 225 (monthly average) in the auctions held up to the end of May 1966, realised an average of Rs. 278.82 per 50 kgs. in the auction held on June 15. Similarly, Arabica Cherry "AB", which was fetching an average of price of Rs. 175 to 195, fetched Rs. 240 in the auction held after the devaluation. Robusta Cherry shot up from Rs. 148 to 165 to around Rs. 206. Even allowing for the export duty of Rs. 25 per kg. introduced in the wake of devaluation, the benefits derived by the planters appear not too insignificant.

These windfall gains somewhat conceal the grim fact that India faces an uphill task in the world market. Our experience in 1965-66 on the export front reveals that the method adopted by the International

Coffee Council for fixing country-wise quotas—India is a member of the World Coffee Agreement—hardly leaves any elbow-room for even marginal adjustments to suit the changes in internal production. For instance, under the general waiver granted by the ICO, India was allowed to export, in 1965-66, 3,000 tons more than the basic quota of 20,371 tons but there was a proviso to the effect that "if the average prices for the different groups of coffee, taken over a period of 15 days, fell 2 cents below the levels on December 10, 1965, the portion of waivers for the subsequent quarters is to be automatically suspended."

As a result of the price-distortion caused by the sales of some major exporting countries, India could not fully avail of the waiver and the effective quota was only of the order of 21,871 tons. In the context of the Board's export allocation of 28,000 from out of the 1965-66 crop, the ICO quota appears somewhat restrictive. The forthcoming meeting of the Council, to be held next month, is crucial for the small producers like India which expect a more liberal export quota. India will be justified in urging a larger quota since the production in 1966-67 is likely to be of the order of 68,000 tons compared to 61,500 tons in 1965-66. A coffee crop of the order of 70,000 tons—final estimates may go up to this figure—will leave an exportable surplus of about 30,000 tons and after allowing for the usual off-take of non-quota countries, the quantity that can be exported to the member countries of the ICO will at least be about 25,000 tons. At the August meeting of the Council, it should not be difficult for India to secure a marginal increase of 3,000 to 4,000 tons in her basic quota.

While the Coffee Board can be said to have effectively safeguarded the country's interests on the export front, its policy in regard to the domestic market does not appear

to have taken a realistic view of the interests of the consumers at home. Internal consumption has shown a steady upward trend and in 1965, it reached a record figure of 36,850 tons. That the Board's internal releases have not kept pace with this trend is evident from the slower rate of releases in the first five months of 1966 when they added up to 13,686 tons compared to 15,960 tons during the corresponding period in 1965. Small wonder that internal prices shot up from Rs. 291.98 per 50 kgs., in January (for Plantation "A") to Rs. 354.53 in May 1966. During the period, January-April, Arabica Cherry rose from Rs. 252.41 to Rs. 275.86 and Robusta—a less popular variety—increased from Rs. 239.60 to Rs. 250.19, during the period January to May. Among the statutory commodity boards, the Coffee Board occupies a preeminent position. As such, its role in the task of holding the price-line cannot be over-emphasised.

The need to develop the export market cannot be overlooked, but there are limits beyond which it may not be possible to increase coffee shipments, in view of the present state of glut in the world market. If the production in India reaches the figure of one lakh tons by the turn of the decade, if not earlier, domestic off-take will have to go up to 50,000 or 60,000 tons even, after allowing for an export of 40,000 to 50,000 tons. The present restrictive policy—though justified under the circumstances—is not best suited to protect the long-term interests of the coffee growers.

Although the growers are in the midst of illusory prosperity, the credit-squeeze and the vagaries of weather have seriously affected the coffee economy. The absence of any stabilisation device to insulate the growers from the price-fluctuations has increased the vulnerability of the industry. In this context,

(Continued on page 6)

GLASS HOUSE GOSSIP

THE drubbing that Mrs. Gandhi's Government got in the hands of the Congress Parliamentary Party over the devaluation issue reveals that the Prime Minister is not yet the master (shall I say, mistress?) of the situation. I said, "not yet" purposefully because Mrs. Gandhi is moving fast where others in a similar situation would have dragged their feet along. With the co-operation of the Congress President and with some luck, she may successfully ride over the troubles and get on top of it all. Since I am always inclined to look at the brighter side of things, I have no reason to think that Mrs. Gandhi will fail in her efforts to place the economy on an even keel.

Devaluation has often been compared to a major operation which cannot be undone in any case. May be, but why were the surgeons (shall I say, hatchetmen?) so much scalpel-happy when they had not tried the less drastic remedies on the patient? Since it is a serious affair, I would refrain from taking a light-hearted view of the whole thing, saying: The operation was a 100 per cent success; but the patient collapsed.

The Congress Parliamentary Party would not have been so harsh on Mrs. Gandhi, Asoka Mehta and Sachindra Chaudhuri had it not been for the chagrin expressed by no less a person than the Congress President. But President Kamaraj would have, by now, conceded that certain measures like devaluation cannot be discussed in the market place without encouraging speculative elements in the country to play havoc with prices. The Commerce Ministry which went to great lengths in opposing devaluation and the Planning Commission which had

never given a thought to it, may have reason to think it was all a leg-pull swiftly carried out by Indira-Mehta-Chaudhuri trio. Incidentally, I heard apocryphal stories, current in the precincts of Yojana Bhavan, to the effect that the N. P. C. Members were so much taken aback by the bombshell on June 5 that one of them said: "If I had an alternative job to fall back upon, I would have quit this place at a moment's notice."

Since alternative jobs are hard to come by, in these days of 10 per cent economy-cuts, they must have thought, on cooler reflection, that discretion is the better part of valour. In any case, I do not quite share the puzzlement of President Kamaraj who sees national humiliation in the Rupee being mauled out of shape. Where I differ from the Congress President and other anti-devaluationists is in their viewing the measure partly from a political stand-point. If devaluation was inescapable, it was as well that the Government took the plunge on June 5 instead of adopting subterfuges. The trouble with some of our Congressmen is that they have yet learnt the art of seeing themselves as others see them. Gandhiji would have called it "introspection."

THE Soviet Embassy officials in New Delhi have a sense of humour. Indeed, all the Russians have it in them for otherwise they would not have survived those nasty Stalinist purges. Even poor old Khrushchev cracks innocent jokes occasionally. Coming to the point, I was mildly amused at the way the Embassy officials parried questions about the reported "Pakistani arms deal" which

caused a flutter in New Delhi. They quipped that the Russians have a habit of saying, "God bless you", whenever somebody sneezes. Certainly they cannot be expected to repeat saying it if the sneeze continues! Further, they are reported to have said: "We cannot go on contradicting all these stories. If we are going to do this, the Soviet Government will have to set up a Ministry of Contradictions."

Since India has no reason to question Russia's *bona fides*, I do not think we will be wise in insisting on a contradiction. In the first place, we do not know what kind of a shopping list the Pakistani military mission carried in its Moscow trip. Certainly, it could not have been for I. C. B. M.s. or for ultrasonic planes. Wary of the West's new moves and of the bellicosity of Peking, Russia has her own reasons to keep herself on the friendliest terms with her Asian neighbours. The Peking-Pindi axis has always been a cause of concern to U.S.S.R. which is interested in weakening this unholy alliance. Surely, we cannot accuse the country which initiated the Tashkent negotiations, of trying to arm Pakistan to intimidate India. Perhaps Premier Kosygin will be happy if this rumoured "arms deal" indirectly alerts India against the danger of walking into the "Western Camp".

A HAPPY event which should not go unrecorded in these columns is the diamond jubilee of the Canara Bank which completes 60 years of useful service to the industry and trade not only in this part of the country but all over India, through its 240 and odd branches. As an economic writer interested in banking, I have watched the progress of Canara Bank over the past decade at close quarters and I have nothing but admiration for the way in which its management shaped its destinies during a period which cannot be

considered "normal" in any sense. On the eve of the states' reorganisation, Canara Bank had already grown in stature and the unification of the Kannada-speaking areas in 1956 gave it a special fillip. Quite wisely, the Bank shifted its administrative offices to Bangalore. After being housed in rented premises for some years, the Bank moved to its own magnificent building a few years ago.

The Bank has played no mean role in helping small entrepreneurs to set up new industries in the southern region. Canara Bank is also playing a creditable role in the task of consolidating the banking structure in the country. The merger of the Pandyan Bank with Canara Bank constitutes a landmark in the banking history of the present decade. Canara Bank is something more than a bank. It has grown into a national institution deeply involved in several aspects of the country's economic progress. The role it is playing in the advancement of education—by offering loan scholarships to deserving students—is worthy of emulation by other banking institutions.

ALTHOUGH the decision of the CSIR to serve quit notices to some 83 scientists in the Council's "pool" of some 4,450 may appear strange in the present context of the shortage of doctors and scientists in the country, I am inclined to agree with the Director-General, Dr. Hussain Zahir, that CSIR is neither a charitable organisation nor an employment exchange. This country, I know, has a bad record of looking after its scientists and intellectuals and I can recall quite a few tragedies which could have been averted had the Government adopted an imaginative policy in the matter of providing employment and other facilities to our scientists. That is an entirely different story. In the case of the persons affected by the quit notices

served by the CSIR, the disagreeable step had to be taken by the Council—so I hear—because of the reluctance of some of them to take up the jobs offered to them. Here, in Mysore State, we find several unemployed doctors, engineers and scientists who simply refuse to take up lucrative jobs offered to them elsewhere. So long as they do not give up their rigid attitudes, I think, our technical men have no right to complain that they are meted out a raw deal. This is especially true in the case of our young doctors who are reluctant to take up jobs in villages. Such persons deserve to be "black-listed" and barred from taking up jobs elsewhere in the Government.

I CONGRATULATE the Post-Master General, Mr. Sarangapani, on his introduction of the "Special Information Service," for the telephone subscribers. "Dial 176 for" is a good idea but I will not be surprised if the person at the receiving end is not able to give satisfactory answers to all the queries that a subscriber may put. Even granting the obvious limitations of this kind of service, I have no doubt that in course of time, "Number 176" will catch on with the telephone subscribers in Bangalore. Those who argue that the Special Information Service will reduce, to some extent, the usefulness of daily newspapers which regularly carry advertisements of local entertainment programmes, travel services and so on, are not entirely wrong but there may be many among the telephone subscribers who would prefer the sweet, spoken word to cold print. All in all, I visualise a tough time for the "hello girls" of Bangalore.

OUR students seem to have reacted favourably to the news of the closure of colleges for six months in China on Mao's bidding. But

let me warn them that it is not going to be a picnic for the youngsters in China. The 6-month holiday, I hear, is meant for political *brain-washing* which is, no doubt, a pernicious idea but the readers will forgive me if I say that in the case of many of our boys, the question doesn't arise at all. What our boys need is not a 6-month holiday but gruelling, round-the-clock work and a stiff dose of discipline. I am sure my student friends do not question my *bona fides* or get angry with me if I say that student indiscipline has assumed scandalous proportions in our colleges. I am not a believer in the cult of the cane but there must be some way by which our boys are made to realise their responsibilities.

—Plebeian.

COFFEE OUTLOOK

(Continued from page 4)

the Chairman, Mr. A. S. E. Iyer's suggestion for the creation of a Price Stabilisation Fund needs to be commended. An arrangement of this kind will work only if the planters agree to the stipulation of a minimum return and to the funding of the excess in good years. The setting up of a stabilisation fund and a development fund, throughirksome from a short-term point of view, merit serious consideration since coffee is one of the plantation industries whose fortunes hinge on various imponderable factors.

A few copies of our Banking Number and Annual Number are still available. They can be had on payment of one rupee (each) by M.O. or by sending stamps of equivalent value to:

SOUTHERN ECONOMIST

24, Haudin Road
Bangalore-1
Phone: 75439

SPECIAL ARTICLES

Progress of Planning in India*

TO appreciate what has been attempted and what has been done in the field of planning in India, it is necessary to get a proper measure of the progress achieved over a period of years, and the tremendous handicaps with which the country started. It is also necessary to emphasise all the time that India's basic fight is against poverty, ignorance and disease; that her aspirations are to achieve economic development in a manner that strengthens federal democracy and social justice; that the good life we seek is rich in its content of art as much as of science. Quantitative measures of growth have to be supplemented by an appraisal of the qualitative changes since Independence. Indian society today is vastly different from what it was twenty years ago, with new values and new institutions oriented towards the promotion of common welfare. In spite of the problems she has had to face in these twenty years, India has enhanced her inherent strength, giving her stability in political matters. These achievements cannot be gainsaid or belittled.

In aggregate terms, India's (net) national income increased by about 69 per cent between 1950-51 and 1964-65, or at a compound rate of 3.8 per cent per year. Within this cumulative picture, the rate of growth in the first five-year period (1951-52 to 1955-56) was 3.4 per cent, and in the second five-year period 4.0 per cent. And, despite all the difficulties of bad harvest, external aggressions and foreign exchange shortage, the rate of growth of national income in the first four years of the Third Plan (1961-62 to 1964-65) was of the order of 4.4 per cent (compound).

This increase in national income has, however, been accompanied by a fairly rapid increase in population, with the result that the additions to *per capita* income have not been commensurate with earlier expectations. Since 1950-51, India's

population has risen by nearly 125 millions, that is at 2.2 per cent per year. This large growth in population has in itself been a consequence of the modest improvement in consumption standards and a reduction in the death rate through nationwide public health policies. Anyway, since 1950-51, the *per capita* income has in real terms increased by 27 per cent, or at an annual average rate of less than 1.7 per cent.

AGRICULTURE

Ever since the launching of the First Five-Year Plan, agricultural production has shown sizeable improvement despite year to year fluctuations. At the end of the first Plan, the all-India index of agricultural production (base 1949-50 = 100) stood at 116.8 and at the end of the Second Plan it advanced to 142.2. During the first three years of the Third Plan 1961-62 to 1963-64, agricultural production did not show any noticeable improvement over that of 1960-61 due mainly to unfavourable weather over extensive areas of the country. The index of agricultural production was only marginally higher in 1963-64 being 142.6. The year 1964-65 provided a welcome contrast to the first three years of the Third Plan inasmuch as the weather, on the whole, was quite favourable over major parts of the country, both during the kharif and rabi seasons. The index of agricultural production spurted to 157.6 in 1964-65.

This increase in production has been mainly due to improvement in yields, the overall index of productivity (yields) having risen from 95.7 in 1950-51 to 126.9 in 1964-65. This is indicative of the positive role of agricultural development programmes. The lowest level of agricultural production in the first Plan period was 97.5 (1951-52) and the lowest in the second Plan period 115.9 (1957-58). The lowest in the first four years of the Third Plan was 137.5 (1963-64). The peak reached in the first

Plan was 117.0 (1955-56) in the second Plan period 142.2 (1960-61) and the third Plan 157.6 (1964-65). This too goes to show that development efforts have been having positive impact on the progress of agricultural production in the country.

On a straight comparison of the level of agricultural production in 1964-65 with that in 1949-50 the average rate of increase in production works out to 3.84 per cent, the index having increased from 100 to 157.6 in a period of 15 years. Similarly, the average annual rate of increase in area under crops during the same period was 1.61 per cent and that in productivity 1.79 per cent.

Among cereals, wheat had the highest growth rate of production followed by maize and rice. Growth rates of production of jowar, bajra and ragi were relatively poor. In the case of rice, rate of increase in yield was almost double of that in area. The linear growth rate of production of rice during 1949-50 to 1964-65 was as high as 4.21 per cent per annum. Wheat showed the highest linear rate of growth of 5.25 per cent and maize 4.97 per cent per annum. This was more due to the fact that the growth rate of area was much higher than that of yield. Among millets, jowar and ragi had growth rates of production of 2.98 per cent and 3.30 per cent per annum. In both the cases improvement in yield was responsible for a major portion of the increase in production.

Commercial crops as a whole had a linear growth rate of production of 4.39 per cent per annum during 1949-50 to 1964-65. Contribution of area was almost twice as much as that of productivity to the total increase in the production of 'non-foodgrains'. Among the individual fibres cotton had a very high growth rate of production of 6.05 per cent per annum. In case of jute the growth rate was 4.09 per cent per annum. While in case of cotton, contribution

* Based on a paper prepared by the Planning Commission

TABLE 1
PROGRESS OF INDUSTRIES IN FIVE-YEAR PLANS
(SELECTED ITEMS)

Item	1950-51	1960-61	1964-65
Ores and Fuel :			
(i) Coal (million tonnes)	32.6	55.9	64.3
(ii) Iron ore (million tonnes)	3.0	10.9	15.0
(iii) Crude oil (million tonnes)	0.26	0.45	2.13
(iv) Bauxite (1,000 tonnes)	65	467	613
(v) Manganese ore (1,000 tonnes)	897	1,137	1,249
Chemicals :			
(vi) Sulphuric acid (1,000 tonnes)	104	360	695
(vii) Caustic Soda (1,000 tonnes)	11	99	191
(viii) Chlorine (1,000 tonnes)	4	55	49
(ix) Pesticides, fungicides/etc. (1,000 tonnes)	Negligible	2	9.5
(x) Drugs & Medicines (Rs. million)	150	600	1,350
Metals :			
(xi) Finished steel (1,000 tonnes)	1,000	2,450	4,100
(xii) Saleable pig iron (1,000 tonnes)	400	1,120	1,300
(xiii) Aluminium (ingots) (1,000 tonnes)	3.7	19.0	..
(xiv) Alloy and special steel (finished) (1,000 tonnes)	..	..	23.4
Metal P :			
(xv) Steel castings & forging (1,000 tonnes)	..	70.4	..
(xvi) Grey iron castings (1,000 tonnes)	..	..	634
(xvii) Steel structural fabrication (1,000 tonnes)	..	229	284
(xviii) Steel wire ropes (1,000 tonnes)	..	3.3	12.71
Electrical equipment :			
(xix) Transformers (Million KVA) (upto 33 KV)	0.2	1.4	3.5
(xx) Motors below 150 KW (1,000 KW)	80	540	1,400
(xxi) ACSR conductors (1,000 tonnes)	1.7	23.6	50.2
Transport equipment :			
(xxii) Wagons (1,000)	2.9	15	34
(xxiii) Locomotives all types (No)	7	272	271
(xxiv) Commercial vehicles (1,000)	9	28	37
(xxv) Cars, Jeeps, etc. (1,000)	75	27	34
(xxvi) Bicycles (1,000 nos.)	100	1,050	1,500
Machinery : (Value in Rs. million)	106	984	2,310
Electricity sold : (Million KWH)	4,157	16,134	22,881

of area and productivity was more or less equal in case of jute, the relative contribution of area was more.

Oilseeds had a growth rate of production of 3.85 per cent per annum. Contribution of area to the increase in production was more than that of productivity. Among oil seeds, groundnut had a high rate of production of 5.23 and of rapeseed and mustard 3.90 per cent per annum. Almost the entire increase was due to extension in area.

Coffee and sugar-cane had high growth rates of production of 14.63 per cent and 5.57 per cent per annum respectively. While in case of coffee, most of the increase in production was due to improvement in yield, the reverse was the case with sugar-cane. Tea had a low rate of growth of production of 2.25 per cent per annum. The rate of growth of productivity of tea was, however, more than three times the rate of growth of its area. In the case of tobacco the growth rate production was 3.15 per cent per annum and the growth rate of area was almost double of that of yield.

There has been a steady increase in irrigation facilities and flood control, in the availability of chemical fertilisers, and in acreage under improved seeds, plant protection and soil conservation which is helping to build up the agricultural production potential. Net area irrigated, for instance, increased from about 50 million acres in 1950-51 to about 87 million acres, or so, by the end of the Third Plan.

INDUSTRY

The progress in the industrial sector has been more spectacular. Industrial production had almost doubled during the first decade of planning and is expected to be three times as much as in 1950-51 by the end of the Third Plan. What is noteworthy, however, is not so much the increase in the quantum of production as the structural changes brought about by the development and expansion of basic industries like steel, heavy electricals, industrial chemicals, fuel and power and establishment of machine building capacity, so that the requirements of further industrialisation can be met mainly from the country's own resources within the next ten

years or so. By the end of the Third Plan, production of steel (ingots) will have increased from a mere one million tonnes in 1950-51 to about 8 million tonnes, aluminium from 4,000 tonnes to 67,000 tonnes, coal from about 32.8 million tonnes to nearly 67 million tonnes, cement from less than three million tonnes to 12 million tonnes, nitrogenous and phosphatic fertiliser from a paltry 9,000 tonnes each to 250,000 tonnes and 200,000 tonnes respectively, machine tools from Rs. 3.0 million worth in 1950-51 to Rs. 300 millions.

The special feature of industrial development, especially since the commencement of the Second Plan in 1956-57, has been the growth of capacities in steel, aluminium, fertilizer, petroleum products, chemicals and engineering. The growth registered by these industries does not get fully reflected in the official index of industrial production, on account of the large weight given to traditional industries like cotton, jute, sugar, etc., in the formulation of the aggregate index. In order to appreciate the real structural change that has been going on, it is useful to look at the new industries separately. Some of the more important of these are listed in Table 1.

This list (Table 1) is indicative of the industries that have come into being and expanded in the last fifteen years. Apart from these, large investments have been made in industries producing heavy electrical equipment, heavy engineering machinery, heavy castings and forgings, plates and vessels, etc.—all of which will become available in increasing quantities from now on. Likewise, a variety of light engineering products, manufactured consumer products, machine tools, chemical products and so on are now being produced in both large and small-scale units, in quantities many times larger than in 1950-51.

The development of all these industries has necessarily involved large investments in both the public and private sectors. It has also benefited from collaboration with producers abroad, in investment as well as in the provision of know-how. As is inevitable in so large a venture, not all of the effort has borne fruit in the time or in the measure expected; nor has this development occurred without friction

or bottlenecks. But allowing for all this, two facts remain indisputable; firstly, the structure of industrial production is very much more balanced today than it was even ten years ago; and, though much still remains to be done by way of establishing proper linkages and filling the gaps in this structure, the industrial complex as a whole has a much greater ability to press forward with growth and diversification than before. In regard to transport equipment and electrical equipment, the economy has reached a stage at which the additions to these facilities can very soon be made without any substantial reliance on imports.

POWER

Power development has made rapid strides in the past 15 years. Installed generating capacity has increased from 2.30 million kW in 1950-51 to 3.42 million kW in 1955-56. By the end of the Second Plan it went up to 5.61 million kW against the target of 6.92 million kW. Paucity of foreign exchange was one of the main causes of shortfall. The Third Plan target was 12.69 million kW. By the end of the Third Plan the achievement of installed generating capacity would be 10.0 million kW. Shortfall of 2.69 million kW is due to the longer time spent on construction and difficulties in procuring key materials and foreign exchange. In recent hostilities with Pakistan some imported equipment for power stations was impounded by Pakistan which resulted in delay in commissioning of some of the power stations.

Steps are also being taken in consultation with the State Governments to introduce inter-connected operation of power systems. In order to channel power development on regional basis setting up of Regional Electricity Boards is under consideration. Every endeavour is being made to ensure that implementation of power projects is not affected adversely for want of funds.

An important objective in our planning has been to develop efficient small-scale industries in small towns and in rural areas so as to increase employment opportunities and bring about a more balanced and diversified rural economy. Programme of Rural Electrification is designed to help in the fulfilment

of this objective. In 1950-51 only 3,700 towns and villages were electrified. By the end of the First Plan, 7,400 towns and villages were electrified. The number of towns and villages electrified by the end of the Second Plan was 23,000. By the end of the Third Plan, the number of towns and villages electrified will be 46,000.

TRANSPORT

As in the case of power, rapid strides have been made in the field of transport. The acute shortages experienced towards the end of the Second Plan in regard to rail transport, particularly transport of coal led to an intensification as well as enlargement of the programme for railways; and in consequence freight moving capacity on the railways in 1965-66 will amount to 260 million tonnes as against the Plan target of 245 million tonnes. On present forecasts, it is estimated that at the end of Third Plan, there is some surplus capacity in the railways, which, however, will be absorbed by an increase in the demand in the succeeding year. Transport services have likewise expanded considerably and effort is being made to keep it abreast or even ahead of requirements. Freight carried by the railways, which was less than 100 million tonnes in 1950-51, is expected to reach over 204 million tonnes by 1965-66. The mileage of surfaced roads will have almost doubled. By 1965-66, the number of commercial vehicles on the road will be about three times as many as in 1950-51. Shipping tonnage will have also increased about four times and handling capacity of major ports will have more than doubled by the end of the Third Plan.

SOCIAL SERVICES

Considerable progress has taken place in respect of various social services as well. The most encouraging advance has been in the field of technical education. While the demand for trained personnel and expertise, particularly at the higher levels, has yet to be fully met, the out-turn of engineering graduates has increased by more than six-fold by the end of the Third Plan and the targets exceeded. India aims at making her entire population literate. A major step towards this end is to make primary education free and compulsory. By

WHERE THERE'S TRADE COMMERCE EXPORT INDUSTRY

THERE IS THE UNION BANK

Union Bank investments encourage industrial growth. Union Bank helps traders and businessmen by providing facilities for both industry and export. Helps the country earn valuable foreign exchange.

Issued, Subscribed & Paid-up capital	Rs. 1.25 crores
Deposits	over Rs. 69 crores
Total working fund	over Rs. 89 crores
Reserve fund	Rs. 92 lakhs

Branches all over the country.
Correspondents in 66 countries with a network of 26,161 offices.
Telex Contact with countries all over the world.



the end of the Third Plan nearly 80 per cent of the children in the age group 6-11 were attending school as against about 40 per cent in 1950-51. Expansion of similar magnitudes is anticipated at other stages too.

The expectation of life has increased from 32 years to about 47 years. Incidence of communicable diseases such as malaria, filaria, tuberculosis, leprosy and venereal diseases has substantially decreased particularly in the case of malaria. The number of hospitals and dispensaries and beds have about doubled by 1965-66. The number of practising doctors, or in service have increased by more than 50 per cent and nurses three-fold. These are no mean achievements, in the brief period of 15 years. for a country handicapped heretofore by decades of stagnation and impoverishment. Furthermore, but for our Plans, the country's defences would have been in a worse position.

The undertaking of large expenditure on social services under the three Plans is, in itself, an indicator of the importance attached in Indian planning to improve the living standards of the poorer people, and facilitating the creation of a society in which there is much greater equality of opportunity than so far. The Plan programmes relating to the welfare of the common people are important not just because of the additions to economic productivity that will be realised in the present or in the future. They are far more significant as instruments for enabling the proper functioning of a democracy, for social stability, and for the development of a scientific outlook in all areas of value to society.

EMPLOYMENT

Expansion of employment opportunity has been a major objective. The aim has been initially to absorb in gainful employment the equivalent of the new entrants to the labour force through the creation of adequate additional employment opportunities. However, in view of the substantial addition to the labour force from plan to plan than originally envisaged, it has not been possible to expand employment opportunities commensurate with the increase in the labour force in each plan period. In view of the heavy pressure of population on agriculture, it was

also aimed to successively reduce dependence on agriculture, by creating a larger number of jobs in the non-agricultural sector.

Unemployment and underemployment had been a chronic feature of the Indian economy for many decades past. Additional employment generated in the First Plan in the public and private sectors (excluding trade and commerce) was of the order of 4.5 millions. During the Second Plan, additional employment opportunities of about 8 millions, of which 6.5 millions were outside agriculture, were created as against an increase of about 12 millions in the labour force. It has been estimated that at the end of the Second Plan, there was a backlog of about 8 million unemployed persons. The addition to the labour force in the Third Plan is reckoned at over 17 millions. It is estimated that additional employment opportunities resulting from the implementation of the Third Plan may be of the order of about 13 millions as against the target of 14 millions provided for in the Third Plan. This would mean an increase in the size of the backlog to about 12 millions at the end of the Third Plan.

During the past decade and a half, as the result of a sustained planned efforts, our economy has reached a stage midway in our quest for establishing a self-sustained and self-generating economy. This task is hoped to be completed within the next two plan periods. In the absence of a modern, well-knit complex of capital goods and raw material industries before the advent of planning, any significant increase in the production of consumption goods or transport and power services depended entirely on the ability of the economy to import the necessary equipment and raw materials. And these imports had to be secured through the export of whatever the country was producing, which consisted largely of agricultural commodities and minerals. For long years, India did in fact try this; but lack of development in the industrial sector seriously limited the capacity of the country to enlarge even these exports of primary products. Without the adoption of new technology and more efficient methods of production, the traditional exports of India found the going hard in a world market in which the terms of trade

moved continuously against primary products.

The shortage in the supply of industrial raw materials and capital equipment had to be remedied primarily through the development of indigenous capacity, supplemented to the maximum extent possible by additional exports. The principal areas in which the industrial sector had to be strengthened for this purpose were those of metals, machinery, chemicals and fuels. These were commodities for which the demand increased rapidly with economic development. Along with power and transport, these industries contributed to the strengthening of the infra-structure of the economy.

NO "GIGANTICISM"

The development of heavy and capital goods industries on a large scale is not, therefore, the result of a craving for "giganticism." The approach in this respect has been one of adopting the most modern technologies available for large-scale production so that, over a period of time, massive quantities of these could become available for both domestic use and exports at diminishing costs. In visualising this process, emphasis in the initial Plans was naturally given to the enlargement of the railways, power and irrigation facilities. By the middle of the Third Plan, the position was such that transport and power availability was no longer a bottleneck. There were, true enough, some pockets in which the supplies of these services were somewhat short of the demand. But in the overall sense, these infrastructure facilities had ceased to be constricting factors. And with the improvement in transport facilities, and a rather slow increase in demand, the position in regard to coal supplies was also one of ease.

Of necessity, the setting up of new industries has required large scale import of equipment and accessories and know-how in the last few years. With exports not being adequate to cover the import requirements, India drew in the initial stages on the large sterling balances accumulated during the Second War and Korean War years. Very large drafts were made on these accumulated reserves in the initial years of the Second Plan to sustain the large investment undertaken in the economy.

TABLE 3
ACHIEVEMENTS OF THREE PLANS

Item	1950-51	1955-56	1960-61	1965-66 (Likely)
Index Number of agricultural production (1949-50=100)	95.6	116.8	142.2	..
Foodgrains production (lakh tonnes)	508.3	668.5	820.2	767
Nitrogenous fertilisers consumed (1,000 tonnes of nitrogen)	56	107	203	650
Co-operation: short and medium terms loans advanced (Rs. crores)	22.9	49.6	201.91	380.15
<i>Major and Medium irrigation :</i>				
(a) Potential at channel outlets (lakh acres, gross)	238 ¹	65	117	174
(b) Utilisation (lakh acres, gross)	2381	31	83	137
Power : Installed capacity (lakhs Kw)	23 ^a	34 ^a	55.8	100
Towns and villages electrified (000)	3.7 ^a	7.4	23.0	46.0 ^a
Index number of Industrial production (1956=100)	73.5	91.9	130.1	..
Steel ingots (lakh tonnes)	14.7	17.4	34.8	70
Aluminium (virgin metal) (thousand tonnes)	4.0	7.4	18.3	70.0
Machine tools graded (value in Rs. crores)	0.3	0.8	7.0	30.0
Sulphuric acid (thousand tonnes)	101	167	368	800
Petroleum products refined (lakh tonnes)	2	34	58	..
<i>Cotton Cloth :</i>				
(a) mill sector (lakh meters)	34,010	46,650	46,490	47,090
(b) decentralised sector (lakh meters)	8,140	15,950	20,890	32,000
(c) total (lakh meters)	42,150	62,600	67,380	80,006
<i>Minerals :</i>				
(a) Iron Ore (lakh tonnes)	30	43	110	220
(b) Coal (lakh tonnes)	328	390	555	670
Railways : freight carried.	930	1,159	1,562	2,040
Road Transport : Commercial vehicles on road (1,000 nos.)	116	166	224	328
Shipping tonnage (lakhs of tonnes)	3.9	4.8	8.6	15.3
General Education : Students in schools (lakhs)	235	333	447	679
Technical Education : Engineering and technology—degree level annual admissions (000)	4.1	5.9	13.8	28.0
<i>Health :</i>				
Hospital beds (1,000 tnos.)	113	125	186	240
Doctors (practising) (1,000 nos.)	56	65	70	86
Exports (Rs. crores)	601	609	642	..

¹ Position before the First Plan

^a As on 31st March 1965

¹ Figures relate to calendar years.

^a For the years 1951, 1955 and 1960 to 1964.

Since then, the country has had to draw on the rest of the world for loan assistance, which has come in ample measure from Governments and international agencies. The progressive increase in imports made possible by this generous assistance has, however, obscured the fact that, simultaneously, much has been achieved by way of import replacement. This is obscured because, with the increase in productive activity that has occurred, new types of imports have become necessary; and even where the proportion of imports to total supply has fallen, the absolute quantities are still large enough to create balance of payment difficulties. But, as Table 2 shows, the fact remains that in many areas of industrial production, the relative dependence on imports today is much less than what it used to be. In conclusion, it may be stated that as a result of the effort made

during the three Plans, the economy of the country has emerged considerably strengthened. The most outstanding achievement of the period, however, is the development of basic and heavy industries. With the three new steel plants in the public sector coming into full production, the augmented capacity of the two units in the private sector, the impressive growth of machine building, electrical and chemical industries, the enhanced availability of industrial fuels and electric power, the unprecedented build up of a net work of rail and road system, together with the expansion of facilities for technical education and scientific research and the managerial and technical skills, the country stands poised to enter the penultimate stage leading to the establishment of a self-sustained and viable agro-industrial economy.

TABLE 2
IMPORT SUBSTITUTION DURING FIVE-YEAR PLANS

Item	Imports as % of total supply in 1950-51	Imports as % of total supply in 1964-65	Percentage imports substitution from 1950-51 to 1964-65
Kerosene oil	93.9	34.8	62.9
Other petroleum products	91.5	1.6	98.3
Nitrogenous fertilisers	59.3	43.6	51.2
Drugs and Pharmaceuticals	51.9	5.8	88.8
Dye-stuffs	100.0	34.7	65.3
Caustic soda	66.7	26.2	60.7
Soda ash	39.5	10.6	73.2
Plastics	100.0	25.1	74.9
Synthetic fibre yarn (rayons)	100.0	13.6	86.4
Paper and Paperboard	23.2	4.6	80.2
Aluminium	74.8	29.7	60.3
Textile machinery	100.0	56.5	43.5
Machine tools	88.0	46.4	47.3
Sugar machinery	100.0	4.3	96.7
Sewing machines	42.1	Negligible	100.0
Typewriters	100.0	0.9	99.1
Radio receivers	24.6	0.6	97.6
Commercial Vehicles	35.7	0.5	98.6
Bicycles	62.4	Negligible	100.0

MADURAI BRANCH OF SYNDICATE BANK

THE Madurai branch of the Syndicate Bank has been opened on June 30, 1966 at 72, South Masi Street, Post Box No. 44, Madurai-1. The Madurai branch is the 25th branch of the Syndicate Bank in the Madras State. With the opening of this branch, Syndicate Bank has now 210 branches.

The Bank will also open its branch at Ahmedabad, the Capital of Gujarat shortly. This will be the second branch of the Bank in the Gujarat State, the first being at Baroda. Several other branches are also being opened by the Bank shortly, including Vizianagaram, Yadik, Warangal, Nizamabad, Kotekar and Poona.

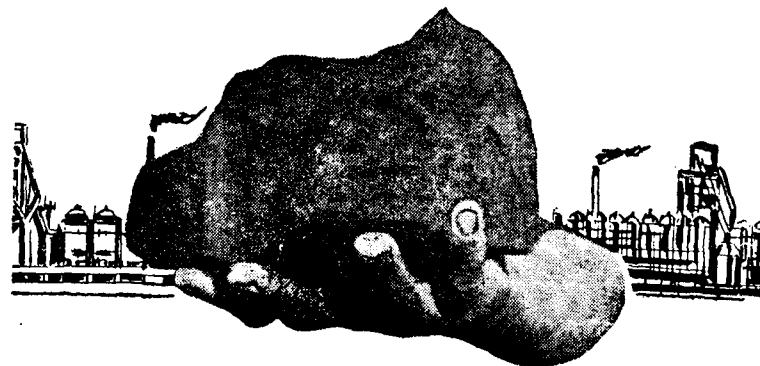
LARSEN AND TOUBRO

A PREVIEW of Larsen & Toubro's accounts for the year ended March 31, 1966, shows record revenue from sales and other sources of income and a higher manufacturing output than ever before. These results have been achieved in spite of the adverse conditions for business and industry created by the Indo-Pakistan conflict and the suspension of foreign aid. Revenue from sales, servicing, commission and other sources of income totalled Rs. 12.85 crores, an increase of 25 per cent over the previous year's revenue of Rs. 10.29 crores. Manufacturing output rose by 18 per cent.

The Company's outstanding performance has enabled it to increase its appropriation for dividends to Rs. 40.57 lakhs from Rs. 29.02 lakhs to cover dividend at 15 per cent on the increased equity capital. The Company had issued 6,60,000 equity shares and 3,30,000 bonus shares in 1964-65 which qualify for a full year's dividend in 1965-66. Provision for taxation is also higher at Rs. 65.50 lakhs in 1965-66, compared with Rs. 51 lakhs in 1964-65.

Subscribe to
SOUTHERN ECONOMIST
24, HAUDIN ROAD
BANGALORE-1

INDIAN IRON ORE PROVIDES THE MUSCLES AND SINEWS OF INDUSTRY ALL OVER THE WORLD



India's hard-lumpy ore has a high iron content ranging from 62% to 69% FE, with impurities of Sillica and aluminium in a proportion that facilitates slag-making. This iron ore is in universal demand for blast-furnaces. The quantity of India's quality ore bought by various countries in 1964 is shown below.

Country	Lakh Tonnes
Japan	96.28
WESTERN EUROPE	
Italy	2.68
Germany	7.47
Others	3.42
EASTERN EUROPE	
Czechoslovakia	7.51
Rumania	5.25
Poland	2.70
Yugoslavia	3.53
Hungary	0.60
East Germany	0.40
Grand Total	99.82

THE MINERALS & METALS TRADING CORPORATION OF INDIA LIMITED



EXPRESS BUILDING, MATHURA ROAD, NEW DELHI.

Housing Conditions in India*

By V. MEERA REDDY

PERHAPS the greatest feature of the modern world is the stupendous population growth in all countries. Science and technology have created conditions ideal for proliferation of mankind—but they fail to provide habitable space for the millions. Indeed, the basic requirement of man for proper shelter remains as yet unsatisfactory and insufficient. And this problem attains seriousness in a country which lacks adequate wherewithal to solve it. It is in this context, the present essay sets out a broad analysis of the problem of housing in India.

According to the 1961 census, the first of its kind after Independence, the total population of the Indian Union is 439,235,082.¹ The percentage rate of population increase during the last decade 1951 to 1961 is 21.50%. In other words the population has increased, on average, by 2.15 per cent annually. The problem is not mainly with the rate of population growth but with the net addition to the existing pressure against the background of the underdeveloped nature of our economy. There is an addition of about 8 millions per year.² We have to provide for them the basic necessities of human life such as food, shelter, clothing, etc. The growth of civilisation, along with sheer economic issues involved, imparts an edge to the problem of housing.

The sociological aspect of investment in housing is in fact an insu-

rance for the future happiness and contentment of the people. No welfare state can afford to ignore the fact that shelter is one of the prime necessities after food and clothing. This compels almost all the Governments in the world to have constructive housing programmes to alleviate the hardships of the poor. Further, this problem is bound to be accentuated with industrialisation. The seriousness of the problem is doubtless recognised not only by all the governments working for the happiness of their people, but also by international agencies like the UNESCO.

Broadly speaking, there are three main types of housing problems—rural, urban and industrial. About 35.9% crores live in the rural areas and about 7.8 crores in the urban areas.³ Thus the implication of four-fifths of our total population living in rural India is that housing difficulties in the country side are many and varied even from the point of mere numbers required. It does not mean, however, that urban and industrial housing problems are any the easier for solution. Urbanisation and industrialisation are bound to worsen the existing situation. The migration of rural people to urban areas so carefully fostered under, for instance, Indian Economic Planning will aggravate the present unsatisfactory conditions. This crucial aspect of housing problem must arrest the attention of our administrators. The Government is but specially concerned to solve such difficulties in the urban areas rather than rural areas.

Nearly 82 per cent of the total population of India live in villages, while about 18 per cent live in towns. There are very limited number of 'pukka' houses or brick-built houses in rural areas. The 'kutcha' houses, namely houses with walls of mud, wood, or bamboo netting, roofs of thatch, etc., outnumber pukka houses. The rest are just huts, hovels, or shacks, hardly deserving the description of 'houses'. These invariably stand often without plinths, but with provision only for a living room.

Bath rooms are unknown in the villages. "A tiny shed in the yard, or a covered recess on the outside of the wall of the hut, usually serves as a kitchen, though in cold or rainy weather cooking may have to be done inside the hut itself. Latrines and privies are a rare luxury, reserved for the very well-to-do people, while for the vast majority, the fields and the wide open spaces take care of the daily necessities."⁴

On the average four to five persons live in each of these hovels. Since most of such houses accommodate entire families, the number of persons per house depends on the size of the families. The average size of the rural family on an all-India basis is about 5.50 persons.⁵ The average number of rooms per house occupied by all families for all sample villages according to the Agricultural Labour Enquiry is 2.30. These rudimentary data are sufficient to give an idea scarcity of healthy dwellings and paucity of minimum space in existing structures in the rural areas.

"Out of the 54 million houses existing in 5,58,100 villages in the country, as many as 50 million houses are sub-standard to such an extent that they have either to be rebuilt completely or improved substantially."⁶ Another disturbing phenomenon about village housing is the relationship between human beings and livestock. In almost all houses, provision for pens for bullocks is utterly lacking, and it becomes a woeful tale to narrate how both the farmers and their bovine friends during rainy seasons bend and crane to adjust their physical frames within their narrow one-roomed mansions! The obligations of a welfare government in providing housing comforts to man can, therefore, take real effect only when housing for livestock also occupies their primary attention.

The problem is of such stupendous magnitude that it would be very difficult to conceive of a detailed rural housing programme, in the immediate or even foreseeable future, that could be financed entirely

* I am grateful to Dr. A. N. Rajamani for his valuable suggestions and guidance in preparing this article.
1. Census of India Paper No. 1 of 1962.
2. 1961 Census final population totals p. 9 (Delhi, Government of India Press), 1962.
3. Ibid.
4. Third Five-Year Plan, p. 22.
5. 1961 Census of India, Final population totals p. 62.
6. Ibid, p. 112.
7. Chandrasekhar, S. "India's population: Fact and Policy," Asia Press, New York, 1946, pp. 36 & 37.
8. Census of India, 1951, volume 1, p. 47.
9. Ministry of Works, Housing and Supply, Government of India Report for 1960-61, p. 24.

through governmental sources. Therefore, improvement of housing conditions in villages has to be dealt with on the basis of aided-self-help, in co-ordination with the overall rural development programme. Community development programme can play a dominant part in this sphere of housing.

Improvement in housing conditions in the villages has a manifold significance. It raises the level of living, provides greater opportunities for work and is a vital element in the transformation of rural life. Yet because of the magnitude of the problem and its inherent difficulties, it cannot be carried out as an isolated objective. Consequently rural housing is intrinsically a part of village planning and Community Development.

VILLAGE PLANNING

The disintegration of joint family system is also worsening the housing position. It is an observable phenomenon that it has been breaking up in the last decade and over due to a variety of reasons. In many cases, it involves the setting up new tenements for families but in some cases the existing ones may be partitioned. The fact that the average size of the villages in India has increased (not the total number of villages as such) along with that of towns and cities including increase in their total number⁹ will testify to our hypothesis that greater the degree of breakup of joint families larger will be the number of new houses required. In fact, the rate of growth of population may have hardly been matched by either the rate of investment in housing or by the rate of growth in total number of houses. The point is that this sociological phenomenon exercises (perhaps independently) a

dominant pressure on housing supplies.

In urban areas, the housing conditions present the most shocking contrast as between the rich and poor. The wealthy people live in supreme luxury while the very poor live in the most object misery and squalor. Several surveys of housing conditions in industrial areas have so far been made by official and non-official commissions. The average working class family in urban areas does not even enjoy one room, but more often shares part of a room. As for the actual condition of tenements, many committees have thrown out detailed information.¹⁰ Water supply and sanitary arrangements are as yet unsatisfactory in almost all the workers' quarters, whether in large cities or small. There is no adequate tap water supply and as far as privies are concerned, there is one privy for 8 or 10 houses. The above facilities in the rural areas are completely lacking.

URBAN SETTING

Further, the problem of pavement dwellers is increasing in all the Indian cities. For example in Madras, the Minister of Industries Mr. R. Venkataraman, said according to an approximate calculation, pavement dwellers in the Madras city numbered about 6,000 of whom 1,400 had already been given tenements. The Madras unit of the State Housing Board has formulated a scheme for the construction of six blocks of night shelters for city pavement dwellers at a cost of Rs. 6,91,000.¹¹ Every city and major town has to formulate such policies to shelter the increasing pavement dwellers. Cities like Calcutta and Bombay might have a larger number of pavement dwellers.

One way of getting over such difficulties is to provide housing facilities for them in vicinity of the cities, so that they need not spend anything towards transport costs. On the other hand, if the authorities provide tenements for them at the outskirts of the cities, they may not stay in them because of the transport difficulties; they might prefer to remain as pavement dwellers than other wise. The suggestion of Dr. S. Chandrasekhar, is worth mentioning here. He opines that in view of India's present state of economic development no city should

have a population greater than three millions. The suggestion does not strictly mean depopulating the present cities suddenly but it applies more to new ones developing. If this proposal is to be implemented, then it might be possible to solve the problem of pavement dwellers along with improving the standard of housing facilities.

UNPLANNED GROWTH

The process of rapid industrialisation intensifies the process of urbanisation. In consequence, some of the existing cities have become larger, smaller towns are assuming the size of cities and new towns have come into existence in different parts of the country. This rapid process of urbanisation has, however, taken place in an unplanned manner during the last decade. This unplanned growth is due to the fact that large number of people from rural areas are attracted to urban areas by better employment opportunities. Some are also attracted to cities because of facilities for higher education which are absent in rural areas. The growth of housing and other amenities of life such as water supply, sanitation, roads, schools and so on have not been commensurate with the growth of population in urban areas. Whereas urbanisation is growing inasmuch as we have 107 towns with a population of over a lakh of persons each, in 1961, as against 74 in 1951¹² corresponding efforts to have appropriate housing and other facilities for those living in urban areas do not seem to have been made. Although attention has been invited in the past by many to the expeditious need for slum clearance, the slums seem to be growing not only in cities like Calcutta and Bombay, but also around new planned towns like Durgapur. It is a pity that those in charge of the development of new towns have not taken adequate care to see that in the surrounding areas, the development of slums is effectively prevented.

During the period of Five-Year Plans, the planners have taken special interest in alleviating this problem in the urban and industrial areas. Even then, there is no considerable improvement in this field. This has been recently highlighted by the All-India Co-operative Housing Seminar. According to an estimate presented to the Working Group on Co-operative Housing

appointed by the Government of India, the shortage of housing in urban areas at the end of the Second Plan was about 6 million units, which is likely to increase by another 12 million units by 1976, due to (1) rise in population and (2) depreciation of old houses. The total number of houses that are expected to be constructed during Third Plan period are about 1.5 millions. The rest, i.e., 16.5 million houses should be completed by the end of the Fourth and Fifth Plans to solve the housing problem in urban areas. Further, it is estimated that by the end of the Fifth Plan, about 22 million houses would be required in rural areas.

To catch up with the backlog and to arrest further deterioration, it would call for heavy investments far beyond the range of the current resources of the country. It is possible to solve the problem only by gradual and careful planning, extending over a period of several successive decades. The meagre funds now available from Government sources might be employed to meet the demands of those who are desperately in need of houses and on the fringe of becoming houseless. If we want to solve the housing problem completely by 1975-76 in urban and rural areas, it would require an investment of over Rs. 15,500 crores during the next decade i.e., 1966-1976.¹³

PLAN ALLOCATIONS

It is worthwhile to see what is likely to be achieved during the Fourth and subsequent Plan periods. "According to tentative estimates, the investment in house building during Fourth Plan period is expected to be Rs. 2,460 crores, which is more than a tenth of the total outlay on the Plan, compared to Rs. 1,565 crores expected to be expended till the end of 1965-66, i.e., during the Third Plan period. Even so, out of this increased allocation, only about 5.7 million houses could be built as against 4.2 million houses expected to be added during the Third Plan period." In the Fifth and subsequent Plans, it is necessary that the Planners should provide adequate funds so that minimum needs can be met.¹⁴

13. *Eastern Economist*, Vol. 45, No. 20 (November 12, 1965).
14. *Ibid.*
15. Third Five-Year Plan.

In the private sector there has been no doubt an increasing amount of construction, but it is difficult to estimate its precise magnitude. "The net investment on housing and other private construction, which was reckoned at Rs. 900 crores in the First Plan, is estimated at about Rs. 1,000 crores in the Second Plan. In the Third Plan private investment on housing and other construction works is placed at about Rs. 1,125 crores."¹⁵ But private investment can be substantially increased in this direction, at least to provide adequate housing facilities to the people employed in the private sector, provided the Central Government helps it by assuring adequate supplies of and maintaining relative price policies for building materials.

The emergency, has, however, called for a change in economic priorities. For instance, housing ranks high among the items that are not significant from the point of view of both defence and production. On the contrary, the need to conserve supplies of strategic items like steel and cement would have in any case compelled us to decelerate the rate of expenditure on housing. Defence of the country naturally occupies the first place. This leads to pruning of the Plan financial allocations on various less important projects. But a large volume of pruning is not desirable since it would affect the economic development of the country, which is no less essential for the preservation of the working psychology of the people. Only with the early economic development of the country, it would be possible for us to face the hostile and aggressive neighbours, China and Pakistan. Therefore, plan pruning in regard to housing programmes must be undertaken with an eye on the impact of emergency on lower income groups so that they will not lose their sustained interest in defence build-up. As housing is part of economic development which itself aims at an overall human satisfaction, one should not be hasty in slashing housing programmes.

SOME SUGGESTIONS

The Third Plan laid down three main suggestions for the improvement of housing conditions during the Third Plan period and subsequent Five-Year Plans. They are :

- (a) Housing policies need to be set in the larger context of economic

development and industrialisation, both large-scale and small-scale, and the problems likely to emerge over the next decade or two. Industrial allocation and dispersal will, therefore, be of increasing importance in the solution of the housing problem. That is to say, as far as possible new industries ought to be established away from large and congested cities ;

- (b) It is necessary to coordinate more closely the efforts of all the agencies concerned, whether public, co-operative or private. The need to undertake the preparation of master plans for urban areas becomes all the greater, for without these plans, there is no means of bringing together and maximising the contribution of different agencies towards well-defined common objectives pursued systematically over a long period ; and

- (c) Conditions have to be created in which the entire programme of housing construction, both public and private, must be so oriented that it serves specially the requirements of the low income groups within the community.

Besides, the following suggestions can also be implemented in the coming plans : Any policy of raising excessive tax on urban sites is apt to spoil the layout of urban areas. These open sites are the "lungs" of urban areas. From hygienic point of view also, they have to be preserved. Therefore, the heavy taxation of local bodies such as, Corporations, Municipalities, etc., which is discouraging the private investors, must be reduced to encourage private construction and improvement of houses.

Research in housing and construction is essential for reducing building costs and improving the quality of construction. A considerable volume of research in the field of housing and construction has been undertaken in recent years at the Central Building Research Institute, India, with different customs and claimates, needs different housing programmes in different parts of the country. The Research Institutes can help to evolve suitable technique to construct houses cheaply and quickly. The co-operative movement in the rural areas, where housing is very acute, has so far concentrated only on productive activities on agriculture; now it must be made comprehensive enough to include housing also. To solve this growing problem of housing, it is necessary to think of population control so that there may not be large additions to the already existing houseless people.

9. For relevant statistical data refer Census of India Paper No. 1 of 1962. 1961 Census. Final Population Totals Statement 32, p. XXXVI.
10. (a) For more details vide Report on Labour Conditions in India : British Trade Union Congress (1938), p. 89.
- (b) Report of the Royal Commission on Labour in India (1928), p. 271.
- (c) Shiva Rao, B. "Industrial Workers in India" (1939), pp. 113-114.
11. Indian Express, March 5, 1963.
12. Census of India Paper No. 1 of 1962. 1961 Census. Final Population Totals, Statement 32, p. XXXVI (Delhi, Government of India Press, 1962).

Crisis in Mysore's Powerloom Industry

(Contributed)

DODDABALLAPUR, known as the Manchester of Mysore, is helplessly preparing to face a crisis for the third time within a short span of two years. The prices of raw materials have shot up abnormally without proportionate increase in the cloth prices and the holding capacity of the small units is put to a severe test. Want of orders has resulted in distress sales, deterioration in the quality of the fabrics, and the number of looms stopping production is increasing day by day.

Though both the handloom industry and the cottage powerloom industry are affected adversely for want of adequate facilities in the fields of finance, processing and marketing, in the case of handlooms, there is an all-India organisation like the Handloom Board started with substantial financial assistance and active encouragement of the Central Government to assist the industry. Though the conditions prevailing in the cottage powerloom industry deserve similar assistance, the existence of such a Board is conspicuous by its absence. If the decentralised Powerloom Industry is to play the important role in meeting the additional cloth requirements for the country during the Fourth Plan period, a single Handloom and Powerloom Board should be constituted to implement the recommendations of the Committee, throughout the country both in letter and spirit.

At the State level, the Mysore Government should lose no time in constituting a single Handloom and Powerloom Board, consisting of the representatives of both the industries as well as the Sericulture Industry and the Central Silk Board, to determine the ways and means by which the recommendations of the Committee can be implemented in full measure, in so far as they relate to the State. A single Board representing all the three industries should not only prove useful in eliminating duplication of work and expenses, but also effective on account of the inter-dependence prevailing among them.

The Board, among other things, should concentrate upon the steps

to be taken to make available to the three sectors of the State's handloom and cottage powerloom Industries, viz., Cotton, Pure and Art Silk, adequate raw materials when required, at economic rates institutional finance through the State Bank of India and its subsidiaries and other commercial banks at fair rates of interest, processing facilities to adjust the pattern of production from time to time to suit the tastes of the consumers, and marketing facilities to meet the demands of the domestic as well as foreign markets. Further, the Board should take active steps to install the 4,300 powerlooms allotted for the Fourth Plan period, both in the co-operative as well as the private sector on the basis of the past performance of both the sectors.

Regarding finance, at Doddaballapur, due to the initiative taken by the General Manager, State Bank of Mysore, the scheme prepared by the State Bank of India for the small scale Industries in general, was made applicable to the local powerlooms also in the beginning of 1965 itself, even before the recommendations of the Asoka Mehta Committee were accepted by the Central Government. Now, in view of the Central Government's acceptance of the proposals, and in the light of the experience gained by the Bank during the past 15 months, the Bank should step in, in a big way, to provide the financial facility to all the deserving units of this industry, on an extensive scale to enable them to play the role expected of them.

In view of the adverse conditions that are prevailing here just at present, the local industry feels that, to render timely and effective service to the industry as well as to implement the recommendations of the Committee, the State Bank should immediately upgrade the local branch and equip the same with adequate staff trained in the work connected with the small scale industries. The State Bank and the State Handloom and Powerloom Board can jointly work out the details of the projects connected with the provision of Processing and Marketing facilities to the various centres of handloom and

powerloom in the State and finance them.

Regarding the processing and marketing of the Powerloom fabrics, there are no facilities at all worth mentioning in the State. In spite of these serious handicaps, the Cotton Silk and Rayon Textiles Co-operative Society of Doddaballapur ventured into the marketing of pure silk fabrics produced by the powerlooms on a wholesale basis. Despite its limited capacities regarding finance and organisation, sales depots were opened in the well established consuming centres like Bombay and Delhi, without any financial help from any quarter. These activities resulted in great benefit to the local industry as the customers, always accustomed to dictate their own terms regarding the rate and terms of payment, became quality as well as price conscious and began to offer reasonable rates and terms. Unfortunately, for want of adequate working capital and other facilities at fair rates of interest as well as the unfavourable conditions created by the Indo-Pakistan conflict, the marketing operations as well as the sales depots had to be closed down before the Society could establish itself in the field of marketing. This proves the inability of the existing Co-operative Societies to stand on their own legs in the field of marketing in the absence of adequate finance and organising capacity on a scale necessary to succeed in it.

Considering the conditions prevailing in the Co-operative Societies connected with the Cottage Powerloom Industry of the State, no progress can be achieved in the most important and essential fields of finance, processing and marketing in the absence of proper initiative, active encouragement and financial participation on the part of the State Government during the initial stages, at least. The 33-year old decentralised powerloom Industry of Doddaballapur, which transformed itself from a small handloom centre with a few hundred looms into a big powerloom centre of 5,000 looms, by its own efforts, has vast inherent potentialities for

(Continued on page 20)

AVIATION

Boom in World Air Traffic

MAJOR U.S. airlines will spend \$12,200 million in the next decade to meet growing jet-age travel demand, according to the head of the Air Transport Association in the United States. This large expenditure for planes and equipment will be almost twice the amount the airlines have laid out since 1950. The estimate by the Association President, Mr. Stuart G. Tipton is based, to some extent, on the Federal Government projections that U.S. airline travel will at least double in the next 10 years. In 1965, U. S. airlines sold an estimated 95 million seats—a 50 per cent jump over the 1962 level. "The airlines now account for more passenger service than rail and bus lines combined", Mr. Tipton said: "The private auto is still the dominant means of inter-city transportation but the airlines currently are growing at a rate three times that of the auto in passenger miles performed". The chief reasons for the continued sharp upward trend in air traffic are obvious: Rising corporate activity makes more business trips necessary and mounting disposable income enables more people to enjoy pleasure trips. What it all adds up to is that the surging U.S. national economy is creating the means for an increasing number of people to fly.

"OVERWHELMING acceptance" by member airlines of the International Air Transport Association of conditions proposed by U. S. State Department to enable the U.S. Government to withdraw its notice of denunciation of the Warsaw Convention was announced on May 3, 1966 by the IATA Director General, Mr. Knut Hammaraskjold. He said that the State Department had specifically named 34 IATA member airlines to be asked whether they would agree to the Department's conditions on liability in order to enable the development of international air law to be continued in an orderly manner within the framework of the Warsaw Convention.

Most of these 34 carriers have indicated to Mr. Hammaraskjold that they are willing to accept the conditions which include raising substantially the limits of liability and waiving certain defenses under the Convention. Only three airlines have said that they cannot accept these conditions. In notifying the State Department of the airline's response, Mr. Hammaraskjold expressed his confidence that this overwhelming acceptance of the conditions will assure prompt U.S. withdrawal of its notice of denunciation. Commenting on the negotiations with the State Department, Mr. Hammaraskjold pointed out that the Warsaw problem was primarily inter-governmental. Mr. Hammaraskjold observed further that the formula proposed by the State Department, which the airlines are now ready to accept, is an interim measure until the governments meet to resolve the problem in the interest of the travelling public.

THE International Air Transport Association's member airlines are extending to a virtually worldwide basis the reconfirmation rules for international passengers as a means of further improving reservations services to the public. The changes, which became effective on April 1, are designed to make the best possible use of available space on aircraft and to eliminate "no shows"—customers who have reservations they do not use and thereby deny space to others who need it.

The new IATA reconfirmation rules make reconfirmation mandatory for all international flights (except those wholly within Europe) where a stop-over of more than 72 hours is involved. The new rules are only applicable to international flights; domestic segments of through international journeys are not affected. Reconfirmation action is normally taken by passengers through the airline office at the point where they intended to resume their journey. However, an IATA

member airline can accept reconfirmation advice for its own services at any of its offices. Reconfirmation may be carried out by a personal visit to an airline office, a telephone call, a telegram or a letter. Failure to reconfirm results in the cancellation of the reservation.

FURTHER to its last increase in capital which was over-subscribed more than twofold, Lufthansa German Airlines has now authorised the German Bank (Duetsche Bank AG) to allocate the new Lufthansa shares to subscribers. This is in accordance with the recent decree, by which the German Federal Government renounced its entitlement to the new shares. Subscribers who applied for one Lufthansa share of U. S. \$250 (DM 1,000) will be guaranteed their allotment whereas to applicants for two or more shares, a maximum of two shares only will be allocated. These new shares are to be issued at face value, i.e., DM 1,000 per share, but with effect from April 14, 1966 they will be quoted officially on all German Stock Exchanges. In recent telephone dealings, Lufthansa shares were quoted at 195 per cent face value.

With the introduction of new routes to ten additional cities in nine countries around the world, Lufthansa German Airlines is entering a new phase of vigorous expansion this year. For the first time, an East-European country will be connected to the German carrier's route network, when service to Prague will be flown every week on Mondays and Saturdays. The new service programme started on January 5 with a twice-weekly flight Frankfurt-Tunis, followed on January 11 by the completion of a triangular route, Frankfurt via New York to Santiago de Chile with stops in Jamaica, Ecuador and Peru and connecting to existing services over the South Atlantic Santiago-Frankfurt.

SWISSAIR announced that it has confirmed an order with the Douglas Aircraft Company for a second DC-8-62 fan-jet to be delivered in early summer 1967. A first DC-8-62 was ordered by the Swiss airline in December 1965 also for delivery in early summer 1967. Increased in size, capacity and efficiency, the DC-8-62 will be able to carry 155 passengers in a combined first class with lounge and economy class configuration, thanks to the lengthening of the cabin by 80 inches over earlier models. The greatest advancement, however, is in non-stop range attained by aerodynamic improvements and additional fuel capacity. Range and efficiency have been improved by re-designing the engine installation and the pylons, which suspend the engines from the wings. Wing tips have also been extended three feet on each side. The DC-8-62 can fly with full payload 5,300 statute miles non-stop.

ALL Government approvals now having been received, a large number of worldwide fares adopted by the member airlines of the International Air Transport Association became

effective on May 24. The fares include those for the following routes: North, Mid and South Atlantic; between the areas Europe/Middle East/Africa and Asia/Australasia; within the area comprising Asia and Australasia; the South Pacific; short-haul routes in the area comprising North America, the Caribbean and northern South America; and round-the-world.

Formal introduction of the fares for these routes had been delayed because of one government deferring its decision concerning the IATA—recommended \$2.50—charge for the lease of head-sets on aircraft equipped with in-flight entertainment. Commenting on the news of this government approval, IATA Director General Knut Hammarstrand said: It is good for the stability of the international air transport industry as well as for the travelling public that all the requisite Government approvals have now been received thereby permitting the introduction of the new IATA fares. It highlights once more the interdependence of airlines and Governments in tariff and related matters.

POWERLOOM CRISIS

(Continued from page 18)

employment as well as foreign exchange. In addition to the above, it plays a vital role in stabilising the rates for the pure silk yarn industry of the State. A single day's production in the form of artsilk, pure silk, and cotton fabrics of the 5,000 powerlooms of this place amounts to Rs. 2,00,000 aggregating to Rs. 7 crores per annum. For want of facilities, most of the benefits of such a large volume of business are pocketed by middle men who have migrated to this place from centres of consumption and export like Bombay, Calcutta, Delhi and other places. The amount that a weaver-cum-owner gets as his share of wages and profits is pitifully low for the amount of physical labour put in by him and his family-members as well as the risk shouldered by him financially. Provided the State Bank of India and the State Government take active part in giving concrete shape to the recommendations of the Asoka Mehta Committee, there is no reason why the cottage powerloom industry of the State cannot be rescued from the clutches of the middlemen.

COMPANY NOTES

Orissa Cement Earns More

THE gross profit of Orissa Cement Limited increased, during the year ended December 31, 1965 to Rs. 1.50 crores compared to Rs. 91.27 lakhs in 1964. After providing for depreciation and taxation, the net profit amounted to Rs. 56.44 lakhs compared to Rs. 16.29 lakhs during the previous year. Taxation provision has gone up from Rs. 18 lakhs to Rs. 45 lakhs and provision for dividend reserve too has been increased from Rs. 11.46 lakhs to Rs. 29.63 lakhs. The amount set apart for depreciation is lower, at Rs. 41.23 lakhs, compared to Rs. 53.96 lakhs in 1964. Provision for development rebate reserve is Rs. 4.86 lakhs compared to Rs. 7.34 lakhs in 1964. The ordinary dividend has been stepped up from Re. one to Rs. 1.25 per share. The cement output of the company has increased from 3.71 lakh tons to 4.12 lakh tons while clinker output has risen from 3.45 lakh tons to 3.92 lakh tons. The performance of the silica division is however not up to satisfaction. The company hopes to increase its cement production capacity to about one million tons by taking up the manufacture of slag cement, using the blast furnace slag from the Rourkela Steel Works.

INDIAN COPPER

THE Chairman's speech of the Indian Copper Corporation Limited reveals that the company's profits for 1965 are valued, after providing for taxation and development rebate reserve at £3.65 lakhs against the pre-devaluation figure of £5.74 lakhs. In April this year, the directors recommended a dividend of 12 per cent, which was then equivalent to a payment, per stock unit, of 2.88 pence or 16 paise and would then have cost £2.47 lakhs, or Rs. 33 lakhs. The nominal value of one unit will remain at 2 shillings and this 12 per cent dividend will now cost about Rs. 5.2 lakhs or nearly 1.9 lakhs more than the pre-devaluation figure. As a result of devaluation, the additional Rupee cost of imported equipment will go

up to Rs. 1.10 crores and the cost of plant made in India is also likely to go up substantially as the majority of the manufacturers depend on imported raw materials and components. On account of devaluation and other unavoidable reasons, no progress could be made in the expansion scheme. During the year under review, the electrolytic plant was commissioned and in the last four months of 1965, 586 tons of electrolytic copper was produced. Production of Copper in 1965 amounted to 9,360 tons which, according to the directors, can be considered satisfactory. Cost of production has risen by Rs. 182 per ton and the company has asked for the Government's permission to raise the selling price of copper.

BHARAT STEEL TUBES

THE annual report of the Bharat Steel Tubes Limited for the year ended December 31, 1965 reveals that even during the short period of this new company's working—the first despatch from the mills was made on November 7, 1965—there was a profit of Rs. 3.27 lakhs before writing off depreciation in respect of machinery installed. After writing off depreciation (Rs. 4.66 lakhs) the account shows a loss of Rs. 1.04 lakhs. Depreciation on imported and a portion of indigenous plant and machinery has been written off on straight line basis in accordance with the provisions of Section 205 (2) (b) of the Companies Act, 1956.

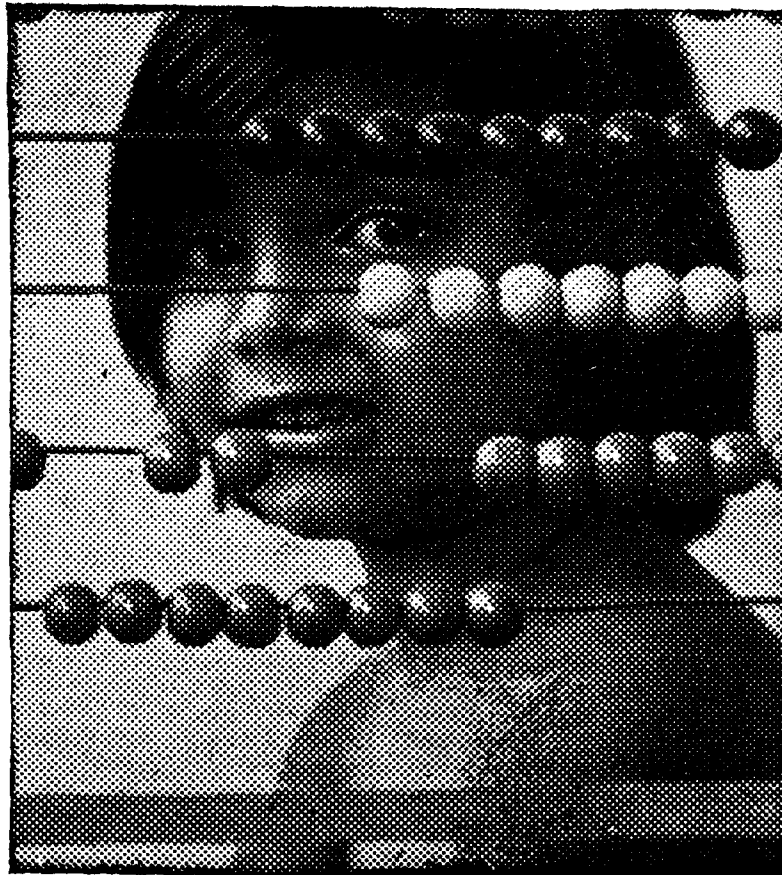
A sum of Rs. 8,55,928 out of expenses incurred during the year is transferred to "expenditure pending capitalisation" for allocation to fixed assets. The total expenditure pending capitalisation upto December 31, 1965 amounting to Rs. 18,61,694, has been allocated to buildings and plant and machinery on proportionate basis. Development Rebate Reserve has not been created during the year as the Development Rebate claimable under the provisions of Income Tax

Act in respect of plant and machinery installed during the year is to be carried forward and is allowable in the year of profit. The first consignment of imported machinery from the United States had been shipped in December, 1964. In the record period of about six months, the main rolling mill for the manufacture of pipes of 14" to 6" diameter was erected. Power was made available to the mills on July 11, 1965 when the trial operations started. The erection of small mill for the manufacture of pipes of 1/2" to 1" size was also completed by the end of the year. At the time of reporting, all sections of both the mills have been completely installed and are in production. Erection of the galvanizing section is in hand.

VAZIR SULTAN TOBACCO

THE net profit of Vazir Sultan Tobacco Company Ltd., for the year ended September 30, 1965, after deducting all charges and expenses and providing for taxation and transferring Rs. 53,133 to development rebate reserve, amounted to Rs. 51,40,195. Adding the amount brought forward from last year Rs. 23,712 gave a total of Rs. 51,63,907. Deducting the transfers and appropriations made during the year, the balance available for distribution was Rs. 34,63,907. The directors recommended appropriations amounting to Rs. 16,72,166. The directors propose the distribution of final dividend on the ordinary share capital at 17 1/2 per cent (subject to tax) payable on 3rd February 1966—Rs. 17,50,000—leaving a balance of Rs. 41,471, which was carried forward.

Despite stringent economic conditions, the sales of main brands maintained an upward trend, resulting in an all-time high turnover, representing an increase of 14 per cent over the previous year. Since the costs of raw materials and machine spares have continued to increase, the directors consider



Soon she'll have savings to count on!

Make your child start saving now. Open a Savings Bank Account for her, with the State Bank. She'll love to see her savings grow.

Cheque-operated Minors' Savings Bank Accounts can be opened:

- (a) by a natural or court appointed guardian who operates the account till the minor attains majority, at which time the latter begins operating the account.
- (b) by children 14 years old or above who can make deposits and withdrawals themselves.

State Bank for Service

APRIL 1966

it advisable to transfer a further sum of Rs. 15,00,000 to fixed asset and stock replacement reserve, so as to ensure the retention of sufficient funds for replacements. In view of the improved financial results, the directors recommended the payment of a final dividend for the year of 17½ per cent which, with the two interim dividends, already paid, makes the total dividend for the year 32½ per cent, at Rs. 3.25 per share.

DENA BANK

THE net profit of Dena Bank Ltd., for the half-year ended June 30, 1966 amounts (subject to audit) to Rs. 16.88 lakhs (as against Rs. 16.67 lakhs for the corresponding period in the previous year). Along with the amount brought forward from last year's account, the total amounts to Rs. 20.64 lakhs. The Directors have decided to dispose of this sum as follows: To pay an *ad-interim* dividend at Rs. 2 per share (subject to deduction of tax) for the half-year ended June 30, 1966 Rs. 5 lakhs; to carry forward to next half-year's account Rs. 15.64 lakhs.

NEW ISSUES

Simpson & Company Limited, Madras, has been granted consent to issue equity bonus shares of Rs. 150 lakhs in equity shares of Rs. 10 each.

Motor Industries Company Limited, Bangalore, has been given consent to issue further capital of Rs. 90 lakhs in equity shares of Rs. 100 each. The bonus shares will be offered in the ratio of one bonus share for every three fully paid equity shares held.

Shree Digvijay Cement Company Limited, has been given consent to issue bonus shares of the value of Rs. 49,87,800 in the ratio of one bonus share for every four equity shares held.

Corn Products Company (India) Private Limited, Bombay, has been granted consent to capitalise Rs. 17 lakhs from surplus and issue 17,000 equity shares of Rs. 100 each as bonus shares.

Bharat General & Textile Industries Limited, Calcutta, has been granted consent to issue bonus shares to the value of Rs. 12 lakhs.

Duncan Brothers & Company Limited, Calcutta, is to issue bonus shares to the value of Rs. 10.3 lakhs.

The Statesman Limited, Calcutta, has been granted consent to issue bonus shares to the value of Rs. 6.01 lakhs.

Bombay Industrial Traders Limited, Bombay, is granted consent for capitalising Rs. 4,43,850 from free reserves and crediting 8,887 partly paid-up shares of Rs. 100 each as fully paid-up.

Ayurved Sevashram Private Limited, Udaipur, is to issue equity bonus shares of Rs. 4,03,210.

Blue Star Engineering Company (Bombay) Private Limited, Bombay, is to issue bonus shares of the value of Rs. 4,00,000 in shares of Rs. 100 each.

Mansingka Industries Private Limited, Bombay, is to issue bonus shares of the value of Rs. 3,75,000 in equity shares of Rs. 100 each.

Air Conditioning Corporation Limited, Calcutta, is to issue bonus shares to the value of Rs. 3 lakhs.

New Oriental Silk Mills Private Limited, Bombay, has been granted consent to issue bonus shares of the value of Rs. 3 lakhs.

J. K. Alloys Limited, Calcutta, is to issue bonus shares for a value of Rs. 2.6 lakhs.

India Woollen Textile Mills (Private) Limited, Amritsar, has been accorded consent to the issue of capital of Rs. 2,50,000 in 2,500 fully paid equity (bonus) shares of Rs. 100 each in the proportion of one share for every four held.



Pigmy

A popular Daily Savings Scheme brings Banking to your door

It is a daily lesson on thrift
Our Pigmy collector comes to your door
Inability to pay does not involve penalty
Loans can be arranged against the deposit
Refunds allowed after 3 year.

DAILY

Ps. 25 | Re. 1

in 7 years

Rs. 700 | Rs. 2,800

Contact any one of our 209 Branches.



SYNDICATE BANK LIMITED

Regd. Office : MANIPAL

Iron & Metal Traders Private Limited, Bombay, has been given consent to issue bonus shares of the value of Rs. 2,50,000 in the ratio of five bonus shares for every three equity shares held.

R.S. Industrial Corporation Private Limited, Madras, has been accorded consent to issue further capital of Rs. 2 lakhs in equity (bonus) shares of Rs. 100 each.

National Cereals Products Limited, Simla, has been accorded consent to capitalise Rs. 1,64,316 from its general reserve and issued bonus shares in the ratio of one bonus share for every one equity share.

Dayalbagh Radhasaomi Finance Company Limited, Agra, has been accorded consent to capitalise Rs. 50,000 from reserves and apply the same for increasing the paid-up value from Rs. 7.50 to Rs. 20 of the 400 partly paid shares of Rs. 25 each.

Mahindra Ugin Steel Company Limited, Bombay, has been given permission to issue Rs. 67.50 lakhs capital in equity shares of Rs. 10 each for cash at par, of which shares of the value of Rs. 37,18,750 will be subscribed by non-residents.

Crompton Parkinson (Works) Ltd., Bombay, is to further issue Rs. 66,45,600—Rs. 63,45,600 in equity and Rs. 3 lakhs in preference (inclusive of Rs. 25 lakhs equity issued for cash at par in October, 1965) in connection with their scheme of amalgamation, in merging Greaves Cotton & Crompton Parkinson Ltd., with the company.

Tata Engineering & Locomotive Company Limited, Bombay, has been granted consent to issue additional capital of Rs. 40 lakhs—Rs. 30 lakhs in equity and Rs. 10 lakhs preference—in connection with the scheme of amalgamation for merging Investa Machine Tool & Engineering Company Limited with the company.

Grauer & Well (India) Limited, Bombay, has been granted consent, in supersession of the previous consent given on April 18, 1964, which is valid up to December 31, 1966, for the issue of capital of Rs. 34,08,000 for the company's expansion programme. Rs. 25,83,000 will be in equity shares and

Rs. 8,25,000 in preference shares, both for cash at par.

The Batala Engineering Company Limited, has been accorded consent to issue capital of Rs. 22,01,170 in equity shares of Rs. 10 each for cash at par (on rights basis). The proceeds would be utilised for the installation of the factory at Ballabhgarh (Punjab) for the manufacture of machine tools and planing machines.

Kamani Tubes Private Ltd., Bombay, has been granted consent to issue debentures stock of Rs. 15 lakhs in units of Rs. 1,000 each for cash at par.

East India Investment Company Private Limited, have been given consent to issue 2,500 equity shares of the total value of Rs. 2.5 lakhs as bonus shares by capitalising a like amount from the company's general reserve.

Bharat heavy Electricals Limited, New Delhi, a Government of India undertaking, have been granted consent to issue share capital of Rs. 30 crores consisting of 3,00,000 equity shares of Rs. 1,000 each at par, of which 58,888 shares will be issued for cash and the balance for consideration other than cash. This is in supersession of the consent for the issue of capital of Rs. 20 crores granted earlier. The proceeds will be utilised for manufacturing heavy electrical equipments.

Kerala State Industrial Development Corporation Limited, Trivandrum, a State Government undertaking, have been given consent to issue share capital of Rs. 60 lakhs, consisting of 6,000 equity shares of Rs. 1,000 each, all for cash at par. The proceeds will be utilised for giving financial assistance to industries.

Hindustan Tractors & Bulldozers Ltd., Baroda, are to issue further capital of Rs. 30 lakhs in preference shares of Rs. 100 each, for cash at par.

Tata Power Company Limited, Bombay, have been granted consent to issue further capital of Rs. 51,53,600 in equity shares of Rs. 100 each, for cash at par.

Andhra Valley Power Supply Company Limited, Bombay, have been granted consent to issue

further capital of Rs. 30,27,700 divided into equity shares of Rs. 100 each, for cash at par.

Tata Hydro-Electric Power Supply Company Ltd., Bombay, are to further issue Rs. 24 lakhs capital in 24,000 equity shares of Rs. 100 each, for cash at par.

Mhatre Pen and Plastic Industries Private Ltd., Bombay, will issue further capital of Rs. 4,94,000 in 494 equity shares of Rs. 1,000 each as bonus shares by capitalising a like amount from the company's general reserve.

Gohpur Tea Company Ltd., Calcutta, is to issue further capital of Rs. 3,38,000 in equity shares of Rs. 10 each, on capitalising company's general reserve to a like extent. The existing shareholders will get bonus shares in proportion to their holdings of equity shares.

Vinar Ltd., Calcutta, is to issue further capital of Rs. 3,00,000 in equity shares of Rs. 10 each on capitalising the company's general reserve to a like extent. The bonus shares will be issued to the equity shareholders in proportion to their holdings.

Duke & Sons Private Ltd., Bombay, will issue further capital of Rs. 2,50,000 as bonus shares by capitalising a like amount out of the company's reserves.

Jamod Ginning Company (Pvt.) Ltd., Bombay, is to issue further capital of Rs. 63,000 divided into 630 equity shares of Rs. 100 each as bonus shares by capitalising a like amount from the company's general reserve.

Hindustan Fabrics and Stores (Pvt.) Ltd., Bombay, will issue further capital of Rs. 40,000 in equity shares of Rs. 100 each, by capitalising a like amount from the company's general reserve. The bonus shares will be offered in the ratio of two for every five equity shares held.

Braithwaite and Company (India) Ltd., Calcutta, is to issue share capital of Rs. 1 crore consisting of debenture stock 1978/82 for cash at par to be offered to the public by prospectus. The proceeds will be utilised for completing the expansion of their works taken up in 1961.

Interest Focussed On Aid Prospects

By Our Market Analyst

THE behaviour of equity prices reflects mainly, the corporate performance and the general economic outlook. But the impact of domestic inflation on equity prices has not been quite predictable, especially when the administration's major approach to fiscal and economic problems suffers from lack of coherence. If the threat of inflation has assumed fresh dimensions after devaluation, it will be hazardous to predict the course of equity prices, without having an idea about the official approach to economic and fiscal policies.

The Stock Markets' behaviour during the fortnight indicated the real difficulty in making a dependable assessment of the prospects in the near term. The narrow price movements, the mild profit-taking now and then and the tendency to keep bullish or bearish tendencies fully under control provided some symptoms of an economy trying to keep its head above water in the face of formidable uncertainties. Investment buying in equities was guarded, while professional interest was not large.

RISING PRICES

There was no existing corporate news, and the general inference that could be drawn from the latest flow of corporate working results, was that the general economic climate would leave divergent impact on various industries. This is understandable in a situation where priorities and official regulation have supremacy over normal market forces, in view of the several scarcities. What has become somewhat intriguing in a climate of scarcities and rising internal prices, is the grim prospect in the event of further delay in the onset of the monsoon. In fact, the Stock market while closely following the course of negotiations for foreign aid, and the Government's vigorous efforts to check the internal inflation, has been influenced by the possible impact of the failure of monsoon.

Doubts are entertained by some as to whether the Government would be able to deal with the difficult situation created by devaluation. While the economic outlook certainly depends on how quickly and effectively the Government proceeds to tackle the various problems, the most disturbing one being the rising internal price, Mr. Sachindra Choudhuri's impressions about his foreign tour and the favourable reactions of the foreign countries to the various measures taken by the Government, are indeed heartening. While the sympathetic response of the foreign countries visited by the Finance Minister, to India's request for rescheduling of payment of maturing debts, certainly indicates growing goodwill, the postponement of the Aid-India club meeting is intriguing.

AMERICAN LOAN

The U.S. loan of Rs. 112.50 crores for imports of essential commodities, has produced some relief in industrial circles. What has emerged from the observations of the Finance Minister is that India can expect something like 900 million dollars from the Consortium for the first year of the Fourth Plan.

While the project aid is yet to be discussed, it is possible to know the quantum of aid for the Fourth Plan, only when the Plan is finalised. All indications point to the possibility of the emergence of the Fourth Plan in a shape which is closely related to available resources. With the present strict control over deficit financing, and Government expenditure, the Fourth Plan cannot but be modest. The proposed conference of State Chief Ministers at New Delhi, on 19th July is a significant development in ushering in an era of fiscal discipline and an effective check on prices.

Though a supplementary budget may not be in the offing as mentioned by the Finance Minister, what looks probable is the creation of a new

economic environment before the finalisation of the shape of the Fourth Plan, through the introduction of further steps to improve the economic situation.

From the point of the Stock Markets, the important event of the fortnight was the announcement of the borrowing programme of the Central Government. The terms of new loans have not unsettled the poise of the securities market though the more attractive terms have only shown that even the Government cannot get away from the effect of dear money. The new loans, both short-dated and the long-dated, are expected to meet with good success. While the term of new loans have not given an indication of the future monetary policy of the Government, there are already indications that the development of the economy with stability would be pursued through a more flexible policy, bordering on selective monetary control.

PLANTINGS ACTIVE

The outstanding feature in the Madras market during the fortnight was the larger support for tea, coffee and rubber shares. Though business was meagre, there was good support for these shares at improved rates. There was good support for Cochin Malabar which improved to Rs. 7.78. Malankara rubber had demand at Rs. 21.50. Parkside had keen enquiry up to Rs. 28.25. Rajendra Coffee, Badra, T. R. & T. and Velimalai had sustained demand. Puthutottam had interested buying up to Rs. 2.55. Midland touched Rs. 13 and Be Be rubber was taken at Rs. 3.25. Conscoffee had good demand at Rs. 32.25. SUGARS were flat, and the reports of a lower recovery dampened sentiment. Deccan dropped to Rs. 6.40, Kothari sugar to Rs. 6.75 and Travancore Sugar to Rs. 7.15. But, E.I.D. noted business at Rs. 33.50 CD. Among industrials, India Forge, Mettur Chemical, India Cement, Mysore Chemicals & Fertilisers, and Tube Investments were enquired.

FIRECLAY, SILICA AND BASIC REFRACTORIES

made in India's most modern refractories plant in collaboration with Didier-Werke, A.G., of West Germany, Europe's biggest refractories' manufacturers

Belpahar Refractories employ the latest techniques, including the dry press method. Intensive quality control, backed by research, ensures a consistently high standard of products.

Belpahar make a wide range of products to meet the constructional and operational requirements of steel plants and cement, glass, paper, power, gas, non-ferrous metals and other industries.

Belpahar Refractories, a Tata-Didier enterprise, offer a complete range of refractories including :

Medium heat, High heat and Super heat duty firebricks, blast furnace and stove refractories, casting pit refractories, such as, ladle bricks, nozzles, stoppers and sleeves.

Kyanite, sillimanite and high-alumina refractories.

Semi-silica, general purpose silica, super duty silica and coke-oven silica refractories.

Magnesite, magnesite chrome and chrome-magnesite (in burnt, chemically bonded and chemically bonded steel clad qualities), chromite, abrasion-resistant chromite and forsterite refractories, magnesite nozzles, low-iron magnesite bricks, etc.

Pea magnesite, magnesite powder and fettling materials.

Plastics, castables, ramming, patching and spraying masses and mortars with chemically-setting, hydraulically-setting and ceramically-setting properties in fireclay, high-alumina, silica, chromite, magnesite and chrome-magnesite.

For all your requirements and technical advice please contact

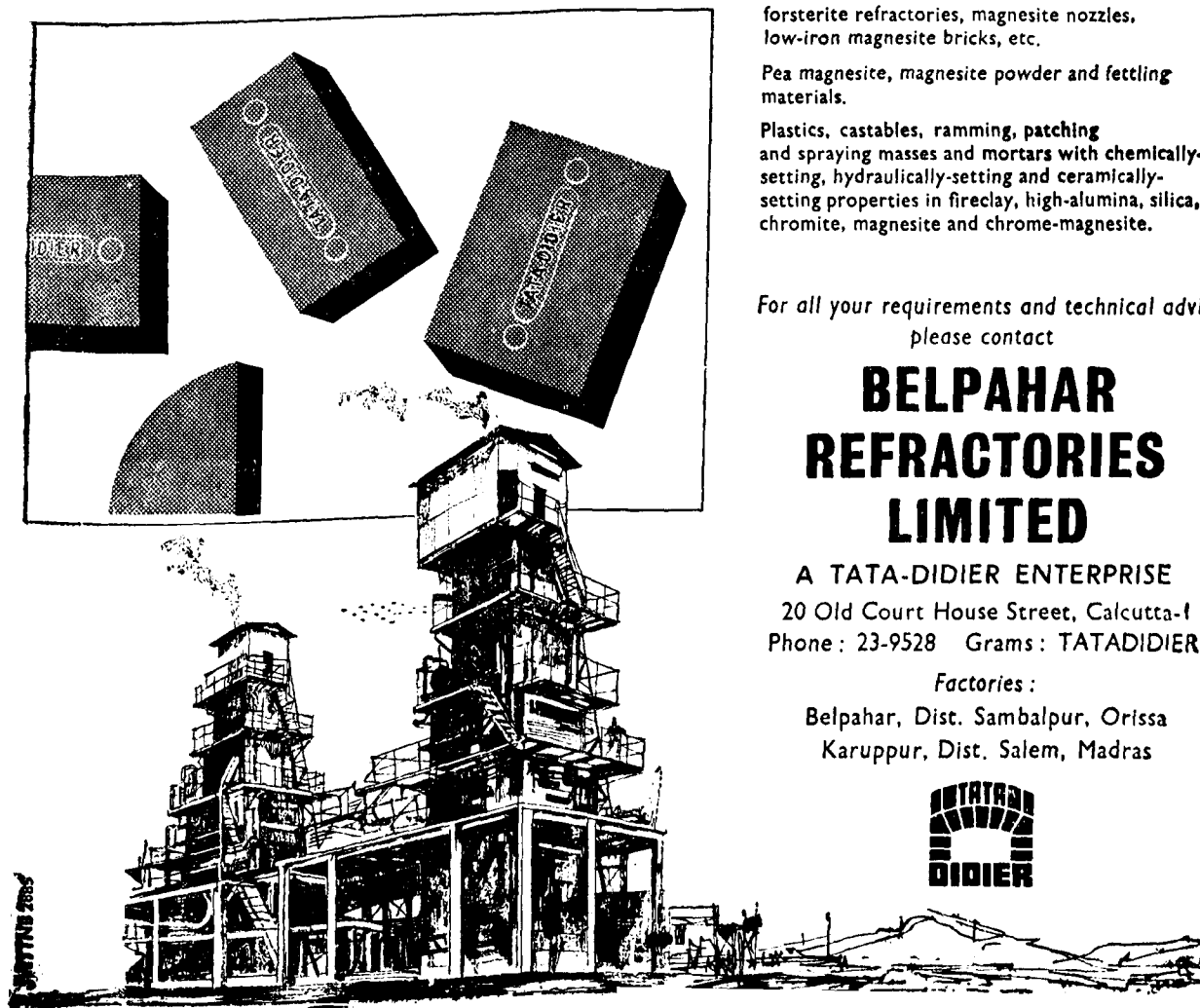
**BELPAHAR
REFRACTORIES
LIMITED**

A TATA-DIDIER ENTERPRISE

20 Old Court House Street, Calcutta-1
Phone : 23-9528 Grams : TATADIDIER

Factories :

Belpahar, Dist. Sambalpur, Orissa
Karuppur, Dist. Salem, Madras



Oil caters to our daily needs

Luscious green vegetables are a familiar sight in the city markets. These vegetables have been speedily brought by train, by truck and other modes of transport. It is oil which provides the motive-power and the lubrication to keep this transport moving.

When the vegetables are cooked over a stove, another petroleum product—Jyoti Kerosene—plays a vital role. INDIANOIL supplies the entire range of petroleum products which meets life's daily needs.



—a National Trust for Economic Prosperity
INDIAN OIL CORPORATION LTD.



maa. IOC. 60° A

Vol. 7; No. 10

SEPTEMBER 15, 1966

Price: 50 Paise

DEMONETISATION IN OFFING?

**HOW TO MAKE THE BEST OF
RUPEE DEVALUATION**

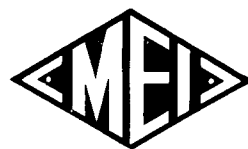
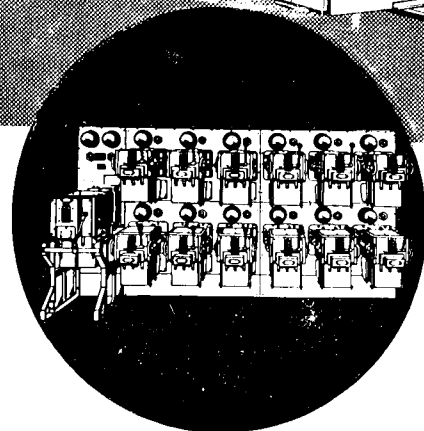
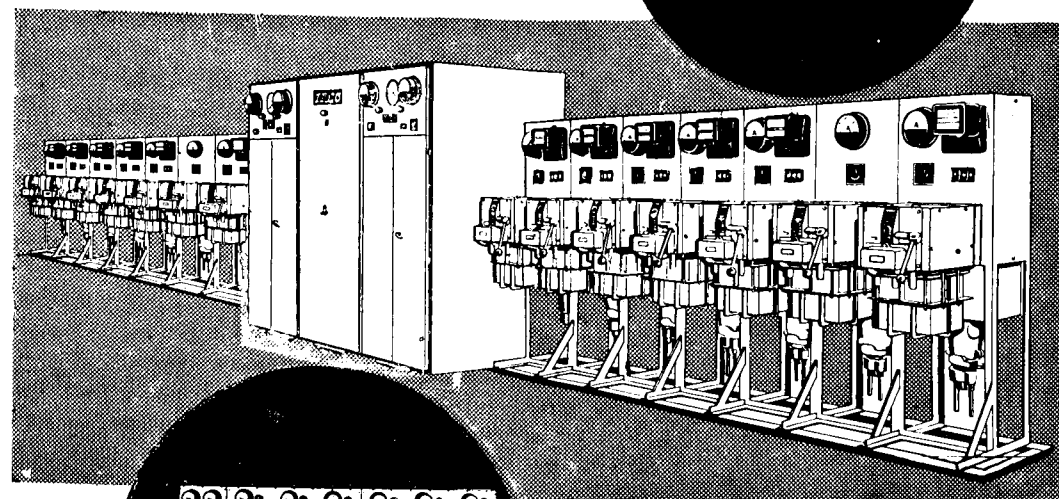
**PLANTATION INDUSTRY'S NEED
FOR FISCAL INCENTIVES**

L. I. C. MARKS AHEAD

MEI LV SWITCHBOARDS

Ratings upto 3000 Amps.

ME-58



safest for everything in electric power control

Manufactured by: **THE MYSORE ELECTRICAL INDUSTRIES LTD.** Bangalore

Engineering/Fabrication, Sales & Service:

IAEC 43, Forbes Street, Bombay 1. Branch at: 'K' Block, Chawdhary Bldg., Connaught Circus, New Delhi. Associated Offices: I.A.E.C. (MADRAS) PVT. LTD., 'Dinroze Estate', 2/17-G, Mount Road, Madras 2. I.A.E.C. (MYSORE) PVT. LTD., 54-55, Silver Jubilee Park Road, Bangalore City. I.A.E.C. (HYDERABAD) PVT. LTD., Barman Bldg., (BOMBAY) PVT. LTD., Gunfoundry, Hyderabad. I.A.E.C. (CALCUTTA) PVT. LTD., 19, Rajendranath Mukherjee Road, Calcutta 1.

SOUTHERN ECONOMIST

September 15, 1966

CONTENTS

EDITORIAL	1
Congress Manifesto	
NOTES OF THE FORTNIGHT	3
L.I.C.'s performance; Gold policy; Monopoly Commission; Asian Bank; Shipping in Fourth plan	
GLASS HOUSE GOSSIP	9
SPECIAL ARTICLES	11
Devaluation: Tasks before the country	
—By R. C. Sharma	
Gold for Demonetisation	
—By K. Swaminatha	
PLANTATION FEATURE	17-25
SOUTHERN SCENE	26
MADRAS—Surgical instruments plant; W. S. Insulators; Agro-industrial Corporation	
MYSORE—Development Areas; State Industrial Corporation; Mysore Lamp Works	
ANDHRA—Progress of Agriculture; Grape cultivation	
KERALA—Cashew exports; Cochin Fertilisers	
BANKING	28
COMPANY NOTES	30
Sandvik Asia; Britannia Biscuit; Poysa Industrial; SLM—Maneklal; Lakshmi Mills; Kamani Engineering; Capital issues	
STOCK MARKETS	32
How to combat inflation?	
—By Our Market Analyst	

SOUTHERN ECONOMIST
24, HAUDIN ROAD, BANGALORE-1
Phone: 75439

Published on 1st and 15th
of every month

Subscription Rates:
ANNUAL Rs. 12 (Inland)
\$ 4 or 25 s (Foreign)
Single Copy 50 Paise

CONGRESS MANIFESTO

THOSE who know how elections are won and lost can readily testify to the fact that the manifestoes of political parties are not meant to be taken too seriously. They contain promises to the voters which the contesting party hopes to fulfil under certain favourable circumstances. The process of vote-giving is non-reversible in the sense that the voter cannot take back his vote if the party fails to fulfil its election promises. Experts in electioneering and propagandists of political parties work out their strategy with a full awareness of this major flaw in the democratic process. To the average Indian voter who is a witness to these quinquennial rituals, election promises do not mean much because he knows that promise and its fulfilment are two different things. How the Congress party manages to win elections every time in spite of the fact that the electorate is fooled by tall promises remains one of the unsolved mysteries to outside observers. But those who know the hard facts of Indian politics can well appreciate why the Indian voters repeat every time the "mistake" of returning the Congress party to power despite its known shortcomings. That this familiar pattern may be broken in 1967 is beside the point.

But what is germane to an understanding of the motivating factors, in the Indian set-up, is the people's habitual inclination to choose "the lesser of the evils." In the broad spectrum of political opinions, the Congress represents the mid-point, the point, shall we say, of convergence where extreme views merge, forming a pattern which is not easily intelligible. This is what makes the Congress less revolutionary than what it professes to be. Besides, in politics, nothing succeeds like success. Even those who want an out-and-out radical programme—and not the mouthing of empty slogans—would rather vote for Congress because they are at least sure that the Congress, with its appeal at the grass-roots level, will hold the country together whereas the parties of the extreme right and the extreme left may not hesitate, under certain exceptional circumstances, to tie the nation to the apron-strings of either America or Russia or China. Despite the apparent contradictions and regional antagonisms, nationalism continues to be a rallying point in India. Herein lies the secret of the success of the Congress at successive polls.

To the observer who is not initiated into the mystique of election politics, the ambivalence of the voter as well as the vote-getter may appear intriguing. For no other electorate in the world would have tolerated—and in fact encouraged—a gigantic make-believe operation in which the people exercise their franchise at intervals of five years. This is neither a compliment to the universal acceptability—not popularity—of the Congress nor a tribute to intelligence of the average voter. But it is a fact to which no intelligent observer of the Indian scene should shut his eyes. While there can be no two opinions on the Indian people's craving for economic betterment, they would rather choose a government which pursues this goal without, if it could help it at all, throwing the country into a turmoil. And whatever one may say—and there is a lot to say—about the Congress misrule, one cannot deny that it has held the country together in the face of grave external and internal threats to stability. And one can fully appreciate the value of a stable government only when one experiences the sense of insecurity accompanying a bloody coup.

This gives a clue to the inherent ambivalence of the Indian mind which—so it seems—winks at observance of double standards in politics. It is against this background that one has to view the Congress election manifesto which is admittedly an essay in studied hypocrisy. Let us take, for instance, its ostensible goal of Socialism which puts on a different garb at every general election. Words have well-defined meanings, although these meanings are open to different interpretations. A goal is not like a mirage the pursuit of which is admittedly futile. In other words, a goal is worth pursuing only if it is attainable and that too, within a measurable period of time. Taking the average life-expectancy of Indians as 50 years, and also granting that people would want to realise their goals when they are in the prime of their lives, the reasonable period for achieving an economic objective can be said to be 15 or 20 years. What exposes the Congress goal of Socialism to ridicule is the absence of a consciously worked out time-table for its achievement. This is not to say that this journal is committed to any specific ideology cast in a rigid mould, but to point out a basic flaw in the Congress election manifesto. Socialism, as we understand it, is the social ownership of the means of production, consumption and exchange.

It is widely recognised, of course, that the emphasis has shifted from social ownership to social control, but once we equate Socialism with social control (commanding heights and all that) we will be coming perilously near the Capitalist system—the word is not used here in the sense in which the Russians or the Chinese use it—which is something different both in form and content. The intelligent voter may have already made up his mind as to which party he should vote, but he has a right to question the propriety of smuggling Socialism into every Congress manifesto, without the display of any determination to achieve it. The facets of Socialism which appeal most to an under-privileged electorate are precisely those which, for one reason or another, remain neglected in India. Given the limitations of an under-developed economy which has to make do with meagre capital, one can however point out that, even after three five-year plans, the Congress has failed to provide the people with the minimum necessities—the so-called infrastructure—without which one cannot hope to build an enduring socialist structure.

Secondly, if its record of the past 19 years is any guide, the Congress does not seem to have made a determined effort to bring about any structural change in the pattern of ownership either in agriculture or in industry. Such a change may or may not be necessary, in a given context, but if the Congress believed in Socialism, the most logical thing would have been to achieve it. In agriculture, the peasant-landlord relationship is disturbed—probably for a very valid reason—but lack of determined follow-up action has exposed the tenants to several pressures which were not there even in the old feudal pattern of relationship. The same dismal story is repeated in industry where empty threats, haphazard controls and an irrational system

of taxation have helped to create a sense of insecurity in the minds of the investing classes. The result has been a shift in emphasis from long-term gains to short-term profits and a pronounced tendency towards investment in avenues which are outside the purview of the organised sectors. In other words, the bark has done more damage than the bite. If the “Socialistic” policies of the Congress had really helped in resolving some of the basic contradictions and ills that beset the Indian economy, the people, by and large, would have welcomed it as a *pis aller* but there has been neither any reduction in the inequalities nor in unemployment. On the other hand, income disparities seem to have widened further while the backlog of unemployment was at no time so large as at the end of the Third Plan.

It is this imperfect matching of promise and performance that the authors of the Congress manifesto should have avoided this time. Instead of removing the mental cobwebs and making an attempt to clarify issues, the Congressmen have again fallen an easy prey to empty, but high-sounding, slogans. In developing economies like ours, a policy designed to widen the scope and role of the public sector is to be commended, since the private sector may not be well-equipped either to provide the necessary services at rates which the community can afford or to embark on long-yielding and massive investments. But this is irrelevant to the question, strictly speaking, that is to say, whether the country should have a Socialist system or a Capitalist system. High sounding phrases notwithstanding, there is little in the Congress manifesto which can be taken to mean that a drastic attempt will be made to change the existing order of things.

On the controversial issue of bank nationalisation, the goal of “social ownership” is changed to “social control” which may mean anything. This kind of social control is nothing new to the commercial banks which have learned to live in a regime of a comprehensive central banking control. The reference, in the Congress manifesto, to a ceiling on urban incomes is hardly intelligible since a ceiling, if applied at all, should not make a distinction between “urban” and “rural” incomes. If the object of the authors of the manifesto is to impose a ceiling on urban property in order to ensure equitable distribution of urban land which is scarce—and hence susceptible to speculation—it can be done without any reference to urban incomes. The enumeration of many desirable things is welcome but by a needless repetition of slogans and catch-phrases, the authors of the Congress manifesto have robbed it of even that little touch of verisimilitude which was necessary for an acceptance of the programme by the masses. In its excessive preoccupation with lofty nothings, the Congress appears to have paid scant attention to crucial questions like ensuring a clean administration and eradicating corruption. Is it too much to hope that these blind-spots would be removed when the manifesto will be considered this month-end at Ernakulam?

NOTES OF THE FORTNIGHT

L.I.C.

STEADY GROWTH

ACCORDING to the expectation of the earlier years, the Life Insurance Corporation should have reached a target of Rs. 1,000 crores for new business in 1963. That this has not been achieved even in 1966 is largely due to factors beyond the control of the Corporation. If the heat is applied, the L.I.C. machinery will no doubt be geared to the task of achieving a stipulated target but in a business like life insurance, there is always the danger of quality being sacrificed for the sake of quantity. That is what invariably happens when the field officers rush to “book” the nearest available chaps at the year-end for the sake of window-dressing. This strategem of securing bogus business is neither good for the policy holders nor the L.I.C. because it unnecessarily pushes up the lapse-ratio without conferring any benefit to the persons assured.

The performance of L.I.C. during the year-ended 1965-66 can however be considered satisfactory in view of the serious erosion caused to the savings of the people by the havoc played by inflation. Actually, as the Chairman, Mr. B. P. Pandé revealed in his statement, new business has shown an increase from Rs. 701 crores in 1964-65 to Rs. 798 crores. This is particularly gratifying, in view of the fact that it was stagnant around Rs. 700 crores for the past three years. But one should not forget that the “protection” afforded by life insurance is also diluted proportionately due to the rise in the prices. Even according to the official wholesale price index, the price-level has risen by 36.5 per cent during the three years

ended March 1966. The fact that the average sum assured has increased from Rs. 3,530 to Rs. 5,110 over the past decade is however of special significance, in this context.

Further, the small decline in rural business, from 36.2 per cent of the total number of policies issued, to 35.9 per cent is understandable in view of the sharp fall in rural incomes last year. Even so, new business from rural areas, at Rs. 220 crores in 1965-66, shows an increase of 21 per cent over the figure of Rs. 182 crores in 1961. Nevertheless, it cannot be said that L.I.C. has tapped the rural potential in full. The Corporation can devise ways whereby the field staff are given special inducements to secure business from rural areas where the facilities for the collection of premium are far from adequate, although the Post Offices are helping in this task.

The total business in force in 1966 was Rs. 4,387 crores. With the national income in 1965-66 estimated at Rs. 19,990 crores, the ratio of life insurance business to national income works out to roughly 22 per cent which compares unfavourably with Japan (59 per cent), Canada (172 per cent) and U.K. (67 per cent), to take only a few examples. This underlines the scope that exists for doubling the total business to reach Rs. 8,000 to 9,000 crores during the Fourth Plan. If, within a decade, L.I.C. was able to increase its total business more than three-fold, from Rs. 1,220 crores to Rs. 4,387 crores, there is no reason why it cannot step up its business two-fold in the course of the next five years.

While one can readily appreciate the difficulties inherent in toning

up the administrative efficiency of an all-India organisation like L.I.C., one cannot help feeling that the lapse ratio, even at the reduced level of 7.2 per cent, is too high by any standards. It is not easy to evolve “norms” whereby one can judge the “proneeness” of a prospective policy to lapse and to work out a *modus vivendi* to prevent lapses in business already written. This question deserves serious consideration particularly in a country like India where the average income leaves hardly any margin for saving. As to the overall expense ratio, one has to reckon with adverse factors like the cost of taking insurance to the villages but this can be neutralised by introducing automation in carefully selected areas of L.I.C.’s working. Automation, provided it is introduced in a planned manner, is desirable not merely from the point of view of cost-reduction but in view of the need to quicken claims-settlement and expediting the issuance of premium notices. One can therefore unhesitatingly endorse L.I.C.’s decision to install electronic data processing machines in important centres.

But on two vital aspects of L.I.C.’s policy, *bona fide* public criticism seems justified. Firstly, the Corporation can no longer duck the question of bringing down the premium rates. This point has been stressed by various expert bodies, the latest one to urge a reduction being the Committee on Public Undertakings. This Committee, in its report on L.I.C. presented to the Lok Sabha last year, made a sensible suggestion for the setting up of a panel of experts to review the premium rates which were fixed ten years ago, on the basis of the mortality experience in 1925. The

demand for a reduction of the premium rates is based on the plea, firstly, that the expectation of life, which was 32½ years in the decade 1941-51, has gone up to 42 years. This is expected to settle down on a plateau of 50 years. This indicates a steady downward trend in the mortality rate. Secondly, the rate of interest realised on the mean life fund has steadily gone up over the years as a result of the upward movement of the structure of interest rates. The Bank rate itself has gone up from 3½ per cent in 1956 to 6 per cent today. The Corporation, on the other hand, can legitimately point out that since nearly 70 per cent of its business is accounted for, by "with-profit" policies, the bulk of the increased earnings is passed on in the shape of bonuses declared from time to time. This may be true, but the case for a reduction in the premium rates is not weakened on this score because the reduced mortality rate entitles the policy holder to the benefit of a lower premium rate.

The premium rate that an insurant pays should bear a direct relationship to the risk borne by the insurer. The greater the risk; the higher the premium. The smaller the risk; the lower should be premium rate. There is also a third reason that in these days of inflation, the gilt has worn off the gingerbread of life insurance. After all, what the insurant or his nominee will get, on maturity or death, is only a fraction of the value insured, the rest being eaten away by the rise in prices. Reduced premium rate will at least partially compensate the policy holder for this erosion in the value of his savings. Since, in any case, the actuary's report for 1961-64 can be expected soon (if it has not already been received) the policy holders can reasonably expect a downward revision of the premium rates some time this year.

Another question of policy over which the public is understandably

agitated is the way the investment policy of L.I.C. is being implemented. This is of the utmost importance because the Corporation is the single largest repository of public savings in India. The L.I.C.'s life fund is already approaching the round figure of Rs. 1,000 crores. That the pattern of the deployment of these funds is heavily weighed in favour of the public sector is not surprising in view of the paramount need to arrive at a happy compromise between security and profitability. But the present pattern in which the public sector and the co-operative sector together account for nearly 80 per cent of the life funds, leaving only about 20 per cent to the private sector, cannot be considered as the ideal one.

There can be no escape from conforming to the statutory minimum of 50 per cent (for investment in Government and other approved securities) but any investment in excess of this minimum limit should be justified only by the criterion of profitability. The Corporation may in fact be willing to switch-over in favour of investments yielding a better return but it cannot completely turn a Nelson's eye to the obvious frowns from Yojana Bhavan. Incidentally, the case for equity investment is greatly weakened by the recent erosion in the market values, which has caused sizable loss to the L.I.C.'s holdings. Under the prevailing circumstances, the Corporation is justified in turnings its attention to loans which promise a fixed yield. As the Chairman rightly observed, this is mainly due to the fact that :

The Corporation is expected to play a role, not inconsistent with the interests of its policy-holders, in the social and economic development of the country. It has therefore evolved various schemes of loans for housing, water works and drainage schemes, co-operative sugar factories, industrial estates, state electricity boards, etc.

A special merit of these loans is that while they earn a good yield, under the present pattern of high interest rates, they are not exposed to any depreciation. For one thing,

there is need for increasing the private sector's share (not necessarily by means of equity investment) from the present level of 20 per cent to about 30 per cent. This is justified in view of the fact that the private sector is expected to raise Rs. 7,750 crores for investment in the Fourth Plan. For another, the L.I.C. management should give special consideration to the needs of relatively backward regions while distributing its funds among different states. This can be done effectively if the zonal managers are taken into confidence in the shaping of investment policy.

14-CARAT RULE

GO FOR GOLD

NEWSPAPERS, not excluding this journal, which have never made any secret of their displeasure over the Gold Control Order, are embarrassingly pleased over the Government's decision to repeal the 14-carat rule announced by the Prime Minister on September 2. They are now in the gleeful company of Goldsmiths who are free to hammer out ornaments of any purity but are puzzled as to where they should look to, for the yellow metal. While the Government deserves a gentle pat on its back for taking gold out of controversy and in the process, wriggling out of a tight corner. Those who read between the lines will also readily point a sly finger at the number of additional feminine votes the ruling party is likely to get in February-March next year, as a result of the politically adroit act of repealing the 14-carat rule while retaining gold control, in a diluted form.

Feminine fancies apart, the entire class of goldsmiths who passed through a nightmarish period of uncertainty, are likely to be won over to the side of Congress. This is no small gain. Although failure is conceded by the very act of repealing the 14-carat rule, the

Gold Control Act which contained this provision, will remain on the statute book. There will be some restriction on the individuals' holding of gold above a certain limit. Finance Minister Chaudhuri has already dropped the hint that individuals possessing more than say, 2,000 grams, would be required to declare it. This is in tune with the Prime Minister's assurance that "this limit will be so fixed as to ensure that by far a large section of the people who possess gold ornaments in reasonable quantities will not be required to make such declarations." As a sop to Mr. Morarji Desai and his brand of die-hards, there is the assurance given that the gold refineries, which have already dwindled in number from 1,000 to 102, would be nationalised.

That the relaxation of the gold rules will strike a sympathetic chord among our womenfolk who number nearly 50 per cent of the country's population may be readily conceded but it may be doubted whether this gesture by itself will make any material difference to the outcome in the elections. One may legitimately ask: If Mrs. Indira Gandhi had made up her mind on this question, where was the need to go through the ritual of setting up an expert "informal" committee to study the working of gold control and to suggest modifications deemed necessary in the light of its findings? Is one to infer, from the cavalier manner in which the Committee's findings were side-stepped, that when the Government appointed the Committee, it had expected the expert body to anticipate what the Prime Minister had in mind?

Here is a case of hard-headed logic and sound commonsense sharply coming to a clash. Mrs. Indira Gandhi does not seriously question the Committee's view that the 14-carat rule should be an essential ingredient of India's long-term gold policy, but surprisingly

she has jettisoned this very provision on the plea that the people should be given more time to adjust themselves to the changing conditions. The compelling factors which forced the Government to retrace its steps on the gold front are, firstly, its failure to enforce the 14-carat rule effectively in order to restrain the aggregate demand for gold and secondly its inability to reduce the gap between international price and the domestic price. Added to these two major factors, there was the political necessity for mollifying some influential sections of the electorate which had not taken kindly to the gold control order. But it can be argued with equal force that if the compulsions behind the gold order of 1962, modified and diluted in later years, were great, there are greater now. In 1962, we were on the verge of a foreign exchange crisis; in 1966, we are neck-deep in one. The need to reduce smuggling and make the available stocks go a long way—that was, indeed, the purpose of the 14-carat rule—was acutely felt in 1962. It is all the greater now. Furthermore, there is nothing to suggest that smuggling has been reduced since 1962. Considering that the gap between the internal price and the international price has widened, over the past three years, it can be presumed that smuggling also has increased to the same extent. As the memorandum of the All-India Sarafa Association points out:

It is estimated that the country loses nearly Rs. 40 crores to Rs. 60 crores worth of foreign exchange as a result of illegal imports of gold every year. There is no evidence to suggest that this drain has abated as a consequence of the imposition of the gold control regulations. On the contrary, the erosion of the value of the rupee as reflected in the premium on the Pound Sterling and the U. S. dollar in the unofficial deals indicates that it has become more profitable to smuggle gold in the country. The official parity price of gold is Rs. 53.58 (It has gone up since devaluation-Ed.) while the landed price of smuggled gold is Rs. 75 to Rs. 80 as against the prevailing internal price of Rs. 145 per 10 grams.

Devaluation can be said to have

caused a setback to the smugglers since the gap between the unofficial exchange rate and the official rate has been narrowed down. But it can be argued, theoretically, that the removal of the 14-carat rule may generate a wave of additional demand for gold and this may widen the smuggler's margin again via the black market price-mechanism. If, through customs vigilance and more ruthless anti-smuggling operations, the Government succeeds in bringing down the volume of illegal gold imports—legal imports being out of the question—it is bound to cause a sharp rise in the internal prices of gold, in the absence of the 14-carat restrictions. Is the Government's belief in moral suasion so strong that it is hopeful of weaning the people away from gold? Scrapping of the 14-carat rule is, it is true, an admission of defeat but the continuance of the present policy would have exposed the Government to the charge of stupidity and hard-headedness. Caught between the two horns of a dilemma, Mrs. Indira Gandhi has wisely decided to follow the golden mean.

Monopolies

TALISMAN FOR TRUANTS?

BIG business should be the first to greet the announcement of the Government's decision to set up a statutory body, along the lines recommended by the Monopolies Inquiry Commission. This is not because the proposed Monopoly and Restrictive Trade Practices Commission will have no teeth. Perhaps its bark itself will be more effective than its power to bite. It is a pity that the Indian big business, whose instinct for making money is sharper than its intelligence to foresee the shape of things to come, has not quite appreciated the significance of the appointment of the Commission. With the setting up of this body, the rug is being quitely pulled from under the feet of the Socialists. For if the Government was really serious about its ostensible pursuit

of the socialist goal, there was no need for a statutory body to maintain a vigil over, and keep a check on, monopolistic trends and restrictive trade practices.

The structural changes brought about in the process towards Socialism will have placed the public sector in a commanding position, thus ruling out any possibility of the "dominant" firms exploiting the consumers or stifling competition from smaller firms. By accepting the inevitability of monopolistic and restrictive practices—the appointment of the Commission amounts to that—the Government seems to have also accepted mixed economy as a fact of life. In the context of the transition through which the economy is passing, this arrangement seems best designed, both in the interest of the consumer and in the interest of the small enterprises. Once we concede the Capitalist (the word is used here in its functional sense) motivation of the mixed economy, the measures contemplated to check monopolistic practices sound perfectly logical.

In defining the powers of the proposed Commission, the Government has not only taken note of the majority recommendations of the Das Gupta Commission but also was guided by the suggestions made by Mr. R. C. Dutt in his note of dissent. The Commission, as conceived at present, will have mandatory powers in regard to restrictive practices and also powers of investigation in respect of some monopolistic practices. But on the larger (and more nebulous) question of "undue concentration of economic power," its role will be only functional. In other words, it can only investigate into specific cases referred to it by the Government, the final decision resting with the latter. The framers of the proposed legislation will do well to study the Restrictive Trade Practices Act, 1956, of the U. K., which provides for the registration and judicial examination of restrictive agreements which affect

the supply or processing of goods. The particulars of such "restrictive agreements" are entered in a Register maintained by the Registrar of Restrictive Trading Agreements. These agreements will be brought, if necessary, before the Restrictive Practices Court set up under the Act. The court is empowered to make orders preventing the parties from operating their agreement or making new arrangement having the same effect.

The Monopolies Commission of the U. K. on the basis of which the Indian Commission seems to have been fashioned, was set up in 1948. It can investigate monopoly situations, at the direction of the Board of Trade. For the purpose of its work, "a monopoly situation is defined as one in which at least one-third of the market is in the hands of a single firm or a group of firms." Recently, the powers of these two bodies were strengthened by a number of measures, including the appointment of a Registrar of Monopolies to assist the Monopolies Commission and strengthening of the powers of the Government to act on the Commission's recommendations.

There can be difference of opinion on whether the setting up of a Monopolies and Restrictive Trade Practices Commission, with practically no power to correct the trend towards economic concentration, was opportune in the present stage of the country's industrialisation. If the country's salvation lies in strengthening mixed economy, the policy makers cannot afford to destroy incentives and overlook the need to maintaining buoyancy in the capital market. Modern industrial organisation, by its very nature, has a tendency to grow big in order to secure the maximum economies of scale. Even mergers, by the elimination of weaker units, tend to help the competitiveness of the country's products abroad but there is no disputing the need for preventing consumer's exploitation by monopolies, through use of the

regulatory powers of the Government. The Das Gupta Commission did not slur over the fact that there is a high degree of product-wise concentration in several industries in which two or three firms dominate the rest. With its limited powers, it is too much to expect the proposed Commission to deal with these trends. The Government can, on the other hand, make good use of the provisions of the Companies Act to prevent corporate malpractices. The licensing policy can also be used with the object of encouraging new entrants to set up industries, instead of swelling the size of the existing industrial "empires." The Government will do well to realise that in tackling the question of economic concentration, empirical approach seems to be more rewarding than a wooden policy based on doctrinaire considerations.

ASIAN BANK

REGIONAL LANDMARK

THE billion-dollar Asian Development Bank came into being on August 22 when Canada deposited its instrument of ratification with the Secretary-General of the U.N. Canada's ratification fulfils a major condition of the Bank's Charter that the Bank will legally come into existence when the Agreement is ratified by 15 countries, of whom 10 must be from the Asian region. It may be recalled that the Agreement for establishing the Asian Bank was signed on January 31—only two years after the idea was conceived at the ECAFE annual session held in New Zealand. Any lingering doubt that the Bank may encounter unexpected roadblocks seems misplaced since all the signatories to the agreement are expected to ratify it before the deadline of September 30. Countries like Turkey and Australia—and perhaps a few others—may have certain reservations but these riddles can be straightened out at the first meeting of the Governors, scheduled to be held some time in October.

The coming into being of A.D.B. is in no small measure due to the painstaking efforts of the U. N. Secretary-General U Thant and his fellow countryman, U Nyun, the Executive-Secretary of ECAFE. It is a happy augury that "cold war" was kept out (or at least papered over) during the preliminary discussions. In fact, at one time, it looked as if U.S.S.R. would also be "in" but she stopped short of joining the Bank, on the plea that the large contributions of the U.S. and other developed countries may jeopardise the interests of the small countries of the Asian region. Besides, Russia did not make any secret of its public sector bias.

With the Asian countries taking up as much as 65 per cent of the authorised capital of one billion dollars, the critics are not justified in dubbing the Asian Bank as another American-inspired venture which will be guided by remote control, from Washington. But since American involvement in the South-East Asian region is a reality, her participation in this Asian venture cannot be totally divorced from Mr. Lyndon Johnson's awareness of the need to rehabilitate the war-torn Viet Nam. It can be safely presumed that as soon as the Bank starts its operations, it will be under pressure to take up prestige projects like Mekong River and the Asian Highway. But even without American sponsorship, these projects readily commend themselves for the assistance of the Asian Bank. So far as India is concerned, she will have an effective voice in the shaping of the Bank's lending policy by virtue of her being the third largest contributor (\$ 93 million) to the Bank's capital, the first two places going to the U.S.A. (\$ 200 million) and Japan (\$ 200 million).

India's contribution will probably have to be more, in terms of Rupees, since the exchange rate has been changed from Rs. 4.76 per dollar to Rs. 7.50. It is surprising that although India, as the leading Asian country, is playing a pivotal role in the affairs of the Asian Bank,

the planners seem to have taken no note of its likely impact—favourable, that is to say—on the foreign exchange component of the Fourth Plan. Is the Planning Commission so barren of expertise that it will not be able to trundle in a worthwhile project for consideration of the Bank that has just come into being? From the broader Asian stand-point, the authorised capital is hardly adequate to make any dent. The bank, though regional in character, has to attract funds from the capital markets of the West if it is to supply development capital which the Asian countries badly need. Yield expectations of the affluent nations often clash with considerations of economic development. The Bank's success hinges on how it will resolve this dilemma.

SHIPPING

ALL AT SEA

THE Indian shipping industry has reason to think that the proposed Fourth Plan target of 3 million tons (G.R.T.) is inadequate to meet the needs of the country's expanding trade. This view, happily, is also shared by the majority in the Congress parliamentary party which recently discussed the question. While no one is dogmatic about the shipping target, the consensus appears to be in favour of raising the Fourth Plan target from 3 million tons to 4 million tons. Some time back, the President of the Indian National Steamship Owners' Association even suggested the figure of 5 million tons which he considered as necessary to achieve the objective of carrying at least 50 per cent of the country's overseas trade in national bottoms. At present, India's share does not exceed 15 per cent.

For a developing maritime country which was under colonial rule till a few decades ago, the progress achieved by Indian shipping industry is creditable. At the time of Independence, our tonnage

was barely two lakh tons. At the beginning of the Third Plan, it was about 8½ lakh tons and by June 1966, it was nearly doubled to reach 1.62 million tons. To this has to be added 4.42 lakh tons under construction and some 7 lakh tons under consideration. It will thus be seen that the industry has exceeded the modest target of the Third Plan (1.32 million tons) by a comfortable margin. However judging by the criteria laid down by the shipping policy committee (1947), Indian shipping should have reached this figure at the end of the First Plan itself. One has to recognise the fact that but for adventitious (and, shall we say, adventurous) elements like Jayanti, the acquisition of additional tonnage would have been still more modest.

The Present plan allocation of Rs. 90 crores is considered inadequate although the shipowners are themselves not sure on how much more the planners should allocate in order to help the industry achieve a target of say, 4½ million tons. The Government is equally receptive to pragmatic suggestions and an upward revision of the financial allocation cannot be ruled out. In the context of the heavy drain of nearly Rs. 140 crores annually by way of freight payment to foreign ships, the Government's eagerness to reduce the "tonnage gap" is easy to understand. The cost of acquiring new tonnage has yet to be worked out, both in the light of the rupee-devaluation and in the light of the high cost conditions prevailing in the Visakhapatnam shipyard.

Unless the shipowners and the planners show a readiness to appreciate each other's point of view, a dialogue on this question will be largely fruitless. Theoretically, the Government spokesmen can point out that devaluation has resulted in an adventitious gain to the shipping industry since the freight earned in foreign exchange will mean, in terms of the Indian rupees, a gain of 57.5 per cent. Since the shipowners stand to

benefit from devaluation, it is argued, they can raise the necessary funds for acquiring new tonnage during the Fourth Plan. The spokesmen of the shipping industry, on the other hand, retort that operational costs contain a sizable element of foreign exchange and devaluation has boosted this cost-element by 57.5 per cent. There are then the increases in the port charges which are of the same order as the windfall gains that the ship owners secure from devaluation. They also point out, quite convincingly, that as a result of devaluation, the cost of acquiring new tonnage abroad will go up by 57.5 per cent. The President of the INSOA has urged, in this connection, that "urgent measures should be taken to augment the resources of the Shipping Development Fund."

Perhaps it may be argued, in retrospect, that if the Government had accorded a high priority for shipbuilding in the earlier plans,

a substantial part of the shipping industry's requirements could have been met from the shipyards in the country. But the shipbuilding industry, that is to say, in effect, the Visakhapatnam yard, is crippled by high cost conditions and even at the U.K. parity price, at which the Government is selling the Vizag-build ships to the Indian shipping companies, the shipowners are finding these ships too costly, in comparison with the prevailing world rates. There is thus a case for abandoning the U.K. parity price, since the costs in the U.K. are by no means the lowest, but the Indian shipowners are yet to convince the Government as to the ideal rate of subsidy that can be allowed to the industry.

Cost-reduction at the Visakhapatnam yard and the construction of a modern yard at Cochin may provide partial answers, but the foreign exchange element even in the Indian-built ships, will be far too high to make any drastic

cost-reduction possible in the near future. The shipping industry has always shown a readiness to go full steam ahead but its progress is thwarted by extraneous factors like the heavy port dues and the slow turn-round resulting from inadequate cargo handling and repair facilities. Progress of Indian shipping hinges not only on streamlining the shipping industry but on improving the efficiency of the services which cater to shipping. So long as we do not have a well-established and sufficiently broad-based shipbuilding and ship-repairing industry, Indian shipping will continue to remain precariously dependent on foreign countries. These questions deserve the attention of our planners because the public sector shipping which, before long, will establish parity with the private sector in tonnage, will be the worst sufferer of any drift in the official policy. For what is good for SCI should be good for the Scindias too. Or is it *vice versa*?

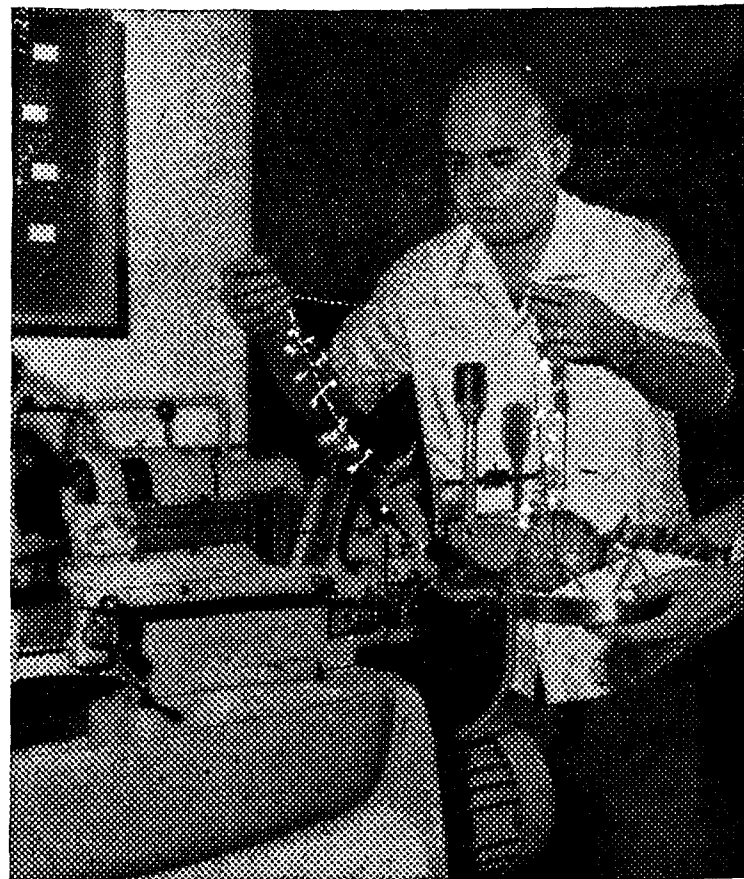
State Bank solves small-scale problems of the people

The inauguration of another small-scale industry. Thanks to the State Bank. Through their 2000 offices all over the country, State Bank and its Subsidiaries give the following facilities to Small-Scale Industries:

Advances Against Security of raw materials and finished goods. ☐ Factory Type Advances where security cannot be kept under the Bank's lock and key. ☐ Clean Credit Facilities where no securities are obtainable. ☐ Medium Term Loans for modernisation and expansion. ☐ Instalment Credit for purchase of machinery.

STATE BANK FOR SERVICE

LPE-Aiyars S. 142 C



GLASS HOUSE GOSSIP

DEMOCRACY is an omnibus term which shelters many kinds of crowd behaviour. But, let me hasten to add, democracy and mobocracy have not yet become synonymous. The recent happenings in most countries, including my own, have somewhat strengthened my feeling that it will not do merely to go by copy book definitions. Political institutions present a facade of similarity but political motivation differs from country to country. The systems as they operate in different countries show that while the Western societies have managed to steer clear of violence—verbal or otherwise—newly-emerged nations have failed to play the game according to the rules. In many countries there does not seem to be the slightest desire to maintain parliamentary decorum. Where frustration grips the minds of the Opposition, there will be a temptation to play to the gallery. Lip-sympathy to the concept of majority rule hardly conceals the Opposition's contempt for the Treasury Benches. Angry abuses are exchanged and even the speaker is not spared.

Character-assassination and slander-mongering become the order of the day and legislative business, which is the main function of legislatures, suffers in the process. This amounts not only to a waste of the tax payer's money—after all democracy, in these days, is costly business—which may be forgiven under special circumstances but what is worse, it puts a brake on the evolution of societies which cry out for structural changes. Where such changes are delayed as a result of the Parliament's inability to place the necessary measures on the statute book, it may give rise to public disillusionment, leading eventually to the break-up of institutions which the believers in the

rule of law would want to preserve. All this can be attributed to a general decline in standards of public probity which is hastened not merely by an impatient and irresponsible Opposition eager to storm the citadels of power but by Government comments which have become complacent and cynical on the strength of the feeling that they enjoy a brute majority in the legislature.

These generalisations, I believe, should not lead one to conclude that democracy in our country is on the verge of collapse, although I am far from happy over the developments of the past few weeks in the two houses of our Parliament. A measure of the members' preoccupation with side-issues can be had from the fact that out of 24 bills introduced in the current monsoon session and 30 carried over from the previous session, only 13 could be passed before the two houses adjourned *sine die* to meet again for the winter session. Governments which are "safe" in the saddle are generally averse to pushing through a heavy legislative programme (why should they, after all?) and it is the duty of the Opposition to prod on the Treasury Benches to turn out as much legislative work as possible. From what I read about the proceedings of the monsoon session, I find the roles being more or less reversed, with the Opposition adopting filibustering tactics, not with any deliberate intention of preventing the passage of bills, but to steal the limelight for political purposes. Yet, I cannot help feeling that the persons who played to the Gallery had hardly any interest in building healthy democratic traditions.

After Mr. Bhootalingam was pilloried on the allegedly irregular

"steel deals" it was Mr. C. Subramaniam's turn to face the Opposition ire *a la* Aminchand Payarelal. As if the Jit Paul "affair" was not enough, the Food Minister had the shock of seeing another "Limaye bombshell" explode on his face. It related to the alleged favouritism shown by C.S. to a machine tool firm in his home town, Coimbatore. Mr. Subramaniam's categorical denial about the "notings" on the file in question helped to retrieve part of the damage but the battered and bruised figure of a senior cabinet minister coming out of marathon fight presented a sorry spectacle. About other "hares" that were let loose by the Opposition, I can only mention two or three episodes which reveal a common motivating patron, namely, to harass and humble the Treasury Benches. Home Minister Nanda, I feel, did not emerge unscathed from the harangue over the alleged Communist plot to overthrow the Government, which was published and commented on, in one of the dailies in the Capital.

The unseemly storm over the "mink coat" blew over with the Prime Minister's timely rebuke which had a sting not usually noticeable in her speeches. Even the Finance Minister whose image is not generally associated with the "old guard" of Congress, had to defend himself with the mental agility of a Supreme Court advocate. After all, if the searches and seizures made in a Calcutta solicitor's firm amounted to an unwarranted (and excessive) use of the Executive's powers, what was wrong in the Finance Minister ordering the concerned officers to tender an apology to the aggrieved party? Again, it was the S.S.P. leader, Mr. Madhu Limaye who twitted Mr. Atulya Ghosh—the ruling party's strong man in West Bengal—on the "Sunil Das affair." While the implied charge that this important office-bearer of the A.I.C.C. was trying to shelter a

minor clerk in the Congress office who was facing espionage charges *vis a vis* Pakistan, was duly refuted by the Congress General Secretary, Mr. Manaen, the Opposition's limited objective—so it seemed to me—of exposing the key members of the ruling party to the merciless glare of unfavourable publicity was almost achieved. For one thing, after all these hot exchanges, walk-outs and “harsh” rulings, the Lok Sabha will never be the same again. In a way, it is all to the good because the Government has fully realised the danger of taking a complacent view of the lapses of individuals. But believers in healthy democratic practices—and not quibblers about procedure—are equally anxious that the baby should not be thrown with bath water.

* * *

THE Opposition parties may have their own reasons for indulging in sensationalism and mud-slinging but if the Congress suffers a setback in the coming general elections, it has only to blame itself. I had never seen, in my journalistic career of 17 years, such a ferocious in-fighting among Congressmen. Power—and lust for power—not only corrupts but, in my opinion, destroys all human values. Prof. Humayun Kabir is only a straw in the wind. I am not going to pass any *obiter dicta* on his resignation from the Congress. But can one make anything out of the arm-twisting that is being indulged in by the strong men in the Orissa Congress? I have great regard for Biju Patnaik's organising abilities, but no amount of denials and protests conceal the fact that he is the brain behind the mass resignations of Ministers the purpose of which seems to be to force the exit of the Chief Minister, Mr. Sadashiv Tripathy. I am agreeably surprised that Mr. Kamaraj succeeded in persuading the dissident Ministers to stay on and pull together till the next elections. However, that will only help to

consolidate Mr. Tripathy's position. And Mr. Patnaik does not seem to want him there. So long as Mr. Patnaik remains the best vote-getter of Congress in Orissa, who cares as to what happens to Mr. Tripathy?

To a lesser extent, I think, the Andhra Chief Minister is in the same predicament but since he has a fairly large following at the grass roots level, he is unlikely to be browbeaten by the bully boys of the Syndicate who are out to clip his wings. The immediate issue centres around the choice of the candidate for a vacant seat in the Pradesh Election Committee. Since a unanimous choice is almost ruled out, hopes are centred on the election that the A.I.C.C. will conduct on September 29. The Congressmen are embroiled in similar tussles elsewhere too, particularly in U.P., where Mrs. Sucheta Kripalani is facing a hostile group of dissidents and in Maharashtra, where the BPCC and MPCC are at sixes and

sevens. Happily, Mysore Congress, which is notorious for its in-fighting qualities, seems to be following a prudent course, avoiding the emergence of any serious rift. If I may venture a personal opinion, this is in no small measure due to the mature leadership of the Chief Minister, Mr. Nijalingappa.

To repeat what I wrote on a previous occasion, winning the elections should not be considered as an end in itself. If the political parties contesting the elections are genuinely interested in the political stability of the country—which is very essential for economic progress—they should refrain from indulging in vote-catching gimmicks. On the other hand, they should help to create the necessary atmosphere for an intelligent debate on the major issues which have a direct bearing on the daily life of the people. In this task, the Congressmen should set an example.

—Plebeian.

ECONOMIC AFFAIRS

Tenth Year of Publication

Editor: HIMANSU ROY

A monthly dealing with advanced economic theories and applied economic problems. Read in all countries.

10, GAILIFF STREET

BLOCK 5, SUITE 64

CALCUTTA-3

SOUTHERN ECONOMIST

SPECIAL ARTICLES

Devaluation: Tasks before the Country

By R. C. SHARMA*

FOR about a year now, devaluation was suggested by the world bank and the International Monetary Fund as one of the possible solutions to India's economic problems and shrewd observers had, in fact, taken devaluation as a near certainty. By making a drastic cut to the extent of 36.5 per cent—the biggest devaluation since Canada's effort of 1962—in the value of the Rupee, India has shown at last that devaluation as an instrument of economic policy has not fallen into disuse.

During the last decade of dogmatic planning, external value of the rupee has gone down considerably. This is a matter of common knowledge and *de jure* devaluation of the rupee by the Government of India on June 5, 1966 has only replaced *de facto* devaluation of the earlier period to that extent. But this *de jure* devaluation also, shorn of idle speculation about its illusory benefits, is just a step to secure the required quantum of foreign aid and is more a punishment than a remedy. In the opinion of a former Chief Minister, much of the unpleasantness flowing from the raging controversy over devaluation could have been avoided had the Government plainly told the nation of the overriding considerations which influenced their decision in favour of devaluation. Both Mr. Asoka Mehta and Mr. Sachindra Choudhari had occasion more than once before devaluation to put forward the arguments which were officially advanced against devaluation. The same persons are now, after devaluation, putting forward the reasons in favour of it. Such a paradox lies in the fact that whereas earlier, when they had ruled out the devaluation, the ministers had exports in their mind, now when they advocate it they have imports in view. This shows that the Government has never considered the problem objectively

with the cool mind and once again, as in 1949, devaluation issue has been settled by simple, pragmatic considerations, rather than an academic balancing of the advantages and disadvantages.

Now that the decision to devalue the rupee has been taken and there is not even the remotest hope to retrace the step, we have to devise various measures which will turn a bad bargain into a good one, so that further devaluations are not forced upon us. The devaluation, it may be pointed out here, is just a temporary measure and does not give any permanent advantage because it does not affect the fundamental cause of trade disequilibrium which lies in the adverse cost-price structure of the country. Even temporarily it can hardly pull us out of our present difficulties because it will not be effective as an automatic corrective measure in our regulated economy.

On the contrary, it is going to impose burdens that will be onerous. In the existing conditions, the twin gains of devaluation viz., higher exports and lower imports, are unobtainable as on the one hand, there are factors hampering our exports, i.e., stagnation in agricultural production, increased domestic utilisation of exportable raw materials and the static world demand for the major traditional products, and, on the other hand, the superstructure established in the era of planning and the rigid import policy followed till now make any cut in imports very unlikely. Of course, following the import liberalisation, these are to shoot up. Under these circumstances, it is not clear as to how the official note circulated among the members of the Congress working committee on July 5, 1966 claimed that devaluation is expected to “reactivate the economy and provide at the same time a lasting solution to the balance of payment difficulties.”

Truly speaking, devaluation is the price paid for foreign aid so that

we can hope to maintain the stipulated rate of development. But, here too, we cannot expect the foreign aid of a large magnitude for quite a long period since the capacity of the donor countries to give loan or aid is not unlimited, keeping in view the fact that these countries also have their own needs for resources. Further, the number of countries in need of aid is so large that it would be very difficult, if not impossible, for any one or a group of developed countries to satisfy all the capital hunger of the developing world and hence, on most of the occasions, considerations other than economic have a decisive role to play.

Devaluation should be considered only as a first step in re-ordering our economy. It has proved to be a hard knock. If we do not miss the opportunity, it will become a turning point in the evolution of a development strategy. In the post-devaluation era, real solution of all economic ills lies in the structural change in the economic set-up of the country. From this point of view, the follow-up measures taken by the Government so far have been far from promising.

Devaluation can be meaningful only if the internal value of the rupee does not fall to the same extent. Some increase in the prices of the articles produced out of imported raw materials is inevitable but it should not be allowed to gather momentum. The Government has announced a series of steps to hold the price line, at least where essential commodities are concerned, but the success of these remedial measures is very doubtful and, if at all, it will be purely artificial and temporary. When production is insufficient to meet the demand neither private traders, nor consumer co-operatives, nor anything else can prevent prices from rising. Stepping up of the production and judicious spending of money in every sphere of the economy are the only ways to hold down the prices. With this end in

*Mr. Sharma is the Lecturer, Department of Commerce, North Bengal University, Darjeeling.

view the following suggestions deserve serious consideration.

Devaluation, as stated earlier, has been forced on the country as the price for massive foreign aid to sustain the Fourth Five-Year Plan. Even after that, we have received more promises of less help. The question, therefore, arises whether the Fourth Five-Year Plan, in its present form, is so critically important as to expose the country's economy to grave risks. Evidently Yojana Bhavan seems to think that country exists for the plans rather than plans for the country. According to the present indications, the total outlay during the fourth Plan would be Rs. 23,750 crores. We have tried twice to implement plans of a large magnitude and have failed to achieve the physical targets set therein. Why should not this time our Fourth Plan be based on realistic assessment of resources? More important than the size of the Plan is the scheme of its formulation. Government should not be carried away by the prestige projects like Bokaro. The selection of the projects should be such that the results are quick, production in relation to the investment is high and the output will help the immediate needs of

agricultural and other consumer goods. Moreover, during the Fourth Plan, instead of entering in the new fields, Government should improve working of the existing public sector units. It should also try to provide the economic and social infrastructure on which private sector could build the super structure.

The capacity of the economy to bear deficit financing had been weakened by the continuous recourse to such stratagems. If we try to develop the economy with created money, we get neither development nor stability. Being aware of it, the Central Government is subjecting itself to a degree of discipline in regard to deficit financing despite the heavy demands from defence and other sectors. But such discipline had not radiated to the State Governments and despite substantial assistance from the Centre due to planning ambitions, most of the States continue to draw heavily on the Reserve Bank.

While urging the States to give up the practice of formulating deficit budgets and drawing huge unauthorised overdrafts from the Reserve Bank the Finance Minister revealed on July 19, 1966, that the States had drawn to the extent of

Rs. 20 crores in the last three weeks alone. For the next few years Central and State Governments should bid a farewell to the deficit financing.

In the post-devaluation era, there should be no place for swelling administrative expenditure which uses up scarce financial resources but makes no contribution to increasing output. The total non-development expenditure of the Centre and the States, excluding defence, has risen at a very fast rate during the three Five-Year Plans. From Rs. 1,723.8 crores during the First Plan, expenditure moved upto Rs. 3,028.6 crores during the Second Plan. During the Third Plan, it stood at Rs. 6,226.8 crores. Economy in this category of expenditure will free vast sums for real productive investment. At least a 10 per cent cut in all current Government expenditures including investment was suggested by Mr. Morarji Desai. Acting partly on this advice, the Central Government proposed to cut its revenue budget by 3 per cent and the capital Budget by 5 per cent during the current year. The Chief Ministers were also asked to effect economy on the same scale.

JAMSHEDPUR STEELMEN WIN SHRAM VIR NATIONAL AWARDS

In March 1966, the Government of India held the first ceremony to honour the country's new heroes—technicians and industrial workers—with Shram Vir National Awards. These awards will be made every year in recognition of suggestions leading to higher production at less cost.

Of the 27 awards this year, no less than five, including two top prizes, went to Tata Steel employees—the largest number won by any industrial unit in the country.

At Jamshedpur, during the last 20 years,

employees have put forward over 12,000 suggestions, of which nearly 1,000 have been accepted. These suggestions have helped to increase productivity and make operations safer, and have led to the utilisation of local know-how and materials for self-reliance.

Tata Steel is proud that it pioneered the Suggestion Box Scheme to encourage initiative from the shop floor... a scheme which is becoming a standard industrial practice in India today.

TATA STEEL



The Tata Iron and Steel Company Limited

WTTN 3274A

The first reaction to this announcement was that, even if the State Governments failed to act on the advice given by the Centre, at least the Union Government would take the economy drive seriously as the target in terms of percentage reduction is modest enough to realise. The target in absolute terms should yield a total saving of more than Rs. 185 crores in the current year. But now, it is understood, that the Centre's economy drive might not result in a reduction of more than Rs. 50 crores.

Our economy is mainly agricultural and unless agricultural production is increased considerably, progress in other spheres would be impossible. Agriculture in India continues to be a gamble in the monsoon even after three successive Five-Year Plans. Besides major irrigation projects, funds should be earmarked for minor irrigation projects. To provide timely credit to cultivators, existing co-operative machinery should be tightened.

Development in any sphere depends on the opportunities given to the people to utilise their creative energies fully and freely. In a country like India where to boost up our exports and to make goods available to the common man, the crying need is for more production, practically nothing can be produced without going through a time-consuming process of licences and permits. Such a system of controls and regulations should be removed at least in respect of those industries which promote agricultural development or assist export efforts but do not require foreign exchange.

To check the inflationary pressure in the economy and to control the cost of production a freeze in wages and salaries of the workers have been suggested for the next twelve months and workers have been asked to accept this discipline if the level of dividend was frozen, the cost of living index stabilised and a climate of austerity created in the country. Further sacrifice has been demanded in the way of increased working hours. These suggestions deserve careful attention as these may arouse a feeling of suspicion in the working class. Undoubtedly the workers are less interested in money wages than in its purchasing power. They should, therefore, gladly accept any proposal of wage freeze which keeps their real wage intact by holding down the prices and freezes

* This was written before the Commerce Ministry announced the scheme of cash subsidies.—Ed.

SEPTEMBER 15, 1966

income of every section of the community.

This implies that benefits of such discipline will be passed on to the consumers in the form of reduced prices. However, it is difficult to understand the logic behind the suggestion of increased working hours. At present India is facing the problem of unemployment. Instead of increasing working hours, industrial undertakings should be allowed to increase the number of shifts worked by them per day by employing additional work force. It will reduce the overhead cost of production and solve the problem of mass unemployment.

With the liberalisation of imports

of raw materials, spares and components our requirements of foreign exchange will go up. To meet such an increased demand for foreign exchange, we should completely ban the import of capital goods in an industry so long there is unutilised capacity. This will save not only scarce foreign exchange but lead to working of the existing units in that industry to the maximum capacity. Although the devaluation provided some inducement for export promotion, the incentives are not adequate to keep up the level of exports. The incentives schemes, therefore, withdrawn in wake of devaluation, should be revived in a modified form*.

SYNDICATE BANK

have pleasure in announcing
the opening of their

VIZIANAGARAM BRANCH

at

Door No. 8-3-35/41

Kolla Bazaar, Main Road

on

10th September 1966

and

KOTEKAR BRANCH

(South Kanara Dist.,

Mysore State)

on

16th September 1966

Other Branches to be opened shortly :

YADIKI (Anantapur Dist.) :

NEW DELHI (Connaught Circus) :

POONA



SYNDICATE BANK LIMITED

Regd. Office: MANIPAL
(MYSORE STATE)

Total Resources :
Exceed Rs. 80 Crores

Paid-up Capital & Reserves :
Rs. 2 Crores

Branches : Over 210

Case for Demonetisation

By K. SWAMINATHA

THE built-in inflationary bias in the planning strategy during the last 15 years has given rise to a large scale accumulation of black money through various dubious ways such as tax-evasion, profiteering and black marketing. The fact of tax-evasion on an extensive scale—though its precise magnitude is a matter of some argument—is incontrovertible. Its subsidiary consequence of a parallel circuit of more or less illicit commerce is also too palpable to be easily ignored. These activities lead to the amassing of black money, causing unwarranted rise in prices.

The phenomena of black money and “black money inflation” must be considered as a growing cancer in the body economy of any country. In India, in the planning era, the black marketeers and profiteers have trafficked on human misery taking advantage of the food shortages, Government's indolence and inefficiency. There can be no doubt that the black money has been an inevitable concomitant of the unsound financial policy pursued by the Government.

Black wealth usually takes the form of rupee notes, jewels, bullion and real estate. Given the inflationary finance and inadequate economic measures over the last 15 years of planning, the black market has inevitably become almost a parallel institution and has prospered with increased vigour. A part of this black wealth is undoubtedly hoarded in the form of high denomination notes, while another part is transformed into assets like bullion. The rest is permanently incorporated into business.

A good proportion of the black money is usually kept in banks under *benami* accounts. To the extent to which this has happened, the ill-gotten money has already been piloted into places of relative safety. Large quantities of medium and high denomination notes moving in an independent orbit of their own or lying idle in scattered hoards all over the country constitute a potent source of disturbance for a sound monetary policy. By a sudden return to normal circulation they could so swell the effective volume of currency circulation and also of bank money in the country as to

give a new impetus to price inflation.

If the Demonetisation Ordinance is announced, say, requiring all notes of denominations of Rs. 10 and above to be surrendered to the Reserve Bank or Scheduled Banks or the Government Treasury, as the case may be, in exchange for new currency notes (leaving out five-rupee notes, of course, might permit many an owner of unaccounted moneys to get away with this lucre), the holders of such notes will be asked to furnish a declaration, in a scheduled form, of such holdings and should get legal tender notes or bank credit in exchange within the stipulated period, after which such old currency notes will be no more than reams of waste paper. The declaration should give all material particulars and while giving the list of the demonetised notes submitted for exchange will have to state, *inter alia*, the reasons for keeping such denomination notes rather than current account, fixed deposit or securities; when and from what sources they had been acquired; name, year, and place of business in case they represent business profits in part or whole; and in case the amount is in excess of such profits, the source of such surplus with evidence in support.

The elimination of this upsetting element is therefore essential in the interest of the working of a sound monetary policy and of smooth economic progress.

It was not long ago that a bold and imaginative endeavour *viz.*, the Amnesty Scheme, to erase at once a blemish on national business honour and remove a cancer in the economy ended in failure. The Amnesty Scheme offered an opportunity to liquidate both tax evasion and its subsidiary consequence, *i.e.*, illicit commerce to a considerable extent. Contrary to the expectation, the cryptic business and clandestine activities have progressed very well! It is difficult to explain the missing of such an opportunity except in terms of the crassest kind of self-interest and the most blatant type of cynical self-assurance. The Government, for its part, failed in the crucial task of implementing the scheme successfully. The Amnesty Scheme came to an inglorious end.

The Government must put an end to all forms of black wealth.

Two different measures can be suggested which are tailored to deal with the two assumptions of the nature of the black money. The first one is to demonetise notes of medium and higher denominations; secondly, in order to prevent the loophole of *benami* transactions being used in perpetuity, steps should be taken to change the law relating to *benami* as it applies to taxation. These two steps will cover substantially the two basic havens of black money.

Demonetisation weapon is an attempt at controlling and wholesale cancellation of the old currency notes as on a particular date and issuing new notes in unlimited quantities. In the past, this weapon has been used in various countries for this purpose. Apart from checking the black marketing and tax-dodging, the object is to control inflation. It tries to skim off excess purchasing power in an orderly fashion by immobilising unaccounted money. Currency notes of the specified denominations, say, medium and higher ones, will cease to be legal tender and their transfer and receipts will be prohibited after the stipulated period.

The Government's half-hearted measures such as price control, food zones, amnesty scheme, devaluation, etc., have not quite succeeded in arresting the rise in prices. On the other hand, they have conspired to raise the prices further. Demonetization will help to do away with the cruse of the unaccounted money and its dangerous consequences.

The Government's denial in the past of any intention to demonetise the currency is understandable. Despite such denials, one cannot rule out the promulgation of the Demonetisation Ordinance of currency notes of perhaps Rs. 10 upwards. The Government's plea has been that the time taken to print currency notes (of new series) would be prohibitively long. It is still fresh in our memory that there were such denials even in regard to devaluation. One can also guess that the Government must have “purchased” the time necessary for printing notes of medium and high denominations and that since for some time now, new currency notes of medium and high denominations are not being issued in any of the banks.*

easy to suspect that the Nasik Printing Press has been kept busy in turning out the new notes.

The demonetisation ordinance should also provide against the ‘*benami*’ accounts. It can ask the owner of high denomination notes to state in his application particulars about other applications, if any, made at any other time and place for the exchange of such notes. As a safeguard against the *benami* ownership, it may be provided that the person who signs any declaration should be deemed as the owner of the notes for all purposes. The penalty for false declaration may be either imprisonment or fine or both.

The Government must make a virtue out of a necessity. But before carrying on the “Rupee Test,” the ground must be properly prepared in advance in the matter of having adequate supplies of forms ready, making sure that every “cog” in the “wheel” knows just how it is expected to function and eliminate the unfortunate necessity for extensions of time and the issue of further explanatory notes to remove apprehensions and the inevitable delays that they may give rise to.

The first and most essential step to restore confidence is to ensure automatic conversion of the demonetised notes. The Reserve Bank, the scheduled banks and the Treasury should give the legal tender in exchange and as of right over the counter as soon as it finds that every question in the declaration form has been positively answered without going into the detailed scrutiny of the answers given. It is for the Income Tax Department then to take up the detailed investigation armed with the declaration. But convertibility must be easy, speedy and automatic and as of right.

And, this carries us to the larger question, *viz.*, to ensure that this drive against black money itself is not converted into a colossal black marketing operation whereby every pretty official in the Central Government, the Reserve Bank, Scheduled Banks and the Treasury can hold the tenderers of the demonetised notes to ransom. This can be ensured by providing for judicial supervision at every stage *plus* a special Court of appeal.

Demonetization ordinance does not mean repudiation of the statutory obligation to cash the notes of specified denominations. Only their legal tender will be taken away after a certain period. There is no gainsaying the fact that the Government is within its rights, as monetary authority, in demonetising part of the currency. All money is “created money” issued by the fiat of monetary authority and the State which has conferred the status of money on certain pieces of paper can equally deprive the same of that status, once it is clear that the objective of demonetisation is to fight inflation and black market.

Demonetisation may enable the Government to balance its budget and reduce the inflationary gap. To the extent that the Government succeeds in doing so, the necessity of issuing fresh currency is obviated. One of the effects of the demonetisation will be that the advantage of any likely deflation in the volume of paper money may be offset by price inflation because by undermining the confidence in the rupee it will cease to be a store of value giving rise to a relative preference for bullion and commodities of all kinds. This price inflation is likely to gather momentum when as a result of the diversion of the attention of the anti-social elements from money to goods, the hitherto dormant paper currency exercises its pressure on the available supply of goods. If the earnings made in the black market are hoarded in the form of currency notes, a large part of the total notes put into circulation remains inactive. As a result of the demonetisation, it is highly unlikely that the earnings will be invested in currency notes any longer.

Demonetisation should not be considered as a *coup de grace* on the whole of black money, for it is a *coup de theatre* on rupee notes of medium and higher denominations only and it does not eliminate illegal bank accounts abroad. Illegal bank accounts abroad, (or what can be termed “Black Foreign Exchange”) constitutes not an inconsiderable part of the unaccounted money. In an atmosphere of rapid inflation and deepening foreign exchange crisis, there is a strong propensity on the part of the owners of the black money to have their wealth converted into Black

Foreign Exchange as a hedge against the fast depreciating value of the rupee—both external and internal—thus denying the country of the much needed foreign exchange. As already specified, demonetisation cannot end the Black Foreign Exchange. It is possible to rope in such black accounts abroad by introducing what may be called “Exchange Amnesty Scheme,” analogous to the Amnesty Scheme. The big stick in such a scheme is that the possessors of such illegal bank accounts abroad—if discovered after the stipulated period, say a fortnight—would be liable for imprisonment and their properties in India confiscated, without any option.

In sum, the following are the objects of demonetisation: it strikes at the root of black marketeers; it checks the unhealthy boosting of shares; it ropes in tax-dodgers; it eliminates the corrupt public servants; it brings under control a potential source of danger to sound monetary policy; it warns the speculators, profiteers, black-marketeers and bribe givers and takers about the Government's determination and capacity to end the price and black money rackets, and mobilize money for economic development.

DEVALUATION

(Contd. from Page 13)

The new credit policy should be evolved to infuse dynamism in the post-devaluation economy. To check inflationary pressures credit-squeeze should be further tightened in general so that it may not be used to build up excessive inventories. Only import substitution and export industries should be kept out of the purview of this squeeze, so that with adequate credit they may step up their output to the maximum. In making adequate credit available to industries, attention should be paid to the timing, *i.e.*, when imports begin to flow in larger volume and when agricultural output picks up. Any misguided intensification of the squeeze at this critical juncture would be the surest way of defeating the object of increasing production without inflation.

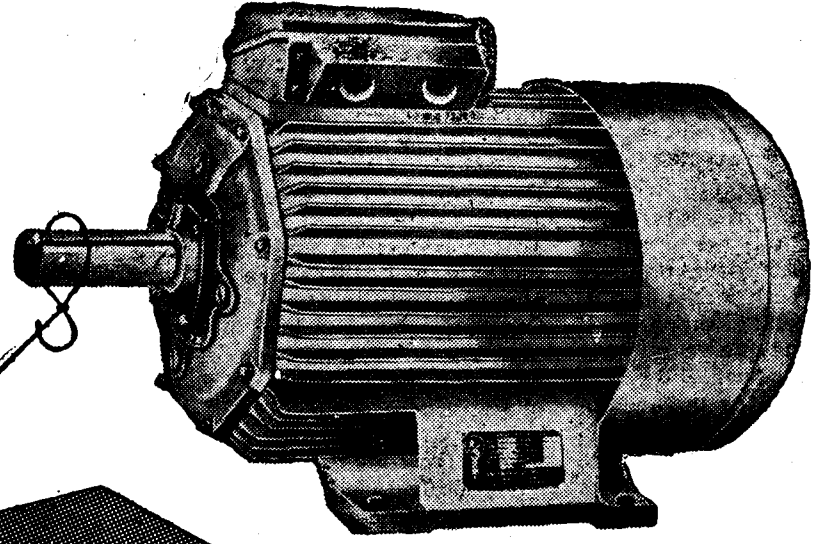
Subscribe to

SOUTHERN ECONOMIST

24, HAUDIN ROAD
BANGALORE-1

* This assertion is open to question.—Ed.

Kirloskar



Oil Immersed Starters manufactured by Kirloskar-Asea Ltd., are available from us for Slip-ring Motors (upto 70 h.p.) and Squirrel Cage Motors (upto 60 h.p.)

Manufacturers
KIRLOSKAR ELECTRIC CO. LTD.
 P. O. BOX NO. 1017 BANGALORE-3 INDIA
Sole distributors: PARRY & CO. LTD.
 P. O. Box No. 12 Madras 1, P. O. Box No. 208 Calcutta 1,
 P. O. Box No. 506 Bombay 1 BR. P. O. Box No. 172 New Delhi 1

S. E. FEATURE ON PLANTATION INDUSTRY

* Factors Affecting Competitiveness of Indian Tea

—By M. M. Appaiya

* New Schemes to Conserve Resources for Coffee Industry

—By A. S. E. Iyer

* Tea Industry Needs Fiscal Reliefs

—By N. Bhagwandas

* Riddle of High Rubber Prices

—By P. S. Habeeb Mohamed

* Exports Prospects for Tea

Factors Affecting Competitiveness of Indian Tea

By M. M. APPAIYA*

A DISTINGUISHED Chairman of the Indian Tea Association said four years ago that we could out-produce any country in tea. I have every confidence, we can. We have the necessary experience, the managerial personnel, the organisation, the broad productive base and ample labour and ancillary skills. But there must be a Government policy which has been thought out carefully, where all factors are given due weight and, above all, in which process the industry is fully involved.

We had hoped, after the last Conference of UPASI, that the Government was moving towards the adoption of practical measures of relief closer to the real needs of the tea industry. There was a suggestion that a depreciation element exempt from tax should be allowed as in the case of rubber, an export tax credit certificate directly available to the producers and an exemption of export tea from at least a part of the excise levy. Economic and political events have overtaken us faster than we thought possible a year ago. Devaluation has now overtaken us and we should look upon our problems afresh. Much has been said on the subject and much more will be heard before the controversy about this decision dies down. The stresses and strains our economy was subjected to by aggression on our frontiers twice in the space of three years followed by failure

on the food front have accentuated our economic difficulty. This step was inevitable and if the rupee's worth was to be truly assessed, its parity with other currencies had to be re-adjusted.

Plantation products belong to a class airily dismissed as "traditional items" as though they are impervious to the heat of inflation, the cold of low prices or depressing returns. As we know from the receiving end, they are in no way insulated against the ravages of domestic inflation. They have to face a world market where prices have no relation to the cost of production. If it is accepted that domestic inflation was weakening our competitive capacity abroad, it cannot also be reasonably held that traditional exports alone have escaped the impact of inflation. Unless this belief was strongly held by Government it could not have imposed so heavy a duty on tea, as it did after devaluation. We have no doubt that the export duty was arrived at after a certain amount of consideration of the margin that would be left if the average price was fetched. We venture to suggest that in the economic life of a product such as tea an average is a poor guide and other factors are more relevant. If it is argued that devaluation is a method by which cost increases suffered as a result of domestic inflation can be neutralised, the cost of production is more important than the average price realised.

increase in tea auction prices for leaf grades was only 12.24 per cent. During this period, costs increased by 117.47 per cent and taxation by 122.14 per cent. But for the increase in yield, the tea industry would not have survived. It should be remembered that the cost and tax figures would rise still further, as a result of increases in wages and the changes in taxation under the Finance Act, 1966, not to speak of the consequences flowing from devaluation. Since the world pays the going price for tea all cost changes have to be accommodated within that price or the producer takes a loss. It is the cumulative effect of domestic inflation on the cost of production and the consequential increases from devaluation at our price level that we should look at. Unfortunately, this does not seem to be what the Government of India looked for when fixing the export duty. Let me add, the excise duty continues to apply to exported tea and the export duty applies in addition whether our producers fetch a price to cover the cost or not.

Plantation profitability is generously assumed by most people so much so that when the facts are pointed out, there is almost complete disbelief and not rarely we are accused of exaggeration. Yet there is hardly any effort at independent study or enquiry and we find many false assumptions being made on untested information. The Reserve Bank publishes a series of analysis of corporate performance in India. Despite the defects

* Excerpts from the presidential address at UPASI. August 27, 1966

Between 1951 and 1965, the

of its presentation as far as plantation companies are concerned, the trend is broadly discernible from the Reserve Bank figures. Profit after tax in tea as a percentage of net worth in 1953 was 21.5 per cent and it was first among the 18 industries covered. It was twenty-fifth among the 28 industries covered in 1963-64 and the profitability ratio was 4.9 per cent.

Two years ago, the Tea Finance Committee was appointed. It was only the most recent of the several Enquiry Committees and Commissions appointed by the Government to explain to it the mysteries of the economics of plantations. That Committee had drawn attention to the declining trend of profits despite the increase in production and exports achieved and the larger investment which the industry made for achieving them. But its recommendations, which we, in the South, considered wholly inadequate, were largely intended to find resources for development, not to interest the investor or the producer in tea. It was for that reason that we were not excessively enthusiastic about the mere enhancement of the deve-

lopment allowance for replanting and extension.

We hear about various forms of assistance being considered for development of industries and exports. It is not widely appreciated that the ratio of tax to gross profits is the highest among all industries for the plantation industry. Unless the Government considers removal or elimination of the inhibiting tax burdens and allows the industry the concessions or allowances already available to others, the industry's response will be disappointing. We need only look at rubber to see the sense of such an approach. The depreciation element worked into the cost of production of coffee has not yet been given the exemption from taxation. For tea such a provision has yet to be made.

For long we had pleaded for a development allowance as available to certain manufacturing industries and shipping. In these industries, the development allowance is in addition to full depreciation. Here we are offered the development allowance without depreciation for our field assets. When by all evi-

dence, the industry is starved of resources, to offer an allowance for development which cannot take place for want of resources provides a slight variation of the proverbial cart before the horse; in this case the horse is nowhere about.

Among the several widely circulated fallacies is the one about the internal demand for tea being the cause of the drop in exports. It is not right to assume that all the tea that remains after export is for domestic consumption. If the world does not want our tea, that which we produce must of course remain here! The alternative is to force on the world market tea which it does not want. The result will be a disastrous fall in prices which cannot be made good by a larger volume of export. In fact, Indian production increased from 615 million to 826 million pounds in 12 years since 1953, but total imports from India by the world's established or traditional tea consuming countries fell from 410 million to 322 million pounds by 1965. On the other hand, these same countries in the aggregate had increased their imports from 744 million to 865 million

pounds. India's share of these markets dropped from 55 to 37 per cent.

The reasons for India's failure to match the performance of other producers must be looked for elsewhere than in the domestic market. The question is whether we have not failed in our tea propaganda efforts. Time and time again has it been suggested that Government should recognise the object of our being in business, viz., to make profits. To us profits are synonymous with economic growth and a nation's ability to create wealth is dependent on a policy that recognises profits not as an exploitation but as the necessary adjunct to efficiency. It was refreshing to read the address of our Prime Minister to the Public Sector managers exhorting them to make each one of the ventures profit making units commensurate with investment.

The plantation industry has been subjected to several enquiries since Independence, but each was limited to a specific case or situation. What I would urge as of immediate priority is a thorough examination of the economics of this industry, its role in the national economy and the imperative needs of its future development by a compact Committee. It should make an *ab-ovo* review of past and present policies and make suggestions for the future. Such a body should be a really high powered one in the views of which both the Government and the people whose livelihood is affected and the producers can place full confidence. Such a study, if competently carried out, could provide the necessary guidelines to future policy in regard to this industry.

Out of some 45 lakhs of workers who are within the organised industries of India, some 14 lakhs of workers are in the plantation industry. For an industry with such great reliance on labour, a realistic labour policy is of the highest importance. Plantations have always taken pride in the various welfare measures that have been introduced long before legislation compelled employers to provide them. Today, a measure of the weight of cost falling upon producer is best illustrated by comparing the cost of a single unit of labour quarters which an employer is compelled to provide under the Plantations Labour Act to the capitalisation

per acre of the plantations. It is equal to the capitalisation per acre of many long established plantations in South India.

After a long period of uncertainty and prolonged negotiations, a settlement was reached in the Tea Wage Board. Its unanimous recommendations have been accepted by the Government. During the negotiations in the Wage Boards, it seemed as if a linkage of D.A. was beyond any further argument. Tripartite decisions were quoted in support of rights and privileges of labour as if they were edicts for all times and all occupations and all industries. We as an industry hold the view that labour should have a fair share of the fruits of the industry. We would like to see that they earn a high wage but are equally opposed to doing it at a high cost. But the Wage Boards are not the forum where we can get anywhere on such subjects.

There is a growing public discussion about a wage and price freeze. I feel a total wage or price freeze is impracticable but wages should go up only in relation to output. But the political backing given to labour will frustrate every attempt made towards a saner economic policy on wages and prices.

As a result of the unfortunate weather conditions during 1965 in North East India and the loss due to enemy seizure of a quantity of tea, our total output fell below the Plan target. For South India, the season was fairly good and we increased our production by 10.4 m. kgs. matching Ceylon's increase in production from 3½ times greater acreage. In coffee, we have had two adverse years running. Otherwise, the fields were good for an output topping 75,000 tonnes. In rubber, the record was exceeded. In both tea and rubber, South India has actually exceeded the Third Plan targets.

The rising demand for coffee in the internal market makes it imperative that our production has to be increased substantially, if our export effort is not to be affected. This calls for both rapid replanting and extension of area under coffee. A plan for replanting worked out in detail by this Association and forwarded to Government with the Coffee Board's approval over three years ago is still languishing at its

hands. Such indifferent attention can result only in frustration and disillusionment in Government's intentions. The State Governments should take a more realistic attitude towards grant of lands for coffee cultivation and not let ideological considerations and land policies to hamper the growth of this industry. The immediate needs of coffee is financial assistance to carry out its expansion and replanting and the Coffee Board should devote itself to providing this instead of pursuing impractical measures like the creation of Stabilisation Fund, etc.

While we are unhappy about the stagnant price level of tea which has almost continually declined since 1957, we are really concerned about the high and unhealthy price levels of coffee and rubber in the domestic market. The price rise is a direct result of Government policy which insists on the maximisation of exports. The supply available to the home market is inadequate and the prices have risen. The obvious answer is of course greater production, not artificial price control which will not make up the shortage but will lead to various malpractices.

The price of rubber has risen embarrassingly high and cannot be maintained at this level without doing serious damage to the users of this product and the growers. In the short-terms, there should be larger imports to moderate the price and in the long-term more rubber should be produced. The imaginative policy in rubber, largely the result of the enquiry by the Tariff Commission, is paying the nation rich dividends.

THE BANK OF MAHARASHTRA LTD.

(Regd. Office : 1177, BUDHWAR PETH, POONA-2)

AT YOUR SERVICE

with

Its 108 Branches

ALL TYPES OF BANKING BUSINESS TRANSACTED

INCLUDING

FOREIGN EXCHANGE AND EXECUTOR & TRUSTEE SERVICE

ENTERING INTO 32nd YEAR ON 16th SEPTEMBER 1966

C. V. JOAG
General Manager

Socialist Congressman

FORTNIGHTLY JOURNAL OF
CONGRESS SOCIALIST OPINION

Subscription

ANNUAL Rs. 6.00

HALF-YEARLY Rs. 3.00

SINGLE COPY 25 P.

Published from

C-41, Nizamuddin East,
New Delhi-13

SOCIALIST CONGRESSMAN is not
an official journal of the Congress or
any group thereof.

Tea Industry Needs Fiscal Relief

By N. BHAGWANDAS*

It is a grim struggle—Two hours for the end of the match—Two wickets in hand—Fifty runs to win and ten for his century.

NOW FOR A COFFEE-BREAK



And then to face the ball with renewed confidence.
No other drink refreshes both body and mind like COFFEE.
It lifts you when energy flags and gives you the zest
for life, comfort and satisfaction.

COFFEE HAS SO MUCH TO GIVE...ANYWHERE...ANYTIME



COFFEE BOARD BANGALORE



FDS CB 451

THIS year's budget is popularly believed to be overly solicitous to plantations because of the enhancement of the Development Allowance for new planting to 50 per cent and for replanting to 30 per cent, the eight per cent knock-off for priority industries, etc. But what is not so well known to the public is that the eight per cent benefit is applicable only to a limited section of the industry and not to all producers and that the enhancement of the corporate taxation by five per cent has really left most of us with a greater tax liability to last us the rest of the year. In the result, while we are no doubt grateful for the recognition accorded our standing in the country's economy, we cannot help being wistful that we deserved better by way of more substantial relief such as depreciation on fields assets.

The rhythm of the traditional dialogue was rudely disturbed by the economic denouement of the night of the 5th June 1966. Much has been talked about devaluation since. It is indeed a strange elephant whose configuration mystifies even those blessed with vision, let alone the blind. One thing has been made abundantly clear, that it is a *fait accompli* and *post-mortem* is therefore pointless. Attention should be devoted to follow-up action, instead. It will be some months before the effects of devaluation on the plantation industry, particularly tea and coffee could be meaningfully assessed. Right now I am in the happy position of being able to heed your advice and avoid cataloguing new complaints. For my part, I suggest that while none of our views and submissions in respect of the pre-devaluation policies lose their force or relevance, devaluation necessitates a fresh, hard, close look at the facts of the industry as they were on eve of the event and also a reorientation of thinking on the part of all concerned.

Let us consider the case of tea. The striking gains in production

* Mr. Bhagwandas is the Chairman of the Association of the Planters of the State of Madras.

are well known. The rate of increase in South India is perhaps the highest for any tea growing area in the world running at slightly under five per cent per annum over the past ten years. It may be claimed with pardonable pride that the State of Madras is preeminent in the performance of South India. In 1965, Madras with an area of 33,587 hectares under tea produced slightly under 48 million kilograms of tea compared with 44 million kilograms in Kerala from an area of 40,000 hectares.

The yield per hectare in Madras exceeded 1,400 kgs. per hectare which is the highest in the country and perhaps for any major tea growing area in the world. Our satisfaction with this spectacular achievement is, however, blunted by the knowledge that the export performance of Indian tea as a whole is showing a downward trend. It is a known fact that a primary commodity like tea commands recognition more for its export potential and the ability to earn foreign exchange rather than for its production *per se*.

The fall in tea exports to which the industry's spokesmen have been drawing attention in recent years was officially confirmed by the Union Minister for Commerce when he announced to the Export-Import Advisory Council early this year that tea exports in 1965 amounting to 196 million kilograms valued at Rs. 1,140 millions showed a fall of 15 million kilograms valued at Rs. 90 millions as compared with 1964. The share of Indian tea in the world market has declined from 45 per cent to 37 per cent and what is even more disconcerting is that India has been relegated to second place in the traditional U.K. market where we have slumped from 64 per cent in 1953 to 45 per cent in 1964.

Consumption in the U.K. has remained static at 2.8 ounces per person per week and South Indian teas have been unable to break the eight-shillings-a-kilo barrier for the last eight or nine years. If anything, the tendency is towards a

decline. Herculean efforts are being made by the Tea Board, the Government of India and the tea trade in the U.K. to rope in the young to join the tea set. It remains to be seen if they will succeed in putting Indian tea on the wall again. The decline in other markets in the hard currency countries has also been steep.

Of course, on the credit side, exports to the U.S.S.R. and the East European countries on rupee payment and the U.A.R., have increased. So far as South India is concerned, the Russians are our favourite customers at the auctions and the news of their entry or exit causes considerable excitement or depression as the case may be. There is no gainsaying that Russian and Egyptian purchases have maintained price stability particularly for South Indian tea. While this has certainly been of some benefit to producers, from the national point of view, purchases on rupee payment cannot truly compensate the loss of hard currency earnings caused by the fall in exports to our traditional markets.

It is often suggested that the industry should explore the nascent markets of the emerging countries in Africa and elsewhere. There may be prospects no doubt, but they are certainly not immediate. They can be regarded only as long term objectives to attain which every inch of the ground will have to be hard fought with our competitors, particularly those who produce tea in some of the countries in the African Continent. In fine, the position of Indian tea can be summed up as beleaguered and under pressure in the traditional markets; good but of secondary value with reference to the rupee payment countries; and groping and indefinite with regard to the nascent markets. Neither complacency that all is well nor despondency that it is all hopeless is justified.

Our strategy in the short run should be to maintain our position in the traditional markets at all costs and in the long run to keep on diligently probing and enlarging our share of

such markets at every opportunity. With regard to the new markets, we should have a carefully thought out purposeful programme to cultivate them. Our vast internal market now accounting for 40% of our total production is our unique good fortune. Considering that it is not the case of any of the importing countries that they have failed to obtain their requirements of Indian tea, there is no justification for any fear that increasing internal consumption will affect exports. The internal market is our best safeguard against any price slump in the markets abroad due to oversupply.

In the face of the inexorable cost-push and static prices at home and abroad, the margin of sustenance is wearing thinner and thinner. The wage bill which increased by 18 per cent in five years between 1961 and 1965 has gone up by another 15 per cent since the first of January this year consequent on the implementation of the Tea Wage Board's recommendations. Labour is nearly half the cost and the items of cost constituting the other half such as fertilisers, pesticides, tea chests, fuel oil, transport, electricity, etc., have gone up in varying degrees. But what of the price of tea? We may proudly claim the unique honour of having held the price line for the past ten years running, within and without the country. The trick of spreading costs over an increased output is about played out and one wonders whether a blind expansion of production would not be self-defeating in the short run at any rate. If sceptics require further corroboration, I would refer them to their own favourite source, the Reserve Bank Survey which shows that the profitability of tea plantations is down to 4.9 per cent of net worth in 1963-64 from 9 per cent in 1960-61. I should also mention that in the case of the sterling companies in our membership the remitted profits will exchange for a less amount of pound sterling because of devaluation.

It is the way in which Government handles its exclusive instrument, namely taxation, that would determine whether the industry will surge forward or slide backwards. I submit that in the wake of devaluation, a thorough, realistic and objective review of the entire gamut of taxes on plantations is urgently called for. A beginning may be made by reconsidering whether the

steep export duty on tea at Rs. 2 per kilogram does not defeat the very purpose of devaluation, namely to increase exports and to prevent unhealthy trends in the internal market. In the State sphere, it is a matter of disappointment to the Association of the planters of Madras that the Government of Madras has included excise duty on tea in the turnover for purposes of sales tax. On export commodities like tea, I reiterate the suggestion so often made before that a

more rational and beneficial arrangement would be to replace sales tax by a surcharge on excise duty.

The grievance with regard to the placement of the Nilgiris in Zone IV for purposes of excise duty still remains. The reliefs notified for the co-operative factories and bought-leaf factories are virtually ineffective. I suggest that the entire question be studied afresh. No tax relief is to be disregarded as too minor.

Export Prospects for Tea and Coffee

NEXT to jute manufactures, tea is the most important foreign exchange earner for India. Exports of tea fell to Rs. 114.8 crores in 1965-66 from Rs. 124.7 crores in 1964-65. The quantity exported declined from 212 million kgs. in 1964-65, to 197 million kgs. in 1965-66. The decline in the quantum was due to the poor domestic crop last year. The effect of devaluation, the abolition of the tax credit scheme and the levy of an export duty of Rs. 2 per kg. are likely to be a net gain of Rs. 1.21 per kg. on tea exported.

The imposition of the specific export duty of Rs. 2 per kg. may weigh heavily on the inferior varieties of tea but would leave the exporter of the superior varieties better off. Therefore, a suitable ad valorem duty is under consideration and procedural difficulties for such an ad valorem conversion are under study.

The world market for tea is expanding continuously but the export surpluses in India are not increasing mainly on account of the continuous rise in internal consumption. The domestic consumption of tea in India increased fast from the level of 71 million kgs. in 1956 to 168 million kgs. in 1965 as compared to the total internal consumption of 12.4 million kgs. in 1956 and about 14 million kgs. in 1965 in Ceylon. The profitability on external sales as compared to internal sales should be improved by a refund of excise duty on exports of tea. It is quite possible to divert a portion of the internal consumption to foreign markets by giving this relief to exported tea.

Indications are that this year, the South Indian tea crop may be about 20 per cent higher and even the North Indian crop may be at least constant and, possibly, better

in view of recent rains. It may be possible to increase the exports of tea significantly if domestic consumption is checked and more tea is thus made available for exports. Reports of better crops from both Ceylon and East Africa suggest the possibility of a glut in the world market and therefore, a slight lowering of tea prices. None the less, British demand for the tea continues to be fairly strong. In addition, the Soviet demand for superior tea is likely to lead to a revival, particularly for Darjeelings. On the whole, the prospects of some increase in tea exports are fairly good. The tea industry is also likely to be helped in the enlargement of its production and export by the liberalisation of the imports of pesticides, weedicides, generators, etc., which was announced recently and by the reduction in the average import duty from 25 per cent ad valorem to 15 per cent ad valorem which will mitigate the higher cost of imports of tractors, harvestors, etc.

Exports of coffee declined from Rs. 13.4 crores (31,000 tonnes) in 1964-65 to Rs. 12.9 crores (26,500 tonnes) in 1965-66. This is yet another commodity, the exports of which have generally moved without any special assistance. The decline in coffee exports last year was almost entirely due to a fall in the domestic output and a continuous rise in domestic consumption. Devaluation (as well as the levy of the export duty of Rs. 0.50 per kg.) is estimated to increase the net value per kg. received by exporters from Rs. 4.94 to Rs. 7.27. Receipts in the coffee pool from the 1965-66 crop are reported to have been about 5 per cent higher. If this trend continues, it may be possible to increase coffee exports at least, by the same order, i.e. 5 per cent.

New Schemes to Conserve Resources for Coffee Industry

By A. S. E. IYER*

THE Coffee crop which was at 18,893 tonnes in 1950-51 rose to 69,300 tonnes in 1963-64, though there was no proportionate increase in the area under coffee. After a lean crop successively for two years, it is expected that the next year's crop will be around 70,000 tonnes, which, I think, will be the highest on record. The marketing of this comparatively large crop will have to be carefully planned so that the return to the planters is maintained at a reasonable level.

Consequent on devaluation, the prices realised in the export auctions have been good. The return to planters will therefore naturally be more than hitherto. While the planters would get a higher return, I am aware of the fact that devaluation would increase the cost of production on account of higher cost of imported machinery and equipment like sprinklers, sprayers, pulpers, etc. The cost of these equipments has gone up by 57 per cent besides being burdened by a corresponding increase in the import duty on enhanced value after devaluation. More and more coffee planters are increasingly taking to improved methods of cultivation. Increased yields of coffee at a lesser cost of production in order to make available larger quantities of coffee for internal consumption as well as for exports is our aim. It is therefore essential that prices of imported machinery, including coffee curing machinery, as well as fertilisers are kept at the absolute minimum. The Government could be requested to consider favourably a reduction of the import duties on these equipments.

India joined the International Coffee Agreement three years back, and is an active participant in its deliberations. The Council met at London recently. Vital matters connected with the agreement such as revision of basic quotas, fixation of production goals and establishment of a diversification fund came up before this Session. The

*Mr. Iyer is the Chairman of the Coffee Board.

× This was written before the announcement of Quota revision.

Chief Coffee Marketing Officer Mr. D. Balagopalan, attended the Session on behalf of the Board, as a member of the Indian Delegation team.

We have been asking for a revision of our basic export quota to at least 475,000 bags from the present level of 360,000 bags. There is a move in the International Coffee Organisation for the abolition of the list of countries, exports to which are at present outside quotas and bring them under quota countries. If such a move were to materialise, our exports would be very much affected as it would impose a more rigid limitation to our exports and we would be faced with difficulties in disposing of our surpluses over and above quota requirements.

On production goals, our approach has all along been that developing countries like India should be exempted from production goals. We would emphasise that since the percentage of arable land under coffee out of the total arable land in our country is almost microscopic and there is still plenty of suitable land which could be brought under coffee, we cannot agree to any measure which in any way would restrict our right to expand coffee cultivation.

Our view on the proposal of the International Coffee Organisation to the constitution of a compulsory Diversification Fund is that diversification is not necessary in India, as we do not have any area where coffee is uneconomic and can be replaced by other crops. Our basic objection is that countries who are never likely to utilise the fund should not be compelled to contribute to the Fund.

One important matter on which I would like to focus attention is about assuring a fair return to the planter irrespective of the realisations in any year. I find that the returns to the growers have fluctuated considerably from year to year which has naturally landed the planters in uncertainty as to what their returns would be from

year to year. In some years the return has been far more than the cost of production while in a few years, it has been rather less than what would have been considered to be a fair return to the grower.

It would be indeed ideal if a minimum return to the grower is assured irrespective of the prices obtained in the market. Such a minimum return would ensure the running of the estate economically without the planter being helpless when the return during a particular year is less than the cost of production. I have been thinking about this problem and only to ensure a reasonably non-fluctuating return to the planter. I have proposed to the Board to examine the possibility of creating a Price Stabilisation Fund. This Fund will consist of only the excess earnings over a prescribed return in a good year and will provide the necessary funds to bring the return to the prescribed level in a bad year. What the particular level of return in the year should be will be decided by your able representatives serving on the Board each year. I have heard and also gone through very carefully certain objections to the scheme voiced by my planter friends. One fundamental objection seems to be: "It is after all my money—I know how to look after it—I don't need your help. Thanks." While I appreciate this objection, I am not able to see that it affects my proposal very much. After all, in a good year if a prudent planter gets much more money than he anticipated, he would lay by a certain portion of it for use in a year when he may not be so affluent—which is exactly what is proposed to be done for him. If, on the other hand, he is of the other type who would spend it all, all the more reason why the Board should come in to preserve the extra realisations for him.

Another objection seems to be the fear that a planter will not get back to the extent he contributes—on the basis that if a certain amount of return per point is held back, he might have contributed on a bigger crop in one year and get added

return on a lower crop in a bad year. A little reflection will make us realise that in a good year for the planter when he gets a high return (other than due to extraordinary causes such as devaluation) the total crop (and his crop) is not likely to be very high. And in a bad year when we have to tap the stabilisation fund, again the chances are that the return has fallen low due to poor prices caused by a high production. As such, the reverse of the position imagined by my planter friends, i.e., they will contribute to the fund in a year of low production and get back the money in a year of high production—is more likely to be true. Even if the position as feared by the planters is true of certain pockets, I am sure we can devise some way to reduce the injustice—if it can be called that—to the barest minimum by linking the portion of the return kept back and returned to an average yield spread over a period of years.

In any case, this year when the

planters can reasonably expect an unusually high return—thanks to low production, increased export and internal demand and devaluation—will be the most suitable year to staff off with this fund.

Besides the creation of a Price Stabilisation Fund, I have also proposed the creation of a Special Development Fund to finance the various schemes of development in the coffee plantations. The present assistance given by the Development Department of the Board is limited to estates between 5-50 acres in the case of Arabica, and 5-25 acres in the case of Robusta though the crop hypothecation scheme applies upto 100 acres in extent. The bigger estates are finding it very difficult to obtain finances from financial institutions to undertake developmental activities in their estates. I am told that there is an estimated 40 per cent of acreage under coffee which requires replanting. If the targets of coffee production fixed

for the Fourth and the Fifth Five-Year Plans are to be achieved, new suitable areas have to be brought under coffee besides taking to replanting of the old bushes. According to Board's Replanting Scheme, 1,20,000 acres should be replanted with high yielding new plants, and for this purpose replanting loans have to be given to the planters. This scheme when sanctioned by the Government will confine itself to replanting of coffee.

But, for other developmental purposes like new clearings, use of machinery like sprinklers, sprayers, etc., on the estates, the planters require funds. All these programmes of development can be effectively implemented if a Special Development Fund of our own is created by levying a special cess on coffee which could be credited to this fund and not to the Consolidated Fund of India. I propose the creation of a Special Development Fund along with our proposal to create a Price Stabilisation Fund.

Riddle of High Rubber Prices

By P. S. HABEEB MOHAMED*

NOW that the Third Plan Period is over, it will be appropriate to review the achievements of the Rubber industry during this Period. The aim was to bring 3.6 lakhs of acres under rubber at the end of the Plan Period. Against this, we have an area of 4,07,000 acres. The production target was 45,000 tonnes. Our actual production was 50,500 tonnes. Of course, there have been shortcomings in the replanting programme. However, there were encouraging signs during the planting season of 1965 and figures show that during the last year of the Plan, we replanted nearly 8,000 acres against the target of 10,000 acres.

Certain trends are significant. The consumption of synthetic rubber has recorded a considerable rise during the Third Plan Period. Of course the consumption of natural rubber is also going up. The consumption figures of natural and synthetic rubber during the Third Plan Period are shown below:

Year	Natural (M. tonnes)	Synthetic
1961-62	48,410	10,186
1962-63	53,553	10,723
1963-64	61,155	11,959
1964-65	61,057	15,285
1965-66	63,765	21,553

We will notice from these figures that though the consumption of natural rubber has gone up, its share in the total consumption of rubber has gone down and synthetic rubber has recorded an increase in consumption from 13 per cent in 1960-61 to 25 per cent in 1965-66. The rise of course is in keeping with the increasing consumption of synthetic rubber all over the world and due to the indigenous availability of synthetic rubber. However, in view of the poor productivity in the field of rubber plantations, this development has to be taken serious notice of. Our yield per acre during the year 1965 was 400 lbs. as against 560 lbs. in Ceylon and 817 lbs. for estates (1964) in Malaysia.

The production during the current

year has shown some increase till June. The production of natural rubber for the period from April to June was 13,295 tonnes as against 11,670 tonnes for the corresponding period in 1965. However, in view of the present situation in the estates, the production of rubber will be affected. As it is, the prices of rubber are ruling high. There has been acute shortage of stocks in the country mainly due to the restrictions on import of natural rubber and at present, due to the stoppage of work in most of the big estates. The ruling prices are Rs. 325 per 50 Kg. as against Rs. 180, in Singapore and Rs. 166 at Colombo.

One way of measuring the efficiency in the management of plantations including estates and small holdings will be to consider the cost of production of rubber in the main rubber producing countries and their selling price. It will be noticed that our price for rubber today is nearly double the international price. There is acute consciousness of costing in the main rubber producing countries like Malaysia or Ceylon as they have to

sell rubber in the case of keen competition from other natural rubber producing countries and synthetic rubber produced in industrially advanced countries, and they have been keeping the cost of production and even reducing their cost of production systematically by increasing productivity.

Though, this should also be our ideal, I am not sure whether the circumstances prevailing during the last one year or so have been conducive to maintain the cost consciousness in the case of small holdings particularly and even in the case of the large estates. First of all, there was the shortage of stocks due to increasing consumption and restriction on imports. With devaluation, the landed cost of rubber in India would be nearly Rs. 5 per kg. and it is unlikely, even if imports are liberalised, that the prices of indigenous natural rubber may go down below the cost of imported natural rubber. Synthetic rubber produced at Bareilly has been selling at Rs. 3.85 per kg. prior to devaluation, but it is now selling at 50 P. extra per kg. As you are aware, into the cost structure of synthetic rubber enter factors like imported raw materials, the cost of which has gone up and also repayment of loans and interest charges which have been affected by devaluation.

At the enhanced price of synthetic rubber and with the increased production in the factory, I should think it possible that the synthetic rubber factory can make up in a few years time. It can reduce its cost of production and its selling price in the future while the cost consciousness so far as natural rubber is concerned is getting confused. Now with the synthetic rubber price at the rate of Rs. 4.35 per kg. and imported cost of natural rubber at nearly Rs. 5 per kg. it is unlikely that rubber prices in this country will go down below a particular level in the near future.

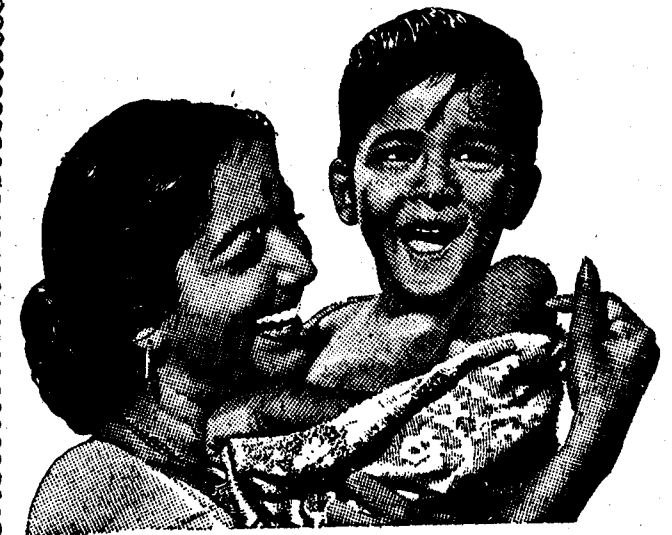
It is also clear that the decisions of the Government on the Rubber Wage Board's recommendations will also have repercussions on the present cost structure of natural rubber though it will take sometime to measure what exactly these effects will be. Therefore, it may seem odd in the circumstances, to speak of reducing the cost of production and keeping the price level even

improving the quality of rubber, etc. But it is precisely this long term objective which we will have to keep in view even though, the conditions of today might give an impression that all in rosy with the future of natural rubber.

The Fourth Plan target is to bring an additional 85,000 acres of plantation both in the public and private sectors. There has been some difficulty with the Government of Kerala to release 10,000 acres as programmed earlier for the Plantation Corporation of Kerala. In fact, it is understood that they withdrew their offer of 5,000 acres given earlier to the Plantation Corporation of Kerala in favour of a new programme for cultivation of Oil Palm. This will definitely affect our programme for the expansion of natural rubber. But the State

Governments of Mysore and Madras are going ahead with their programmes of rubber cultivation in the public sector and in Andamans under a programme of rehabilitation administered by the Ministry of Rehabilitation, we will have a substantial area for rubber cultivation

As indicated earlier, the replanting programme has picked up in 1965. But we are not sure how far it is going to reach the target of 10,000 acres in 1966, even though we have received applications for replanting 16,000 acres. The present high prices have upset our calculation about replanting as far as the small holdings are concerned. We have now definite indications from the Government and the Planning Commission that the programme of replanting will continue throughout the Fourth Plan Period.



Fresh and Glowing...



...with daily Hamam care. Hamam refreshes your skin as it cleanses, gives your complexion a radiant glow. Use Hamam—the toilet soap that lasts... and lasts.

A TATA PRODUCT

CHM-3

* Mr. Mohamed is the Chairman of Rubber Board.

SOUTHERN SCENE

Success Story of Surgical Plant

THE Surgical Instruments Plant at Madras, which is one of the units of the Indian Drugs and Pharmaceuticals Limited—a Russian-aided net-work—celebrated its first anniversary on September 1, 1966. The construction of the factory was started in 1962 and the plant was commissioned eight

MADRAS

months ahead of schedule, on September 1, 1965. The plant is presently manufacturing 96 of the total of 166 items of instruments. Out of these 166 items, the plant will be manufacturing 138 items by March 1967. The remaining 28 items are being re-designed in the Soviet Union to suit Indian conditions. By the end of 1967, all the 166 items will be under production.

The items produced are expected to meet nearly 70 per cent of the country's requirements. In the Fourth Plan, it is proposed to double the production, with the addition of only 20 per cent of new machinery. Production of some new types of instruments is also contemplated under the expansion scheme. A special feature of the Madras Surgical Instruments Plant is that it was completed within the cost-estimate amounting to Rs. 5.20 crores. As the project administrator, Mr. H. G. V. Reddy, observed, it was actually completed at a lesser cost of Rs. 4.80 crores.

* * *

THE W. S. Insulators of India Limited at Madras, which was inaugurated on August 14, 1966, is expected to turn out Rs. 2.5 crores worth of electrical porcelain per year. The plant, which went into trial production a few months ago, was set up with the collaboration of Westinghouse Limited, of U.S.A. Out of the capital outlay of Rs. 1.6 to 1.7 crores, foreign exchange accounted for Rs. 60 lakhs. The products to be manufactured in this plant include: (1) disc insula-

tors of all types; (2) post and pin insulators; (3) bushing for transformers and switchgears and lightning arresters. Considering that the country is spending foreign exchange amounting to Rs. 2 to 2½ crores annually for the import of insulators, the commissioning of the insulator factory at Madras is to be welcomed as it brings the country nearer the goal of self-sufficiency. In view of the encouraging outlook for insulators, the company has already secured a licence for doubling its capacity in the next few years.

* * *

THE State Government has decided to set up a company under the name, "Madras Agro-Industries Corporation Limited," with a view to establishing and running industries for manufacturing articles which will help the growth and modernisation of agriculture, animal husbandry, pisciculture and poultry farming and also to set up industries which will increase the availability of processed and subsidiary foods. The Corporation will be a private limited company incorporated under the Companies Act, 1956 and will have an authorised capital of Rs. 2 crores.

MYSORE

DEVELOPMENT AREAS

ACCORDING to the policy laid down, the State Government has chosen the following places as "development areas" where suitable sites could be made available for the location of industries: (1) Gulbarga, (2) Dandeli, (3) Belgaum, (4) Hubli-Dharwar, (5) Shimoga-Bhadravati, (6) Mysore-Nanjangud, (7) Harihar-Davangere, (8) around Bangalore, (9) around Mangalore. The Government has banned the use of Government land in these areas for purposes other than the setting up of industries. Where such Government land is not available, land required for this purpose may be acquired to make up a total of 1,000 acres in all these places,

except Bangalore and Mangalore. In respect of the Bangalore area, land is proposed to be selected within the scheme of the Master Plan for Bangalore. In view of the bright prospects held out by the Bellary-Hospet area for the location of Iron and Steel and mineral-based industries, there is a proposal to declare this region too as a development area. The Mysore-Belagula zone is also proposed to be brought under this scheme.

* * *

The Cement project at Hosadurga is among the many schemes that the Mysore State Industrial Investment and Development Corporation proposes to promote in the near future. The Corporation has already sponsored a textile spinning mill at Hassan, an asbestos project near Holenarasipur and a Cosmetic company at Bangalore. A sum of Rs. 35.75 lakhs is proposed to be canalised through the Corporation by the Government by way of State participation in the projects to be sponsored by the Corporation. The Corporation, which was launched as a Government company with an authorised capital of Rs. 5 crores, had approached the Controller of Capital Issues for an initial issue of Rs. one crore, but consent was given only for Rs. 30 lakhs to be issued privately. The Government has already contributed share capital of this order to the Corporation.

* * *

IN collaboration with the General Electric Company of U.S.A., the Mysore Lamp Works Limited has embarked on an ambitious project aimed at increasing the production of electrical lamps. Considering that the production of lamps in India is in the ratio of 8 persons for a lamp against the *per capita* output of 8 lamps in the U.S., there is vast scope for the expansion of lamp industry. The installed capacity of the Mysore Lamp Works has been increased from 4 million lamps a year to 10 million although the maximum potential has not been used owing to the shortage of imported raw materials. Besides catering to the domestic market, the Mysore Lamp Works is making efforts, with the help of General Electric, to explore the world market. The company hopes to export one million lamps to U.S.S.R. next year. It is also exploring the

possibility of exporting components to Far East, to meet the needs of the factories of its collaborator, General Electric.

ANDHRA

GREAT STRIDES IN AGRICULTURE

ANDHRA PRADESH, the granary of the South, has taken great strides in agriculture, which accounts for over 50 per cent of the State income. Foodgrains production has increased from 40.10 lakh tons in 1950-51 to 82.72 lakh tons in 1964-65. The cultivated area of the State is 31.5 million acres, of which nearly two-thirds is under cereals, the balance being shared by pulses and commercial crops. The State's production of chillies and oilseeds account for 30 per cent and 20 per cent respectively of the total production in the country. The State enjoys a monopoly in the production of Virginia tobacco. Andhra Pradesh accounts for 46.5 per cent of the total production of castor seeds in India.

By the end of the Third Plan, about 95 per cent of the area under rice, 35 per cent under millets and 25 per cent under pulses will have been covered with improved seeds. In the Fourth Plan, this programme will be pushed further. Other inputs, like fertilisers, are being made available in larger quantities. During the first three five-year plans, loans to the tune of Rs. 4 crores were sanctioned for the purchase of pumpsets and tractors. In the Fourth Plan, it is proposed to distribute about Rs. 3.4 crores for this purpose.

Agro-industries are also being given special encouragement. The State has 19 sugar factories. Although the State has only 5 per cent of the total area in the country under sugar cane, it produces nearly 10 per cent (3 lakh tons) of the total sugar output in India. This is because of the high per acre yield obtaining in the State. As against the national average of 19.4 tons, the average in Andhra Pradesh is 31.3 tons. Attempts are afoot to increase it further to 36.82 tons per acre.

Grape cultivation is another fashionable occupation which is gaining attention. The popular variety, Anab-e-shahi, is grown around the twin cities of Hyderabad

and Secunderabad. In order to encourage grape cultivation in the State, the Government has drawn up a grape advisory scheme. In 1964, the area under grape crops was hardly over 700 acres. It has now increased three-fold. The initial cost of raising a grape vine yard is about Rs. 15,000. An initial investment of this order cannot be considered high since the yield, from the third year will range from Rs. 15,000 to Rs. 20,000 per year. Grapes valued at Rs. 3 crores are annually produced in the State.

KERALA

CASHEW EXPORTS UP

THE Cashew Export Promotion Council, which has its headquarters at Ernakulam, has played a significant role in promoting the export of cashew nuts. During the First Five-Year Plan, the average annual exports of cashew kernels from India were about 28,000 tons, valued at Rs. 11.3 crores. Since the setting up of the Council in 1955, exports have been steadily increasing both in quantity and in value. From 35,000 tons valued at Rs. 14.7 crores in 1957, cashew exports have risen to 53,800 tons valued at Rs. 29 crores in 1965. The U.S.A. accounted for nearly 50 per cent of our total exports while the U.S.S.R., U.K., East Germany, Australia and Canada were the other main buyers. There are about 250 cashew processing factories in India. Quilon in Kerala, in the main Centre, where about 75 per cent of the factories are situated.

* * *

THE designing and engineering of the Durgapur and Cochin fertiliser projects is entrusted to the designing wing of the Fertilisers and Chemicals, Travancore, Limited. The wing is named FACT'S Engineering and Design Organisation—FEDO for short. Both these projects are expected to be commissioned by 1968-69. The ammonia synthesis and urea plants of the Durgapur plant will be designed, engineered and procured by the Planning and Development Division of the Fertiliser Corporation of India. However, the naphtha gas reformation section of the ammonia plant at Durgapur will be designed and engineered by FEDO of FACT and on the basis of the know-how acquired by it from Power Gas

Corporation of U.K. For the ammonia synthesis, the Corporation has acquired know-how from the Montecatini of Italy.

THE first phase of the Cochin fertiliser project will cost Rs. 40 crores of which Rs. 33 crores will be spent on plant and equipment. The plant will have capacity to produce 3.3 lakh tons of urea annually. Meanwhile, it is reported that the teething troubles of the Cochin Refinery are finally overcome and the project would be commissioned soon. About the shipyard project, the Adviser to the Governor of Kerala, Mr. N.E.S. Raghavachari disclosed that the project has been included in the Fourth Plan and a sum of Rs. 15 crores has been initially earmarked for the project. He disclosed that the project will also include a ship-repair yard.

—oOo—

ROURKELA, LOW-COST PRODUCER

The Mahatab committee's report on production cost of steel in India discusses in detail the operational efficiency of public and private sector steel plants. Compared to its sister plants at Durgapur and Bhilai in the public sector and TISCO and IISCO in the private sector, Rourkela has the lowest gross operation charges for production of steel among the steelworks in the country.

While Rourkela's operational charges per ingot ton work out to Rs. 110.66, Bhilai's figure is Rs. 133.36. Tata Iron and Steel Company at Jamshedpur has its operation charges at Rs. 130.54. The comparable figures for Durgapur and IISCO are Rs. 117.10 and Rs. 123.36 respectively. The Mahatab committee report further points to the fact that conversion charges of iron into steel are lowest at Rourkela. This is attributed mainly to the use of modern LD converters. Only last week, another 60-ton converter was commissioned under the 1.8 million tons expansion scheme. The new converter produces 60 tons of steel in 40 minutes. According to the report, yield in the steel melting shop at Rourkela is highest in the Indian steel industry. The following are the yield figures: Rourkela 88.3 per cent, Durgapur 82.6 per cent, IISCO 84.3 per cent, Bhilai 85 per cent, TISCO 85.3 per cent.

BANKING

Growth of 12 Leading Banks

By UNNIKRISHNA MENON

A COMPARATIVE study of the growth shown by twelve leading Scheduled Banks over a period of ten years i.e., between 1955 and 1965 is made in this article. The banks selected for the study include the public sector 'State Bank' and eleven other leading scheduled banks in the private sector. Considering firstly, the rise in the aggregate deposits of these banks, it is noted that while only the State Bank of India and the Central Bank of India had more than Rs. 100 crores of aggregate deposits in 1955, five more banks reached this figure in 1965. All of these twelve banks have shown a more than 100 per cent increase in their deposits figures during this period. The Union Bank of India and the Syndicate Bank Ltd., which had less than Rs. 10 crores each of aggregate deposits in 1955, showed increases of 670 per cent and 782 per cent respectively during the period. The Canara Bank Ltd. showed a rise of 725 per cent in its deposits during this decade.

About the growth of these banks with respect to total advances in 1955, only the State Bank had advanced more than Rs. 100 crores. In 1965, on the other hand, six of the twelve banks covered by this study showed advances of over Rs. 100 crores. Phenomenal rise in advances has been noted in the case of the Canara Bank Ltd., the Dena Bank, the Union Bank of India and the Syndicate Bank with 803 per cent, 788 per cent, 671 per cent and 856 per cent rises respectively in their advances in 1965 over 1955. In 1955, these banks' advances were less than Rs. 10 crores each.

An important determinant of progress of banks is their profit earnings. Excepting the United Bank of India and the Bank of India, all the others had increased their profits in 1965 over 1955 by more than 100 per cent; the highest percentage of increase being

shown by the Syndicate Bank. Here again, only the State Bank of India had a profit of more than Rs. 1 crore in the year 1955. In 1965, the State Bank of India earned Rs. 3.30 crores; the Central Bank Rs. 2.27 crores, the Punjab National Bank Rs. 1.48 crores and the Bank of India Rs. 1.42 crores as profit. The Union Bank of India and the Syndicate Bank which had profits of less than a million rupees each in 1955 showed increases of 240 per cent and 417 per cent respectively in the profits earned by them in 1965.

Lastly, in the expansion of branches, all the twelve have shown

considerable progress during the ten-year period. In 1955, only the first 3 banks had more than 100 branches in India. In 1965 each one of the twelve Banks possessed more than 100 branches. By percentage increase in 1965 over 1955, the Union Bank showed the highest percentage rise in its number of branches (878.5 per cent). The lowest percentage increase in branch expansion is shown by the Allahabad Bank Ltd.

The results of the study indicate that the first four banks (the State Bank of India, Central Bank of India, Punjab National Bank and the Bank of India) have managed to retain their respective positions over the period. Smaller banks like Syndicate and Union have shown considerable progress during the period, showing appropriate growth in all the four determinants of progress, viz., (1) aggregate deposits, (2) total advances, (3) profits and (4) number of branches. —Courtesy Pigmy.

Progress of IDBI

A MARKED increase in the volume of financial assistance sanctioned and disbursed, the introduction of a scheme for participation in industrial loans and guarantees with banks and other financial institutions and further progress in its role as an apex and co-ordinating agency were the features of the second year's working of the Industrial Development Bank of India (IDBI), covering the period July 1, 1965 to June 30, 1966.

According to the Bank's annual report, the year was one of exceptional difficulty for the economy. The failure of the monsoon over wide areas led to a sharp fall in agricultural output. The Indo-Pakistan conflict entailed a scaling-up of defence outlay and was followed by a period of intensified pressure on the balance of payments with a 'pause' in foreign aid, which interrupted the flow of imports of essential raw materials and components needed for fuller utilisation of industrial capacity leading to a slowing down in the rate of increase in industrial output. The pace of expansion of exports also slowed down. The capital market, which had been in a

state of quiescence since the declaration of Emergency in 1962, remained, on the whole, sluggish. These adverse trends formed the background for new policy measures, the most noteworthy among these being the devaluation of the rupee in June 1966.

In the sphere of refinance, there was an increase during the year both in the number of applications received and in the quantum of refinance sought, but the amount sanctioned declined slightly, consequent on the policy pursued by the Bank of limiting sanctions of proposals to those which fell within the priority sectors of the economy as well as diverting relative by large applications to direct lending by the IDBI in participation with other financial institutions. Disbursement of refinance assistance, however, increased slightly. As an apex institution, the IDBI also provided assistance to State Financial Corporations during the year by subscribing to their bonds and shares (Rs. 1.7 crores).

As regards direct assistance, the Report states that its direct financing operations were largely undertaken

in participation with other institutions. During 1965-66, the IDBI received 76 applications for direct assistance from 60 industrial concerns for Rs. 68.8 crores, of which it sanctioned assistance on 49 applications in respect of 38 industrial concerns for Rs. 59.0 crores. This includes assistance sanctioned from the Development Assistance Fund in the form of loan to a fertiliser project. During 1964-65, the IDBI had sanctioned assistance on 37 applications from 29 industrial concerns for Rs. 29.8 crores. Direct assistance thus nearly doubled, though the increase in underwriting assistance was modest.

There was an even more marked stepping up in the disbursal of direct assistance in the form of loans and underwriting from Rs. 0.4 crore to Rs. 25.2 crores. Industry-wise, more than half the direct assistance sanctioned was accounted for by fertilisers and chemicals, followed by cement (16 per cent) and manufacture of machinery, and metal products (16.9 per cent). A size-wise classification of loans brings out the role

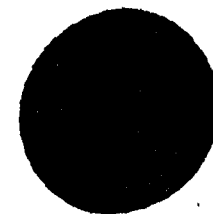
of the IDBI in sanctioning large-sized loans, which are normally beyond the range of operations of any single term-financing institution.

As regards operational policies, the report states that certain broad guidelines for IDBI's operations were worked out in October 1965. It was considered desirable that assistance to a large number of small projects may be arranged more adequately by other institutions whose resources could be suitably augmented by the IDBI; this would enable the IDBI to have more effective assessment and supervision of the large-sized projects. Further, in considering direct financial assistance as well as refinance of loans, the IDBI would give preferential treatment to defence-oriented, imports-saving and export-oriented industries, industries producing essential consumer goods and those providing a base for agricultural development as well as industrialisation. As regards the future operational strategy of the financial institutions in the context of devaluation, the Report states that while the financial

institutions would extend additional assistance to individual projects on merits, a part of the resources would have to come from the promoters themselves.

A feature of the Report is the publication of the data on the quantum and composition of financial assistance provided by the term-financing institutions during 1965-66 as well as during the Third Plan as a whole. The financial assistance sanctioned by the IDBI, the IFC, the ICICI, the SFCs, and the SIDCs amounted to Rs. 165 crores during 1965-66 and Rs. 493 crores during the Third Plan period, while disbursements totalled Rs. 100 crores and Rs. 308 crores, respectively. Besides, the LIC and the UTI also provided sizeable assistance by way of underwriting and direct subscriptions to shares and debentures. The total assistance provided by all these institutions represented about 13 per cent of the total estimated private sector investment (gross) in the Third Plan period; in the Second Plan period, it was only 5 per cent of a considerably smaller volume of investment.

How Much Worth Is Your Last Rupee?



It's worth much more than a rupee. Since it has to last you through the rest of the month you will naturally like to put it to the best possible use and thus maximise its value.

Why not make every rupee a 'last rupee' right from the pay day? All you have to do is to be discriminating in expenditure and avoid indiscreet spending. Every rupee spent judiciously will earn for you a part of its value in terms of saving.

Open a Savings Account in Syndicate Bank and start saving a portion of your income regularly.



SYNDICATE BANK LIMITED

Regd. Office: MANIPAL, MYSORE STATE

Sandvik Asia Earns More

THE results of Sandvik Asia Limited are impressive, during the year end March 31, 1966. The company's sales have increased by 18 per cent, from Rs. 1.2 crores to Rs. 1.4 crores. This is mainly due to the rise in the sale of tungsten carbide tips and tipper tools. The after-tax profit is also higher, at Rs. 24.01 lakhs compared to Rs. 16.49 lakhs in the previous year. A sum of Rs. 17.30 lakhs has been provided for depreciation and Rs. 7 lakhs for taxation. From the profits, the directors have transferred Rs. 8.20 lakhs to the development rebate reserve and Rs. 9 lakhs to the general reserve. Appropriation for dividend is Rs. 6.70 lakhs. A sum of Rs. Rs. 80,000 is also drawn from the general reserve for this purpose. The directors have recommended a dividend of 10 per cent. The company has secured a letter of intent for the manufacture of new articles like Sandvik Coromant T-Max tools, Milling Cutters, etc. In regard to the expansion programme, the company hopes to reach the full capacity of 84 tons in the latter part of 1966.

SLM-MANEKLAL

IN SPITE of the all-round increase in costs, the SLM-Manekal Industries Limited has shown better results during the year ended March 31, 1966. The gross profit was higher at Rs. 26.47 lakhs compared to Rs. 24.89 lakhs in the previous years. Out of this sum, Rs. 9.67 lakhs are set apart for depreciation, Rs. 1.21 lakhs for the managing director's remuneration, Rs. 3.81 lakhs for development rebate reserve and Rs. 3 lakhs for taxation. The net profit, after these deductions, amounts to Rs. 8.77 lakhs compared to Rs. 7.69 lakhs in 1964-65. Adding the previous year's balance and the previous year's excess provision for expenses, the disposable sum amounts to Rs. 8.97 lakhs against Rs. 7.82 lakhs in the previous year. Nearly the whole of this sum is appropriated to the general

reserve. The directors have recommended a dividend of 10 per cent on equity shares. The company has repaid the first instalment of Rs. 8 lakhs towards medium term loan of Rs. 50 lakhs.

LAKSHMI MILLS

THE Lakshmi Mills Company Limited faced a difficult period in 1965-66. During the year ended March 31, 1966, the company showed a gross profit of only Rs. 40.64 lakhs compared to Rs. 1.05 crores in the previous year. The sales were higher although the prices realised were lower and the cost conditions were unfavourable. A sum of Rs. 25 lakhs is set apart for depreciation, Rs. 1.20 lakhs for development rebate reserve and Rs. 88,572 for managing agents' remuneration. All these figures are lower than the previous year's allocations. With the balance of Rs. 4,208 brought in, the disposable sum is Rs. 13.57 lakhs. To this is added Rs. 7.77 lakhs from the deferred dividend reserve. "Donations" account for Rs. 41,322, taxation for Rs. 6 lakhs and equity dividend, at 14 per cent (subject to tax) absorbs Rs. 14.91 lakhs. The balance of Rs. 2,142 is carried forward. The company has completed the installation of 4,800 spindles at the Palladam staple fibre unit.

POYSHA INDUSTRIAL

THE speech of the Chairman of Poysha Industrial Company Limited (published in full in the last issue) reveals that the company's turnover and profits have shown marked improvement in spite of the acute shortage of raw materials. During the year, the company's sales increased from Rs. 1.84 crores to Rs. 2.15 crores. Profits before taxation were Rs. 29.72 lakhs against Rs. 20.77 lakhs last year. Taxation amounted to Rs. 18.21 lakhs as against Rs. 13.80 lakhs in the past year. The net profit, after taxation, amounted to Rs. 11.51 lakhs compared to Rs. 6.97 lakhs in the previous year.

The Chairman, Mr. M. R. Ruia, observed that the company's expansion programme was going ahead according to schedule. As regards the Cochin factory, the company has acquired the land needed for the purpose. The machinery for the project has also arrived and production is expected to start before the end of this year. The company's need for finances has increased as a result of the cost-escalation that has taken place before and after the devaluation. The total increase on this account has been of the order of Rs. 70 lakhs. Debt servicing obligation of the company has also gone up by Rs. 15 lakhs. In view of the scarcity of tin, the Chairman has, in his speech, suggested the use of double-reduced tin plate for the manufacture of cans by the container industry. He has also commended the increased use of "black plate" for cans meant for non-essential purposes. Mr. Ruia has rightly pleaded for a more enlightened licensing policy for the setting up of new container units in major consuming centres, particularly since distance acts as an inhibiting factor in this industry.

KAMANI ENGINEERING

THE Kamani Engineering Corporation Limited has shown improved results during the year ended September 30, 1965. After providing for depreciation and managing agency remuneration, the profit amounts to Rs. 52.71 lakhs against Rs. 35.04 lakhs in the previous year. Adding the brought forward of the previous year and the excess provision for the managing agents' remuneration, and deducting the expenses in respect of the previous year, the disposable sum amounts to Rs. 48.67 lakhs against Rs. 29.26 lakhs last year. Out of this Rs. 29 lakhs are earmarked for taxation, Rs. 16.60 lakhs for general reserve and Rs. 2.35 lakhs for development rebate reserve. Equity dividend is passed over but a dividend of 6.11 per cent is recommended on cumulative preference

shares. Production and sales showed improvement during 1964-65. The production of galvanised and painted steel structures increased from 18,248 tons to 27,851 tons, showing a rise of 50 per cent. The sales have improved from Rs. 3.95 crores to Rs. 5.39 crores. The company's export performance is creditable.

BRITANNIA BISCUIT

THE year 1965-66 was a record year for the Britannia Biscuit Company Limited. The company's turnover for the year ended March 31, 1966 amounted to Rs. 9.22 crores compared to Rs. 7.31 crores in the previous year. The gross profit showed a rise from Rs. 1.27 crores to Rs. 1.57 crores. Depreciation provision increased from Rs. 12.38 lakhs to Rs. 14.96 lakhs. The profit before tax was Rs. 1.42 crores compared to Rs. 1.15 crores in the previous year. The tax provision shows an increase from Rs. 76.50 lakhs to Rs. 93.25 lakhs. The net profit, after tax, is Rs. 48.98 lakhs against Rs. 38.53 lakhs in 1964-65. A dividend of 20.15 per cent is proposed to be paid on the increased ordinary share capital, for the whole year. The company has, on hand, an ambitious expansion programme. To finance it, the company has announced a debenture loan of Rs. 50 lakhs by the issuance of 7½ per cent debenture stock. Out of Rs. 50 lakhs, Rs. 40 lakhs are offered to the public. The issue opened on September 14 and will close on September 23 or earlier. The company has received licence for establishing a new biscuit factory at Madras. The entire issue is underwritten.

CAPITAL ISSUES

Best & Company Private Limited, Madras, has been accorded consent to capitalise Rs. 22.50 lakhs from the company's free reserve and issue 22,500 bonus equity shares of Rs. 100 each, of three bonus shares for every two shares held.

Walchand & Company Private Limited, Bombay, has been granted consent to issue 1,500 equity (bonus) shares of Rs. 1,000 each in the ratio of 1:1 on capitalisation of its free reserve to a like extent.

Lakshmiji Sugar Mills Company (Private) Limited, New Delhi, has been accorded consent to issue

capital of Rs. 15 lakhs in fully paid (equity) bonus shares of Rs. 100 each (in proportion of one for two equity shares held) on capitalisation of the reserves to a like extent.

Murphy India Limited, Bombay, has been granted permission to capitalise Rs. 14,83,030 out of the free reserve and issue 1,48,303 bonus shares of Rs. 10 each to the existing equity shareholders of the company in the ratio of one for two equity shares held.

Johnson & Johnson of India Limited, Bombay, is to capitalise Rs. 12 lakhs from the general reserve and issue bonus shares in the ratio of one bonus share for every two shares held.

Howrah Motor Company Private Limited, Calcutta, has been granted consent to issue bonus shares to the value of Rs. 10 lakhs by capitalising its free reserves.

Vaikundam Rubber Company Limited, Trivandrum, is to capitalise Rs. 8,80,010 from the company's free reserve and issue 88,001 fully paid equity shares of Rs. 10 each as bonus shares.

Haileyburia Tea Estates Limited, Kottayam (Kerala State), has been granted consent to issue bonus shares to the value of Rs. 6.25 lakhs by capitalising its general reserve.

Dadabhoi's New Chirmiri Ponri Hill Colliery Company Private Limited, Bombay, is to capitalise a sum of Rs. 6 lakhs from the general reserve and issue bonus shares of Rs. 100 each in the ratio of two new shares of Rs. 100 each for every equity share of Rs. 1,000 held.

National Insurance Company Limited, Calcutta, has been accorded permission to issue bonus shares to a value of Rs. 5 lakhs by capitalising its general reserve.

Automotive Manufacturers Private Limited, has been granted consent to capitalise Rs. 5 lakhs and issue 5,000 bonus (equity) shares of Rs. Rs. 100 each, to the equity share holders of the company.

Hoogly Ink Company Limited, Calcutta, has been granted permission to issue bonus shares to the value of Rs. 5 lakhs by capitalising its general reserve.

Kirloskar Electric Company Limited, Bangalore, having a subscribed and paid-up capital of Rs. 1,20,12,920, has been accorded consent to issue further capital of Rs. 23,78,230 in equity shares of Rs. 10 each, for cash at a premium of Rs. 2 per share on rights basis.

Madras Auto Service Private Limited, Madras, has been accorded permission to capitalise Rs. 5 lakhs from the company's general reserve and issue 5,000 fully paid equity shares of Rs. 100 each as bonus shares.

Jayanand Khira & Company Private Limited, Bombay, has been accorded consent to capitalise Rs. 5 lakhs from the general reserve and issue bonus shares in the ratio of one bonus share for every two shares held.

Metro Wood & Engineering Works Private Limited, Kalol, North Gujarat has been accorded consent to capitalise Rs. 5 lakhs from the general reserve and issue bonus shares in the ratio of one bonus share for every two shares held.

Alu Capsule Limited, Bombay, has been accorded permission to issue 45,000 fully paid bonus (equity) shares of Rs. 10 each in the ratio of 3:5 on capitalising the general reserve to a like extent.

Industrial Plastics Corporation Private Limited, Bombay, has been granted consent to capitalise Rs. 4 lakhs from the general reserve and issue bonus shares in the ratio of two bonus shares for every three shares held.

Basic & Synthetic Chemicals Private Limited, Calcutta, has been granted consent to issue 400 equity (bonus) shares of Rs. 100 each, in the ratio of 2:1 on capitalising the general reserve to a like extent.

Blue Star Engineering Company Private Limited, Calcutta, has been accorded consent to make 3,000 partly paid equity shares fully paid, by capitalising its general reserve to the extent of Rs. 19,920.

Indian Crown Cork Company Limited, Bombay, has been granted consent to issue 29,500 fully paid equity (bonus) shares of Rs. 10 each in the ratio of 1:2 on capitalising the general reserve to a like extent.

How To Combat Inflation?

By Our Market Analyst

THE behaviour of Indian Stock Markets since the devaluation of the Rupee has underlined two distinct phases. The bullish reaction to the devaluation took equity prices to a new high level in the current year and this was also aided by the spate of bonus issues, made possible by the February budget which lifted the Bonus tax from the Statute book. But, the state of the market and the pattern of price-behaviour during the past few weeks indicated that the bullish forces had been almost exhausted. There has been a lull, coupled with price-drift in all the markets during the fortnight under review.

For one thing, professional interest was lacking, as neither Bulls nor Bears could visualise good scope for their operations in the short term. Although corporate news on the whole was good, it was not sufficient to induce further rise in values, because the monetary climate dictated prudence in the context of the availability of higher interest on deposits with companies and still higher interest rates on secured loans and mortgages.

Investment activity was therefore limited. Deposits which matured with the joint stock companies were rather renewed without being diverted to shares. The liquidity requirements of holders also kept funds away from the Stock Market, at least for the time being. The new State loans and some debenture issues by institutions also accounted for some diversion of funds, away from the market. Though market-men have not yet begun to bother about the possible effect of election propaganda on the market's nerve, economic and monetary considerations are enough to induce a subdued tone.

The prospect of the abolition of managing agencies for several industries meant little to the market-men and investors who were worried about the falling business and lack of appreciation in capital value of their investments. What is engag-

ing the attention of the investors is the outlook for taxation and inflation. Because, in recent years, both taxation and inflation have caused much damage to the savings and psychology of the investors in shares.

The latest report of the International Monetary Fund has spotlighted some wholesome truths about the world economy. An objective study of the report will do good both for the developed and developing countries. Since international prosperity hinges on international co-operation, it is high time that prosperous countries realised the need for adequate flow of aid and investment capital to developing nations. The I. M. F. rightly considers it disturbing that the flow of long-term financial resources to less developed countries has tended to shrink in recent years despite continued and substantial rise in the gross national product of developed industrial countries.

What has come as a pleasant surprise to many is the suggestion made by Mr. Johnson for a cooling off of the U.S. economy. The significant part of Mr. Johnson's move lies in the curtailment of Federal spending, while his suggestion to the Federal Reserve Board and private Banks to cooperate with the President and the Congress to lower interest rates and to ease the inequitable burden of tight money, should, impress countries like India. Because higher interest rates and scarcity of capital in the lending countries like U.S.A. are bound to adversely affect the developing nations. One disquieting news was the decision of the Export-Import Bank to raise its interest rate on foreign loans from 5½ per cent to 6 per cent, due to higher cost of money in U.S.A.

The suggestion made by I.M.F. to U.S.A. to counter inflation through suitable measures is of special significance to the developing nations like India. The growing

inflation in U.S.A. and U.K. has already caused contraction in the flow of international aid, and has also increased the debt and servicing burden of the developing countries. The coming months will see a new phase in U.S. economy in the matter of cooling the "overheated" economy. While the acceptance of "wage freeze" by the British Trades Union Congress augurs well for Mr. Wilson's austerity policy, Mr. Johnson's move to halt the rising tide of inflation cannot but produce a salutary effect on the world economy in general. The danger of inflation in India is far more serious than in U.S.A. and Britain, and the I.M.F. Report has given some sane and practical suggestions for avoiding the pitfalls inherent in our economy.

In the Stock Market in Madras, even planting scrips showed a quieter trend during the fortnight. While the recent rises led to some profit taking, one bright spot lay in the prospect of some export incentives for tea. The present export duty of Rs. 2 per kg. which is opposed by the Planting industry, is likely to replace by an *ad valorem* levy of 20 per cent. The Government is also reported to be considering the question of refunding excise duty on exports. It looks safe to assume that outlook for exports this year should be quite good, with this incentive, as the higher output of tea should augment the exports. Though there was no significant trend in Bombay and Calcutta markets, the technical position was healthy with weak Bulls already eliminated. A further drop of about 5 per cent in price, or some good news or export incentives may influence prices favourably, though the outlook for money rates in the busy season will have a great say in the matter.

Twyford Tea Company Limited, Kottayam (Kerala), is to issue capital of Rs. 3,93,750 as fully paid bonus shares by capitalising its general reserve.

TATA-DIDIER REFRACTORY BRICKS

for the Cement Industry

The Cement Industry requires special refractories to meet specific service requirements.

Belpahar Refractories manufacture a complete range of high grade products in firebricks, high-aluminous and basic qualities, which are ideal for use in cement kilns.

Belpahar bricks are made by the most modern processes, from selected raw materials. They have behind them many decades of Didier experience in manufacturing refractory bricks and are backed by extensive research work.

Belpahar Refractories, a Tata-Didier enterprise, offer a complete range of refractories including:

Medium heat, High heat and Super heat duty fire-bricks, blast furnace and stove refractories, casting pit refractories, such as, ladle bricks, nozzles, stoppers and sleeves.

Kyanite, sillimanite and high-alumina refractories.

Semi-silica, general purpose silica, super duty silica and coke-oven silica refractories.

Magnesite, magnesite chrome and chrome-magnesite (in burnt, chemically bonded and chemically bonded steel clad qualities), chromite, abrasion-resistant chromite and forsterite refractories, magnesite nozzles, low-iron magnesite bricks, etc.

Pea magnesite, magnesite powder and fettling materials.

Plastics, castables, ramming, patching and spraying masses and mortars with chemically-setting, hydraulically-setting and ceramically-setting properties in fireclay, high-alumina, silica, chromite, magnesite, and chrome-magnesite.

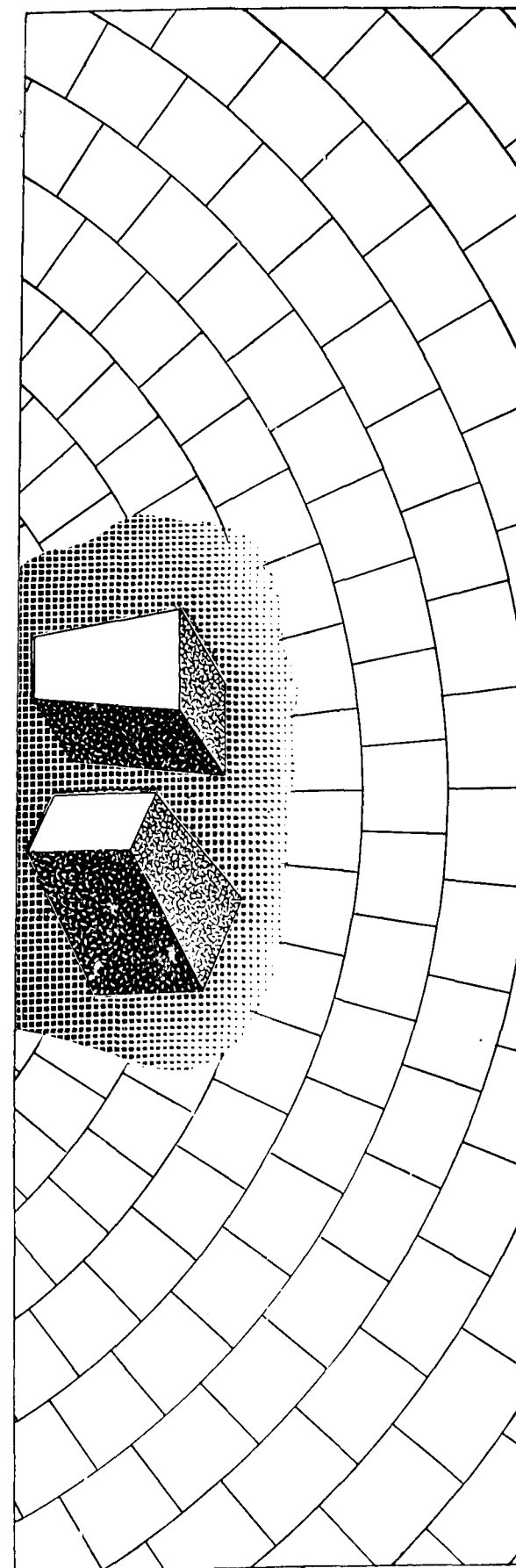
For all your requirements and technical advice please contact

BELPAHAR REFRACTORIES LIMITED

A TATA-DIDIER ENTERPRISE

20 Old Court House Street, Calcutta-1
Phone: 23-9528 Grams: TATADIDIER

Factories: Belpahar, Dist. Sambalpur, Orissa
Karuppur, Dist. Salem, Madras



JWTTNB 2887

a touch of brightness...



Poysha containers bring it to you

Paints and dyes. Food and pharmaceuticals. Vegetable and mineral oils. Things you need and use every day. They all come to you in protective Poysha containers—with their original quality intact.

Quality and service always come first with Poysha. It's the second largest container maker today, making eight times as many containers as it did nine years ago. To serve you even better, it has already launched an ambitious expansion plan. When 3 its new factories



start production before the year-end, Poysha will make 5 containers for every 2 it makes now. Will offer better technical advice and service to Indian industries. A wider range of packaging materials, too. Plus all the advantages of multi-plant operation. It'll meet the needs of the country's key centres individually. Cut canning and transport costs. And, ensure prompter deliveries and on-the-spot service. All this to help bring you more and more of the better things you need—in Poysha containers.



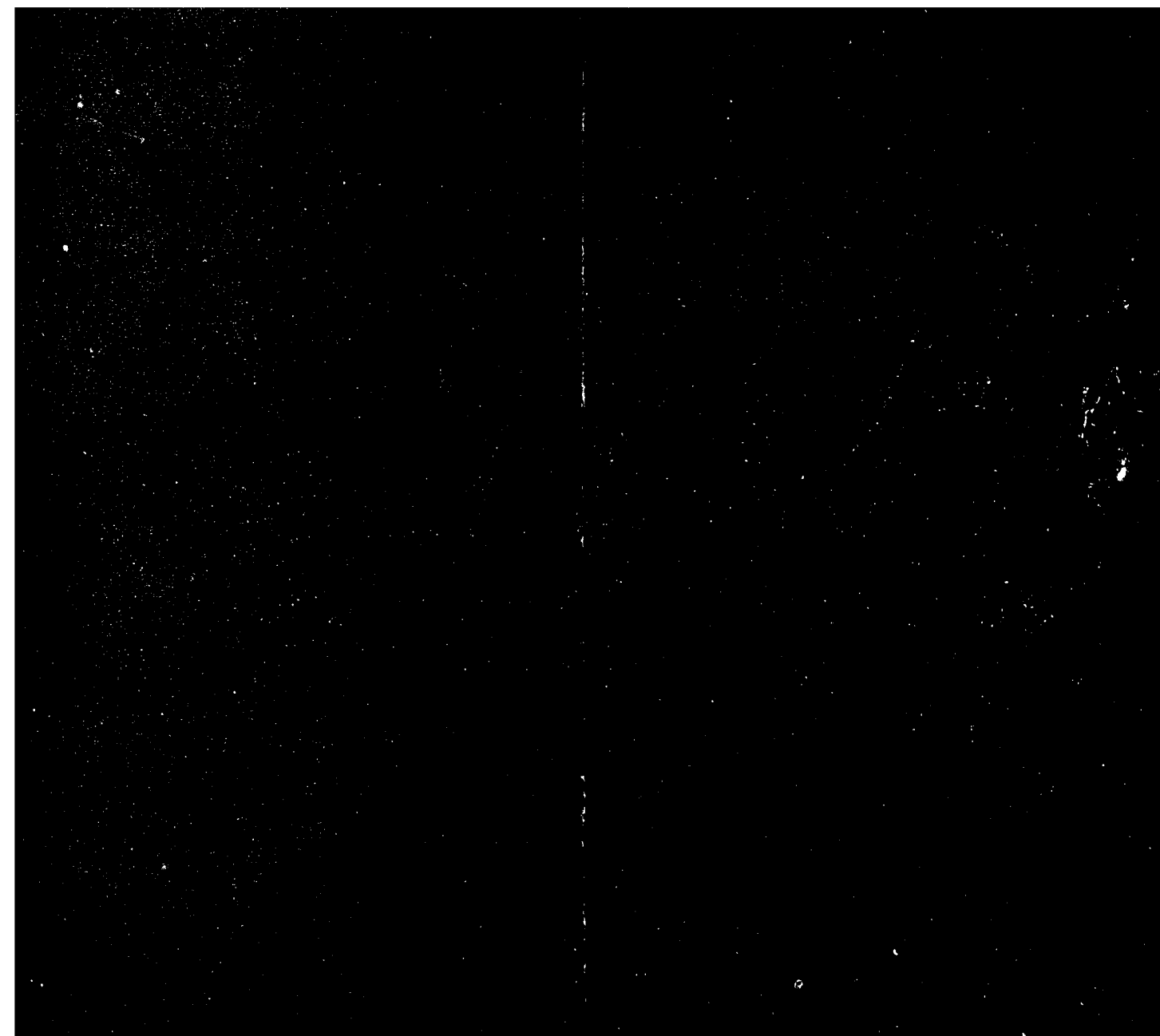
POYSHA : INDIA'S FASTEST GROWING CONTAINER MAKER!

POYSHA INDUSTRIAL COMPANY LIMITED

BOMBAY • NEW DELHI • COCHIN Subsidiary: KAIRA CAN COMPANY LIMITED, ANAND.

CMPI-25 A

SOUTHERN ECONOMIST



MOVING IN THE RIGHT DIRECTION

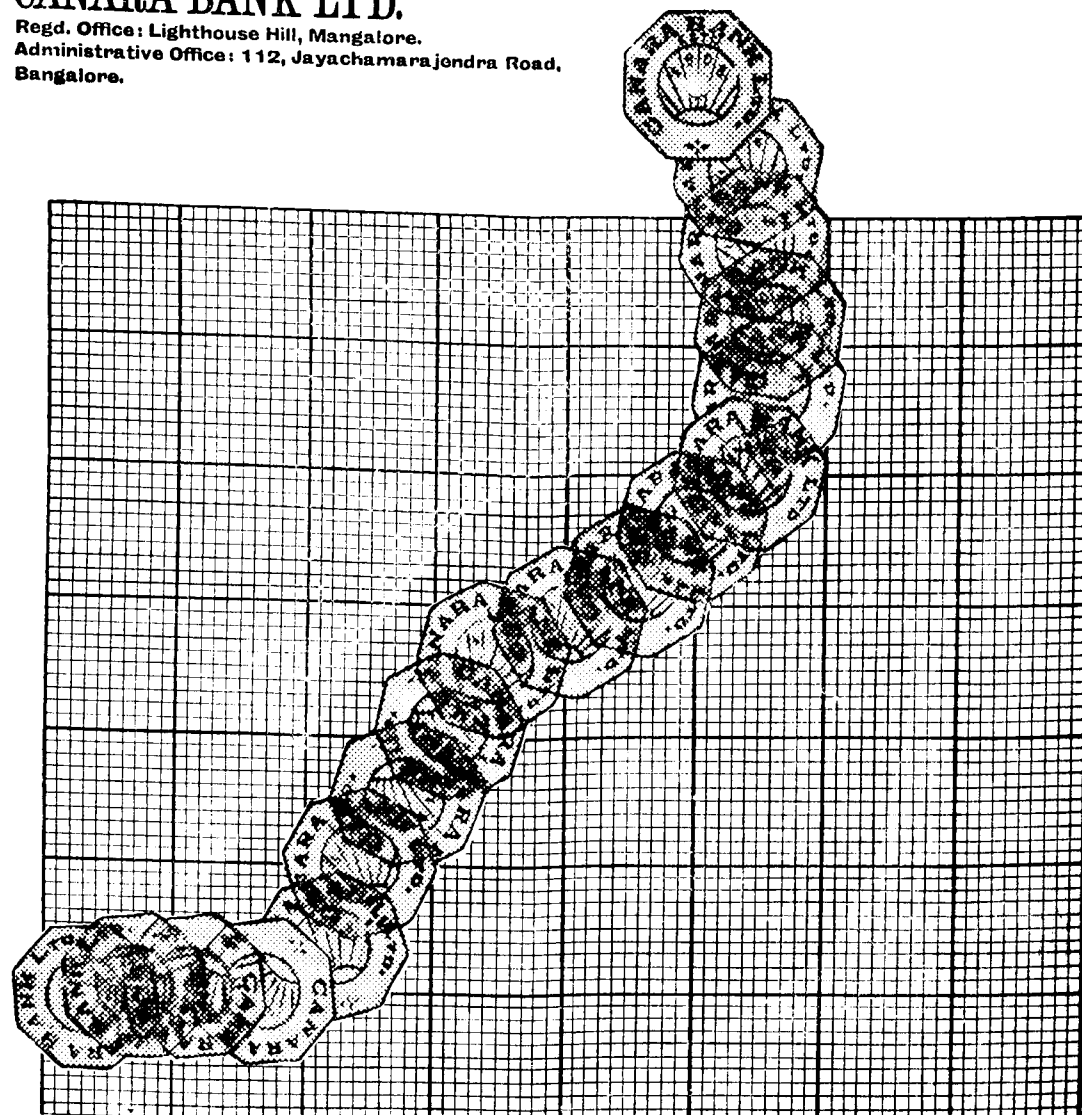
Shri Subba Rao Pai—founder of the Canara Bank—planned with the right perspective in view. The Canara Bank must be more than just an institution to bank with—it must be an institution to bank on. It must play a leading role in the development of national enterprise. With an initial capital of very much less than one lakh—today the Canara Bank is proud of over a two hundredfold increase.

Only one branch in 1906—today over 240 branches—a staff of 4 to begin with—today more than 5,000 employees—a small beginning indeed—today in the 7th place—and largest in the South—now in its Diamond Jubilee Year. In all humility, we can claim that these are no small achievements. They have become possible only because steps were taken—and still are being taken in the right direction.

60 YEARS OF SERVICE—1ST JULY 1906—1ST JULY 1966.
ALL INDIA DIAMOND JUBILEE CELEBRATIONS JULY—DECEMBER, 1966

CANARA BANK LTD.

Regd. Office: Lighthouse Hill, Mangalore.
Administrative Office: 112, Jayachamarajendra Road, Bangalore.



SISTA'S CB-9A

SOUTHERN ECONOMIST

October 1, 1966

CONTENTS

EDITORIAL	1
Formula For Inaction	
NOTES OF THE FORTNIGHT	2
RBI Report ; Cotton Textiles ; State Loans	
LIQUIDITY DEBATE	5
SPECIAL ARTICLES	7
Devaluation in Retrospect By Jagadish Chandra Debnath	
Devaluation Was a Necessity By Soundararajan	
Some Thoughts on India Planning By Prof. G. N. Sharma	
A SURVEY OF MYSORE'S ECONOMY	15
BOOKS	23
BRITISH SCENE	24
Reflections on Commonwealth Conference By Anila Graham	
COMPANY NOTES	26
Dawn Mills ; Minerva Mills ; FACT ; Hindustan Ferodo ; Tak Machinery ; Kesoram Industries ; Capital issues.	
STOCK MARKET	28
Pre-Moorat Recovery in Equities By Our Market Analyst	

SOUTHERN ECONOMIST
24, HAUDIN ROAD, BANGALORE-1
Phone : 75439

Published on 1st and 15th
of every month

Subscription Rates:
ANNUAL Rs. 12 (Inland)
\$ 4 Or 25 s (Foreign)

FORMULA FOR INACTION

FROM the wayward manner in which the Congressmen discussed and approved the party's election manifesto at Ernakulam, it looks as if the end is success at the polls and not the betterment of the country. True, one is inclined to agree with Mr. Krishna Menon that mere reiteration of the Socialist goal is not a sin. But one is entitled to point out that no one in the grand old party of India is clear in his mind as to what the goal means and how it could be achieved without throwing the country into turmoil. Except for the lone voices of Mr. Babubhai Chinai and Ajit Prasad Jain and a few others, no one who spoke at the A.I.C.C. meeting made any effort to get closer to the heart of the problems. This tendency to "skirt the issues" can only be interpreted to mean that the Congress is more interested in holding on to the levers of power by confusing the electorate through the flourish of a bewildering variety of promises and slogans than in facing the electorate with a pragmatic, down-to-earth programme of toil, sweat and tears.

If the Congress has chosen not to reveal too much of the seamy side, it is for the simple reason that, human nature being what it is, no electorate would feel flattered at the idea of putting in more effort and making greater sacrifices. The electorate however is not an amorphous entity. It is a collection of various well-defined interests. And in a crisis like the one through which the country is passing, the paramount need is not to set one group against another but to secure the widest possible consensus so that the major task of augmenting production in all sectors is achieved through common effort. It is pity that the Congress party, which was ideally fitted to make this supreme appeal, cutting across party lines, did not even make a feeble effort in this direction. This failure sticks out like a sore thumb. This inability to put forward a workable programme of action before the electorate can be traced to several reasons. Firstly, the Congress leadership is anxious to identify itself with the articulate elements of the left in order to improve its chances at the polls. This is evident from the party's excessive preoccupation with issues like bank nationalisation and ceiling on urban incomes.

Secondly, barring a few significant exceptions, the Congressmen were never up-to-date in their home work. They rely—so it seems—on the bright boys of the bureaucracy to do the brainstorming on their behalf. This is evident in the random listing of so many desirable things in the Congress manifesto without indicating the *modus vivendi* as to how they should be achieved. Take the question of holding inflation at bay. Though it is recognised on all hands that the immediate need is to prevent the prices and costs from going up further, the manifesto treats this question in a very perfunctory manner. Instead of placing too much reliance on "co-operatives and other socially-controlled channels," should they not have made a serious attempt to secure, through persuasion, the broad approval of the industrialists, wage earners and the salariat for an income policy which would initially keep prices and incomes over a stipulated period "frozen," after which any upward revision would be linked to certain national "norms" in respect of growth and productivity?

At Ernakulam, there was hardly any one of stature who could

the middle class that it would be suicidal to secure *ad hoc* wage-boosts at a time when production showed no sign of picking up. And it is illustrative of the economic opacity of the Congress leadership that not a single soul wagged a disapproving finger at the serious lapses in the implementation of the Third Plan and loopholes in the draft outlines of the Fourth Plan. Any one who is aware of the true dimensions of our foreign exchange crisis, the crisis on the price front and the failure of the administrative apparatus to attune itself to the imperatives of planning, would have readily pointed out the dangers inherent in pushing ahead with a top-heavy plan outlay which cannot be sustained, in all conscience, by genuine domestic savings.

The truth appears to be that our plans, instead of being formulated as workable programmes of action, are treated more as "show-pieces" to dazzle the electo-

rate into casting its votes in the ruling party's favour. It is not as if the country is either dried up of all its resources or is on the verge of economic bankruptcy. Like the other developing nations in a similar stage of growth, it is witnessing certain paradoxes and dilemmas. At the moment, the country probably needs a breathing space of say, 12 months, within which period the distortion caused by shortfalls in agricultural production and over-spending by the public authorities could be remedied through appropriate fiscal and monetary constraints. The Congressmen's reluctance to allow this "cooling off" period can again be traced to their excessive preoccupation with electioneering. When it had a wonderful opportunity to emerge galvanised as a national movement having a rich tradition of freedom struggle, the Congress seems to have virtually succumbed to the fishes and loaves of office. It is a pity.

NOTES OF THE FORTNIGHT

RBI Report

THOU SHALT NOT....

IF past experience is any guide, the pious injunctions of the Reserve Bank, whether through the *obiter dicta* of the Governor or through its reports, are respected more in their violation than in their observance. But just as biblical injunctions have not lost an iota of their sanctity as a result of their breach by the laity, the Reserve Bank's wise advice was never considered redundant. After all, we need a Reserve Bank to keep the monetary conscience of the country and to cover up our sins. The latest report of the Reserve Bank's Board of Directors, covering the financial year ending June 30, 1966, does not, to put it negatively, shirk its duty of hoisting the danger signals. But does anybody pay heed to them?

Whether it is a cost-push type of inflation or a bout of the demand-pull variety, successive reports of the Reserve Bank repeated the warning against deficit budgeting and other questionable methods of financing public expenditure. But

as the RBI annual report—not the Report on Currency and Finance—observes, the budgetary operations of the Central and State Governments "continued to be a major inflationary factor in the economy." Ignoring the funding of Treasury Bills of the order of Rs. 50 crores, the Centre's deficit in 1965-66 was of the order of Rs. 165 crores while the State Governments ran a deficit of Rs. 189 crores compared to the estimated deficit of Rs. 79 crores. Financing of expenditure through the normal process of taxation can be inflationary, where they lead to a price-rise but generally they tend to neutralise the effect of public spending by sucking into the treasury a corresponding amount from pockets of the public. The budgeted deficits of the Centre and the State in 1966-67 are however minimal—about Rs. 67 crores—although it remains to be seen whether the Finance Ministers will keep their promise of avoiding deficit financing this year.

It is a moot point whether the monetary and fiscal authorities could have exercised a tight rein on credit creating and public spending in the

context of the war with Pakistan in September 1965. But what was regrettable was the tendency among policy makers to think that the situation did not call for appropriate cuts in development expenditure. The "marriage" of defence and development was at best a marriage of convenience. The result of this misguided policy, about which the RBI maintains a tight upper lip, has been a sharp increase in the monetary resources by Rs. 658 crores, compared to an increase of Rs. 509 crores in 1964-65. In percentage terms, the increase was 11.6 per cent last year, against 9.8 per cent in 1964-65. That this increase was more pronounced in respect of currency than in respect of deposits is of special significance in the context of the havoc caused by unaccounted money. The economy would have taken a monetary expansion of this order in its stride were it not for the disastrous failure on the agricultural front and the substantial shortfall in industrial production.

The production of foodgrains—the major item in the list of wage goods—declined from 89 million tons

in 1964-65 to 72.3 million tons in 1965-66. The increase in industrial production, at 4 per cent in 1965-66, was also of a lower order, compared to an increase of 7 per cent in 1964-65. That the picture was somewhat distorted by the heavy weightage given in the production index to cotton textiles (32.1 per cent) does not however conceal the fact that industrial production suffered a setback in 1965-66. The resultant imbalance between the "aggregate demand" and "aggregate supply" causing a sharp spurt in prices thus becomes quite evident. In the course of the year 1965-66 (July to June) the prices increased by 18.2 per cent, on the top of an increase of 7.2 per cent in 1964-65. There was, so it seems, pretty little that the monetary authority could do to arrest this galloping inflation, except through a stop-go type of credit policy which, coupled with the structure of high interest rates, drove the small businessman to the wall—and in many cases, out of business.

There were admittedly a few pockets of prosperity—outside the priority sectors—which benefited from the price-rise but, by and large, the private sector was adversely affected by the general increase in the cost of raw materials and of other factors which contributed to the final product. Where they could pass it on to the consumer, they were blamed for profiteering but where they could not, they faced a serious erosion in their profit. The laudable intentions of the 1966-67 budget notwithstanding, the capital market continued to remain friendless, thanks largely to the virtual drying up of savings. Analysing this question, the RBI report rightly says:

The cumulative rise in prices in recent years has resulted in a steady erosion of the real value of money incomes and savings. It has also affected, to some extent, the household sector's capacity to save. Unless the inflationary trend is arrested, it will be extremely difficult to find genuine savings for plan schemes both in the public sector and in the private sector.

Cotton Textiles

CRISIS AHEAD?

SPOKESMEN of India's cotton textile industry have recently sounded the warning that a crisis was developing in the industry. This may sound strange because the stocks with the mills, which proved a veritable headache a few months earlier, have gone down to 2.90 lakh bales—representing about five weeks' production. In Octo-

ber 1965, it was as high as 4.69 lakh bales. Generally, the depletion of stocks will be due to increased offtake by the trade, but the Chairman of the Indian Cotton Mills Federation has averred that the present decline in stocks is largely the result of a fall in production. Cloth production in the mill sector has, it is true, fallen from 4,654 million metres in 1964 to 4,586 million metres in 1965, but in the absence of figures for the subsequent months, it is difficult to attribute the depletion of cloth stocks entirely to a fall in production. Particularly after the devaluation, there has been a hardening of cloth prices which may have prompted the trade to lift more cloth from the mills, although this is not reflected in the wholesale price index. In an inflationary phase, such distortions can only be expected but it would be more to the point to say that the industry is as much affected by inflation as the consumers of its product. The mills, which are already bedevilled by adverse cost-conditions, face another bout of wage-increases.

The portents are none too bright. There is no reason to think that the *per capita* consumption of cloth in the country is going down—even if there is a reduction, it is only marginal—but it is a fact that the consumption of mill cloth has gone down while the offtake from the decentralised sector seems to have increased by a small quantity. Domestic consumption of mill cloth has registered a decline from 3,961 million metres in 1964 to 3,861 million metres in 1965. It would be interesting to know whether this trend has continued in 1966, particularly in view of the voluntary cut in production effected by the industry in 1965. Further, it is not without significance that while the index of the production of cotton textiles (1956=100) remained stationary at 123.3 in 1964 and 1965, the index for silk and synthetic fibres actually went up from 211.3 in 1964 to 217.9 in 1965.

The cotton mills are either slow in taking note of the change in the consumers' preference from natural fibres to synthetic fibres or they are deliberately ducking an unpleasant issue. Fashion being fickle, "king cotton" who is in the danger of being dethroned, may be back in favour a few years hence. Perhaps this is the cross that all old, established industries have to bear and the future survival of the cotton textile industry depends, to a large extent, on how it can adapt itself to changes in the demand-pattern, both at home and abroad. The domestic market will continue to be its main source of strength but the export market can be ignored only at our peril. Although the index number of the volume of exports has gone up from 103 (1958=100) in 1964-65 to 132 in 1965-66, in terms of unit value, it has gone down from 123 to 103. The severity of the competition in the export market makes one wonder if the Fourth Plan export target of 665 million metres of cotton textiles could be achieved without drastic structural changes in the industry and without appropriate fiscal inducements. The 1965-66 level of exports, incidentally, was 512 million metres.

Theoretically, devaluation should help in improving our competitive position, but unless something is done to ensure stable cost-conditions in the industry, by improving productivity for example, no substantial improvement can be expected in exports. This is particularly true in the case of cotton textiles which have to cater to sophisticated markets. The immediate problem facing the industry is: How to prevent the closure of more mills? Out of 577 cotton textile mills, as many as 18 have been temporarily closed—and many more have been scrapped—for want of finance and for other reasons. It would be wrong to think that it is merely a question of improving the "liquidity" of the affected mills. Owing to adverse cost-conditions—and in many cases due to obsole-

scence—the mills which were economic have now been pushed to the margin. Withdrawal of controls, by itself, may not help to prevent large-scale closures so long as the inflationary conditions inhibit a widening of domestic demand and reduce scope for cost-reduction. Even the Government take-over of mills, as proposed by the Government of Maharashtra, may not prove to be the ideal solution to the problem of the textile industry. The remedy lies in speedy modernisation, based on a more rational policy of location. Efforts should be directed at finding resources for this task.

State Loans

REALISM PAYS

THIS year's State loans are pronounced a success. Until a category-wise break-up of the subscriptions is available, it is difficult to say whether there has been lesser reliance on the "captive market" or whether there was no need for the Reserve Bank to provide the necessary prop. All the same, subscriptions adding up to Rs. 98.22 crores were collected before the loans closed on September 17, against the notified amount of Rs. 93.50 crores. This is gratifying. Two factors mainly contributed to this success. Firstly, the terms were attractive and secondly, at this time of the slack season, the banks were comfortably placed in regard to funds. As to the terms, the rate of interest, at 5½ per cent was the same as last year, but higher discounts were offered on this year's state loans, compared to 1965. Thirdly, many State Governments this year wisely reduced the size of their loans in order to avoid the unedifying spectacle of canvassing institutional support. Actually, last year, some of the States were so much cut up by the lukewarmness of the banks that many State Finance Ministers openly aired their views in favour of bank nationalisation!

Last year's subscriptions totalled Rs. 106.74 crores, against the target of Rs. 101 crores. This year's programme netted in Rs. 98.22 crores. A closer look at the State-wise pattern of subscriptions reveals that the response was by no means over-enthusiastic, in the sense that the "excess" is wafer-thin, in most cases. For example, the Maharashtra loan netted in Rs. 15.36 crores, against the notified amount of Rs. 15 crores. Similarly, the West Bengal loan scraped through with an excess of only Rs. 2 lakhs, the subscriptions amounting to Rs. 6.02 crores. The Madras loan attracted Rs. 13.24 crores of subscription, against the target of Rs. 13 crores. It was in these traditionally resourceful states that one expected the subscriptions to exceed the targeted figure by a wide margin. Surprisingly, Andhra Pradesh, with a narrow field for manoeuvre, was able to attract Rs. 9.11 crores against the target of only Rs. 7.50 crores. That Gujarat was able to collect Rs. 70 lakhs more than the stipulated amount of Rs. 7 crores was to be expected. Mysore, Kerala, Uttar Pradesh, Bihar and other States however succeeded in an unspectacular way.

If the experience of the State Governments is any guide, the 6-crore loan floated by the Industrial Finance Corporation can be expected to elicit a favourable response from institutional investors since the offer is on a par with the yield on the state loans. A distressing feature of these loans, however, is that the moment they are placed on the market, they begin to quote at sizeable discounts, causing capital-erosion to the holders. This is one of the reasons why banks and provident funds who should be only too willing to go in for these medium-dated loans, show only casual interest in them. It is for the monetary pundits to ponder if the offer of a higher interest rate, by itself, will bring these state loans back into favour.

Liquidity Debate: Clash of Views*

AFTER many months of protracted negotiations, the cause of world monetary reform has at last had a much-needed boost. It has come in the shape of the recent "Group of Ten" report on international liquidity, published in Frankfurt in the dying days of August. The report is significant for two reasons. It shows that at least nine of the 10 leading industrial countries of the world are now conscious of the need to plan—and plan now—for the contingency of a world money shortage. This is a need Britain has been most conscious of, as demonstrated by the submission of her own liquidity proposals as early as three years ago.

Perhaps even more important than this consensus of views—it also includes the view of Switzerland, which is outside the "Ten"—was a new and welcome awareness that monetary reform is no longer the sole preserve of the rich nations. All countries, developed and lesser developed, should participate in any new scheme. What is all the fuss about "liquidity" and reserve shortage, one may well ask. Fundamentally, it is merely the concern lest the world stock of money should at some future date prove insufficient to finance an ever-increasing volume of trade. For the present, all is well. World trade is progressing nicely: it is still expanding at a healthy rate, even if the pace has been tending to slacken.

But world reserves have not been rising nearly as quickly as world trade. Over the past 10 years, for example, the volume of world trade has doubled while reserves have only increased by 40 per cent. One reason for this is that the bulk of the newly-mined gold output has been finding its way into hoarders' pockets rather than into the central bank reserves. At the same

* Written before the IMF meeting.

time, there has been a marked swing in the payments fortunes of the leading trading nations. As prosperity has increased in Europe, helped by the dynamic progress of the Common Market, these countries—and especially West Germany and France—have been accumulating gold surpluses. This has been accompanied by payments difficulties in the United States and Britain, whose two currencies, the dollar and the pound, carry the burden of reserve currencies.

They have achieved this status of reserve currencies because their extensive use in private transactions throughout the world led monetary authorities to hold substantial balances in dollars and pounds to meet their needs. But since new gold supplies were inadequate to finance the growing volume of trade, and since sterling reserve holdings have not shown any increase, the needed additional reserves have been largely found in the growth of official holdings of dollars—the counterpart of continued U.S. balance-of-payments deficits. Clearly, the U. S. deficits have thus played an important part in helping world prosperity. But as the deficits mounted, there arose growing suspicion whether the U.S. authorities would be willing to pursue policies safeguarding the value of the dollar, and concern over the inflationary impact of these deficits in other countries.

France, in particular, started to bristle. The rekindling of national pride which has accompanied her formidable economic upswing, and a deep-rooted antagonism towards the dollar-sterling monetary leadership, were responsible for this school of thought which challenged the whole basis of the gold exchange system—the present monetary system of the West—as unfair: as giving the reserve currency countries an option of running permanent deficits to be

financed by evergrowing foreign holdings of their currencies. France put her views into practice by converting an amount of her dollar holdings into gold, to the embarrassment of the United States.

And it was again France who, among the "Group of Ten," failed to lend her name to the recent report. She still feels that at the moment, there is no need to increase liquidity, and that she would not subscribe to any scheme as long as the United States and, to a lesser extent, Britain practised their "monetary indiscipline." But can all the other countries be wrong? They certainly feel that the time has come to prepare for a new reserve asset. Indeed, the more restrictive policies have to be applied by the United States and Britain to put their own houses in order, the sooner the need for a new asset injection may arise.

Broadly, the "Group of Ten" put forward five specific schemes as possible alternatives. They all involve a unit of account created by international agreement, given a guaranteed value in gold and used in conjunction with gold. All the various schemes try to reconcile the needs and views of creditor, debtor and less developed countries: they include safeguards against debtor countries continuing their indiscipline, and suggest greater multilateral surveillance among the members.

The annual report of the International Monetary Fund, published on September 6, revealed that its own proposals comprise two alternative schemes which would be run by the IMF or close affiliates. Both studies are likely to be discussed at the IMF meeting later this month (beginning September 26). Whilst no firm decision is expected to be taken in Washington, there is

(Continued on next page)

(Contd. from previous page)
likely to be agreement on procedure for further work among the "Group of Ten" and the Fund's Executive Board on contingency planning for the creation of new reserve assets.

The work done so far, as well as the change in economic climate, give hope that agreement on one or other of the reserve plans will be forthcoming within the next year or two. A year ago Australia voiced the feeling of many of the developing countries that the creation of new reserve assets should not be the preserve of the rich man's club—the "Group of Ten"—alone. Britain, among the leading industrial countries, has of course long been aware of the need to bring the developing countries into the discussion,

and into any kind of new arrangement, because of the traditional links with these areas through the Commonwealth. The IMF's own proposals fully endorse this view, adding to the evidence that the climate of opinion has been moving this way. This is as it should be.

Not only are the developing countries in need of a steady flow of investment funds to build up their economies. These funds will only be provided if there is enough money to go round. Developing countries are also frequently the producers of primary products whose fortunes fluctuate with the level of commodity prices. Additional liquidity is therefore of vital interest to these areas to help them over the temporary payments swings resulting from the often violent changes in their

export earnings, without upsetting the rhythm of the essential investment for future growth and greater economic stability.

Even at this stage there is hope that economic realism will prevail: that if world trade were to swing into reverse, France would not block the path to progress. Here is, after all, a minority view prompted more, it seems today, by political than economic considerations. And no one in their right senses would allow a major world recession to take root. Preparing now for more world money just in case the need arose is one way of building a bulwark against this eventuality.

By THE CITY EDITOR
The Times, LONDON

SPECIAL ARTICLES

Devaluation in Retrospect

By JAGADISH CHANDRA DEBNATH

MUCH has been discussed about the pros and cons of devaluation but still it is the talk of the town. This suggests that we are too obsessed by it. Years ago, we were as much obsessed with the magic wand of deficit financing as we are today with devaluation. Strangely enough, our lure for magic is as enduring as our patience. Quite naturally India is often known among foreigners as a land of magicians.

The Finance Minister, in his broadcast address, claimed: "To sum up, devaluation would provide a better corrective to the price rise and distortion of the past* than the remedial measures we have pursued so far. Even more important, it will facilitate a better allocation of our resources and strengthen our foreign exchange position on an enduring basis." The fundamental question at present is whether devaluation is actually the "better" corrective or not.

It was a widespread notion before devaluation that the Indian rupee was overvalued. "Therefore, it is suggested by many economists that as India's currency is overvalued, there is no way out but to devalue. In the context of overvalued currency, it is said devaluation could only be postponed but never be avoided. . . . But excepting a few, it is generally accepted that due to inflation in India and constant deficits in the balance of payments,

* Italics mine.
Dr. M. Dasgupta "Pros and Cons of devaluation" *Southern Economist*, May, 1, 1966.

G. C. Da Costa, "Elasticities of demand for Indian Exports—an Empirical Investigation," *Indian Economic Journal*, July-September, 1965.

Dr. P. S. Lokanathan's views in "Devaluation: Pros Cons—A Symposium," *Illustrated Weekly of India*, Independence Issue, August 14, 1966.

After devaluation Rs. 100 becomes Rs. 63.5 and the lost of value is Rs. 36.5. So, in terms of pre-devaluation rupee the fall in value is $\frac{36.5 \times 100}{100} = 36.5\%$

And in terms of post-devaluation rupee the fall in value is $\frac{36.5}{36.5} \times 100 = 57.5\%$

the rupee has been grossly overvalued".¹

The rationale of devaluation, therefore, must be on the basis of the relative overvaluation of our currency compared to other currencies. In other words, any decision to devalue a currency implies the pre-existence of high prices of our exports in foreign markets compared to the prices of similar goods produced by other countries and/or low prices of imports compared to the prices of similar goods produced domestically. The second assumption behind such a decision is that the demand for exports and imports is price-elastic, so that a change in prices will lead to a greater change in demand in the opposite direction. The third major assumption is the elastic supply of exportable commodities with respect to income earned through foreign trade, i.e., the existence of exportable surplus after meeting the domestic requirements of basic consumption and investment. Let us see in retrospect how far these assumptions are true.

As to the competitive price of our exports and the effectiveness of devaluation, the Commerce Ministry, in its report for 1965-66, said that about 80 to 82 per cent of our export commodities moved at almost the international price. Therefore, only about 18 to 20 per cent of our total annual exports require substantial assistance in the form of import entitlement and/or cash subsidy. The Ministry thus came to the conclusion that any change in the value of our currency will only mean heavy losses in foreign exchange earnings in 81 per cent of our exports.

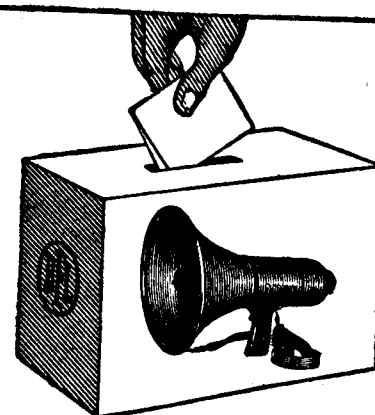
Similar ideas have been expressed by Mr. G. C. Da Costa² while measuring the elasticities of demand for Indian exports. In his study, it is found that on the basis of the direct elasticities estimated without taking into account the movement of the competitors' prices, it would appear that a devaluation will not

help. However, devaluation, by creating a divergence between Indian prices and those of the major competitors might induce a reasonable increase in Indian exports. Estimates of the elasticities of substitution between some of India's key exports and those of the major competitors indicate a fair degree of substitution. On the whole, the picture is not so encouraging as is generally believed.

According to Dr. P. S. Lokanathan, "We were not suffering from our goods and commodities being unsalable abroad; it was lack of foreign demand that had been our difficulty all along. Devaluation by itself would, therefore, not increase our exports appreciably".³ It is hardly possible to mobilise more resources to export industries in the context of development requirements and domestic demand for consumer goods. If mobilization is made at the cost of consumer goods production, the inflationary spiral would spring up and devaluation would be of no use. The country is still passing through a food crisis and a huge amount of investment is imperative in this regard. The third assumption of devaluation, therefore, does not seem to be correct.

Let us now discuss the matter more specifically in terms of our foreign trade situation. If the quantity of exports remains the same as before, our export income would be reduced by 36.5 per cent. If, however, this is sought to be improved, then we would be required to enlarge our exports after devaluation at least by 57.5 per cent to make the income stand at par with the pre-existing income. If we seek more income to be earned from exports (which is implicit in a policy of devaluation) then the quantity is to be increased by more than 57.5 per cent.⁴ Does it seem to be probable in the context of our foregoing discussion?

So far as imports are concerned, our principal items of imports are



Popular Vote— BELHALER Transistor Megaphone

Whatever your Election Symbol, whatever the manifesto, you will find it easier to enlighten the electorate through the BELHALER. Facile operation... Compact and light... weighing only 3 kg... versatile... easily carried by hand or fitted to any vehicle... Ideal for making the rounds of your constituency. Economical... operates from self-contained torch cells. Comes with built-in microphone in addition to an external one. They, whose votes count, will hear you loud and clear up to 200 metres through the BELHALER Transistor Megaphone. Also suitable for use in airports, shipyards and ships, railway stations and yards, engineering works and sports meets—in short, wherever you have to reach a group or assembly.

BHARAT ELECTRONICS LTD.
Regd. Office: Jalahalli, Bangalore-13

BP-BEL-45

capital goods, raw materials and defence equipment. In a developing economy, the scope for curtailment of imports of capital goods is very little. So too is the scope for curtailment of imports of raw materials in an economy faced with the mighty problems of increasing production to feed an ever-growing population. Then again, in the context of to-day's situation, the need for defence material would rather increase than decrease. In these circumstances, the scope for curtailment of imports under the three principal heads is almost nil. Naturally, under devaluation, the import bill for these three kinds of goods would soar up by 36.5 per cent. The next items of India's principal imports are food articles, petroleum products and Kerosene. Here too, there is very little scope for curtailment of the existing quantum of imports.

As a matter of fact, devaluation has not immediately increased our exports and foreign exchange earnings. The only benefit that has arisen out of devaluation is that the World Bank has offered special non-project aid to India. In respect of import substitution, no further incentives were needed in addition to what our chronic scarcities and lack of foreign exchange have already provided.

According to a market survey report,^a "the prices of footwear, fountain pens, goggles, buttons, razor, blades, cosmetics, crockery, cutlery and articles made of stainless steel have gone up in Delhi after devaluation." It is also expected that the prices of motor cars produced in India will go up by Rs. 600 to Rs. 1,000 depending on the import contents of the cars. There are similar reports coming from other parts of the country regarding articles of daily use. Dr. S. K. Mukherjee, General Manager of the Trombay unit of the Fertilizer Corporation of India has said that the cost of the unit is likely to go up by Rs. 8 crores as a result of devaluation. Mr. A. L. Srinivasan, President of Film Federation, told a news conference that the film industry will be severely hit by devaluation of the rupee as the industry had to depend on import for its raw films and capital goods. Except for acting and

technical talent the industry depends largely on imports. Moreover, in the post-devaluation era, the foreign exchange earning capacity of the film industry is limited by its inelastic demand in the foreign markets.

In this connection, we can mention the comments of *The South China Morning Post*, Hong Kong, which is regarded as a highly respected English language daily: "It was argued that the rupee was overvalued and that exports consequently suffered leading to a foreign exchange crisis. But what the Indian Government have done at the same time as devaluing was to raise export duties on traditional exports which made up 80 per cent of the total, so that exports that would be cheaper were only the sideline products in which India had yet to establish a reputation." All this implies that we have not any well-co-ordinated policy of development.

Indeed, the cure of economic maladjustment must be sought in the operations and management of the industries. In a recent speech, our Prime Minister has frankly admitted innumerable faults of our economic performance. She says: "Faulty planning with regard to concept, size, location, raw materials, design, choice of processes, equipment, personnel, contractual arrangements, supervision, co-ordination, time-schedules, etc., has resulted in cost-escalation and delay. Over-capitalization, over-staffing, incidentally adding to township costs, inadequate work-study, lack of delegation, the application of secretarial codes and procedures to commercial undertakings, the system of financial control and audit and the lack of a well-thought-out personnel policy constitute another set of problems. Other factors which had to be gone into were the proper programming of orders, price policies, quality and cost control, research and design development and the structure of management." Quite an impressive list!

It is clear, therefore, that our foreign exchange problems is not a separate problem from the problem of development. The devaluation of the rupee has lent a new agency to our country's essential problem of pursuing development without inflation. That we are nowhere

near solving this problem after three five-year plans or that devaluation is in fact a confession of our failure in this field only adds poignancy to this urgency. The essence of development without inflation is that investment must be sustained by real savings and must make reasonably prompt additions to the stream of goods and services with the maximum amount of efficiency. This is the most urgent task.

P. S. NAYAK'S SERVICE TO CANARA BANK

THE Canara Bank which now occupies a pre-eminent position in the Banking scene of the country, is celebrating its Diamond Jubilee this year. On this unique occasion, the thoughts of those connected with the Bank will naturally go to Mr. Pangal Sarvotham Nayak, who for 33 years from 1933, was its General Manager, and retired from its service only in March this year. When he assumed charge as the General Manager, the Canara Bank was a small institution in a remote corner of the West Coast, with 12 branches and deposits of a little over half a crore—a far cry indeed from its present position as the seventh largest Bank in the country, with resources exceeding 100 crores, and its vast net work of over 240 branches.

Topping the list of successful candidates in the Institute of Bankers Examination in 1931 and winning the Sir Norman Murray Prize, Mr. Nayak became the General Manager in 1933. In 1933, he had training with the Central Bank of India and then with the Midland Bank in the United Kingdom. In 1939, he was appointed as a Member of the Rural Marketing and Financing Sub-Committee of the National Planning Committee, and in 1940 he was elected a Fellow of the Indian Institute of Bankers. Mr. Nayak was also connected with the Indian Banks' Association since its very inception. He actively worked for the taking over of nine smaller banks between 1961 and 1964, including the Pandyan Bank (whose take-over in 1963 was hailed as the biggest Bank merger of the South) to sustain the continued expansion of Canara Bank.

Subscribe to
SOUTHERN ECONOMIST

Devaluation was a Necessity

By R. SOUNDARARAJAN

DEVALUATION of the Indian currency is a major decision which the Union Government has taken. Whether it was a politically sound decision is a matter of dispute. But it is economically a bold decision. The problem of foreign exchange is inherent in the very nature of an underdeveloped country. Developing countries seeking economic aid make a forecast of their deficits. In the context of planned economic development, the payments deficit is a planned deficit. It is not new to India, save for the fact that the actual deficit is greater than the planned deficit. This increase in the deficit would not have occurred if there was adequate saving in the economy. Savings (as a percentage to the National income) has increased from 5 per cent in 1950-51 to 10 to 11 per cent in 1965-66,* whereas investment has increased from 6 per cent to 14 per cent for the same period. Such a low capacity to save was mainly due to the increased rate of the growing of population. The rate of growth of population which was 1.5 per cent in 1950-51 has risen to 2.6 per cent a year now and the present population is about 492 million. Very little is left for saving after consumption. In order to bridge the gap between saving and investment the country resorted to foreign aid. This has increased our deficit.

Apart from this fact, during the course of development, the gap between imports and exports has widened appreciably and no improvement was seen since our import requirements were increasing every day. The following table

* In 1965-66, the ratio of taxation to national income had reached 14%.—Ed.
AICC Economic Review, Jan. 15, 1966.

Commerce Annual 1961.
Reserve Bank of India Bulletin Aug. 1965.

So far 'fundamental disequilibrium' has not been defined precisely. But, fundamental disequilibrium has said to have arisen when a country experiences a persistent deficit in the international balance of payments.

Bell Mission's Report: 'A case for devaluation'

will give a picture of the import-export gap.

IMPORT-EXPORT GAP¹

(Annual average)			
Year	Imp.	Exp.	Gap
(Rs. crores)			
51-56	724	609	115
56-61	1072	614	458
61-64	1270	740-760	510-530

As a result, throughout the Plan period there was a persistent drain on the foreign exchange reserves. The foreign exchange reserves stood at Rs. 250 crores by 1964-65 against Rs. 306 crores in 63-64. And it declined to Rs. 241 crores by the end of September 1965. Rupees 16 crores worth of gold has been transferred from the Government stocks to the Reserve Bank's monetary stocks to prevent the reserves falling below the statutory minimum. Still, the reserves had decreased to Rs. 184 crores in March 1966. The adverse balance of payment in the First Plan was Rs. 318 crores. It was met to the extent of Rs. 196 crores by external assistance, and Rs. 122 crores by withdrawal from the reserves. During Second Plan, the deficit has increased to Rs. 2,061 crores, which was met as follows²:

(Rs. crores)	
From the Reserves	600
Through external assistance.	872
Commodities Under PL 480.	534
International Monetary Fund.	55
Total	2,061

Import payments registered a progressive increase. In 1964-65, import payments aggregated to Rs. 1,396 crores which is Rs. 165 crores more than the 1963-64 figure.³ The agricultural production has declined considerably in 1965. The industrial production

has increased by 6.3 per cent in 1961, 8.9 per cent in 1962, 8.0 per cent in 1963 and 7.5 per cent in 1964 against the envisaged annual rate of 11 per cent increase. In 1965 increase in the industrial production was stagnant. Therefore export earnings too followed this trend. In 1964-65 itself exports amounted to Rs. 802.7 crores which is only Rs. one crore higher than the previous year. While imports went up by Rs. 165 crores and exports have increased by only one crore!

What will happen if this situation continues further? Will it not amount to a 'fundamental disequilibrium'? How to solve the problem? Even the Rs. 802.7 crores of export earnings were due to the subsidies given to the exporters. Were it not for the subsidies, the figure would be only about Rs. 700 crores. The gap which is growing day by day cannot be filled except by an inflow of resource from abroad. How else could we revive the confidence of our creditor abroad? This situation would not improve without external aid and aid will not come unless financial discipline is enforced by measures like devaluation.

For the past 17 years from 1949, with the external value of the rupee remaining constant, the internal value of it was decreasing eventually due to the sharp rise in prices. The exchange rate remaining constant, the external purchasing power would be greater than its internal purchasing power or in other words, the currency would be over-valued. This over-valuation will operate as a tax on exports and as a subsidy on imports. It would give a financial incentive to imports rather than to produce in the country and export more. "The over-valuation of the rupee works directly to defeat the massive import substitution and the export expansion which are essential to achieve the objectives of the development programme...." However the Government did try to counter the over valuation by import duties. Even with import duties, our import requirements have

^a Times of India, June 12, 1966.

^b Hindustan Times, June 15, 1966.

gone up only at the expense of the another. This forced us to face the imbalance in the payment position. What is the remedy? Who will accept the rupee whose internal value has depreciated at the old exchange rate?

Provided suitable climate has been created, foreigners are ready to invest in India since it is the only country in which foreign investment has earned a good result in the past. In the larger interest of the nation, we have to go in for foreign investment in India. Even Russia sought American help to set up her industries in the initial stages. Most European countries recovered after the War through foreign investment. Severe import restrictions and increased export subsidies were actually a 'concealed' devaluation. No wonder that 'concealed' devaluation has now become 'open.'

The International Monetary Fund has been assisting India to tide over the repeated exchange deficits over the Plan period. In March 1965 also India received a stand-by credit of \$ 200 million (Rs. 95.2 crores) and IMF also gave repurchase provision of Rs. 47.6 crores to overcome the difficulty. The balance of payments disequilibrium has now become unmistakably manifest and persistent. Having seen the rather deteriorating condition in the balance of payments position, the IMF might have advised India to devalue the rupee. If, in these circumstances, the IMF has advised India to devalue its currency, it has only done its duty. This external duress has not come overnight. It is the internal difficulty of the country in paying off the deficits, which has led the IMF to give impetus to devalue the currency since the alternatives seemed worse than devaluation. And devaluation is not a panacea or magic cure to solve the problem by itself. It has its own adverse consequences. These adverse repercussions could be remedied easily by follow-up of the action.

Much has been said about the export and import elasticities, and the effects of devaluation upon them

⁶ Was devaluation Necessary? *Southern Economist*, August 15, 1966.

⁷ Ragnar Nurkse, quoted in the above article.

⁸ *Commerce*, July, 7th 1966.

⁹ *AICC Economic Review*, Jan. 15, 1966.

¹⁰ In terms of devalued Rupee.—Ed.

and consequently on the balance of payments. The argument runs that: Our exports constitute mostly (nearly 80 per cent) of traditional commodities like, tea, coffee, jute, cotton, etc., which are inelastic in demand in the international market. devaluation can be helpful to an economy, if—and only if—the elasticity of demand for exports is more than unity and the elasticity of demand for imports is less than unity.⁶ "To push exports in the face of an inelastic and more or less stationary demand would not be a promising line of development."⁷ Devaluation will in fact reduce the price of these commodities externally. Since they have inelastic demand, the quantity demanded will not increase appreciably to the extent of our expectation. Above all, India is in direct competition with other countries which are developing their exports. And the market for jute goods have declined already due to the emergence of synthetic packing materials etc., etc.

All these are nothing but true except the misleading concept of the elasticity of demand for exports and imports. One cannot precisely say what would be the elasticity of demand for a commodity, until and unless one knows something about the elasticities of income and substitution. It is a very vague thing to say that our export commodities have inelastic demand simply because they happen to be necessities. Indeed, the total demand for say, tea, in the world market may be inelastic. But, the demand that India faces must be elastic since it is not the only seller of tea. Again, the elasticity of demand for a commodity will depend upon the availability of substitutes also.

If there are good substitutes for a given commodity the demand for it would be elastic. For example, Indian tea is a good substitute for Ceylon tea. A decrease in the price of Indian tea in the world market as a result of devaluation would certainly reduce the demand for Ceylon tea and divert the demand to Indian tea. Apart from this, in the monopolistic competition that exists in the international market, generally goods will be sold only at a price where the elasticity of demand is greater than one mainly because the additional revenue, i.e., the marginal revenue that seller would get by selling one

more unit of the goods will be negative if the elasticity of demand is less than one.

Concentrating on the applied part of our argument, we can notice that the demand for our exports is elastic. The export earnings have increased from about Rs. 600 crores in 1960-61 to nearly Rs. 800 crores a year in 1964-65. If our exports were really inelastic would they have increased from Rs. 600 crores a year to Rs. 800 crores in the Third Plan? For instance, cotton textile exports have gone up from Rs. 54.83 crores in 1962-63 to Rs. 70.26 crores in 1965-66, a 28 per cent increase in three years.⁸ Does this show any less elastic demand or a stationary demand as has been claimed? In the light of increasing cotton textiles exports, the emergence of nylon and rayon are negligible. The same is the case for jute. It has also been noticed that nearly 85 per cent of the imported cotton and rayon are being used in India itself. Certainly this would raise the domestic price of textiles. Why not we export the cotton and rayon textiles made out of imported cotton and rayon to compete with Japan in the world market in quality and use our own cotton textiles? If this could be done, we can achieve the objective of devaluation in no time. Again the Planners are not so ignorant to aim at a target of Rs. 8,030* crores of export earnings during the Fourth Plan without any possibility of getting the same. Hence, it is not that we cannot export more in the sense that we cannot sell more due to the inelasticity of demand, but it must be rather a question of how to produce and export more. Therefore productivity matters more than the elasticity of demand. It is also not the question of tightening the belts a little more to increase our exports.

From the point of view of non-traditional items of our exports such as bicycles, sewing machines, etc., the advanced countries offer better scope. Empirical evidence shows that the value of the light engineering goods exported has increased from Rs. 2.51 crores in 1958-59 to Rs. 9.30 crores in 1964-65. The value of exported iron and steel has increased from Rs. 1.24 crores to Rs. 11.19 crores for the same period.⁹ This shows the good prospect for increasing iron and steel exports. Certainly, through devaluation

we can step up the export of these goods.

The argument is that "The devaluation can be helpful to an economy if—and only if—the elasticity of demand for exports is more than unity and the elasticity of imports is less than unity." Here the first part of the statement is obvious and we have also seen that our exports have an elastic demand. The latter part of the statement which deals with the elasticity of imports is completely wrong. The elasticity of imports must also be elastic in demand. Then only devaluation will help in reducing the quantity imported by increasing its price. If it has a demand whose elasticity is less than unity as has been said, devaluation would hardly help in reducing the quantity imported. One might crudely say that our imports are less elastic in demand since they are essential for the development. Therefore, devaluation will not help in this regard. Here again, it is wrong to estimate the elasticity of demand for a commodity by its importance or necessity. Even though it would be difficult for us to curtail our import requirements, there are possibilities by which we can reduce it at least to some extent. For instance, nearly 15 per cent of our imports in 1964-65 constituted food commodities. Food imports have increased from Rs. 175 crores in 1963-64 to Rs. 204 crores in 1964-65.¹⁰ Nevertheless, our agricultural production has increased considerably during the Plan period and a 4 per cent annual rate of increase in agricultural production has been achieved in India—a rate achieved only by a few countries of the world. It is the growth of population that poses the trouble. The Fourth Plan envisages 5.6 per cent annual increase in the agricultural production. By attaining self-sufficiency in the near future, we can progressively curtail our food imports.

Before devaluation, imports were not channelised properly, and their prices were artificially low. Imports have increased mainly because of this lower price. Otherwise it would not have increased much. In respect of capital goods, there was, to the extent of over-valuation of the rupee, misallocation of resources.

¹⁰ AICC Economic Review, Aug. 1, 1965.

¹¹ B. N. Ganguli 'Devaluation of the Rupee', page 86.

Now devaluation would operate as a uniform tax on imports and a subsidy on exports. Import of non-essential goods will be penalized. This would create an incentive for the use of indigenous substitutes as well as factors of production. It was said that this import substitutes also will require certain imports. But a genuine import substitute must be such that it shall not have any foreign ingredient. Otherwise, we can import the required commodities rather than resorting to the substitutes. However, these import requirements for substitutes would be less than the amount that had been originally required.

Let us concentrate now on the effect of devaluation on domestic prices. Theoretically, the domestic price should not rise. But in practice, the prices of commodities tend to rise. "The price of imported commodities like paper, newsprint, machinery, base metals, etc., have gone up by 57.5 per cent now. Thereby, the production cost will shoot up and so will be the prices, which in turn will raise the domestic prices. Therefore, devaluation would set in inflationary pressures," it was said. It added that 'industrialisation might be retarded due to the increased cost. Before arriving at such a conclusion, we must see how these imports are distributed among different industries and how much of this imports is going into the production of a single unit. In most cases, the cost of imported inputs forms only a small percentage of the total cost. The foreign components in the production of a car form only 7 per cent to 8 per cent of its total value. The higher imported input cost may be small as compared with the higher export prices realised immediately. Indeed, the unit cost will decline substantially if the installed capacity is more fully utilized as is likely to be the case when imports of inputs are liberalised.

There is no denying the fact that devaluation by nature is inflationary. It puts more money in the hands of the exporters who might spend it on low priority goods whose prices would rise as a result. If some amount of their windfall profit were taken away through export duties, less will be available either for consumption or investment or for both. This attitude of the Government towards the export duties has been criticised, and is said to contradict our policy of

export promotion. If the commodities are allowed duty-free after devaluation, the exporting industries would be earning abnormal profits through increased exports. The duty that has been imposed by the Government is to take away some amount of their 'adventitious profits' in order to avoid domestic price rise. There is nothing wrong in it.

Dealing with the argument regarding the balance of payments, it was said that the external payment position will deteriorate due to devaluation in terms of rupees. It was feared even that the expected outstanding debt of Rs. 3,293 crores at the end of 1966-67 would come to a higher amount of Rs. 5,186 crores. This is to misinterpret the basic aim of devaluation, which is a powerful tool used to correct the fundamental disequilibrium in the balance of payments. Definitely, it involves some amount of sacrifice on our part. The amount of sacrifice would be much smaller if it is compared with the total amount of benefit which could be derived. By boosting up our exports, we can repay the increased debt. Experience shows that countries like France Yugoslavia and Greece have succeeded in boosting their exports through devaluation.

Finally we shall analyse the rather controversial question of the impact of devaluation on the terms of trade. The terms of trade is always adverse for the under-developed countries due to their weak bargaining power, according to H. W. Singer. However, the terms of trade of the under-developed countries were not continuously unfavourable. Even though the terms of trade has been further worsened due to devaluation, we can make good the loss and it depends upon the understanding of the term "the terms of trade." The Finance Minister in his broadcast to the nation has said that devaluation will not adversely affect the terms of trade. It seems that he has understood it in the sense of the ratio of "export and import prices in terms of foreign exchange." Economists would take it in terms of the "quantum of exports to be exchanged for a given quantum of imports,"¹¹ and may think that devaluation would deteriorate the terms of trade in the real sense. As has been said already, the devaluation would serve as a uniform duty on imports and subsidy on exports.

SYNDICATE BANK

have pleasure in announcing the opening of their
BANGALORE — H. A. L. BRANCH
 AT S. No. 28/2-C, KONENA AGRAHARA, H. A. L. COLONY
 HINDUSTAN AIRCRAFT POST, BANGALORE-17
 on 29th September 1966

New Branches to be opened shortly :
NEW DELHI Super Bazar, Connaught Circus, New Delhi
POONA 712, Narayana Peth, Laxmi Road, Poona
YADIKI 8/91, Main Road, Yadiki, (Ananthapur Dist.,
 Andhra Pradesh)

New Branches opened during the year :
DELHI Chandni Chowk
MADURAI (Madras State)
AHMEDABAD (Gujarat State)
PANJIM (Goa)
VIZIANAGARAM (Andhra Pradesh)
BETIM (Goa)
MYSORE Vani Vilas Mohalla
SADASHIVGAD (North Kanara, Mysore State)
KOTEKAR (South Kanara, Mysore State)



SYNDICATE BANK LIMITED

Regd. Office: MANIPAL
 (MYSORE STATE)

Total Resources:
 Rs. 80 Crores

Branches:
 Over 210

Paid-up Capital & Reserves:
 Rs. 2 Crores

THE NATION'S DEFENCE NEEDS YOUR SAVINGS

Save and Invest in Small Savings Securities
 to Secure your Future and Serve the Nation

MODES OF INVESTMENTS :

- ✱ 12-Year National Defence Savings Certificates.
- ✱ 10-Year Defence Deposit Certificates.
- ✱ 15-Year Annuity Certificates.
- ✱ 5, 10 and 15-Year Cumulative Time Deposits..
- ✱ Post Office Savings Bank Deposits.

For Further Particulars, Please Consult

The District National Savings Organiser of your District
DIRECTORATE OF SMALL SAVINGS
 GOVERNMENT OF MYSORE

Some Thoughts on Indian Planning

By Prof. G. N. SHARMA*

INDIA has completed three Five-Year Plans. During this period much progress has been made. We can compare our achievements with those of any other newly-independent country in the world. In one sweep, the country is undergoing all the revolutions which would have normally taken hundreds of years. Industrialisation and urbanisation, agrarian reforms and agricultural improvements, science and technological developments—all are combining to shape the new image of India. Not only is the national output increasing but there is also a mixed growth of new capacity in all parts of the economy. India today has the feel of a nation in the process of growth. The Indian economy is changing more fundamentally today than ever before. But this should not lead us to a state of complacency. But change itself is not a sufficient condition for development. Economic change must of necessity be at least of a minimum order of magnitude.

With all the progress that we have achieved during the last fifteen years, we have not as yet been able to meet our primary needs. We have not been able to increase our foodgrains production sufficiently to feed the millions and have to depend on imports. The year 1965-66 witnessed the severest drought resulting in a sharp decline in food grains production from 88.8 million tons in 1964-65 to 72.30 million tons in 1965-66. Increased emphasis on industrialisation during the last two Plan periods has certainly given a fillip to industrial production. The index number of industrial production at the end of the Third Plan stood at 187, on the basis of 1956—the base year.

This has, as such, reduced our dependence on imports to some extent but there has been a simultaneous increase in the imports of machinery and maintenance equipment. Imports of machinery and capital equipment recorded a steep rise from 24 per cent to 32 per cent in the Second Plan period and 36 per cent in the Third Plan period.

* Professor Sharma is Head of the Department of Commerce, S. K. Government College, Sikkar, Rajasthan.

Our foreign trade during 1965 has recorded a high all-time adverse balance of trade of Rs. 575 crores. Though this unfavourable balance of trade is not a new phenomenon in our case, what is new is that since 1956-57, the extent of deficit has been exceedingly large, fluctuating between Rs. 300 crores and 575 crores. During the last fifteen years, India's share in the total world exports has also declined from 2.1 per cent to less than one per cent. As a result, our foreign exchange reserves are rapidly dwindling. These reserves went down from Rs. 785 crores in the beginning of the Second Plan to the low level of Rs. 184 crores at the end of March 1966. We have been obliged, therefore, to seek large amount of foreign aid from friendly countries. Prices have in the meanwhile touched a distressingly high peak. During the last ten years, they have recorded a rise of 80 per cent. The year 1965-66 alone witnessed a price escalation of about 16 per cent. It is true that prices have gone up in all countries during the past few years but in India, the price-rise has assumed alarming proportions.

With this picture of our performances in the past, the Fourth Plan envisages an investment of the order of Rs. 23,750 crores. The plan aims at an annual growth-rate of 5.5 per cent against an actual attainment of 2.5 per cent in the last plan. National income is supposed to rise from Rs. 19,900 crores in 1965-66 to Rs. 29,500 crores in 1970-71. Per capita income will also go up from Rs. 448 to Rs. 532 on the basis of 1965-66 prices. Of the total outlay of Rs. 23,750 crores envisaged in the Fourth Plan, Rs. 16,700 crores will be spent in the public sector and Rs. 7,750 crores in the private sector.

The plan reveals the hand of professional economists, social scientists and other agencies. It is a document of 25 chapters printed on 422 pages. The Fourth Plan reaffirms its objectives of attaining economic self-reliance, adequate rate of growth and accelerated progress towards a socialist society. The following tasks have been set before the nation in order to achieve these objectives :

1. To attain self-reliance in

our economy, top priority has been given to all such schemes of agricultural and industrial production as will help boosting up the country's exports and substitute imports.

2. To ensure price stability, measures will be adopted to check all inflationary factors and do without deficit financing.

3. To increase the income of rural population and improve food supplies, all possible efforts will be made to augment agricultural production. To help achieve this objective, production of fertilisers, insecticides, agricultural implements and machinery will be given highest priority in the industrial sector.

4. To ensure adequate supplies of consumers' goods like textiles, sugar, drugs, kerosene and paper production of such articles will be stepped up.

5. To ensure adequate growth in metals, machinery, chemicals, mining, power and transport industries which are important both for defence and economic self-reliance schemes in hand will be completed with the maximum possible speed and such new schemes will be undertaken as are essential for keeping up the momentum of economic growth already built up during the past and for meeting the basic requirements of the country during the next plan.

6. To contain the growth of population and ensure better standards of living for the masses, all necessary measures will be taken and resources provided for the family planning programme on a massive scale.

7. To develop human resources, not only will maximum possible facilities be provided in the social services sector but these will be appropriately reoriented towards increasing productivity. These efforts will promote employment opportunities and social justice.

All these are good objectives. But the big question mark before the

nation today is: Whether the Government really means business in adopting such a bold plan? Whether we can look with greater conviction to the future? Whether the mistakes made five years ago despite numerous warnings are not being repeated? The Draft outline of the plan probably presumed this question and as such explains: "The tasks set out are minimum that require to be done and are within the capacity of the nation." Can we slur over our pathetically poor performances during the Third Plan period and forget the lessons that we have learnt so painfully? The Planning Commission suggests us to keep the abnormal year 1965-66 out of consideration while evaluating the progress of planning period. Very well, would it not be equally appropriate for us to keep the 7.6 per cent rate of growth in the year 1964-65 out of our evaluation since this year was also too good to be normal? Then, only the first three years of the Third Plan period deserve our attention. The rate of growth during this period was about 3 per cent. And even if we add up the growth rate of 1964-65 year, the average comes to only 4.20 per cent. If we consider the total 14 years of planning (leaving the year 1965-66) the growth rate comes to only 3.8 per cent. Then what made the Planning Commission to assert that the country is now poised for a faster growth-rate of 5.5 per cent during the years to come?

An investment plan must be based on savings from current incomes. These savings may be in the form of voluntary domestic savings, foreign savings (aid or investments), inflationary savings or government savings. Ours being still a developing economy, consumption generally claims a large proportion of the total income. The marginal propensity to save is very low in India. Capital requirements of the order of magnitude envisaged in the Plan as such cannot come out of current income flows. There is a persistence of static economy. What requires to be assured, therefore, is the flow of savings into those end-uses where investment will best serve the cause of self-reliance. Traditional savings and investment patterns may be deeply rooted, but they are rooted in an economy which has not been growing. The harder the Government tries to tap them through taxation and other means, the greater the tendency for these

savings to escape into unproductive avenues. The government's decision not to resort to inflationary savings (deficit financing) during the Fourth Plan period is a relieving feature.

The prospects of foreign aid of sizable quantum also appear to be bleak. But the authors of our plan are undaunted by these facts. The Planning Commission believes that the balance of payments gap would be adequately met during the Fifth Plan and external credits except for normal inflow through private channels and international agencies should cease in the sixth plan. It is estimated that a total of 8.4 billion dollars is required in the form of external assistance. This excludes PL-480 inflows. Deducting \$1.7 billion for loan repayments and an estimated inflow of private investments from abroad of \$0.9 billion the net accrual to the plan has been taken at \$5.8 billion or Rs. 4,340 crores at the new rates of exchange. In view of all our unhappy experience in regard to inflow of foreign aid during the past year, we cannot afford to assume that foreign aid will start coming liberally now with normalisation of conditions. Liberal foreign aid has engendered an element of waste in its use and complacency in attaining the objective of self-reliance. The present burden of piling up foreign debts has already become very heavy, more so after devaluation which has pushed it up by Rs. 1,368.70 crores to Rs. 4,102.57 crores. According to one estimate, India will have to find Rs. 89 crores more worth of goods and services to pay the instalments of principal and interest falling due under the current year. The repayment of these obligations as such would prove a great strain on the country's resources.

Wise counsels have always come to the Planning Commission. Eminent economists and statesmen have warned the plan-framers time and again against entertaining unrealistic ambitions. Mr. C. D. Deshmukh, the former Finance Minister, has asked the Government not to ignore the limitations of our administrative resources apart from the limitation of physical resources.

The Governor of the Reserve Bank of India, Mr. P. C. Battacharyya has also felt constrained to observe in public that the size of the plan need to be judged not by what is desirable but rather what is pos-

sible. Neatly arguing the case, Mr. Battacharyya observed: "A seemingly smaller plan in terms of financial outlays but executed without experiencing a price inflation may indeed, in terms of physical content, be no smaller than a larger financial plan whose size contains a sizable element of price inflation. A moderation of the pace of investment-growth would, along with an effective check to non-Plan expenditure, help to relieve the pressure on economy." The trouble with our planners lies in their boundless enthusiasm to rush with the investment programme ahead of the generation of voluntary savings. As Dr. V. K. R. V. Rao, member of the Planning Commission also pointed out in his opening address to a two-day seminar of the study group in Calcutta, at least 20 per cent saving of the national income would be necessary to make the Fourth Plan a success. Unless a high rate of growth was achieved, which seems improbable in the near future, the people's discontent may mount to an unwanted pitch. A study group within the World Bank has struck a similar note in its observations and has urged the developing nations in general—and this particularly applies to India not to confuse mere formulation of a plan with planning finally. The investment programme must be more closely co-ordinated to the resources available.

IDA CREDIT TO INDIA

THE International Development Association (IDA) has approved a \$150 million credit to India as part of a programme for supporting the Indian Government's recent steps to ease import controls and accelerate economic growth. The credit will provide foreign exchange to meet a portion of the imports of components, materials, spare parts and other goods required to expand output by making fuller use of the existing manufacturing capacity.

This will be the third IDA credit extended to India to assist selected industries in importing goods essential for maintaining and expanding production. Similar credits were extended in June 1964 and August 1965. This IDA credit to India will be for a term of 50 years. Repayment of principal will begin from January 15, 1977, after a ten-year period of grace.

SURVEY OF MYSORE'S ECONOMY

- * 15-Year Plan for Mysore's Growth
- * Impact of Inflation on State's Economy
- * State's Economy in 1964 and 1965
- * Progress of Agriculture in State's Third Plan
- * Irrigation in Third Plan
- * Progress of Power Schemes in Mysore
- * Progress of Co-operatives in Third Plan
- * Statistics

15-Year Plan for Mysore's Growth

By "Analyst"

THE National Council of Applied Economic Research has, in its Techno-economic survey of Mysore State, prepared a 15-year blue-print for economic growth, covering the period, 1961 to 1976. From the resources angle, it is admittedly an ambitious plan. An aggregate investment of Rs. 2,860 crores is expected to be achieved in a phased manner, over three five-year plans, so as to secure a rise in the State's per capita income from Rs. 305 in 1960-61 to Rs. 524. Incidentally, the per capita income of India is expected to go up, according to our perspective planners, to Rs. 530 in 1975-76. Considering that the per capita income of India in 1965-66 is estimated at only Rs. 325—the same as in 1960-61—against the perspective planners' estimate of Rs. 385, the achievement of the NCAER'S 15-year targets for Mysore cannot be simply taken for granted. Further, the annual rate of growth for Mysore, assumed by NCAER in its 15-year plan, is 5.9 per cent against a growth-rate of 5.5 per cent assumed in the national plan for 1965-66—1970-71. The per capita income of the State is also expected to go up by 3.7 per cent per annum, over the 15-year period. This is higher than the 3 per cent rise in per capita income envisaged in the Fourth Plan of the country.

Nevertheless, the bold plan prepared by NCAER serves to highlight the magnitude of the tasks involved in tapping the development potential of Mysore. The 15-year plan, when broken up into three

quinquennial investment programmes coinciding with the Third, Fourth and the Fifth five-year plans, will mean an investment of Rs. 367 crores in the Third plan, Rs. 995 crores (roughly Rs. 1,000 crores) in the Fourth Plan and Rs. 1,500 crores in the Fifth Plan. As against this projection, the State's Third Plan outlay was of the order of Rs. 250 crores and the size of the Fourth Plan is proposed at Rs. 537 crores. This means that an investment of the order of more than Rs. 2,000 crores will have to be made in the five-year period, be made in order to achieve the NCAER target of Rs. 2,860 crores. Even on the most optimistic assumptions, the investment in this period, the investment in this period, cannot be placed beyond Rs. 1,000 crores. The NCAER projections, nonetheless, serve to show that under certain favourable assumptions, the State's economic growth can be pushed to maximum limits, thereby wiping out the disparities that exist at present between the State and the rest of the country. The salient features of the 15-year plan will therefore be read with interest.

As to the investment-pattern, the major part of the outlay (64 per cent) will be in the public sector, of which 20 per cent will come from the Centre. Another interesting, if somewhat controversial, feature of the NCAER blue-print is that it shifts the emphasis from agriculture to industry. While industry will account for an outlay of 49.5 per cent, the tertiary and agricul-

tural sectors are to be given only 30.1 per cent and 20.4 per cent respectively. This is in contrast with the present order of priorities in the State's plan which assigns to agriculture and irrigation nearly 50 per cent of the total outlay. But the NCAER expects agriculture to contribute 34.3 per cent of the total increase in income, in the 15-year period. This is sought to be achieved through an increase in productivity. It also envisages that self-sufficiency will be achieved in foodgrains. The annual rate of growth in agriculture is estimated at 4.5 per cent. This is definitely higher than the growth-rate in agriculture, which fluctuated between 2½ and 3½ per cent in the earlier plans.

An investment of Rs. 1,052 crores is envisaged in industry during the period, 1961-76. The contribution of industries to State income is expected to go up from 12.5 per cent in 1961 to about 24 per cent by 1976. The significance of this structural change in the pattern of income-generation from the primary sector to the tertiary and secondary sectors and the consequent change in the employment-pattern cannot be over-emphasised. The NCAER plan also gives special importance to overheads like power and transport. An investment of Rs. 327 crores for power and Rs. 261 crores for transport is recommended by the study. The two preconditions for the success of its 15-year plan appear to be: (1) resources, (2) administrative efficiency. In regard

to resources, the State Government is expected to raise 40 per cent, leaving 60 per cent of the outlay to be financed by the Centre. This roughly corresponds to the present pattern of sharing the plan burden but the tendency in future will be, if anything, towards reducing the States' dependence on the Centre.

Recourse to additional taxation

will also have to be considered in the context of the relatively high *per capita* incidence of taxation in the State, which has gone up from Rs. 7.7 in 1957-58 to Rs. 14.5 in 1963-64. As to the improvement in the administrative processes, the NCAER says: "The poor achievements in the past decade of development are in part traceable to the

lack of an efficient administrative system geared to the requirements of planned development. It is suggested that administrative processes be abridged, decentralised decision-making be adopted and greater co-ordination among different departments in the formulation as well as execution of various schemes be effected." A tall order!

Impact of Inflation on State's Economy

THE year 1965, was, perhaps, the worst for our country since it became independent in 1947. Apart from the war with Pakistan, the country experienced very unfavourable weather during 1965 which resulted in the set back in the implementation of development programmes. Mysore was one of those states which were badly affected by drought conditions and the price situation was a major source of concern. The general index number of wholesale prices of agricultural commodities has been indicating a continuous upward trend since the commencement of the Third Plan. The index number which stood at 141.2 in March 1961 (Base 1952-53 = 100) reached 148.5 in March 1962 and moved up slowly till it reached 185.6 in March 1965. In September 1965 the index reached the peak level of 210.6 and further moved up to 250.3 in November 1965. The prices during 1962-63 remained somewhat steady and even declined during the second half of 1962-63. But from May 1963 onwards there has been again an upward movement of prices. Over the year 1964-65 (April-March) the index of wholesale prices of all agricultural commodities showed a rise of 10.0 per cent. Between March 1965 and November 1965 the wholesale prices index has risen higher by 34.9 per cent. The fluctuation in the index of wholesale prices of Agricultural commodities is detailed in the Table on page 23.

This table shows that the rise in prices was quite steep during 1963-64, 1964-65 and 1965-66. The increase was of the order of 13.6 per cent in 1963-64, 10.0 per cent in 1964-65 and it was by 34.9 per cent between March 1965 and November 1965.

CEREALS: The index number of wholesale prices which prevailed at 132.1 in March 1961 rose to 138.9 in March 1962, but slumped to 122.7 in March 1963. Over the

one-year period from April 1963 to March 1964 the prices of cereals had risen by 22.8 per cent. During 1964-65 the prices of cereals recorded a further rise of 34.4 per cent. Between March and November 1965 the prices had risen by 61.6 per cent.

PULSES: The prices of pulses remained steady up to March 1963. During 1963-64, the prices of pulses recorded a steep rise of 49.6 per cent, and a rise of 21.7 per cent between March 1964 and March 1965. Up to November 1965, there was a steady upward trend in the prices of pulses and between March 1965 and November 1965 the prices of pulses had increased by another 32.8 per cent.

OILSEEDS: During 1961-62 and 1962-63, the prices of Oilseeds recorded decreasing trend. The prices of Oilseeds declined by 9.0 per cent in 1961-62 and by 14.5 per cent in 1962-63. The index of wholesale prices of oilseeds in

March 1961 moved down slowly from 177.8 in March 1961 to 138.4 in March 1963. But during 1963-64 the prices of Oilseeds marked a rise of 31.4 per cent and during 1964-65 a rise of 11.7 per cent. There was further increase of 27.2 per cent over the period from March 1965 and November 1965.

GUR: The prices of Gur were on the increasing trend up to 1963-64 starting from March 1961. The index which stood at 109.0 in March 1961 increased to 113.2 in March 1962, rose up to 201.4 in March 1963 and further moved up to 240.2 in March 1964, i.e., a rise of 78.0 per cent during 1962-63 and an increase of 19.2 per cent during 1963-64. During 1964-65 the prices of Gur recorded a downward movement and in March 1965 the index stood at 141.7—a decline by 41.0 per cent. During the eight months period ended November 1965 the prices of Gur had risen up by a rise of 9.4 per cent only.

TABLE 1

Consumer price index numbers for working class

Centres	March 1961	March 1962	March 1963	March 1964	March 1965	March 1966
(Base : 1935-36=100)						
Bangalore ..	447.9	457.0	467.5	485.6	568.0	689.9
Mysore ..	455.0	456.7	458.3	479.6	598.4	658.6
Bellary ..	466.9	466.3	479.9	493.8	614.0	714.8
Hassan ..	425.5	427.3	439.1	463.8	525.4	669.8
Bhadravathi ..	445.9	450.8	457.6	473.6	596.6	717.7
Mandya ..	445.8	439.9	437.9	459.9	544.5	654.5
Davangere ..	479.2	480.8	492.6	498.5	621.7	684.2
Harihara ..	474.8	472.7	478.6	502.1	640.1	663.8
Gulbarga ..						
(1943-44=100) ..	161.3	159.8	170.4	190.1	206.0	238.9
Mangalore ..						
(1958-59=100) ..	121.1	120.7	122.3	129.3	144.3	154.2

The increase in the prices has normally affected the living costs of the people all around. The Consumer price index numbers, constructed for the ten industrial centres of the State, indicate the variations in the cost of living. The indices of all the centres in the State are detailed in Table 1.

During the Third Five-Year Plan the consumer price indices are

increasing continuously. The variation are significant during 1965-66. The index moved up during 1965-66 (April-March) by 144.4 points in Hassan, Bangalore (121.9) points, Bhadravathi (121.1) points, Mandya (110.0) points, Bellary—(100.8) points, Davangere (62.5) points and Mysore (60.2) points respectively. The variation was attributed to the increase in the prices of food

articles in all the centres. During 1965, the cost of living of agricultural labourers also showed an increasing trend. There was a spurt in the Consumer price index numbers for agricultural labourers from February to April 1965. But since May 1965, the indices registered a steady upward trend in the cost of living of rural labourers.

State's Economy in 1964 and 1965

THOUGH the State had none too favourable seasonal conditions during the crop year 1964-65 (July to June), its economy during the fiscal year 1964-65 registered a definite improvement over that of the preceding year. But the failure of monsoons in the State during the crop year 1965-66, the worst in living memory, presaged the severest strain on its economy. The following is a resume* of the state of economy in the State during the fiscal year 1964-65 and an inkling of it for the fiscal year 1965-66.

Though the seasonal conditions in the State during the crop year 1964-65 were not favourable on account of belated monsoons, the condition of standing crops generally was fair, except in a few drought-stricken areas. But the general failure of rains throughout the State during the crop year 1965-66 was a cause of great concern. Several remedial measures by Government, like efforts to save the standing crops to the extent possible by installation of diesel and electric pump sets in the affected areas, encouraging, to the maximum extent, the cultivation of a second crop, regulation of procurement, movement and distribution of food grains and provision of funds for scarcity relief works in the drought stricken areas mitigated the distress of the people in the affected areas.

Despite adverse seasonal conditions during the crop-year 1964-65, agricultural production recorded a definite improvement over its level in the preceding year. According to the final crop estimate, the index of agricultural production, which had dropped to 125.7 (Base :

1956-57=100) in 1963-64 from 127.9 in 1962-63, is estimated to rise by 9.4 points in 1964-65 to 135.1. The index of foodgrains production improved from 129.9 in 1963-64 to 141.0 in 1964-65, and 1964-65 is expected to rise by 5.8 per cent over its level in the preceding year. The output of cereals is expected to go up by 2.47 lakh tons or 6.3 per cent and that of pulses by 0.02 lakh tons or by 0.8 per cent.

As for the production of crops other than foodgrains, the output of oilseeds is expected to rise by 2.20 lakh tons or 38 per cent and that of cotton is expected to have only a modest rise of 0.10 lakh tons or 2.6 per cent. The production of sugarcane is however estimated to register a decline of 3.92 lakh tons or 6.0 per cent over its level in the previous year. A continuous upward trend in recent years in the production of non-food crops in the State as a whole is gratifying, the year 1964-65

accounting for a rise in its index by 7.1 points to 127.1 from 120.0 in 1963-64 and 1964-65.

The industrial sector also revealed an improvement during the year 1964-65 with the establishment of new industries and expansion of the present plant capacities. The land-marks were the proposed setting up of an aluminium smelter plant of a capacity of 30,000 tons near Belgaum by the Indian Aluminium Company Limited, Calcutta, the commencement of production of transformers and switch boards by the New Government Electric Factory, the licensing of expansion of the plant capacity by the Government Soap Factory from 1,500 tons to 6,000 tons and by the Government Porcelain Factory for production of insulators up to 5,000 tons. Another notable event in the State was the commissioning of the 89,100 kW capacity first generator of the Sharavathi Valley Hydro-Electric Project in January 1965 and of the second generator in June 1965.

TABLE 2

Industry	Production during		Percentage variation (in tons)
	1963-64	1964-65	
Pig Iron (including ferro-alloys)	102,324	99,170	— 3.08
Crude, semi-finished Finished Steel	98,611	87,907	— 1.94
Sulphuric Acid	5,342	8,233	+ 54.11
Copper Sulphate	1,262	1,532	+ 21.39
Ammonium Sulphate	1,683	182	— 89.19
Super Phosphate	6,797	15,420	+ 126.86
Sugar	119,094	153,447	+ 28.84
Paper	49,981	52,002	+ 4.04
Cement ('000 M. Tons)	859.6	854.9	— 0.55
Cloth* ('000 Metres)	67,161*	88,306*	+ 31.60*
Sandalwood Oil ('000 K.G.)	76.4	88.94	+ 29.45
Electricity Generation (Million KWH)	1321.991	1370.684	+ 3.68

*For the calendar years 1963 and 64.

* Department of Statistics.

Production in this sector during the year 1964-65 registered an improvement in general though there was a slight set-back in the output of pig iron, steels and cement by 3.1 per cent, 1.94 per cent and 0.6 per cent respectively. Significant increases in production were recorded by super phosphate (127 per cent) and sulphuric acid (54 per cent). The production of sugar rose by 29 per cent, paper by 4 per cent, cloth by 31.6 per cent sandalwood oil by 29.5 per cent and generation of electricity by 3.7 per cent. According to the available data, the production in the several industries during the period April 1965 to September 1965 compared favourably with that of the corresponding period of the previous year. Table 2 presents the production data of some selected industries in the State.

The value of production in Government industrial concerns in general during 1964-65 also increased. This trend continued and the value of production concerns for the period April 1965 to September 1965 compare favourably with that for the corresponding period of the previous year. The data of value of production of Government industrial concerns is presented in the following Table.

	(Rs. in Lakhs)			Rs. in Lakhs	
	1963-64	1964-65		1963	1964
Sandalwood Oil	110.65	133.74	Minerals		
Factory.			Gold	276.56	298.13
Soap Factory	110.87	118.14	Iron Ore	120.33	137.63
Porcelain Factory	65.39	73.29	Manganese Ore	73.31	70.43
Electric Factory	80.40	99.84	Limestone	51.19	40.63
Silk Weaving	16.99	15.30	China Clay	3.19	2.68
Factory.			Quartz	4.27	4.84
Implements	24.33	36.54	Magnesite	2.85	2.96
Factory.			Bauxite	0.75	1.94

There was also an overall increase in the value of production of minerals in the State during the Calendar year 1964 compared to the previous year, significant increases having been contributed by gold and iron ore production. The value of production of some important minerals during the two years 1963 and 1964 is presented in the following Table.

Progress of Agriculture in State's Third Plan

THERE have been shortfalls both in the utilisation of the financial provision and in the actual achievement of the targets in the State's Third Plan. Against the original plan provision of Rs. 10.20 crores for agriculture, Rs. 2.29 crores for soil conservation and Rs. 7.50 crores for minor irrigation, the actual budget provision was Rs. 10.58 crores, Rs. 3.11 crores and Rs. 16.11 crores respectively under these heads. The actual expenditure exceeded the allocation only in respect of minor irrigation which accounted for an expenditure of Rs. 18.48 crores. This is mainly due to the almost insatiable demand for pump sets. The actual expenditure on schemes of agricultural production was only Rs. 8.97 crores, while the expenditure on soil conservation was Rs. 2.11 crores, thus showing sizable shortfalls.

Against the Plan target of 48.50 lakh tons of food grains, the level of production at the end of the Third Plan was estimated at 46.38 lakh tons. This is said to be due to reduced outputs like fertilisers and adverse seasonal conditions. The irrigation potential created under medium and minor irrigation was of the order of 5.72 lakh acres but the utilisation was 4.4 lakh acres. The fertiliser distribution was not up to expectations. There have been serious shortfalls in the quantities allotted by the Centre. Not much progress was made in

setting up seed farms. Out of the 53 seed farms proposed to be set up during the Third Plan, only 27 farms were established.

To maximise the Agricultural production, Intensive Agricultural district programme in Mandya district was implemented and preparation of 72,061 farm production plans were completed against the target of 72,000 plans. Also intensive cultivation programmes on food crops like rice, wheat, ragi, jowar, bajara and pulses were implemented from 1963-64 onwards and preliminary work is in progress. These intensive cultivation programmes have been sanctioned for 10 districts.

Minor irrigation works have been playing a very significant role in the development of Agriculture in the State as more than 90 per cent of the cultivated area depends on the vagaries of monsoon. During Third Plan, work under minor irrigation was carried on with increased tempo. The achievements made against the targets during Third Plan are as under :

	Target	Achievement
New wells	63,000	24,657
Bore wells	1,500	96
Supply of Electric pumpsets.	12,500	11,905
Supply of Electric Diesel	15,570	8,316
Extn. of power Lines for Irrigation pumpsets	16,750	22,542

Consequent to increased allocation and liberalisation of rules for issue of pumpsets, the work under minor irrigation schemes is satisfactory. The progress of work on bore well is retarded for want of foreign exchange for the purchase of boring rigs etc.

PROGRESS OF TOURISM IN MYSORE

The outlay for Tourist schemes during the Third Plan was Rs. 23.10 lakhs of which the Central share is Rs. 8.10 lakhs on Part I and 50 per cent on Part II Schemes, the remaining amount of Rs. 15 lakhs borne by the State Government, 50 per cent on Part II and Part III in full. During the period under review 1961-66, Tourist Rest houses one each at Jog Falls, Aihole, Brindavan, Bidar, Tungabhadra, Tourist Hotel at Jog Falls, Chowkidar's quarters at Aihole were completed and commissioned. The construction of Tourist Rest Houses at Gulbarga, Magod Falls, Basavakalyan, Mahadeswarabetta, Devarayanadurga, Gokak Falls, Lushington Falls are being constructed. In addition to these schemes a master plan for the Development of Nandi Hills was taken up and the first stage consisting of family quarters, Canteen Buildings Providing Water Supply at Nandi hills were in progress.

Irrigation in Third Plan

THERE was a provision of Rs. 40.65 crores during the Third Plan for major and medium irrigation projects. The budget allotment during first four years of the Third Plan was Rs. 26.61 crores. The expenditure incurred during this period is Rs. 25.88 crores. The budget allotment during the fifth year was Rs. 6.48 crores against which the anticipated expenditure is Rs. 5.10 crores. Thus, the total expenditure up to end of Third Plan comes to Rs. 30.99 crores. The potential and utilisation up to the end of March 1965 cumulatively are 8,33,436 acres, 5,23,090 acres, respectively. It was anticipated that the potential and utilisation would be 9,59,290 acres, 6,77,599 acres at the end of March 1966, i.e., the end of the Third Plan. It is now anticipated that the potential and utilisation to end of Third Plan could be 903,568 acres, 6,88,377 acres, respectively.

As against the financial target of Rs. 250 lakhs for the Construction of irrigation wells during the Third Plan, a sum of Rs. 7.89 crores was provided and a sum of Rs. 5.96 crores has been utilised during the period from 1961-62 to 1964-65. During the year 1965-66, Rs. 1 crore was provided for the scheme. Out of this, a sum of Rs. 2 lakhs was diverted to the Agriculture and Forest Department for the construction of bore wells. In addition to this, an additional amount of Rs. 6 lakhs was provided towards the end of the year 1965-66. The entire provision of Rs. 104 lakhs is expected to have been utilised for the payment of the Second and Third instalments in respect of wells which have remained incomplete from the inception of the liberalised scheme.

As against the physical target of 12,500 wells, 24,953 wells have been completed and another 2,000 to 4,000 wells are expected to have been completed, by the end of March, 1966 about 10,000 to 12,000 wells are part-completed of which about 2,000 are failures. The total number of wells commenced up to 31st March, 1965 is about 42,000. In 1965-66 instructions were issued not to sanction fresh wells. During

the current year 1966-67, a sum of Rs. 70 lakhs has been provided in the budget estimate. The entire provision is meant for completion of incomplete wells sanctioned from the inception of the liberalised scheme. Loans for sinking of new irrigation wells are being granted by the land development banks.

Where the supply of water is inadequate or where rainfall is inadequate or adequate but unevenly distributed, the well has proved to be very beneficial to the cultivator as he has been able to save his crop only with the help of well irrigation. The scheme of construction of

irrigation wells being an important item of minor irrigation has received very good response from the cultivators. Since the introduction of the liberalised rules the demand for loans for sinking irrigation wells has been increasing steadily. In view of the very small percentage of irrigated land to the total cultivated area in the State, the need for the scheme of construction of new irrigation wells in increasing agricultural production by bringing as much acreage under irrigation as possible, is self-evident. The State planners have, therefore, attached great importance to the successful implementation of this scheme.

THE CANARA BANKING CORPORATION LIMITED

Regd. Office :
UDIPI

Estd.
1906

Admn. Office :
MANGALORE

HANDLING MONEY IS MORE DIFFICULT THAN
EARNING IT!

Money-handling is an art, difficult to acquire

CORPORATION BANK

Has been in the line of handling money since the last over 60 years and can handle your money safely, skillfully and profitably for you, taking your money as a sacred trust. You may safely entrust all your money to its judicious and expert care and be at ease, expecting good return for your hard-earned money!

Ask it to handle your money and see for yourself how your money works for you, day in and day out, to your entire satisfaction!!

K. Ramadas Nayak
General Manager

Progress of Power Schemes in Mysore

PRIOR to the First Five-Year Plan, power was being generated at Sivasamudram, Shimsha and Mahatma Gandhi Hydro-Electric Stations, having an installed capacity of 107,200 KW. During the First Plan, 1951-56, four units of 18,000 kW. each were commissioned in the Mahatma Gandhi Hydro-Electric Station, thus raising the installed capacity in the State to 179,200 kW. The Department of Hydro-Electric Construction Projects came into existence from October 1, 1957. The Sharavathi Valley Project, the Bhadra Hydro-Electric Project and the Tungabhadra Hydro-Electric Project (Left Bank), together with the construction of the transmission lines connected with these projects were brought under the control of the Hydro-Electric Construction Projects Department.

During the Second Plan period the Sharavathi Valley Project, the Bhadra Hydro-Electric Project, the Tungabhadra Hydro-Electric Project (Left Bank) were under construction and works were in different stages of progress. Consequent to the creation of Andhra State, Mysore got a 25 per cent share of Tungabhadra Hydro-Electric Project (Right Bank) equivalent to 9,000 kW., a joint venture of Andhra and Mysore, increasing the installed capacity by the end of Second Five-Year Plan to 1,88,200 kW.

During the Third Plan period i.e., 1961-66, considerable progress in power development has been achieved in the State. In this period, construction of Hydro-Electric Projects such as Tungabhadra (Left Bank) and Right Bank (Mysore State), Bhadra Project and the Sharavathi Project were simultaneously in progress. The construction of the Tungabhadra Hydro-Electric Project (Left Bank), consisting of 3 units of 9,000 kW. each (27,000 kW.) has almost been completed. The sanctioned estimate for the project is Rs. 604.20 lakhs. The construction of the Bhadra Hydro-electric Project with one unit of 2,000 kW. and two units of 12,000 kW. each and one unit of 7,200 kW. totalling to 33,200 kW. was also completed. The sanctioned estimate for the project is Rs. 380 lakhs.

The First Stage of the Sharavathi Valley Project, which consisted of construction of the Linganamakki Dam, Canal, Tunnels, Pressure Tunnels and surge tanks, penstocks, Power House and installation of two units of 89,100 k.Ws., 200kV. Transmission Lines from Sharavathi to Shimoga and Bangalore with Receiving Stations at Shimoga and Bangalore has almost been completed. The revised estimate of the First Stage of the project submitted for sanction is Rs. 56.08 crores.

The Tungabhadra Hydro-electric Project, Right Bank, which is a joint venture between Andhra Pradesh and Mysore State added two units of 9,000 kW. each at Dam Power Station and two more units of 9,000 kW. at Hampi Station, raising the total installed capacity to 72,000 kW. The share of Mysore State out of this is 14,400 kW., being 20 per cent of the total power generated. Mysore State will thus be generating power from the Shivasamudram, Shimsha, Mahatma Gandhi Project, Right and Left Bank Stations of Bhadra Project, Tungabhadra Project (Left Bank) and Sharavathi Project. The total installed capacity from these stations by the end of the Third Five-Year Plan would be 4,32,000 kW.

The Second Stage of the Sharavathi Project, which consists of addition of 6 generating units of 89,100 kW. each together with the construction of the associated 220 kV. Transmission Lines and Receiving Station at Hubli including extensions to the Receiving Stations at Bangalore and Shimoga, is in progress. The total estimated cost of the second Stage, sanctioned by Government, is Rs. 23.80 crores for 5 units and Rs. 4.10 crores for the addition of the 6th unit under the second Stage which is yet to be sanctioned.

The sanctioned estimate was based on global prices. Since orders for the equipment has been placed on the American firms as required by the AID loan agreements, the estimate for five units are being revised providing for the American prices. The approximate amount of the estimate, including the transmission lines, is

Rs. 40 crores. Most of the equipment for the second Stage works, including the 6th unit, under Stage II have been imported under DLF Loan assistance except 6 turbines which were imported under the French Credit. The following is the programme for commissioning of the several units under II-stage. (1) III Unit (I Unit of the II Stage) of 89,100 kW. is proposed to be commissioned during November 1966; (2) IV Unit (II Unit of the II Stage) of 89,100 kW. is proposed to be commissioned during February 1967; (3) V Unit (III Unit of the II Stage) of 89,100 kW. is proposed to be commissioned during May 1967; (4) VI Unit (IV Unit of the II Stage) of 89,100 kW. is proposed to be commissioned during February 1968; (5) VII Unit (V Unit of the II Stage) of 89,000 kW. is proposed to be commissioned during December 1968; (6) VIII Unit (VI Unit of the II Stage) of 89,100 kW. is proposed to be commissioned during December 1968.

The physical target programmed in terms of generation of power during the Third Plan is 5,05,700 kW., out of which the target achieved is 4,32,000 kW. With the completion of the installation of all the units under the Second stage, the installed capacity of the Hydro-Power system in the State will be increased to 9,66,600 k.Ws. by the end of the Fourth Plan period. The Fourth Five-Year Plan contemplates provision for the continuing schemes of completing the Sharavathi Valley Project, first and second Stages. Provisions have also been made under new schemes. for 220 kV. Transmission Lines and Receiving Stations Project in order to enable the bulk of Sharavathi Power to be transmitted to various load centres of the State such as Shimoga, Bangalore, Manglore, Mysore, Hubli and Munirabad. The installation of 9th and 10th units at the Sharavathi Generating Station in order to fully utilise the potential of the Sharavathi Valley Project is also included, for which, clearance from the Central Water and Power Commission is awaited. Kalinadi Hydro-Electric Project and the Varahi Project have also been included in the Fourth Plan.

Progress of Co-operatives in Third Plan

THE importance of co-operation in planned development has been recognised right through the three five-year plans. The First Plan recognised co-operation as an indispensable instrument of planned economic action in democracy. The Second Plan also emphasised that the building up of a co-operative sector as a part of the scheme of planned development was one of the central aims of national policy. The Third Plan carries this approach further and envisages a growing co-operative sector as a part of the socialistic pattern of society. The following is a brief account of the programme during the Third Plan, progress achieved during the first four years and the anticipated progress during the last year of the Third Plan in some sectors of Co-operative Development.

CREDIT : During the Third Plan, it was proposed to establish 4,000 Service Co-operatives both by organisation and reorganisation, 60 branches of District Central Co-operative Banks, 50 Primary Land Development Banks and have 200 Supervisors of District Central Co-operative Banks and 50 Land Valuation Officers for supervision over the dispensation of Short, Medium and Long-term finance and for outright grants for bad debt reserves. A provision of Rs. 154.52 lakhs was made under different schemes under the credit sector.

As against this, 1,740 Service Co-operatives, 50 branches of District Central Co-operative Banks, 50 Primary Land Development Banks have been established, 145 Supervisors and 40 Land Valuation Officers have been appointed during the first four years of the Third Plan. In addition, a sum of Rs. 16.33 lakhs has been given to village societies and District Central Co-operative Banks on the basis of the additional finance made available by them in the preceding years. A total expenditure of Rs. 57.83 lakhs has been incurred under the schemes during the first four years of the Third Plan.

By the end of the Third Plan, it is expected that the aggregate achievements under the credit sector would be the establishment of 1,730 Service Co-operatives, 74 branches of District Central Co-operative Banks, 55 Primary Land Development Banks and appointment of 200 supervisors of District Central Co-

operative Banks and 55 Land Valuation Officers.

MARKETING : The programme for the Third Plan envisaged strengthening of 160 Primary Marketing Societies and the Apex Marketing Society and establishment of Arecanut Marketing Societies, 15 grading units and grant of spillover subsidy to the Primary Marketing Societies partly assisted during the Second Plan. A total provision of Rs. 23.13 lakhs was provided for Co-operative Marketing. As against this programme, the achievements during the first four years of the Third Plan are strengthening 101 Primary Marketing Societies and one Apex Marketing Society and grant of assistance to Arecanut Marketing Societies and setting up of 22 grading units. A total expenditure of Rs. 14.37 lakhs has been incurred under these schemes during this period. By the end of the Third Plan, the total expenditure under the said schemes is expected to be of the order of Rs. 25.54 lakhs.

STORAGE : As the storage facilities provided during the Second Plan were inadequate, it was proposed to provide additional storage facilities. With this object in view, a provision of Rs. 96.00 lakhs was made in the overall Third Plan for granting assistance to 800 rural godowns and 100 medium-sized godowns and one big godown. The scheme of granting assistance to independent Co-operative Processing Societies and Marketing Societies undertaking Processing Societies was introduced from the year 1963-64. As against the above programme, 118 medium sized godowns, 710 rural godowns, 20 godowns by processing societies and one big godown have been granted assistance for construction during the first four years of the Third Plan and an expenditure of Rs. 67.55 lakhs has been incurred. The total expenditure of these schemes during the year 1965-66 is 33.17 lakhs whereas the anticipated expenditure by the end of the Third Plan is expected to be of the order of Rs. 100.72 lakhs.

PROCESSING : The Scheme envisaged setting up of 43 processing units of different types during the entire period of the Third Plan and granting them necessary financial assistance besides granting additional

share capital contribution to the Coffee Processing unit already established during the Second Plan. A total provision of Rs. 50.00 lakhs was made for the purpose in the entire Third Plan. As against this 61 processing units were set up and an expenditure of Rs. 33.26 lakhs was incurred during the first four years and a sum of Rs. 5.82 lakhs was spent during 1965-66 for granting assistance of 12 fresh processing units and granting the balance of assistance to the units partly assisted during the previous years. Thus, by the end of the Third Plan, 73 Processing units have been set up and an expenditure of Rs. 39.03 lakhs has been incurred.

CO-OPERATIVE FARMING : During the Third Plan, it was programmed to organise 190 societies in 19 Pilot Projects for which a total provision of Rs. 23.18 lakhs was made. Besides this, a provision of Rs. 8.15 lakhs was made towards the cost of the Trading Centres for Co-operative personnel and for publicity and farming propaganda. The Scheme was extended to areas outside pilot projects. As against this, 206 Co-operative Farming Societies were organised in 19 Pilot Projects. During the year 1965-66, 35 fresh societies were granted a total assistance of Rs. 1.35 lakhs bringing the total number of societies assisted to 241 and the total expenditure under the scheme to Rs. 14.74 lakhs by the end of the Third Plan. Besides this, 128 co-operative farming societies have been organised outside the pilot projects in Bhodan and Gramdan areas. During the Third Plan, it was programmed to establish a State Co-operative Union at the State Level and District Co-operative Unions in each District for undertaking educational and promotional activities.

CONSUMERS' SCHEME : The programme of the Third Plan envisages setting up of 200 primary consumers societies and 2 wholesales stores and a total provision of Rs. 9.16 lakhs was made in the overall Third Plan. The Scheme was implemented during the first two years of Third Plan and was given a go-by from the third year after the introduction of the centrally sponsored scheme of consumers co-operatives in November, 1962. During the first four years of the Third Plan, 70 primary stores and one wholesale store have been assisted to the tune of Rs. 3.24 lakhs.

TABLE "A".
INDEX NUMBER OF WHOLESALE PRICES

Commodities							Variation	
	March 1961	March 1962	March 1963	March 1964	March 1965	Novr. 1965	Col. 6 over col. 5	Col. 7 over col. 6
1	2	3	4	5	6	7	8	9
(Base: 1952-53 = 100)								
Cereals	132.1	138.9	132.7	150.8	202.6	327.5	34.4	61.6
Pulses	93.4	93.8	93.9	140.2	170.6	226.5	21.7	32.8
Oil Seeds	177.8	161.8	138.4	181.8	203.0	258.3	11.7	27.2
Gur	109.0	113.2	201.4	240.2	141.7	155.0	-41.6	9.4
Fibres	95.8	148.0	147.0	156.0	164.4	209.6	5.4	27.5
Condiments and spices	137.3	137.9	181.3	179.7	183.8	258.8	2.3	40.8
Miscellaneous	155.6	158.3	167.7	168.6	173.0	212.4	2.6	22.8
All Commodities	141.2	148.5	148.5	168.7	185.6	250.3	10.0	34.9

STATE INCOME OF MYSORE*

(Rupees in lakhs)

Sector	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
Agriculture and Animal Husbandry, etc., ..	39,628	40,816	42,005	43,194	44,383	46,531
Forestry	725	747	768	790	812	1,196
Fishery	398	408	420	432	443	508
Mining & Quarrying	688	712	733	753	774	744
Factory Establishment	3,814	3,926	4,040	4,155	4,269	4,191
Small enterprises	4,438	4,576	4,709	4,842	4,976	4,872
Communication (P & T)	194	200	206	212	218	218
Railways	924	954	982	1,009	1,037	1,018
Organised Banking and Insurance	529	546	562	578	594	576
Other Commerce and Transport	6,593	6,788	6,985	7,183	7,381	7,243
Profession and Liberal Arts	2,781	2,862	2,944	3,028	3,112	3,046
Government (Admn.) Services	2,472	2,544	2,618	2,692	2,766	2,717
Domestic Services	211	221	228	234	241	226
House Property	3,713	3,821	3,934	4,046	4,155	4,080
Net State output at factor cost (State Income) ..	67,108	69,121	71,134	73,148	75,161	77,166
Population (estimated) (in '000)	23,308	23,726	24,145	24,563	24,982	25,401
Per capita income (Rs.)	288	291	295	298	301	304

*Purely tentative.

At 1960-61 prices.

Note: For the year 1965-66, estimates are arrived at on the basis of the targets fixed in the III Five-Year Plan of the State in respect of various sectors. For the years from 1961-62 to 1964-65 estimates are arrived at on the basis of growth rate observed during the period from 1960-61 to 1965-66 and the contribution of different sectors to State Income in the year 1960-61.

BOOKS

Shadow and Substance*

MR. PONKSHE has done a distinctive service in presenting his book to the public. He need not feel unduly apologetic in reprinting his articles, published earlier in a daily paper, in the form of a book. The belief that the country's present day economic ills are mostly man-made runs like a coloured thread in Mr. Ponshe's book. In choosing the title for his book, he had made it plain that the substance of economic growth, namely, the betterment of the common man, has eluded the country.

To the critics who argue that this is not the time to create controversies, his answer is that "this is the most propitious time for a total reappraisal for our past economic policies." The author, in his introduction, sounds a note of warning that the country is heading towards Communism. He writes: "whatever illusions the Congress leadership has chosen to labour under, there is no doubt whatever that once a certain degree of Socialism has been established by any means, Communism cannot be far behind." This is a warning which has delphic overtones.

* In quest of a shadow by G. R. Ponshe, Manaktalas 6, Fairfield, Road No. 4, Chutchtgate, Bombay.

The author pleads that the policies should be framed more on the bedrock of logic and economics than on emotion and political gerrymandering. He has arranged his articles under various heads and there is hardly any aspect of the country's economy on which he has not brought an independent observer's judgment to bear. This book will serve as a mirror to reflect the economic scene of the country in its right perspective during the difficult years, 1962 and 1963, when the country was passing through quite exceptional difficulties.

—S. Natarajan

Books in Brief

India's Long-term Food Problem by V. K. R. V. Rao; published by Kerala University (Matthai Memorial Lectures, 1966). In a penetrating analysis, the author argues that the solution to the problem does not lie in merely increasing the production of cereals. The question is one of nutritional improvement. Dr. Rao's suggestions have an originality of their own and as such, compel attention.

International Economics by K. R. Gupta, published by Atma Ram & Sons, Delhi-6. Price 20. Again another text-book but here, the subjects covered, like international trade, balance of payments and foreign investment are dealt with in a lucid manner. The author's analysis of the theoretical aspects of devaluation will be read with interest. The inclusion of a selected bibliography and an index enhances the usefulness of the book. The price, at Rs. 20, seems to be rather on the high side.

Problems of Economic Development of India by H. G. Lakhani, New Literature Publishing Company, 12, Bake House Lane, Bombay-1. Paper back Rs. 12.50, Pp. 338. Meant to be a text-book for B.A. and B.Com. students, the book deals with topics having a bearing on development. It also covers

subjects like banking, money market and public finance. In a hurried attempt to cover the latest developments (even devaluation is included) the author trips up in certain places—a warning to future authors who have funny notions about writing a text-book on "Indian Economics," the Indianness being confined to sloppy presentation.

Elements of Economics by S. M. Israney, M.A., published by New Literature Publishing Co., 12, Bakehouse Lane, Bombay-1; Price Rs. 10.50 for hard cover, Rs. 8.50 for paper back. Pp. 436. The essentials of economics, as the author puts it, are presented in a way easy to understand and digest. The book is meant for students at the under-graduate level. The glossary of economic terms, given at the end, enhances the value of the book to students. Money's worth.

Hindustan Year Book and Who's Who, edited by S. C. Sarkar, is a standard reference book which comes in handy for those who cannot afford to buy the Times of India Year Book and other costly publications in this genre. Priced at Rs. 6 and published from 14, Chatterjee Street, Calcutta-12, the Year Book covers a wide field.

Manorama Year Book, 1966, Manorama Publishing House, P.B. 26, Kottayam, Kerala, Price Rs. 5.50. The publishers have done a fine job of collecting and putting together a wealth of general information useful not only to the layman but to experts in various fields. The effort is commendable.

H. P. J. Kapoor's Exchange Tables (two volumes) give comprehensive calculations covering all the leading currencies vis a vis the Indian Rupee, after the devaluation. Indispensable for business houses and banks. The volumes, priced at Rs. 8 each, can be had from H. P. J. Kapoor, Delhi-6.

Changes to Direct Tax Laws Arising From the Finance Act, 1966. Published by the Southern Indian Chamber of Commerce, Madras-1. The elucidation of the tax changes effected in the 1966-67 budget can be easily understood by laymen. The income tax "ready reckoner" appended at the end should help those who are poor at figures.

READ
Throughout the World
ECONOMIC AFFAIRS
A Monthly Journal
of Theoretical
and
Applied Economics
Edited by
HIMANSU ROY
10, Galiff Street, Block 5
Suite 64, Calcutta-3

OCTOBER 1, 1966

Reflections on Commonwealth Conference

From ANILA GRAHAM
(Our London Correspondent)

LONDON:

WHAT impact has the Sixteenth Prime Ministers' Conference had on the nebulous association—the Commonwealth? Before the Conference started, there were many who were prepared to perform the funeral obsequies of an organisation which has grown out of the British Empire and is made up of many nations of different racial groupings with different cultures and different political systems. To many who nurtured a sentimental affection for the old White Commonwealth, the present multi-racial organisation, many of whose members even attack the British line in the United Nations, makes little sense, and they would not be unhappy to see its swan song. What has the new Commonwealth in common with the old Empire, and how has the nature of this organisation changed with its conversion to the modern Commonwealth of sovereign independent states?

In many ways, this present Conference has marked an important point of departure. To begin with, it was organised, not by the British Government, but by a new body set up at the last Prime Ministers' Conference—the Commonwealth Secretariat. There are many who have felt aggrieved that, at this present Commonwealth Prime Ministers' Conference, Britain, rather than being in the chair, has been in the dock!

Yet it is an undeniable fact that in this day and age, the only terms on which the Commonwealth can make any sense at all is by being a multi-racial, multi-national organisation where rich and poor countries of different races can meet together on friendly, informal terms to discuss their mutual problems. If the Commonwealth is to be preserved, and is to serve a useful purpose, it must be on the basis of its multi-racial character, and it must proceed along the lines initiated in 1961 by the expulsion of South Africa from the club because of its racial policies.

It is for this particular reason that the present Conference was so important, for, despite all the conventions of previous Commonwealth Prime Ministers' meetings, the object is for Heads of States to meet and discuss, in general terms, world economic and political problems. The main object of the present session was to discuss the crucial problem of Rhodesia which became, quite rightly, a symbol of what the Commonwealth is supposed to stand for. If the British Government was prepared to let the illegal Smith regime go ahead with its plan for White minority rule, overlooking the democratic aspirations of the majority of the African people to have a share in the Government of their own country—a right granted to other African countries in the Commonwealth—then the whole meaning of the Commonwealth would disappear and there would be little reason for the many newly independent countries to remain within such an association which denied democratic rights on the basis of a racist policy.

The Conference started in a very tense atmosphere with a great deal of suspicion in the minds of many African delegates who believed that once more they would be fobbed off with mere fine-sounding phrases, combined with masterly inactivity in any efforts to topple the Smith regime. It would be fair to say that it reflected a real crisis of confidence. The experience of the Lagos Conference, the obvious inability of the sanctions to bite to date, and the delays in holding the Conference itself, had made many delegates lose confidence in the sincerity of Mr. Wilson. Feelings naturally ran high, and many of the delegates from various Commonwealth countries in Africa and Asia made clear their support of Zambia's demands.

Conscious of the tense and suspicious atmosphere, Mr. Wilson put all his efforts, in the initial

phases of the Conference, in attempting to convince the delegates of his sincerity in dealing with the Smith rebellion, and not participating in a sell-out as feared by many delegates. As a token of the fact that he did not wish to dictate to the Conference, he made an offer to stand down as Chairman. The tone of his opening remarks, and his general attitude—was very different from the one he had adopted at Lagos. But feelings still ran high, and in the event, the bulk of the Conference was taken up with the thorny problem of Rhodesia.

While it was universally recognised that Rhodesia was primarily a British problem, the African States, backed by other Commonwealth countries, were determined to wrest from Mr. Wilson some more definite indication that matters would not be allowed to slide, and that, through sheer inertia, Ian Smith's Government would be able to go its own way and flout the wishes of the majority of Africans in Rhodesia. Measures advocated by many members of the Conference included the use of force, mandatory sanctions and what came to be popularly termed as NIBMAR—no independence before majority African rule—as a counterblast to Smith's UDI. Britain, however, remained firm both on the question of the use of force, and NIBMAR. It was, however, prepared to show its willingness to take more definite action, and has agreed to put a time-limit to its last offer to Smith before proceeding with selected sanctions through the United Nations. Up to the very last minute, however, it was open to question whether the terms of a communique on Rhodesia could ultimately be agreed, as the majority of the countries had a large number of reservations on the British standpoint which they felt must be reflected in the communique. Eventually, with much of the credit going to Mr. Lester Pearson of Canada, a joint communique was

agreed setting out the points on which there had been agreement, as well as those on which there is still disagreement.

Whether the present terms offered to Mr. Smith will be acceptable certainly remains open to a great deal of doubt, and although a time-limit has been set, it is not very clear as to how the interim Government proposed by Britain (which has resolutely refused the African demand for direct rule) will actually consult African opinion before proceeding with a new Constitution, and the Africans in Rhodesia are certainly no nearer their original demand of "one man: One vote." With Rhodesia dominating the issue, there was little time to discuss the world political and economic situation, but a number of very relevant points on the economic front were made by Mr. Swaran Singh, India's Foreign Minister.

Economic questions are naturally of prime importance to the developing countries in the Commonwealth. The Indian Foreign Minister referred to the slow-down in the rate of growth in developing countries as compared with the momentum of development acquired in the late 1950s. At a time when these countries had developed a capacity to use foreign aid to greater advantage and reach a stage of economic self-sustaining growth, progress on economic assistance from the richer countries seems to have got stuck in a morass. Mr. Singh questioned whether the current difficulties of the donor countries, and the reduced flow of foreign aid was due to transient difficulties, or disenchantment with the whole business of foreign aid. In the developing countries too, there appeared to be much less popular support for foreign aid. Programmes of economic assistance seemed to have lost their pristine purpose of economic development, and extraneous items with a distinct political flavour have now crept in. Should the programme of aid not now be rescued to reaffirm its true economic function?

Two other points raised by India's Foreign Minister, referred to trade matters and the reform of the international monetary system. In the field of trade, although the developing countries had endorsed many of the measures recommended by UNCTAD to increase the exports of the developing world, little pro-

gress had actually been made in this field. While advanced countries were safeguarding and expanding their mutual trade, little thought has been given to the weak and poor countries. He urged that the question of extending preferential tariffs to all developing countries in the markets of the richer countries should be pursued in view of the Kennedy Round negotiations, and the British desire (at some future date) to join the European Economic Community. In the field of international monetary reform, he urged that developing countries, as well as the richer countries, have a stake in this matter, and suggested that any action taken in this field should be under the aegis of a truly international organisation like the International Monetary Fund.

Feelings certainly ran high at this Conference. The rhythm was very different from the old style Commonwealth conferences, and it is understood that the long sessions held by the Afro-Asian-Caribbean members of the Club, in order to hammer out their own policy, meant that many of the meetings of the Conference were delayed, and apparently Mr. Wilson's temper at one stage snapped, and he read to the delegates a lecture on how Conferences of this nature should be conducted. Yet, at the end of the day, these informal discussions, although they upset the time-table, did finally lead to some measure of agreement.

This has certainly been one of the most difficult and trying Commonwealth conferences, and at one stage, it was even on the cards that some members might walk out of the Conference and the Commonwealth, but in the end, the solidarity of the Commonwealth concept as a cohesive body of racial equality of multinational states, emerged more strongly than before the Conference. But it is abundantly clear that the other members of the Commonwealth are not going to act as mere stooges to the British. If they get something out of the organisation, they will stay on, and if they do not, they will quit. Certain values vital to the Commonwealth on racial equality must be respected, otherwise the Commonwealth will not survive. It was this feeling that finally persuaded Mr. Wilson to make his two concessions—one on putting a definite time-limit to the final offer to Ian Smith to return

to the constitutional fold, and the agreement to sponsor a resolution at the U. N., seeking selected sanctions against Rhodesia.

A notable feature of the Conference was India's close association with the Afro-Asian-Caribbean group. The Indian Foreign Minister was unanimously elected as Chairman of the group and played a leading role on such questions as Rhodesia, South-West Africa, apartheid, disarmament, and aid to developing countries. It seems that the firm stand taken by India on racial equality, Viet Nam, disarmament and other subjects, has allayed suspicions (heightened by the recent devaluation) that India had sold the pass and succumbed to political pressure from the West in order to obtain economic aid; a great deal was achieved at this Conference in re-establishing India's previous image (which has recently been tarnished) in the Afro-Asian Group.

WORLD BANK'S EARNINGS

THE International Bank for Reconstruction and Development reported a net income of \$143.7 million for the fiscal year ending June 30, 1966. This compared with net earnings of \$136.9 million in the fiscal year 1965. On July 28, 1966, the Executive Directors allocated \$67.8 million from the year's net income to the Supplemental Reserve against losses on loans and guarantees, increasing it to \$731.6 million. This raised the Bank's total reserves, including the Special Reserve, to \$1,021.4 million. The Executive Directors have recommended to the Board of Governors, for action at its forthcoming annual meeting in Washington in September, that \$75 million of the year's earnings be transferred to the Bank's affiliate, the International Development Association.

During the year, the Bank made 37 loans totalling \$839.2 million, in 29 countries, compared with a total of \$1,023.3 million last year. This brought the total number of loans to 461 in 79 countries and territories and raised the gross total of commitments to \$9,793.8 million. By June 30, as a result of cancellations, exchange adjustments, repayments and sales of loans, the portion of loans still retained by the Bank had been reduced to \$6,527.9 million.

Dawn Mills Earn More

THE results of the Dawn Mills Company Limited (Managing agents: Ruia Industries Private Limited) for the year ended March 31, 1966 can be considered satisfactory, viewed in the light of the difficulties faced by the textile industry in India. Although the sales have marginally declined from Rs. 2.69 crores in 1964-65 to Rs. 2.61 crores, the gross profit has gone up, from Rs. 24.33 lakhs to Rs. 24.47 lakhs which is mainly due to the smaller amount of Rs. 1.06 crores spent on raw materials, compared to Rs. 1.24 crores in the previous year. The other items of expenditure, like the salaries, wages and operational costs were however higher.

Out of the gross profits, Rs. 7.78 lakhs are provided for depreciation (Rs. 7.52 lakhs), Rs. 1.28 lakhs for development rebate reserve (Rs. 0.54 lakh) and Rs. 9.25 lakhs for taxation (Rs. 10.41 lakhs in the previous year). The net profit thus stood at Rs. 7.16 lakhs against Rs. 5.86 lakhs in 1964-65. Together with the previous year's balance and the written back provisions, the total amount available is Rs. 7.68 lakhs. Nearly the whole of this amount—barring Rs. 3,000 which is carried forward—is appropriated to the general reserve.

While the company's sales of yarn and hosiery—the bulk of its sales is in yarn—in the domestic market have gone up during 1965-66, its exports of both these items have suffered a sharp decline. The company proposes to issue 28,000 bonus shares of Rs. 50 each by capitalising Rs. 14 lakhs from the general reserve. It will be in the ratio of one share for every two held by the existing shareholders. The dividend recommended is Rs. 15 per share. A sum of Rs. 8.40 lakhs is being provided for this purpose out of the general reserve.

MINERVA MILLS

THE Minerva Mills Limited (Managing Agents: N. Sirur & Co.) is passing through a crisis, with its Mills in Bangalore remaining

closed for want of working funds. The Directors' Report for the calendar year 1965, which has just been released, is a recitation of a number of adverse developments which led to a net loss of Rs. 17.07 lakhs. The working loss for the year amounts to Rs. 13.68 lakhs. The adverse factors facing the industry include the high price of cotton, increase in the dearness allowance paid to workers, the higher interest rate paid on borrowed funds and the increased electricity and water charges, with the result that the textile industry had to sell the accumulated stocks "at considerable sacrifice." Even the yarn trade faced a slump in view of the distress conditions prevailing in the powerloom and handloom sectors. Some of these factors were at the root of the crisis faced by the Minerva Mills.

While the liquidity position worsened, the Mills had difficulty in securing accommodation from the Banks which were under a regime of credit-squeeze. Besides, the payment of bonus for earlier years led to a drain of Rs. 5.14 lakhs. The operations of the mills remain suspended from April 1966. In this connection, the directors have observed: "To cover the losses incurred so far, the company is in the process of disposing of surplus land outside the mill premises. . . . The value of these lands, according to the present market rates, should adequately cover the losses incurred during the year under and subsequently." In an effort to restore normalcy, the company has secured a loan of Rs. 5 lakhs from the Canara Bank—on the guarantee of the Government of Mysore—which is used for the payment of the outstanding wages of the workers, etc. When the mills are re-started, 50 per cent of the spindles will be working on superfine yarn. This,

FACT'S PERFORMANCE

THE drastic power cuts imposed in June-July and subsequently in November 1965, constituted the major cause of the substantial loss in the production of

Fertiliser and Chemicals, Travancore Limited, during the year ended March 31, 1966. The decline in production was valued at Rs. 2.68 lakhs. This has resulted in the company reporting a loss of Rs. 5.06 lakhs compared to a gross profit of Rs. 18.55 lakhs in the previous year. After taking into account the provision for depreciation and gratuity, the total loss will be Rs. 69.86 lakhs.

However, except for the loss amounting to about 17,600 tons in the production of ammonia, the company registered record production in other items which are not dependent on ammonia. The power-cuts have no doubt affected the company's expansion programme (third stage) but it is expected that the ammonium sulphate and the ammonium phosphate plants would be ready for trial runs any time now, with the availability of additional hydrochloric gas from the Travancore Cochin Chemicals Limited. The fourth stage expansion scheme, aimed at increasing in production of ammonia from 260 tons per day to 340 tons, has been approved by the Centre. This will lead to an increase in the production of ammonium phosphate from 1.35 lakh tons to 1.81 lakh tons. The latest ammonia synthesis process, adopted by FACT, will also lead to a reduction in the unit cost of ammonia by 10 to 15 per cent. FACT has also taken up the construction of the Rs. 40 crore Cochin Fertiliser Plant.

HINDUSTAN FERODO

CONSIDERING that 1965-66 was a difficult year, Hindustan Ferodo Limited can be said to have shown good results during the year ended March 31, 1966. It has made a net profit of Rs. 58.12 lakhs compared to Rs. 45.62 lakhs in the previous year. Adding Rs. 6.46 lakhs being the previous year's over-provision for taxation, the amount available for appropriation will be Rs. 64.58 lakhs, out of which Rs. 3.50 lakhs are set apart for taxation reserve and Rs. 61.08

lakhs for general reserve. In addition to the interim dividend of Rs. 6.70 lakhs paid in March, the directors recommend the payment of Rs. 37.97 lakhs, equivalent to 17 per cent of the paid-up value of each share, which will be subject to tax-deduction, and will be paid out of the general reserve.

The tax incidence of the company was lower during the year under review. Although the company's net turnover showed an increase of Rs. 73 lakhs, the director's state that the year's performance was not quite up to expectations. The shortage of raw materials affected the production but its maximum impact was not felt owing to the import-substitution achieved by the company. The liberal import policy adopted this year, after devaluation, should help in improving the company's turnover. The directors observe that the production and sale of automotive brake linings continue at a high level despite increasing competition. The costs have however gone up after devaluation.

TAK MACHINERY

IN SPITE of the adverse developments during the year, Tak Machinery Limited has shown improved results. During the year ended March 31, 1966, the company's sales have increased to Rs. 70.28 lakhs compared to Rs. 47.32 lakhs in 1964-65. The profit, after providing for depreciation and development rebate, has substantially increased to Rs. 10.15 lakhs against Rs. 5.54 lakhs in 1964-65. The directors' report states that all arrears of statutory development rebate have been cleared and a maiden dividend of Rs. 8 per share has been declared. This absorbs Rs. 3.98 lakhs. A sum of Rs. one lakh has been transferred to the general reserve. During the year under review, the production of E.O.T. cranes and electric hoists showed an increase. The production of conveyors has also commenced. The company has plans to commence the production of Goliath (gantry) cranes this year. The company has also entered into collaboration arrangements with Swiss and French firms for the manufacture of Guillotine shearing machines and combination punching, shearing and cropping machines. The company has plans to manufacture press brakes and airline equipment.

KESORAM INDUSTRIES

THE gross earnings of Kesoram Industries and Cotton Mills Limited during the year ending March 31, 1966 amounted to Rs. 2.59 crores compared to Rs. 2.18 crores in 1964-65. This is the result of improved turnover which rose from Rs. 16.34 crores to Rs. 19 crores. The net earnings of the company improved from Rs. 81.69 lakhs to Rs. 96.31 lakhs. Dividends absorb Rs. 39.84 lakhs, the same as last year (Rs. 1.50 per equity share). The net worth per equity share has increased from Rs. 37 to Rs. 40. The company is issuing five lakh bonus shares in the ratio of 1:4. The directors' report highlights the present crisis in the textile industry, although the company's cloth sales showed improvement. There has also been an improvement in its exports. The offtake of rayon yarn and transparent paper was also satisfactory although the higher cost of raw materials reduced the profit margin. However, there was a slackening of the demand for spun pipes, affecting the company's cast iron spun pipe section. The company has started the manufacture of ready-made garments for which there is good market abroad. The directors' report makes mention of the fact that devaluation has increased the company's liabilities by Rs. 27 lakhs.

CAPITAL ISSUES

Ciba of India Limited, Bombay, has been granted consent to capitalise Rs. 250 lakhs and issue 2,50,000 equity shares of Rs. 100 each, as bonus shares in the proportion of 10 bonus shares for every three equity shares held.

Shree Ram Mills Ltd., Bombay, is to capitalise Rs. 33.20 lakhs from its reserves and issue bonus shares in the ratio of one bonus share for every two shares held.

Hindustan Spinning and Weaving Mills Company Limited, Bombay, has been accorded consent to capitalise Rs. 24 lakhs from the general reserve No. 1, and issue bonus share in the ratio of one new share for every equity share held.

Associated Electrical Industries (India) Private Limited, Calcutta, has been accorded consent to issue further capital of Rs. 150 lakhs in equity shares of Rs. 10 each,

standing of Rs. 44 lakhs as bonus shares by capitalising company's free reserve—Rs. 36 lakhs to the parent company in U.K. for cash at par in repayment of loan—and after conversion into a public company Rs. 70 lakhs to be offered to the Indian public for cash at a premium of Rs. 5 per share.

National Coal Development Corporation Limited, Ranchi, has been accorded consent to issue share capital of Rs. 10 crores, consisting of 1,00,000 equity shares of Rs. 1,000 each for cash at par.

Bank of Maharashtra, Poona, has been granted consent to issue further capital of Rs. 50,38,950 in equity shares of Rs. 50 each for cash at par.

State Industrial and Investment Corporation of Maharashtra Limited, Bombay, is to issue share capital of Rs. 75 lakhs consisting of 75,000 equity shares of Rs. 100 each, for cash at par.

Sunlite Batteries and Carbons Ltd., Baroda, has been granted consent to issue capital of Rs. 50 lakhs, divided into 40,000 equity and 10,000 preference shares of Rs. 100 each. Of this, equity shares of the value of dollars 110.225 will be issued of Messrs. Marathon Battery Company, U.S.A., against supply of machinery, and the balance will be issued in India for cash at par.

Hindustan Lever Limited, Bombay, has been accorded consent to issue debentures stock 7 3/4 per cent (1977-1980) (1st mortgage) of the value of Rs. 250 lakhs to be offered to the Public for cash at par.

Asbestos Cement Limited, Bombay, has been accorded consent to issue a capital of Rs. 1,26,50,000 comprising of (i) 61,667 fully paid equity shares of Rs. 100 each, as bonus shares on capitalisation of general reserve to a like extent; and (ii) 64,833 equity shares of Rs. 100 each, to be issued for cash at a premium of Rs. 50 per share, out of which not less than 49,124 shares will be offered to the Indian public by prospectus, so as to bring up Indian participation in the Company's share capital to 40 per cent.

Barasali Tea Company Private Limited, Gauhati, is to capitalise Rs. 2,20 lakhs out of its free reserve and issue bonus shares.

STOCK MARKETS

Pre-moorat Recovery in Equities?

From our Market Analyst

THE dullness and the drift witnessed in the stock markets for the past several weeks showed signs of a secondary recovery in selected shares during the fortnight under review. Though bullish sentiment was absent in the market, lower levels attracted some support. There was also some rise in values in selected shares. Pivotal shares in Bombay and Calcutta markets came in for better support at the end of the fortnight. Bears became cautious, while Bulls were inclined to take small risks. There was, however, no significant development in the corporate or economic sphere. But, there was a feeling that the pre-election period would not witness any great change in equity values.

The Congress Party's election manifesto has been well digested by the financial circles and there is no new turn in political thinking on the eve of the election year. The renewed emphasis on the goal of Socialism is unlikely to influence the economic outlook one way or the other. The Fourth Plan has revived fears of further taxation and inflation, but one encouraging feature is the growing awareness of the monetary authorities to the dangers of trying to live beyond one's means. The observations made by the Governor of the Reserve Bank of India about the dangers inherent in the bigger outlay of the Fourth Plan and the necessity to keep prices under control, are not without significance. As the authorities are determined to combat inflation through various methods, the industry's immediate concern is how best to raise production and achieve import-substitution. The liberal import policy should yield its results sooner or later. As the provision for an annual review of plan targets and resources constitutes a safety valve against over-ambition, it is possible to infer that taxation will not be resorted to, without regard to its impact on production and exports.

The reports of an early release of the balance of U.S. economic aid had a salutary effect on the market.

But the approach of the busy season in the money markets has started to produce various surmises about a new credit policy. The Commonwealth Finance Ministers' Conference at Montreal has endorsed Britain's approach to the problem of inflation. From this, it is apparent that in the years to come, governments would be more liberally using fiscal measures to fight inflation.

The borrowing programmes of the States are over. The securities market continued to remain quiet. The new loans of the States were transacted in the market around 91 per cent. The break in price followed selling pressure from weak holders. The pattern of subscriptions to state loans and the rising yield pattern, are matters of considerable importance, as these may show the vulnerability of low yielding investments during times of confirmed dear money. It is obvious that the position of strength can be regained for borrowers by keeping money relatively cheaper and this is possible when savings are encouraged in the hands of the individuals and corporations. When incentives for production are given (tax incentives not excluded), the orthodox monetary weapon of a high Bank rate to combat inflation may not be necessary. The near term outlook for the market will depend on how the sentiment is going to be shaped for this year's auspicious Moorat (Deepavali) trading.

In the Madras market, there was a mild revival of buying in the planting section after the past few weeks' dullness. Blue Mountain was picked up at Rs. 2.10. Though a higher dividend by this company for the year ended June 30, 1966 is not freely anticipated, the market appears to be guided by the possibility of a promising outlook for the fertiliser section. Malankara Rubber had good demand at Rs. 27.50, while Non such Tea was favoured at Rs. 23. Coffee Lands were strongly backed at Rs. 18.25. Cons-coffee had buyers at Rs 23.50. But, all

these shares had no ready sellers and this helped the higher bids. Teekoy was in demand at Rs. 10.75. Cowcoody had buyer at Rs. 4.35 XD. Haileyburia, and Neelamalai were in demand.

Sugars were mixed. E.I.D. was a bright spot moving up to Rs. 17.50 XR on September 23. But, Kothari Sugar was done lower at Rs. 6.20. Travancore Sugars lost ground at Rs. 6.50 CD due to selling pressure. Textile shares were dull. But, South India Viscose showed some revival around Rs. 108.50.

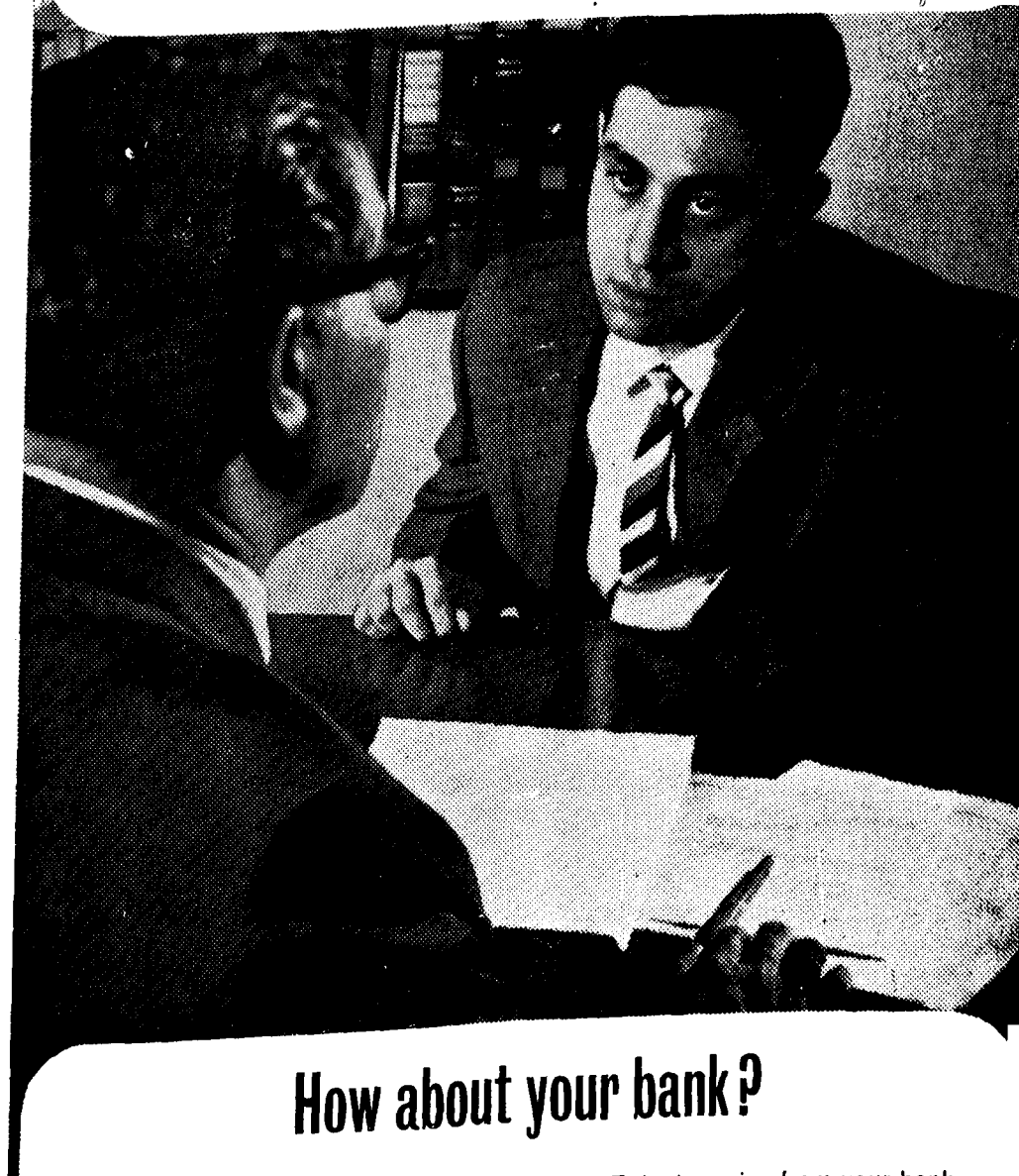
In Dalal Street, operators were inclined to support selected shares at lower rates. Indian Irons showed some small variations, and were picked up at Rs. 27. Tata Ordinary showed steadiness around Rs. 143. ACC showed no significant movement around Rs. 159.50. There was slight pick up in automobile shares, on the news of an increase in price on commercial vehicles by Tata Locomotive. The higher output of passenger cars by Premier automobiles brought some bull support. There was some support for Indian Explosives, and Hindustan Aluminium. In the Calcutta market, dull conditions prevailed. Indian Aluminium me some enquiry at Rs. 26.10. Guest Keen, Williams were picked up at Rs. 17.30.

ITI PRODUCES NEW EQUIPMENT

THE Indian Telephone Industries recently released the first set of 7 kmc microwave equipment to the Indian Posts and Telegraph Department. The equipment, which is capable of providing 300 telephone channels, was designed by the Telecommunication Research Centre of the P. & T., New Delhi, and developed and manufactured in the Indian Telephone Industries Ltd. The microwave equipment, which is being manufactured for the first time in the country, utilises a large number of indigenous components. This marks a major step in the establishment of microwave links in the country.

URTH

You choose your executives with care.



How about your bank?

To run your business well, you need quick, efficient service from your bank. Join the thousands of businessmen who have Current Accounts with us and are taking advantage of our many services.

You'll find we brook no delays. Your cheques get cashed and collected promptly. Your records stay up-to-date. More important, we're most helpful and understanding. Our advice too is so practical—always based on authentic market intelligence, expert financial know-how plus experience of over half a century.

You can also take advantage of our other useful facilities, such as:

- free remittances (within approved limits), once a day, wherever we have branches in India.
- "standing instructions" for periodic payments like rent, fees, insurance, etc.
- safe custody of documents.

THE BANK OF BARODA LTD.

(Estd. 1908) Regd. Office: Mandvi, Baroda.
Over 240 branches in India. Also branches in London, East Africa, East Pakistan, Fiji Islands, Mauritius and Guyana.

Write for our FREE booklet "May We Help You?", which gives details of all our services.

CHB-18



We have just the vehicle you require **FARGO**

(manufactured by The Premier Automobiles Limited, Bombay)

We can arrange an advance of Rs. 30,000 in the price of a truck, or Rs. 38,000 in the price of a bus with TVS body - repayable in easy monthly instalments

Why a Fargo? It is ideal for making quick deliveries. Reasonably priced so that you can have more of them and diversify your operations.

Why specifically a Fargo? Because of these factors: Robust chassis frame, Rockwell Standard Timken Axles to withstand road and load shock and for better payload. Choice of four engines. Five-speed transmission for finer selection in different operating conditions. 330 mm (13") single dry plate type clutch disc specially designed to withstand heavy torque. Heavy duty propeller shaft. Positive stop on the front spring rear shackle bracket.

TVS arrange hire-purchase finance: Rs. 30,000—repayable in easy instalments out of the profits your Fargo will bring in month after month. Rs. 38,000 for a bus with TVS body.

For more details please contact.

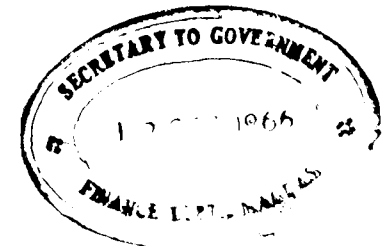


T. V. SUNDARAM IVENGAR & SONS PRIVATE LIMITED, MADURAI-TIRUCHI-TIRUNELVELI-PUDUKKOTTAI-SALEM-COIMBATORE-TRIVANDRUM Sub-dealers: P. N. Krishna Aiyar & Sons Private Ltd., Trichur - C. C. Automobiles Limited, Calicut - The Quilon Automobiles, Quilon - Monoranjan Ganguly & Sons Private Limited, Pondicherry.

SUNDARAM MOTORS PRIVATE LIMITED, MADRAS-BANGALORE-SECUNDERABAD(A.P) Sub-dealers: Garapati Garage 1959, Vijaya-Vidya-Sri Pattabhiram Commercial Syndicate, Kakinada and Visakhapatnam - D. S. Automobiles, Nellore - The Motor Sales Co., Anantapur - Kurnool - T. N. Raghunatha Reddy, Cuddapah - Sree Venkateswara Automobiles, Hospet - P. V. Pai & Co., Mangalore and Mercara.

JWT-SF-3735R

SOUTHERN ECONOMIST



Vol. V ; No. 12

OCTOBER 15, 1966

Price: 30 Paise

LIQUIDITY CRISIS
DEVELOPMENT - A NEW PAGE
ERA OF ECONOMIC GROWTH

HOW TO WIN THE FUTURE
LOOKING AHEAD

FUTURE OF THE NATION

WE ARE
60 YEARS
OLD...

Two depositors—one young—one old—but both learned the benefits of saving from the Canara Bank. The Canara Bank has spread far and wide. In all walks of life, young and old are building for a brighter, happier future for themselves, their families and the nation as a whole. While depositors grow in age and prosperity—the Canara Bank, too, has grown from its humble beginning in 1906 to the 7th largest Bank in 1966. Thus, rich in experience and young in enthusiasm this Diamond Jubilee year brings with it the confidence of ever widening vistas of prosperity for the future.

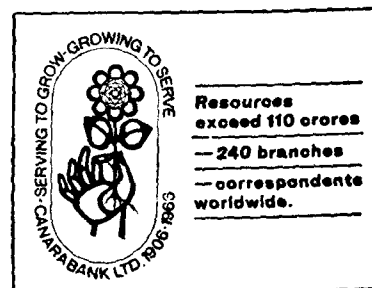
60 YEARS OF SERVICE—1ST JULY 1906—1ST JULY 1966.

ALL INDIA DIAMOND JUBILEE CELEBRATIONS JULY—DECEMBER, 1966.

CANARA BANK LTD.

Regd. Office: Lighthouse Hill, Mangalore.

Administrative Office: 112, Jayachamara Jendra Road, Bangalore.



...AND
60 YEARS
YOUNG

SISTA'S : CB : 10A

SOUTHERN ECONOMIST

October 15, 1966

CONTENTS

EDITORIAL	1
Fourth Plan	
NOTES OF THE FORTNIGHT	3
Land Tax Abolition; Development Banking; World Bank and I.D.A.; L.I.C. in South; Cochin Refinery	
GLASS HOUSE GOSSIP	7
SPECIAL ARTICLES	9
Population and Resources —By Sir Joseph Hutchinson	
Future of Hire-purchase Business —By T. S. Santhanam	
Economics of In-shop Training —By S. Venu	
Adam Smith on Rhetoric —By Dr. Narendra K. Sethi	
Mathematical Methods in Economics —By Prof. Dmitri Oparin	
BRITISH SCENE	19
Liquidity Debate Continues —By Anila Graham	
BOOKS	23
Planning For Steady Growth Reviewed by Prof. V. L. D'Souza	
Workers Endorse Wage Freeze —By Colin Jones	24
AVIATION	25
Fare Cuts Stimulate Traffic	
COMPANY NOTES	27
Aluminium Corporation; Ganges Manufacturing; Industrial Investment Trust; Antifriction Bearings; DENA Investment; Saran Engineering; Capital issues	

SOUTHERN ECONOMIST
24, HAUDIN ROAD, BANGALORE-1
Phone : 75439

Published on 1st and 15th
of every month

Subscription Rates:
ANNUAL Rs. 12 (Inland)
\$ 4 or 25 s (Foreign)
Single Copy 50 Paise

FOURTH PLAN

THE draft outline of the Fourth Plan contains, as usual, several "ifs" and "buts". While one cannot seriously question its claim of being a challenging document, one can legitimately doubt if it adds up to a viable programme. Let us first consider its size. At prices prevailing in June 1966, it envisages an outlay of Rs. 23,750 crores. Although this appears larger than the outlay of Rs. 21,500 crores proposed in the September 1965 document, the Plan presented in August 1966 is smaller, in terms of physical targets to be achieved. There is no attempt to slur over this fact. The draft outline makes no secret of the fact that at the June 1966 prices, the September 1965 Plan would have cost Rs. 25,000 crores. From this it is obvious that there have been some cuts in the physical programmes. Since these cuts have affected several long-yielding projects, the Fifth Plan will have to start, so to speak, with a jerk. Thanks to the over-emphasis placed on such projects in the Second and Third Plans, the Fourth Plan, at any rate, will not start with this disadvantage.

The complaint is not that our planners have opted in favour of a smaller physical plan. The point, rather, is that the outlay, at Rs. 23,750 crores—broken up into Rs. 16,000 crores for the public sector and Rs. 7,750 crores in the private sector—is not backed by a resource-mobilisation programme of similar magnitude. But this is an area which critics usually avoid because one easily gets bogged down in an arid debate based on several hypothetical assumptions. The broad generalisation can be made, however, that the growth-rate of 5.5 per cent assumed in the Fourth Plan is not consistent either with domestic saving that can be raised without inflationary devices or with a realistic expectation of external assistance to fill the domestic saving-investment gap. At the end of the Third Plan, the ratio of investment to national income had gone up to 14 per cent whereas the ratio for domestic savings to national income was only 10.5 per cent. Is it reasonable to assume, then, that domestic savings would go up to 15 or 16 per cent during the Fourth Plan, even granting that the flow of external assistance will continue on the usual scale? The latest World Economic Survey reveals that nearly 50 per cent of the developing countries—India included—have shown a saving ratio of less than 13 per cent. Commenting on this, the Survey (1965) observes:

On the basis of the incremental capital: output ratio common to a large majority of the developing countries, a 13 per cent saving rate is unlikely to sustain a growth rate of more than 4 per cent a year. Such a rate would be inadequate not only in relation to the 5 per cent target that has been set for the Development Decade, but also in relation to current and prospective rates of population increase which would require a 3 per cent rate merely to prevent a decline in per capita income.

There appear to be too many gaps in the resources picture. A sum of Rs. 7,750 crores is assigned to the private sector but one is left wondering as to how this amount could be raised in the present state of the capital market. Even in regard to the public sector's share of Rs. 16,000 crores, many loose ends are left hanging. That the Fourth Plan sets its face firmly against deficit financing is to be applauded—in the Third Plan, it was of the order of Rs. 1,150 crores—but the revenue yields are worked out on the basis of several assumptions about the increase in production at a certain rate, curtailment of non-plan expenditure, effectiveness of measures to check tax evasion and the yield of public sector undertakings at 11 to 12 per cent. The draft outline also assumes a tax effort of the order of Rs. 1,800 crores over and above

what is attempted up to 1966-67. In the Third Plan, it is true, the expenditure in the public sector was Rs. 8,630 crores, against the original programme of Rs. 7,500 crores. This was, in part, due to price-escalation, but there was also the fact that the yield from measures of additional resource-mobilisation—mainly additional taxation—was Rs. 2,880 crores compared to the plan target of Rs. 1,710 crores. This, together with a large measure of deficit financing, ensured the success of the Third Plan programmes, at least in financial terms. Viewed against this background, the task of raising additional resources of the order of Rs. 2,730 crores may appear simple. Indeed, allowing for the yield from measures already adopted in 1966-67, the gap will still be smaller, at Rs. 1,800 crores. But the full impact of additional taxation is likely to be felt only in the last three years of the Fourth Plan since the governments may not levy heavy taxes in the election year budgets of 1967-68. The prospects thus are none too rosy.

The Fourth Plan is also vulnerable on the foreign exchange front. Total external payments, amounting to Rs. 14,333 crores, are expected to be financed to the extent of Rs. 8,033 crores by export earnings (in post-devaluation rate) and the resultant gap, to be covered by external credit, is Rs. 6,300 crores which corresponds to Rs. 4,000 crores in pre-devaluation rate of exchange. On what basis can our planners assume that our exports (in post-devaluation rate) will jump up from Rs. 1,300 crores in 1966-67 to Rs. 1,929 crores in 1970-71? Again, where is the assurance that external credit to the extent of Rs. 6,300 crores will be forthcoming, especially when U.S.A. and U.K. are adopting stringent measures to reduce their external deficits? There is thus the danger of the Fourth Plan running into heavy weather both on account of the likely shortfalls in export earnings and on account of the tight-fisted aid policy of the Western countries. It is perhaps pointless to criticise the draft outline on the plea that it tries to bite off more than what it can chew. For a plan—in the context of a population-growth rate of 2.5 per cent—which aims at a growth-rate of less than 5 per cent is no plan at all since it only perpetuates stagnant conditions in *per capita* income.

The dilemma can be traced partly to the planners' inability to secure a rate domestic saving which is adequate enough not only to cover the need for indigenously available resources but also to pay for the import of equipment and know-how that is considered indispensable. The planners' over-emphasis on import-substitution notwithstanding, our plans seem to be unmistakably oriented towards external assistance. At any rate, the talk of self-sufficiency sounds hollow in the face of the fact that the investment programme of the public sector is dependent on foreign aid to the extent of 30 per cent, or a little less. Short of a radical

volte face in the approach of our planners, external assistance is bound to play a crucial role in our successive five-year plans. This may not be an unmixed blessing but doctrinaire opposition to external assistance will in no way help.

In the Fourth Plan, the major task will be one of containing inflation, particularly since the price-rise over the past five years has been of the order of 32 per cent. If such a price-increase is allowed to go unchecked, there will again be serious shortfalls in the achievement of the physical targets, quite apart from the inroads it will make into the already reduced saving-capacity of the household sector. The immediate task should be to ease the pressure on the supply of wage-goods, through appropriate curbs on demand. Some improvement on the supply side, particularly the supply of foodgrains, can be expected in view of the prospects of a better harvest and the special importance accorded to the production of daily necessities but distribution has always been the Achilles heel of our planners. Perhaps it is a characteristic feature of planning in a mixed economy that there can be no comprehensive and effective control on prices. But since the public sector plays an increasingly predominant role, it should not be difficult to evolve a system of distribution which will fit in with the scheme of plan priorities and imperatives.

The First Plan had the advantage of good harvests. The Second Plan faced the problem of price-rise but the "cushion" provided by our accumulated sterling balances helped to reduce the impact of plan expenditure. But the Third Plan got the worst of both worlds. With no reserves to draw upon and with mounting commitments in regard to debt-repayment, bad harvests and two border wars which more than doubled the defence outlay, it is not surprising that the plan got tied up in knots. It would be prudent to recognise that some of these adverse factors are likely to persist even during the Fourth Plan. Although the planners have accepted mixed economy as a transitional phase in the progress towards Socialism—or some variant of it to suit the Indian conditions—there is a disposition to shut one's eyes to the essentially capitalist orientation of our mixed economy. The policy of drift that we see today is hardly calculated to inspire confidence. One more point that needs to be emphasised is that effective implementation of the plans has not been possible because of the failure of the administration to carry out plan schemes without delay and with the minimum of waste. The success of the Fourth Plan hinges on how best the planners tackle the problems of evaluation and implementation.

On the occasion of Dasara, we send our best wishes to the readers and patrons of Southern Economist.
—Editor

NOTES OF THE FORTNIGHT

Land Tax Abolition

Political Move

THE resolution of the Tamil Nad Congress Committee recommending the abolition of the land tax is an adroit political move intended to take the wind out of the sails of radical elements in the State like D.M.K. and the Communist Party. Whatever may be the merit of this surprise decision, it is not calculated to improve the relations within the Congress Party. This is an indication that the mechanism of intramural consultation—even at the regional level—is on the verge of breaking down on the rock of political expediency. Considering that land revenue is the oldest tax in the State list, a snap decision by a Pradesh Congress Committee in favour of its abolition—whatever may be the merits of the proposal—is bound to create confusion in the Congress ranks, besides causing embarrassment to the Finance Ministers of several State Governments who were frantically trying to secure the Centre's green signal for their Fourth Plans. There was, no doubt, a strong case for removing dead wood in the States' fisc, but it would have been wiser to wait for the findings of an expert commission and proceed on the basis of uniform "norms" applicable to all the states. In its eagerness to steal the limelight, the Tamil Nad Congress seems to have opened up a Pandora's box. Even granting that the inspiration for the move came from no less an authority than the Congress President, Mr. Kamaraj, one cannot help doubting the soundness of this fiscal expedient.

Land revenue, it is true, is slowly losing its importance—if the dimi-

nishing size of collections is any indication—in the total revenue-picture of the State Governments. From about 22 per cent of the total tax revenue of the states in 1955-56, the land revenue has come down to less than 10 per cent in 1966-67. Even though accruals of land tax have not been buoyant during the past five years, the total yield of land revenue from 1961-62 to 1965-66 was of the order of Rs. 563 crores. It is clear from this that if all the states decide to abolish land revenue, they will stand to lose at least Rs. 600 crores—assuming a static yield—during the Fourth Plan. Of course, the loss is likely to be smaller if the other rural taxes like the betterment levy, water rates and the agriculture income tax are tightened up but there will still be a substantial gap until an alternative measure is evolved to replace the land tax. The question is, when the state governments are confronted with the problem of raising Rs. 985 crores through "additional mobilisation" during the Fourth Plan, would it be wise to scrap land revenue which is the corner-stone of the states' fiscal structure?

At any rate, in formulating the resources picture of the Fourth Plan, the Planning Commission did not envisage, even remotely, the abolition of land revenue. On the other hand, the draft outline of the plan says: "As regards land revenue, it will be necessary to revise the rates both for securing additional resources and for introducing an element of progression in their incidence on holdings of different sizes." Many expert bodies which went into the question of tax incidence appear to be unanimous in their view that the agricultural sector is lightly taxed when com-

pared to the urban sector. This argument cannot be refuted out of hand because, over the past few decades, agricultural prices and incomes have increased at a much faster rate than the increase in the rural taxes.

The fact that this has not greatly helped in improving the savings level in the rural sector or personal consumption, indicates a lack of progression in rural taxation. Several taxes in the urban sector offer an exemption limit in order to leave out the subsistence sector. But in agriculture, there is no such exemption limit which takes into account the uneconomic nature of the agricultural operations of the small peasants. This underlines the need for introducing an element of progression in agricultural taxation, particularly the land tax. So far as the incidence as between the urban and the rural sectors is concerned, there can be no dead-level uniformity, knowing as one does the poor taxable capacity of large sections of the rural population. But periodical resettlements do introduce an element of progression, crudely based on production and the quality of the land. In the present state of our agriculture in which the subsistence sector predominates, no single weapon of taxation will be able to skim off the agricultural "surplus" for development purposes.

By streamlining and collecting the agricultural income tax more effectively (why not hand it over to the Centre?) it should be possible to remedy the present lacuna but political consideration have always come in the way of introducing a rational tax system in the rural sector. If the Congressmen in certain states think by abolishing the

land revenue, they will provide a modicum of relief to the peasants, they are mistaken. Land revenue, even under the rates introduced after the latest resettlement, forms only a small percentage of the price of the total produce and its abolition does not confer any tangible benefit to the peasant. From the revenue point of view, it seems highly unwise to abolish land revenue since it is still a major item in the budgets of the state governments. Mysore, for instance, gets nearly Rs. 6 crores per year which mean that it will get, under this head, Rs. 30 crores during the Fourth Plan, even assuming stagnant conditions. Water rates and betterment levy can only be used as adjuncts to land tax and not as substitutes for it. An ideal system of taxation takes time to emerge—if it does at all—and prudence demands that, in the absence of an alternative system, nothing should be done to scrap the land revenue. The infrastructural facilities and the agricultural inputs that the Government seeks to provide during the Fourth Plan justifies the continuance—and if necessary the strengthening—of the existing rural taxes.

Development Banking

In Strait Jacket

WITH the capital market remaining sluggish as ever, industries in the private sector are looking more and more to the term-lending institutions for their capital requirements. In the Second Plan, the assistance provided by the term-financing institutions constituted about 5 per cent of the total estimated gross investment of the private sector. It increased to about 13 per cent in the Third Plan period. This underlines the fact that development banks are playing an indispensable role in the financing of industries. Several responsible quarters however view this trend with some concern. The Industrial Development Bank of India—the apex institution in the field—is constrained

to observe, in its latest report, that “in view of the investors’ poor response (to new issues) the financial institutions have had to take up large portions of the share issues in fulfilment of their underwriting obligations, as in the preceding year.”

The Chairman of the Industrial Finance Corporation struck a similar note when he observed that “the market for new issues of capital has remained unresponsive in spite of the benefits given to companies and share-holders in the last budget of the Central Government and the Corporation’s exercise in artificial respiration has not yet produced any enduring result.” These institutions are understandably worried that perpetual wet-nursing may cripple the mother. The annual reports of I.D.B.I. and I.F.C. for 1965-66 reveal that while they were able to step up the volume of their assistance to industries, they also faced the problem of replenishing their meagre funds. Considering that I.D.B.I. is only two years old, the increase in the assistance sanctioned, from Rs. 50.5 crores in 1964-65 to Rs. 70.1 crores in 1965-66, is commendable. It is also not without significance that while direct loan sanctions of I.D.B.I. increased more than two-fold, from Rs. 16.2 crores to Rs. 35.6 crores, there has been a decline in the assistance offered in the shape of re-finance, from Rs. 24.6 crores to 22.2 crores. A break-down of the industrial loans re-financed by I.D.B.I., reveals, however, that the commercial banks availed of this facility on a reduced scale—these re-finance loans carry an interest of $6\frac{1}{2}$ per cent—the State Finance Corporations have made better use of this avenue for securing finance. This can be seen from the increase in the S.F.Cs.’ industrial loans re-financed by I.D.B.I., from Rs. 1.3 crores to Rs. 6.7 crores (sanctions).

The increase in the under-writing operations of I.D.B.I., from Rs. 6.6 crores to Rs. 7.5 crores is also easy to understand in the context of the present sluggishness of the capital market. What is significant about

the lending operations of I.D.B.I. is not the quantum of assistance that it provides to the industries but the guide lines it gives, by virtue of its being the apex institution, to other agencies like I.F.C. and I.C.I.C.I. The recent experience of the Industrial Finance Corporation, which is now a subsidiary of I.D.B.I., reveals that the ability of term-lending institutions to extend the scope of their operations is limited by the shortage of loanable funds—particularly foreign currency—at their disposal. In aggregate terms, it is true, there has been an increase in the assistance sanctioned by I.F.C. from Rs. 33.44 crores in 1964-65 to Rs. 43.52 crores in 1965-66 (year ended June) but this has to be viewed in the light of the increased cost of putting up new projects. As the oldest institution in the field, the I.F.C. has acquired a reputation for prudence as is evidenced by the fact that its reserves are coming close to the size of its paid-up capital.

Further, I.F.C.’s net profit, at Rs. 1.33 crores is a record figure although the Corporation has reason to complain that it is working on a very slender margin. One way of widening this margin is to raise the rate of interest charged by the Corporation. The Chairman of I.F.C. seems to favour this course when he says that “earnest attention should be given to the question whether the interest rates structure in the country cannot be better ordered.” But the profitability in most of the “priority” industries cannot be considered, at the moment, as attractive and any increase in the lending rate above the present level of 8 per cent may discourage hesitant entrepreneurs from embarking on new ventures. But the Corporation’s difficulties are equally genuine. Its ability to meet the industry’s needs depends on its ability to raise funds in the market, but the rate of interest it offers ($5\frac{1}{2}$ per cent) is far from attractive.

In this connection, the Chairman rightly observed: “At a time when time deposit with banks and other institutions fetch rates of interest of

over 7 per cent, many industrial companies invite deposits at 12 or 13 per cent and speculative concerns pay even more, funds with a maturity of 12 years and yielding $5\frac{1}{2}$ per cent do not find much favour generally”. This is not however fully borne out by the good response elicited by the 6-crore issue of I.F.C. recently. If the Government is really anxious to strengthen the hands of I.F.C., it can seriously consider allowing provident funds to be invested—now they are statutorily barred from doing so—in the I.F.C. bonds, as suggested by its Chairman. Probably I.F.C. will, in future, have to pay greater attention to a better spacing of the maturity of its loans. In other words, its loans should not be tied up in projects for an inordinately long time. Prompt repayments will enable I.F.C. to “roll over” its funds, thus reducing the need for recourse to frequent bond flotations.

Another question to which term-lending institutions will do well to pay heed is the equitable distribution, region-wise, of their assistance. This is not to say that they should throw overboard sound criteria of location, but as infrastructure facilities improve, new regions will be opened up for exploitation. The present pattern of the Corporation’s assistance is heavily biased in favour of regions which are already saturated industrially. The time may have come when I.F.C. should consider shifting the weightage in favour of less industrialised regions. Regions like Madhya Pradesh, Punjab, Bihar, Rajasthan, Kerala, Andhra Pradesh, and Mysore deserves a better deal in the hands of development banks.

World Bank and I.D.A.

Shortage of Funds

THIS year’s meeting of the Bretton Woods institutions brought into focus some of the riddles of development finance. The World Bank’s soundness was never in question. The Bank’s reserves, including the

special reserve, have exceeded a billion dollars and its net income this year reached a record figure of \$ 144 million. Out of this, the Bank transferred \$ 75 million to IDA (International Development Association) as a grant. There have been no defaults, thanks to the stringent policies of the Bank, which continues to enjoy the high reputation it richly deserves.

But the balance of payments difficulties of the major creditor nations—especially U.S.A. and U.K.—has truly begun to hurt. Money is available, but at a price which the developing countries probably cannot afford. As Mr. George Woods, the Bank’s President pointed out, its bond issues had to be floated at higher and higher rates of interest. The Bank used to raise funds at rates ranging from $5\frac{1}{4}$ per cent to $5\frac{3}{8}$ per cent, but the Bank has indicated that this may have to be stepped up. If, for argument’s sake, the Bank decides to raise money in the European markets at 6 per cent, then its lending rate too will have to be stepped up by half per cent or even more since it cannot function at zero margin of profit. In February this year, the Bank has already raised its interest rates on borrowings from $5\frac{1}{2}$ per cent to 6 per cent. And the developing countries are now in for another hike of half per cent. For the commercial banks, the problem resolves itself into one of keeping the usual “spread” between the two sets of rates. But for the world’s largest development bank, it is not as simple as that. The fact remains that while the developing countries have accumulated debts at a fast rate of 15 per cent per annum (it slowed down a little last year) their repaying capacity has shown no visible improvement. As a result, a substantial part of the fresh borrowings are used only to repay instalments on old loans or interest thereon. That this defeats the basic aim of development finance goes without saying.

The World Bank is keenly aware of their disquieting trend. This was one of the reasons why it opened its

“sort window” in 1960 by bringing into being the IDA. Since IDA offers loans at nominal rates of interest, there has always been a heavy pressure on the funds at its disposal. Incidentally, its credits have added up to an impressive total of \$ 1,365 million within a period of just over five years. It is an irony that at a time when the beneficial effect of IDA’s assistance has started percolating, this World Bank affiliate should face a shortage of funds. Fearing that IDA’s uncommitted funds, amounting to \$ 322 million, may run out soon, the World Bank President made a timely appeal to the developed member-countries to augment the resources of the Association by one billion dollars per year. It was only to be expected that our Finance Minister, Mr. Sachindra Chaudhuri, should lend strong support to this plea by the Bank President. While one can appreciate the temporary difficulties facing the developed countries, one has to point out that their present policy of curtailing the aid-flow to developing countries will only hurt their long-term interests since a reduction in aid will necessitate painful adjustments—including import restrictions—in the developing economies.

Official aid from advanced countries has already fallen from 0.8 per cent of the national income in 1961 to 0.6 per cent in 1965, compared to the minimum goal of one per cent for the Development Decade. Further, the ratio of grants to loans also declined from 70 per cent in 1960 to 52 per cent in 1965. There has also been a hardening of the interest rates and a shortening of the maturities. Developing countries which are already faced with a slow-down in their export earnings, are finding themselves in an unenviable position, in view of these adverse developments. The consortium approach assiduously encouraged by the World Bank, is in the danger of being abandoned under pressure from politically-motivated aid-givers. These are, to say the least, unhappy portents.

L.I.C.'s Progress

TO mark the completion of the first decade of its existence, the Southern Zone of the L.I.C. has devoted an entire issue of *Jana Raksha*, its house magazine, for delineating the Corporation's progress in this area. The Southern region was insurance-conscious, even during the pre-nationalisation days and it is not therefore surprising that the L.I.C. should have recorded spectacular progress in the Southern States. In terms of area, the Southern Zone comes third, with 246 thousand square miles, the largest L.I.C. zone being the Central Zone which covers 285 thousand square miles. The second largest zone is the Eastern Zone which has an area of 262 thousand square miles. In terms of population, the Southern Zone takes the second place, with a population of 11.05 crores (1961 census) against 11.35 crores in the Eastern Zone. Both in terms of area and population, the Western Zone comes fourth and the Northern Zone takes the last place. It is therefore gratifying that the Southern Zone has recorded, in 1965-66, the highest volume of business. The completed new business in this zone in 1965-66 was Rs. 211.85 crores, compared to Rs. 74.14 crores in 1957. The special number of *Jana Raksha* does not give a break-down of figures for the other zones, but it observes that "the South Zone has been completing every year the maximum new business and making the maximum number of policy sales amongst all the zones, from the inception of the Corporation." This is creditable. The relative performance of the five zones can however be judged from the following figures for 1964-65, culled from the L.I.C.'s annual report, last year:

Zone	Sum assumed (Rs. in Crores)
SOUTHERN ..	184.27
WESTERN ..	181.25
EASTERN ..	141.55
NORTHERN ..	93.58
CENTRAL ..	88.98

Including the business written in 1965-66, the total life business in force in the South Zone amounted to Rs. 1,019.48 crores, compared to Rs. 248.85 crores in 1958. With the total business of L.I.C. amounting to Rs. 4,387 crores, the share of the Southern Zone works out to about 23 per cent. The Southern Zone of L.I.C. can well be proud of this achievement since the zone covers about one-fifth of the area and one-fourth of the total population in India.

But in the pattern of the L.I.C.'s investments, the Southern Zone does not appear to have been accorded a fair treatment. Latest figures for 1965-66 are not available to us, but the figures for 1964-65 show that Southern region accounted for only a little over 13 per cent of the stock exchange investments compared to 16.48 per cent in the Eastern region and 16.71 per cent in the Western region. As on March 31, 1965, investments in West Bengal stood at Rs. 42.37 crores and Maharashtra at Rs. 50.18 crores. These two states together accounted for nearly 59 per cent of the total investments of the L.I.C. in the Stock Exchange Securities, excepting Government Securities. It is time L.I.C. started thinking in terms of helping, within the limits of prudence, the industrialisation of states which are predominantly agricultural in character.

Cochin Refinery

New Catalyst

KERALA'S place in the industrial map of India is firmly assured with the inauguration of the Rs. 30-crore petroleum refinery at Cochin, by the Prime Minister on September 23. It is idle to pretend that the location of one more major public sector project will either bring this backward state to the stage of "take-off" or help in solving its major problem of surplus manpower. But it may well trigger off a chain reaction which will ultimately result the industrialisation of Kerala—particularly the Cochin-Alwaye belt

which already has quite a few industrial units. In other words, the Cochin refinery—the fourth refinery in the public sector—is well poised to act as a "catalyst" in Kerala. Strictly speaking, techno-economic considerations demand that medium and small-sized units should be located in Kerala which has overabundance of main-power. A capital-intensive unit like Cochin refinery, with an employment potential of barely 400, may not make any dent in the problem. But it is recognised on all hands that a minimum number of large-scale units, preferably in the Central sector, are however necessary in order to remove the backwardness of the State.

The deficiency in the infrastructure facilities is being made up and the advantage of having a major port and a long stretch of backwaters is being realised by the planners. The Cochin refinery, for one thing, is admirably situated to cater to the needed of Kerala as well as the entire marketing region in the South. For another, in course of time, it will attract several Petro-chemical industries into Kerala. Plans for setting up a fertiliser factory at Cochin have already reached our advanced stage. The setting up of the refinery has already brightened the prospect of locating a thermal power plant. Other major units like FACT at Alwaye, and H.M.T. at Kalamassery, have already helped to bring about a marked change in the industrial climate. As the Prime Minister assured, a shipbuilding yard at Cochin has almost become a certainty although lack of resources is likely to delay the completion of the project. Now that the infrastructure as well as the superstructure have been built to the minimum extent desired, private entrepreneurs may find it attractive to come to Kerala but a major deterrent to industrialisation will continue to be the highly volatile labour which can be easily used as a cat paw to pull out the chestnuts of political adventurers. This is dark spot in an otherwise bright horizon

GLASS HOUSE GOSSIP

BOYS are boys, after all, and I do not like to damn them for all that has happened in the past few months. But that doesn't mean that I have any sympathy for the hooligans who parade under the plume of students. These days, any restaurant habitue wearing long hair and tight pants passes off for a student, but the discerning eye can make out the sheep from the goats. Some, I am surprised, have ventured to liken these goats to the Red Guards. I am confused as to how I should address them—red guards or black guards. Only a thin line, I know, divides the two although I have some admiration for the Red Guards whose enthusiasm to collect night soil is perhaps rivalled only by our students' enthusiasm for the movies. I have nothing against the chaps who want to have good time but what our boys in colleges are doing is something which is bizarre in its contours. I remember some Indonesian leaders praising their student-hooligans as the "Parliament on the streets."

That is the kind of political instigation which proves too heady for the impressionable youngsters. I have no sympathy, in any case, for the pseudo-psychologists who consider the present student unrest as the normal process of letting off steam. My theory borders on the Hobbesian. Scratch a human animal and you will find a wild beast. And civilized behaviour requires such a great mental and physical effort that I am not surprised at occasional relapses into animalism. Beastliness begets beastliness and if the police were lathi-happy at times, it is understandable, though not forgivable.

One often doubts the sanity of these grown up kids who run amuck in the streets of Lucknow, Delhi, Patna, Indore, Agra and other places, but I am in no hurry

to send them to a psychiatrist. Don't be carried away by the facile diagnosis of social anthropologists which trace the student unrest to the absence of close contact between teachers and students or lack of parental care. What they probably need is some good spanking—not that brutal lathi-charge—and a stiff dose of discipline. The human material, I know, is malleable—and basically good—but I have a feeling that the boys must be sternly told to do their home-work. If, after doing it, they still have time hanging heavily on them, our students can well take a leaf out of the so-called Red Guard movement and participate in some cleanliness campaign. Burning buses and breaking window-panes won't help. And hooliganism is no substitute for hard work.

MRS. INDIRA GANDHI'S fondness for television drew many adverse—and often funny—comments when she adorned the I & B Ministry. Now, even after assuming the Prime Ministership, Mrs. Gandhi does not seem to have entirely forgotten her old hobby-horses. So long as such hobbies are relatively inexpensive, no one will stint our Prime Minister such innocent pastimes but I have started worrying about Indira's seemingly excessive pre-occupation with television because what we badly need today are the basic necessities of life and not commercial TV. I am the last person to rule out the introduction of television in India for ever, but the readers of *Southern Economist*, I hope, will agree with me when I say that "first things should come first." I do not intend to say harsh things, particularly when the Government seems to be making a dispassionate study of the Chanda Committee's report but the "Madison Avenue"

boys (Indian version) appear to be eager to exploit our Prime Minister's weakness for such things.

I am not quite unaware of the powerful impact of mass media on the people (and their educative value) but are we in a position to manufacture T.V. sets on a mass scale without seeking the know-how of the developed countries? To this question, the advertising fraternity may retort that if commercial T.V. is permitted in India, the bulk of the cost would be borne by the private firms. I have no serious objection to such a course but what have we to advertise at the moment, except pep pills, soaps and dentifrices. My advice to the enthusiasts of commercial T.V. is to wait till such time that the country is in a position to produce consumer goods in plenty. After all, nobody will sponsor programmes at an exorbitant cost unless there is something to sell. And the era of mass consumption is not yet in India.

NO sensible student of monetary economics would pick a quarrel with Dr. Franz Pick who comes out, once a year, with his shocking revelations about the debasement of currencies. This time, not quite surprisingly, the Pound and the Dollar come in for some nice drubbing which, I feel, they deserve. The six per cent depreciation of the dollar which he discloses is not quite as shocking as his prediction that both the Dollar and the Sterling may be in for devaluation. It is equally shocking for the layman to know that the Sterling retains only one-fourth of its pre-War (1939) value but other countries are in no better position. May be, as Dr. Pick says, the remedy lies in halting the flight of the Dollar but it is doubtful if the flotation of a gold-indexed loan (*a la* Pinay) would, by itself set off a reverse-trend in capital movements. Dr. Pick, you are brutally candid when you say that it is the sucker—the man who obeys monetary laws—that gets the worst of both worlds.

Should we not derive comfort from the fact that most of us are in the same company?

I LIKE C.R.'s "Hymn of Love" which will be sung—so I hear—at the U.N. Day on October 23. I like hymns; and I hate them too. I like them because they sound musical. You cannot sing a hymn alone in your bath room. I like the tone of harmony that goes with the hymns. But if I hate these hymns it is because they

are largely hollow of meaning. "May the Lord forgive our sins." Thus begins C.R.'s hymn which, rendered in the golden voice of M.S.S., should make even the priest shed tears. But how would Bhutto like the line: "And gather all the nations here, Under this uniting roof (what a figure of speech!) To give up hate and fear." To hell, he would say. If one gives up hate and fear, what remains for one to cling on to? No hate, no fear, no Sabrejets and no Pattons.

A perfect definition of drabness! And "risks of peace"! Who would run such "risks." No, not Lyndon Johnson, not Ho Chi-minh and not, at any rate, Mao Tse-tung. "The good in every man" is an "atom of measureless potential." Okay buddy, but who would dare to split it? Let's forget about the contents. C.R.'s hymn reads beautifully. It reads like a hymn. Maybe, it reads better like a Christmas carol.

—Plebeian.

GOVERNMENT OF INDIA MINISTRY OF COMMERCE

DEVALUATION HELPS YOU TO EARN MORE PROFITS ON YOUR EXPORTS

Earn more profits for yourself and more foreign exchange for India by setting up an industry in
KANDLA FREE TRADE ZONE

Fully developed plots for setting up export-oriented industries are still available in
KANDLA FREE TRADE ZONE

Special concession of exemption from payment of duty on machinery and raw material is also available in **KANDLA FREE TRADE ZONE**

For further information write to:
**THE ADMINISTRATOR
KANDLA FREE TRADE ZONE
KANDLA (GUJARAT)**

SPECIAL ARTICLES

Population and Resources

By SIR JOSEPH HUTCHINSON *

THE characteristic of our age is the dominance we have achieved over our environment. We can, with our present knowledge, feed, clothe and equip a larger human population than ever before, but a large and increasing share of our productive effort is absorbed in providing for further population increase and, despite our successful conquest of practically the whole of the plant and animal kingdom, we have not yet begun seriously to undertake the control of our own species.

Our difficulties in population control are social and emotional. Over-population means, in simple terms, too many people for the resources in land that are available to them. It is a characteristic of our biological environment that we can, for a limited period, exploit it in excess of its real productive capacity, and only after a lapse of time is it apparent that we have initiated in it a progressive decline.

This is easy to see in African shifting cultivation, when a reduction in the period of the recuperative fallow leads to degenerative changes in the natural vegetative cover, accelerated erosion of the soil, and declining yields in the cropping period. Our present food supply position (in Britain) might lead us to the complacent conclusion that we have now learnt how to match with increasing supplies our ever increasing needs. The historical evidence is against such a conclusion, and current assessment of our need for and use of our limited land indicates that our present abundance may not be

long continued. We have come to the point where the future well-being of our people depends upon our undertaking now to control the size of our population.

We are in the habit, in Western Europe, of regarding ourselves as fortunate in that we enjoy a range of soils well above the general run of agricultural lands in potential productivity. The demonstration that agriculture in Western Europe started with shifting cultivation—shifting for the same reasons of soil poverty and rampant weed growth as in Africa today—makes it clear that the high productivity that we now enjoy is the fruit of a long process of soil amelioration rather than of original superiority.

The foundation of any system of agricultural improvement must be the systematic conservation of fertility. Once animal husbandry and crop husbandry were put together and a form of mixed farming had arisen, manuring began. Manuring is a very ancient agricultural practice, and its function is basically to return to the land the nutrient elements removed from it. It was early discovered that land could be improved also by adding to it materials in which it was deficient, and so such practices as marling and liming were added. In a self-sufficient rural community, changes take place in the distribution of fertility that have large effects on the productivity of the land. The most important is the steady accretion of fertility to the land adjacent to the human settlement, at the expense of the more distant fields.

*This article is excerpted from Sir Joseph Hutchinson's presidential address at this year's meeting of the British Association for the Advancement of Science. In his address entitled "Land and Human Populations", Sir Joseph considers the relevance of Britain's past experience of population pressure and land use to the problems of the developing countries. The meeting was held last month.

This is most strikingly seen in parts of India, where the fields close to the village have received the wastes and excrements of the village population—human and animal—for thousands of years, while the distant fields have been consistently deprived of such manuring. These heavily fertilized fields are intensively cultivated and highly productive, while the distant fields carry poor and hungry crops.

Human population was very closely dependent on the area under cultivation in the era of exploitive agriculture. Severe population decline in the latter part of the 14th century and the 15th century is well known. It appears that the population growth of the 11th and 12th centuries, unaccompanied by an adequate improvement in agricultural technology, had overrun the capacity of the land to provide food. The impact of over-population is delayed. The food supply is maintained for a time by cutting down the fallow period and bringing marginal lands into cultivation.

But inevitably fertility declines and privation sets in. And apart from famines following catastrophic seasons, privation takes the form of deterioration in the quality of the diet rather than in quantity. High-value protein foods, fats, and protective foods give place to cereals and starchy vegetables. Deficiency diseases increase, infant mortality is high, and the general resistance of the population is low. This was the situation in the 14th and 15th centuries.

The recovery of the population in the 16th century, and its growth in the 17th, coincided with the growth and development of the enclosure movement. Enclosure, without any improvement in technology, leads to substantial increases in productivity. The enclosure movement in Tudor and Stuart times caused hardship because population increase could no longer be accommodated by an encroachment on the unenclosed waste. Reports of the embarrassment of towns from the influx of strangers for whom there was no adequate urban employment have their modern counterparts in the problems created by the migration of rural people to the towns in modern Africa.

The problem, then as now, was that of providing employment for the surplus labour for which there was no employment in the countryside, even though a progressive and

improving agriculture was able to produce the food they needed. With the escape of British agriculture from the exploitive to the improving phase, food for the increasing population was found by increasing the productivity of land already in cultivation rather than by extending the area of crop land.

The history of the 19th century is the history of enormous population growth and enormous increases in agricultural productivity, but repeatedly the two fell out of phase. Food production more than once seriously outstripped population growth, giving rise to long and severe agricultural depressions. On the other hand, population growth never so outran agricultural production as to give rise to anything worse than short-lived seasonal food shortages. *And it is to the abundance and security of the food supply that the success of Britain's 19th century industrialization may be ascribed. (Italics ours—Ed.)*

In the mid-19th century, the fertility revolution began. The foundations of agricultural research were laid and the fertilizer industry was started, and in the same period the availability of imported stock feeds and the improved standards of stock feeding and management provided an increment to the fertility of British farm lands from the residues of imported feed. This was a period in which demand from an increasing population and supply from an improving agriculture were satisfactorily in balance. The great improvements in transport finally disposed of the old self-sufficient local economies, and the interdependence of town and country for the exchange of manufactures for foodstuffs and industrial crops became complete.

Industry has more to offer to agriculture than nutrients. The farm tractor came in during the 1914-18 war, but only after 1940 did the tractor really begin to see the horse off the farm. Third in what might be called the industrial revolution in agriculture is the contribution of the chemical industry to weed and pest control. These three products of industry for the use of agriculture—fertilizers, machine power, and chemical weed and pest control—have made it possible to raise the yields of our major crops by close on 50 per cent in two decades.

This country now produces more than half the food for a population of nearly 54,000,000 people, and wheat yields are now over 32 cwt.

per acre. No one today would suppose that the limit of the increase in the productivity of our land is even in sight.

Developing countries have in common a heavy dependence on agriculture and agricultural systems that are still in the main exploitive. They differ substantially among themselves in the extent to which there is pressure of population on land and in the nature and degree of sophistication of the relationship between town and country. In all of them, the great need is for the initiation of agricultural revolutions of the kind through which Britain has passed.

It seems reasonable to suppose that the order in which we undertook the changes that led to our present success will be the appropriate order in which to initiate similar changes in the developing countries today. There are, however, other factors to take into account that we in Western Europe have been able to ignore. Of these the most important are the intensity and the uncertainty of tropical rainfall. The intensity of tropical rain makes fertility conservation difficult. Vast areas of Africa are out of agricultural use on account of the uncertainty of rainfall.

More important is the famine risk associated with rainfall uncertainty in densely populated Asian countries such as India. The techniques of erosion control are well developed. The loss of nutrient elements by leaching can be made good with fertilizers. Rainfall uncertainty can be quantified statistically and critical assessment made of the prospects of mitigating its effects by river control and irrigation, or by the adoption of relatively less vulnerable agricultural practices. Techniques are available. It is their introduction and adoption through new farming systems that we need.

In advocating the sequence of change and improvement through which Western Europe has achieved high agricultural productivity, I am not suggesting that the products of industry should be eschewed. The successive revolutions through which we have passed can—and should—be telescoped. I do not believe that their order can be reversed. And now to population control: Perhaps more important than a target figure for population, we need a social philosophy that will embrace the concepts and consequences of a stable population.

Consider some of the details of the changes that would follow. Provided the population is well fed, no further expansion of food supplies will be necessary and all increases in agricultural productivity will have to be met by the release of resources, of land and people, to other activities. The amount of new housing required will be that needed for replacement. Provisions for education would be reduced and for the care of the aged increased. Our present shortages of doctors and nurses, policemen, bus drivers and so on, will have to be met without relying on recruitment from an ever-increasing entry of school-leavers.

The heart of the whole matter is, of course, the birth rate. If we really appreciated the threat to our children's well-being posed by unrestricted increase in their numbers, we might take advantage of the techniques of control that are available to us. Surely we can learn to take account of the fact that large families are detrimental to the interests of our children later in their lives, and to accept as normal a family size of one or two, or occasionally three, children. For, make no mistake, this country already carries a population as great as the environment can support without degeneration, and it will call for all the knowledge and skill we can command to prevent irreparable damage before we achieve a stable population. This is the great remaining challenge of our time. We have mastered the physical world and the world of biology. We ourselves remain untamed. Our greatest need is to master the threat of our own numbers.

—oOo—

SYNDICATE BANK

The Bangalore—H.A.L. Branch of the Syndicate Bank has been opened on September 29, 1966, at the following address: H.A.L. Colony, Hindustan Aircraft Post, Bangalore-17. The H.A.L. Branch is the 9th Branch of the Syndicate Bank in Bangalore. With the opening of this branch, Syndicate Bank has now a fine network of 214 branches spread all over the country. The other new branches of the Syndicate Bank at Super-Bazaar (Connaught Circus—New Delhi), Poona, and Yadiki (Andhra Pradesh) are scheduled to be opened shortly.

Future of Hire-Purchase Business

By T. S. SANTHANAM *

HIRE-PURCHASE, as we know it today, as 'a transaction of hire at the inception with an option to purchase at the end of goods and services' is of recent origin. It was the United States of America which gave an impetus to the Hire-Purchase business in the twentieth century and today, it has grown to gigantic dimensions there. All the commercial banks, including the Bank of America, transact Hire-Purchase business and the banks have a larger share of it than Hire-Purchase companies. With a view to provide all the comforts and conveniences to American homes, the Hire-Purchase companies and commercial banks offered goods and services on instalment plans, the recovery period ranging from a few months to five years. This has made it possible for the American citizen to acquire all the necessities of life. The Hire-Purchase system has contributed to a great extent to the high standard of living in the United States.

To my mind, the growth of hire-purchase throughout the world in the twentieth century is entirely due to the aspirations of the people to own the good things of life: homes, furniture, motor vehicles, bicycles, radios, sewing machines and many others. This has been greatly helped by the development of modern technology and mass production which have made available a vast quantity of durable and consumer goods to the public whose expectations by way of comfort and utility goods run ahead of their immediate cash resources. (Italics ours—Ed.) Since the Second World War, it has taken strong roots in the markets of the United Kingdom and Europe. If, as I have said, Hire-Purchase is inescapable in the context of a rising standard of living made possible by technology and increased availability of durable and consumer goods, its future expansion in India is bound to be explosive.

In this connection I would like to quote the Hon'ble J. Subba Rao, Judge of the Supreme Court of India, who said in 1964 that "Hire-Purchase Agreements have come

to stay as part of the social service in the commercial world. It enables persons of ordinary means to buy the necessities of life which the modern scientific advancement offers. Under that system, one can buy a car, a refrigerator, furniture, cooking apparatus and, as a matter for that, any article of utility. It enables the hirer to own the articles of his choice by paying on easy instalments and the dealer to provide it for him for profit without any risk to himself. It has become a common and familiar instrument of mercantile and social service."

But, unfortunately, Hire-Purchase has inherited the stigma attached to money-lending and usury. This is true not only of India, but, until recently, of the advanced countries of the West as well. Hire-Purchase is confused with money-lending because the finance company provides most of the finance for purchase of the article, but in fact this is not so. A finance company is not a lender of money, but a supplier of goods on credit to hirers, who intend to buy them. The charge for this service is a service charge, and, strictly speaking, not interest. Thus, Hire-Purchase finance companies, far from behaving like predatory money-lenders on the community, are rendering a necessary, useful and vital social service.

The contribution of Hire-Purchase to planning the domestic economy of families was recently confirmed by a financial writer in U.K., when the credit-squeeze operated against Hire-Purchase financiers. He wrote: "With less money going out on things like motor cars and washing machines, people are buying the extra bottle of Scotch." In other words, Hire-Purchase, by tying up resources in durable and consumer goods of value, prevents such income being frittered away.

Once the confusion of Hire-Purchase with money-lending is cleared, its true role in a free market economy and its contribution to rising standards will become obvious. In India, Hire-Purchase business is of recent origin. To my knowledge, it started in the twenties and gathered some momentum in the thirties and forties. It is only after the Second World War that Hire-Purchase, as an organised and established business, took shape.

The main centres, however, are Bombay, Calcutta, Delhi and Madras. Its main contribution in India is in the field of Road Transport. I need not emphasise that speedy, efficient and cheap transport is vital to any economy and that 'transport is civilisation.' In contributing to Road Transport, Hire-Purchase has played an important part in the development of the Indian economy since Independence.

During the three Five-Year Plans, a total amount of Rs. 3,264.8 crores (First Plan Rs. 517.8 crores—26 per cent of the total outlay, Second Plan Rs. 1,261 crores—27 per cent of the total outlay, and Third Plan Rs. 1,486 crores—21.5 per cent of the total outlay) has been invested in Transport and Communications which has given a fillip to the development of Transport in this country. The length of roads has nearly doubled from 2,50,000 miles in 1947 to 5,00,000 miles in 1965. Likewise, the number of motor vehicles on the roads has increased from 2,12,000 in 1957 to 9,25,000 in 1965.

The Fourth Plan target for production of all types of commercial vehicles is 1,25,000 at the end of the last year of the Plan. I have my own doubts as to whether this is a realistic target, as, in the previous Plans, the targets have always been higher than the actual performance. We may, therefore, assume that a total of 75,000 commercial vehicles per annum (excluding 1-ton trucks) will be produced at the end of the Fourth Plan. About a third of this may be absorbed by the State Transport, Government Departments and Public Sector Undertakings, leaving a balance of 50,000 commercial vehicles to be absorbed by the Road Transport Industry per annum.

At current prices of commercial vehicles, the industry will need funds to the order of Rs. 250 crores to absorb these 50,000 vehicles. Precise data as to availability of funds through Hire Purchase channels are not available, but on the basis of information we have, the availability will be of the order of Rs. 25 crores in the Southern Region, Rs. 15 crores in the Northern Region, Rs. 10 crores in the Western Region and Rs. 10

* Excerpts from Mr. Santhanam's address at the annual meeting of the Hire-Purchase Association, Calcutta.

crores in the Eastern Region, making a total of Rs. 60 crores. The road transport industry may be expected to generate internally funds upto 30 per cent of the total required, viz., Rs. 75 crores. It will, therefore, be seen that there is a huge gap of Rs. 115 crores.

Therefore, there is great need for larger number of Hire-Purchase Companies, and bigger companies, to enter this field and contribute to the expansion of Hire-Purchase business and growth of the road transport industry.

So, far, commercial banks in India have not been receptive to the idea of financing the road transport industry. Even in the case of established road transport companies with audited balance sheets, the finance forthcoming from this sector is limited. Since the road transport industry is given a low priority by banks, there should be a directive from the Reserve Bank of India that this Industry should be given the same high priority as Agriculture and export-oriented Industries.

If Hire-Purchase finance should develop along healthy lines in this country, several inhibitory factors which are now prevailing should be removed. In the first place, there is

as yet no law of Hire-Purchase as it exists in other countries, so that the rights of the Hire-Purchase financier are adequately protected. The primary protection is that of re-possession of the vehicle or other products in case of default. The decision of courts in the few cases that have so far been referred to them have been based on specific issues and are not helpful. In fact, some of these decisions jeopardise the rights of the Hire-Purchase financier. Unless these rights are protected by law, there can be no confidence and no expansion of Hire-Purchase Finance. Though a draft bill has been under the consideration of the Government since 1961, effective action has yet to be taken.

Secondly, as I mentioned earlier, Hire-Purchase Financing in this country is done on a large-scale to the road transport industry. This would call for suitable amendments to the Motor Vehicles Act and to the Motor Vehicles Control Order, whereby the rights of Hire-Purchase Financier are recognised. In some States, a reference is made to the hirer for his consent before issue of a duplicate registration certificate. This involves a lot of delay. No wonder, sometimes such consent is

not forthcoming. It is also necessary for rationalising the taxation on Road Transport. There have been instances when State Governments have demanded tax on re-possessed vehicles with Hire-Purchase Companies which were kept idle and not used.

Another important factor which will hinder the growth of Hire-Purchase financing is the Reserve Bank's directive regarding liquidity. The directive provides a liquidity of 9 per cent of the total assets of the Hire-Purchase Company. Many Hire-Purchase companies, including Sundaram Finance Ltd., have made a representation to the Reserve Bank and on the basis of data furnished by us, the Reserve Bank have relaxed this provision and allowed a liquidity ratio of 10 per cent of deposits.

I would suggest that the Reserve Bank of India directive should be suitably modified so that in an attempt to protect depositors of funds in the Hire-Purchase Companies, it does not act as a brake on the business. In this connection, I welcome the proposal of the Reserve Bank to establish Central Road Transport Finance Corporation which will meet the financial need of the Industry.

Economics of In-Shop Training

By S. VENU*

LABOUR is not a homogeneous factor of production but a conglomeration of skills and the nature and extent of these skills affect the level and composition of output. The economist has little say in the matter if all skills were bestowed by nature. Skills, however, are not acquired costlessly but created through education and training both of which require the utilisation of scarce inputs. Over a particular time-period, the economy may choose to produce a certain level of skills to be imparted to its labour force so that in the subsequent period the composition of output may be different. The relevant question is how much training should be imparted and of what kind. Both the cost and production aspects need to be quantified rationally.

Two points need to be clarified at the outset. We are dealing mainly with in-shop i.e., on the plant site or location training as distinguished from training in educational institutions. Also, the entrepreneurial element is not brought into our analysis which is confined to the labour force.

The main advantage of in-shop training in an underdeveloped economy is its adherence to the "consistency criterion" which we will study later. A firm supplies training only for specific jobs already in existence or about to be created. Physical and human capital are available simultaneously for training and production requirements at reduced overheads compared to "institutional education." In-shop training is empirical, realistic and specific. Through experience, the imparting agency determines the correct dosage to be administered over a span of time.

Assume that a firm is operating at a point where wages paid equal the marginal product of the labour force employed. Management is fully aware that improving the quality of labour input will enhance output with existing capital equipment—a decreasing input/output ratio will result. Under what set of circumstances will in-shop training be profitable to indulge in?

* Mr. Venu is Editor of *Indian Buyer*, Calcutta.

Training costs are composed of wages paid during the training period ($W1$), expenses involved in the programme itself ($E1$) and the value added that is foregone by workers concentrating on training rather than production ($V1$). The subscription (I) is the period in which training is imparted. The return to the firm on the investment represented by these costs is a function of the variation in output as a result of the training and the variation in wage rates with enhanced productivity. The gestation period for the higher output is likely to be long and the return to the firm must therefore be appropriately discounted so that the rate of interest will also feature in the company's calculations. If outlay and returns due to increased training are identical the firm does not benefit and will be indifferent to the programme.

If $E1$ is positive wages cannot equal the marginal product of labour in both the training period and final period 'n' if the firm is not to make a loss on the programme. If MP_r (the marginal product of the worker in 'n' periods after training) = W_n , the firm does not gain by its outlay. If trainees are to pay for their own upkeep, then

$W1 = MP1 - (E1 + V1)$ is a necessary condition. To impart training profitably, therefore, a firm must be able to keep wages below labour productivity in the initial stages.

A firm will hence not provide training of a general nature that raises marginal productivity over a common range of pursuits—typing, filing, systems, vehicle driving and others. Training will be concentrated on tasks peculiar to the firm resulting in increased productivity to the firm but static productivity elsewhere. $W_n = W1$ and the firm's investment on training yields a profit. Specific skills produce a rental element and the distribution of this incremental output is a function of bargaining rather than the "invisible hand" of the price system. Inter-firm productivity variation will be considerable and a means of recoupment of outlay

is provided if the firm's original programme is efficient enough.

If the marginal product of labour is higher than its opportunity cost, the labourers undergoing training should naturally be paid what they would earn elsewhere i.e., $W1 = MP1$. Then, the rental element accruing from excess of marginal productivity over the wage rate in the terminal period must provide an adequate margin on the extra outlay caused by the training programme i.e., $E1 + V1$. This outlay is an investment and will compete for scarce resources according to the various criteria postulated—Chenery's SMP, Buchanan's V/K, PVR vs PVD, etc.

If the post-training wage rate is the same as the pre-training wage the incremental output is absorbed by the firms and reflects the return to the economy as a whole. If, however, as is probable, wage rates rise in the long-run and capture part of the rentals the problem of allocating respective benefits is more complicated.

In underdeveloped economies the major problem is that most firms do not use labour which is trained to an appropriate degree and that can undertake training of "freshers" in their ranks. This is an important factor impeding the progress of in-shop training to the detriment of the economy. The public sector in most cases is set to achieve the "commanding heights" of the economy and should take the lead in this connection.

Consistency Criterion: Resources invested should be directed in such a manner that the new skills made available must become complementary inputs with the capital available and not redundant prices that cannot be utilised with the current state of technical knowledge. There is ample evidence to suggest that in underdeveloped countries today this consistency has not been fulfilled. Unemployed engineers, lawyers and surplus "scientist pools" spring to recollection readily with resultant emigration and 'brain-drain.' Education may concentrate on humanities; the crying need may be for technocrats.

MYSORE GOVERNMENT SILK WEAVING FACTORY MYSORE

Mysore Government Silks:

- They Lead in Quality—Every Inch
- They Lead in Durability—Every Time
- They Lead in Fashions—Every Occasion
- And They Lead in Guarantee—Every Step

FOR YOUR REQUIREMENTS:
CONTACT OUR SALES & SHOWROOMS
AT

1. Mysore Government Silk Weaving Factory Showrooms, Mananthody Road, Mysore-4.
2. Mysore Government Silks—"Gupta Market", Kempegowda Road, Bangalore-4
3. Mysore Government Silks—"Mysore Silk Palace", Luz Corner, No. 92, Royapettah High Road, Mylapore, Madras-4
4. Mysore Government Silks—"Visvesvaraya Bhavan", No. 8, Krishnarajendra Circle, Mysore-1
5. South Kanara Central Co-operative Wholesale Stores Ltd., Post Box No. 124, Sahakari Mahal, Mangalore-1.

Manpower training cannot be met by a single programme and multiple skills in various directions are required. What are the factors mitigating the inconsistency inherent in education and training programmes? These are three in number: Substitutability between skills, in the input mix and in the output mix. Apart from substitutability between labour skills, the same possibility between labour and other inputs is another factor. Labour skill can either replace capital or non-labour inputs can be varied. The output mix is adjusted to compensate for *ex ante* inconsistency, the degree of adjustment being a direct function of the price elasticity of demand of the material where supply is augmented when this adjustment is made. While playing a helpful role, this substitutability is not by itself a complete panacea for the problem.

General Considerations: Most skills require prolonged gestation periods and herein lie further difficulties. Those with the Midas touch earn

rentals and the others suffer losses; by the time further periods are taken into consideration the relative welfare position may change. External economies that are generated have a boomerang effect. The productivity of a skill may be greater than the profit obtained by the entrepreneur.

The timing of investment is also affected by a long gestation period usually prevalent in higher skills. Under optimum conditions, the capital to be used is ready at the same time when training is over and output is promptly enhanced. If the capital build-up involves a time-span we go back to the question of timing the exact commencement of training.

How to compute the value added forgone during training? For children below the normal working force age a zero opportunity cost seems reasonable to assume. For adults, even those partially unemployed, the problem is more difficult. A reduction of seasonal employment may mean loss of real

income. Participants in higher training programmes may possess a positive marginal product although a high level of unemployment prevails. Unemployment, by itself, is not a sufficient condition for the opportunity cost of labour to be zero. Where unemployment results from inefficient economic policies, labour that is free of opportunity cost superficially may in fact be expensive since rational policies would have enhanced labour productivity without additional strain on resources.

The cost of training is implicitly underestimated in most under-developed nations. It needs to be emphasised that where labour is unemployed with some preliminary training a positive value should be imputed to the output forgone portion of the cost of advanced training. From an overall viewpoint, the major purpose of training is to enable individuals to affect the social and economic environment in a manner to yield the greatest feasible returns.



**Even before
she learned
to sew...**

**She started
learning to save**

What she saved doesn't matter. But she started the savings habit. That's what counts. Have you taught your children to save yet? Open a savings account for them in the State Bank. It's never too early to start saving.

**State Bank
for Service**

LPE-Adverts 5, 10/6

Adam Smith on Rhetoric

By DR. NARENDRA K. SETHI*

IN the rich intellectual tradition of his age, Adam Smith was a creative genius in several different disciplines. However, while his fame as a great economist has already been established everywhere, much is not known about his contributions in the realm of rhetoric or Belles Lettres. As a matter of fact, his lectures on *Rhetoric* were considered as lost till very recently. What indeed is really surprising is that commenting on their loss, Adam Smith's well-known biographer Cannan mentioned that the loss was not of "any historical importance,"¹ and that these lectures did not have any profound impact on his generation. This view has been repudiated by Lothian² who has recently edited Smith's lectures on *Rhetoric*, and has given them fully deserved acclaim and scholarly significance.

As might be expected from Smith's deeply practical mind and perspective, he was not at all interested in the innumerable figures of rhetoric which were then being explored by other writers on the subject. His fundamental objective was to teach his students how to write a simple and direct style, without any ornament. He believed that the words should convey exactly what is in the mind of the writer, and nothing more at all. He argues for simplicity and directness of literary style, so that ambiguity and obscurity, which one finds so often in writers of all lands and ages, can be minimized.

Smith mentions strongly that each writing, or discourse, must have a definite view point to assert. He

states, "The end of every discourse is either to narrate some fact or prove some proposition."³ If a discourse is aiming at some superficial thing of no narrative interest or hypothetical value, it would serve no purpose at all.

After having asserted this objectivity of style, he reviews some of the leading historians and writers in some detail. Among others, he discusses the following: Herodotus, Thucydides, Xenophon, Polybius, Livy, Tacitus, Machiavelli, Guicciardine, Clarendon, Burnet, and Rapin. Later, he turns his attention towards expository writing and analysis. He comments about the elements which contribute to unity, variety, and decorum in writing style. Then he pays some attention to judicial oratory. Finally, he rounds off his views on rhetoric with a brief critical account of the English oratory in general.⁴

A reading of all his lectures on *Rhetoric* produces very little, if anything, which can be said to have a direct bearing on his views on Political Economy. Even for general examples and/or illustrations from the world of commerce or trade, there are very few in these lectures. The words like Value, Utility, and Trade seldom occur in these lectures. However, the following quotation from one of his lectures can be said to have some degree of relevance with his views on Political Economy⁵ :—

It is the introduction of commerce or at least the opulence that is commonly the attendant of commerce, that first brings on the improvement of prose..... Opulence and commerce commonly precede the improvement of arts and refinement of every sort. Wherever the inhabitants of a city are rich and opulent,.....there the arts will be cultivated.....Prose is naturally the language of business as Poetry is of pleasure and amusement.

One might also find some resemblance between the "sense" of his afore-mentioned views, and his declaration in *Wealth of Nations*, that "the object of the political economy of every nation is to increase the riches and the power of that country."⁶ The some inner thread seems to run in both these arguments, though there is no deny-

ing of the fact that the thread is virtually non-existent in *Rhetoric*.

Guide and Rist have mentioned the following main three streams of thought running in Smith's *Wealth of Nations*. These are: (1) Division of Labour; (2) The Natural Organization of the Economic World under the influence of personal interest; (3) Liberalism.⁷ It appears that by stretching our imagination we may observe some subtle hints about personal interest and liberalism in his Lectures on *Rhetoric*, but as far as Division of Labour is concerned, one finds hardly any reference.

As Lothian says, Smith's was an "analytical mind, clearly articulated in a typical neo-classical fashion, and that he was at home among the great historians and orators of both antiquity and today."⁸ His exposition of rhetoric is both new in treatment and novel in approach, and it clearly illustrates his all-round liberal intellectualism.

BANK OF AMERICA

Dr. V. K. Sondhi, Manager of the Bank of America's Bombay branch, has been elected to the rank of Vice-President in the Bank's worldwide system. His appointment, announced by R. A. Peterson, President of the Bank, followed a recent meeting of the Bank's Board of Directors in San Francisco. Mr. Sondhi will continue as Manager of the Bombay branch. He has been manager of the Bombay office for over two years. Earlier this year, he presided over the branch's re-location to its new and larger premises at 18, Bruce Street.

A graduate of the University of Cambridge and the University of California, he joined the Bank of America in 1954 at Los Angeles. Following service as a leading officer in California branches, he entered the International Banking Division at the Bank's head office in San Francisco. Before coming to Bombay in 1963, he was an Assistant Vice-President in international loan supervision at the head office.

* Dr. Sethi is Professor of Management in Long Island University, Brooklyn 1, New York, U. S. A.

1. John M. Lothian (Editor), *Lectures on Rhetoric and Belles Lettres-Delivered in the University of Glasgow by Adam Smith*, London: Thomas Nelson and Sons, Limited, 1963, p. xxi

2. *Ibid.*, pp. i-xxv

3. *Ibid.*, p. 84 (From Adam Smith's 17th lecture delivered on January 5, 1763)

4. *Ibid.*, p. xvii

5. *Ibid.*, p. 131-132

6. Adam Smith, *The Wealth of Nations* (Cannan's Edition), Vol. 1, p. 351.

7. C. Gide and C. Rist, *A History of Economic Doctrines*, Boston: D. C., Heath and Company, 1948, p. 73.

8. Lothian, *Op. Cit.*, p. xx.

Spindles that Loom Large

Nearly a century of experience has gone into developing the four Mills represented by Tata Textiles, one of the largest cotton textile manufacturing groups in India today. 325,000 spindles and 6845 looms contribute to an annual production of 156,000,000 metres of excellent quality cotton fabrics, 16,000,000 metres of which are exported to world markets.

The four Mills in the Tata Group are the Central India ("Empress") Mills, Nagpur; the Svadeshi Mills, Bombay; the Tata Mills, Bombay; and the Advance Mills, Ahmedabad.

TATA Textiles



IN my book "Multi-line Functioning Scheme of the National Economy," I pointed out that there could be no qualitative explicitness without quantitative dimensions. This means that economists must learn to reason mathematically, *i.e.*, to simulate economic processes in mathematical formulas, diagrams and schemes. The essential thing is to obtain the wanted results from numerous, differently changing and variously inter-related effects which, moreover, are governed by the rule of chance. It is necessary to simulate the functioning of the economic system, to determine in mathematical symbols the relationships and movements of economic indices, to fill these symbols up with actual statistical data, to separate regular changes from chance ones and drawing on definite graphic equations, to compute the parameters to be carried out. Mathematical logic, higher algebra, inter-industry analysis, mathematical statistics, linear programming and, last but not least, schematic analysis will, naturally, give the chance of studying the concrete economic regularities and of improving the planning of the national economic system. Plotting various diagrams, evolving a system of national accounts and network planning and management are of practical importance too.

The use of mathematics should not be considered as a panacea against all evils. Nor should mathematics be looked upon as a golden key that unlocks automatically the door to economic truths and solves unerringly all the problems of economic planning and management. On the contrary, unintelligent and unskilled use of mathematics may do a great deal of harm, because economic ignorance and too much imagination will be concealed behind the halo of indisputable truths. However, we cannot do without extensive mathematical knowledge today.

* Prof. Dmitri Oparin is the author of a "multi-line" model of the Soviet economy, which developed the well-known "input-output" method, as applied to all aspects of economic activity.

Mathematical Methods in Economics

By PROF. DMITRI OPARIN *

For example, let us examine the relative movements of assets and national income, *i.e.*, the increases or diminutions in the dynamics of asset-intensity per unit of newly created value. The movements of assets and national income are alterations of complex economic categories made up of the goods put out by a wide range of enterprises.

It is necessary to determine the quality and quantity indices of the categories under comparison and to establish their units of measurement, the factors they depend on, and the conditions and forms of their movement. Mathematical logic—even in its simplest forms—will help to describe formally correctly the given processes under certain preconditions. Matrix plottings on the basis of input-output tables determine the composition and relationship of the leading statistico-economic indicators. Logarithmic scales will lead to the correct depiction of the growth rate of the processes compared, while mathematical statistics will separate regular factors from chance factors and fix the correlational coefficients—the form of dependence between the phenomena under examination and the factors that determine them. Of course, the connection between the national income and the size of assets is but one aspect of the functional activity of the integral system of the national economy, and it must be studied in correlation with other aspects.

There was a time when the connection between phenomena was thought to be a direct, "linear" inter-dependence of events. Where there is cause "A", there always is effect "B". Subsequently, the conception of the relationship of phenomena and processes grew more complicated. The system of several equations with the same number of unknown quantities gives the chance of finding these quantities and establishing the wanted dependences under a multitude of effects. It has turned out, however, that the real functioning of economic system is simulated by equations with a number of unknown quantities

larger than the number of equations. This should have led, in accordance with the rules of classic algebra, to indefinite or multi-variant solutions. This is where mathematical methods of linear programming come to our assistance, where the specific function plays the decisive part. It also determines the size of the unknown quantities in our system of equations, with which we obtain the maximum (or minimum) of the determining indicator, for instance, socialist profit—the monetary expression of the material-value increment.

According to the rules of linear programming with conditions given, it is not difficult to compute profits for a given enterprise, if considered statistically. However, what the socialist system of dynamic economic activity needs is not the isolated profits of the individual enterprises, but the profit which leads to the largest possible increment of production under the existing size of assets and other conditions. Consequently, it is essential to find a solution that is optimal for the entire system of the socialist national economy as a whole. This requires resorting to schematic analysis, simulating reproduction on an expanded scale, and taking into account the cybernetic laws of its functioning.

The model of the socialist economy to be adopted is that which, on the one hand, conforms to the principles underlying the functioning of the socialist system and, on the other, which could depict adequately the concrete relationships and movements of its economic categories in the form of statistico-economic indices. Being the author of the "multi-line" system, I am naturally of the opinion that the foundation for simulating the national economy is precisely in this kind of model. The multi-line scheme does not reflect an individual sphere of the functioning of the national economy, for instance, the inter-industry balance, but it reflects the integral economic system on the whole. It gives the possibility of combining statics with dynamics,

moment categories with interval categories, and calculations referring to materials and money.

The multi-line scheme permits to introduce into the model the exports, imports and transit in foreign trade and takes into account the movement of cash and clearing payments not connected directly with the turnover of goods and services. The multi-line scheme may be adapted to understanding the processes, taking place in the sphere of currency circulation and credit, and translated into the language of "national accounts" and "flow-line patterns" of current national economic processes with the purpose of timely checking, adjusting and controlling them.

The multi-line scheme operates with material-value categories. The purely money form is but an essential equivalent of these categories in an exchange economy, it is employed for establishing balance equalities and the proportional planned development of the socialist economy. In contradistinction to this scheme, the models proposed by the western economists are based on the cash incomes of the various groups of the population and are actually attempts at determining the possible demand in certain groups of goods and whether it is profitable to produce them. As a rule, they are distinguished for lacking a correct classification of current expenditures and capital investments, and they do not refer depreciation charges and indirect taxes to the primary incomes of production factors, which leads to an imaginary increase of the sum total of incomes due to the addition of redistribution sums to them.

Marxists consider the exchange of commodities to be based on equivalent expenditures of the abstract, socially necessary labour invested into the commodities. International commodity exchange among countries is mutually profitable and economically effective. The countries concerned get one from the other the goods they need and sell the goods which they produce with the least expenses. The new models and methods will show correctly and clearly what each country needs and what it can offer its partners in exchange for the goods and products it receives. Adequate long-term calculations will show the requirement and surpluses for a long time to come, and will establish the least possible production costs for each country.

SUCCESS STORY OF AMUL

MILK has always been a sideline for the poor farmer but there are changes happening. These are changes in an age-old pattern brought about by a guaranteed market for his milk by co-operative effort. Thirteen years ago the villagers of the Kaira District in Gujarat decided on forming themselves into milk-producing co-operatives and so the Kaira District Milk Producers' Union came into being, owned by the former members of the co-operatives formed in the villages. The idea grew until the Bombay Milk Scheme could not use all the milk that was being collected. The next step put the Union on the road to becoming the giant dairying concern it is today.

The plan was to build a factory to use the surplus milk of the winter

months for dairy products. It was here that the Kaira co-operative received recognition. Help came from many quarters, from the State Government, from the Centre, from the UNICEF, the Colombo Plan, and from FAO. A five-million rupee dairy was opened by Mr. Nehru, the Prime Minister, at the end of 1955.

In return for technical assistance and machinery from UNICEF, the Union agreed to give free milk every day to 10,000 children for six years. Three years after the dairy plant was opened, it was extended for the manufacture of a unique product—sweetened condensed milk from buffaloes. Still the scheme grew and in 1960, baby-food and processed cheese plants were added.



Fresh and Glowing...



...with daily Hamam care. Hamam refreshes your skin as it cleanses, gives your complexion a radiant glow. Use Hamam—the toilet soap that lasts... and lasts.

A TATA PRODUCT

CMT4-3

BRITISH SCENE

Liquidity Debate Continues

From ANILA GRAHAM*
Our London Correspondent

LONDON:

THE much debated question of international liquidity was a key issue, both at the Commonwealth Finance Ministers' Conference in Montreal, and at the annual meeting of the International Monetary Fund at Washington. Most people are agreed that the present international monetary system—the Gold Exchange Standard, with dollar and sterling providing additional international reserves to back up gold—is far from satisfactory, and that there is something basically wrong with a system which depends on balance of payments deficits in the United States and the U.K. to provide additions to international liquidity. What is still in question is whether there is an immediate shortage of international liquidity (the Continental countries maintaining that there is none, but there might conceivably be a shortage in the future), and what new type of reserve currency should be created, and who should create it, and on what basis.

The monetary system has been under close scrutiny for more than two years. In that period, both the I.M.F. and the Group of Ten

* We have pleasure to introduce to our readers Miss Anila Graham, veteran economist who now heads a research institution in London. A graduate of the Calcutta University, Miss Graham took the degree of M.Sc. (Econ.) from the London School of Economics in 1938. After a brief stint as a lecturer in a Calcutta College, she served with the Government of India for some time. In 1946, Miss Graham moved to the U. K. where she did meritorious work in several research organisations. She is a member of several learned societies, including the Royal Institute of International Affairs, Economic Committee of the U.N. etc. Miss Graham has an abiding interest in the problems of developing countries.

have produced reports. In addition, a group of experts, under Lord Kahn, produced, for UNCTAD, a report suggesting that the developing world should be associated with any creation of new liquidity. The latest report of the Group of Ten says: "Most of us favour, as part of a contingency plan, the creation of a new reserve unit by the limited group" which the group defines as "the major countries with a key role in the functioning of the international monetary system." The proposals of the Managing Director of the I.M.F. (in the 1966 Annual Report) are based on the principle that "reserve creation is the concern of all member countries and provides that all should participate, with due safeguards, both in the distribution of newly created reserves and in the decisions which lead to their creation." At the Hague in August, the Group of Ten conceded, for political reasons, that the rest of the world should be represented in future talks on liquidity by the Executive Directors of the I.M.F.

That was how things stood before the September Commonwealth Finance Ministers' Conference. It was only natural, therefore, that international liquidity should be discussed at some length, particularly in view of the I.M.F. meeting which was to follow. The developing countries went to both meetings determined that the subject of liquidity and economic policy should be properly discussed. This subject was one of the main issues discussed at last year's Commonwealth Finance Ministers' Conference in Jamaica, where the chief objective of the U. K. was to persuade the developing countries (and perhaps even more Australia and New Zealand who are not members of the Group of Ten), that together with Canada, she was really standing up for their interests inside the "Rich Men's Club." Since that date, the Commonwealth has been kept informed of negotiations on this front.

At the moment, the hopes of developing countries to raise living standards and obtain the foreign exchange needed to finance development plans and programmes are fast fading away. In view of what has happened over the last few years, it is not surprising that the motives of the rich countries are held in deep distrust by the poorer developing nations of the world, who see themselves denied any effective say in the reform of the international financial mechanism. Unfortunately, liquidity seems to be one of the subjects on which (even within the Commonwealth forum) the rich and poor countries do not appear to see eye to eye. The developing countries are anxious that machinery for making decisions on the increase of new reserves should not be entirely dominated by the Group of Ten countries. The two rich members of the Commonwealth—the U.K. and Canada—who are members of the Group of Ten say that it is unrealistic to suppose that rich countries from whom real resources will ultimately be transferred by the general distribution of new reserves, will not, in practice, control their creation.

Secondly while developing countries say new reserves are necessary because of their own financial difficulties, the U.K. and Canada support the Continental position, with the need for liquidity as contingent on the overall needs of world trade. The answer to the difficulties of individual developing countries is greater aid, not additional liquidity. Indeed, it almost appeared as if the British Chancellor of the Exchequer was taking on the role of honest broker between the Group of Ten who want to keep a tight rein on new reserve creation, and the developing countries who are anxious for a bigger say in the distribution of fresh liquidity so as to see that it benefits the 'have-nots' as well as the 'haves.' This



We have just the vehicle you require

FARGO

(manufactured by The Premier Automobiles Limited, Bombay)

We can arrange an advance of Rs. 30,000 in the price of a truck, or Rs. 35,000 in the price of a bus with TVS body - repayable in easy monthly instalments

Why a Fargo? It is ideal for making quick deliveries. Reasonably priced so that you can have more of them and diversify your operations.

Why specifically a Fargo? Because of these factors: Robust chassis frame, Rockwell Standard Timken Axles to withstand road and load shock and for better payload. Choice of four engines. Five-speed transmission for finer selection in diffe-

rent operating conditions. 330 mm (13") single dry plate type clutch disc specially designed to withstand heavy torque. Heavy duty propeller shaft. Positive stop on the front spring rear shackle bracket.

TVS arrange hire-purchase finance: Rs. 30,000—repayable in easy instalments out of the profits your Fargo will bring in month after month. Rs. 38,000 for a bus with TVS body.

For more details please contact:

T. V. SUNDARAM IVENGAR & SONS PRIVATE LIMITED, MADURAI-TIRUCHI-TIRUNELVELI-PUDUKKOTTAI-SALEM-COIMBATORE-TRIVANDRUM. Sub-dealers: P. N. Krishna Aiyar & Sons Private Ltd., Trichur - C. C. Automobiles Limited, Calicut - The Quilon Automobiles, Quilon - Monoranjan Ganguly & Sons Private Limited, Pondicherry.

SUNDARAM MOTORS PRIVATE LIMITED, MADRAS-BANGALORE-SECUNDERABAD(A.P) Sub-dealers: Garapati Garage 1959, Vijayawada-Sri Pettabhiram Commercial Syndicate, Kakinada and Visakhapatnam - D. S. Automobiles, Nellore - The Motor Sales Co., Anantapur and Kurnool - T. N. Raghunatha Reddy, Cuddapah - Sree Venkateswara Automobiles, Hospet - P. V. Pai & Co., Mangalore and Mersara.

IWT-87-3755

can only be assured if the I.M.F. plays a key role in any new arrangements.

In the final communique of the Commonwealth Finance Ministers' meeting, there was agreement on the need for immediate contingency planning to provide additional liquidity, when required, and to reform the international monetary system to make it more responsive to the needs of both industrialised and developing countries. The International Monetary Fund should play a key role in any new arrangements, and all members should be represented in the discussions leading up to monetary reform. Ministers also recognised that the satisfactory working of the international monetary system required appropriate domestic policies on the part of all countries, and that this obligation rested as firmly on those countries which were in surplus as on those which are in deficit.

While it is easy for the rich countries to suggest that the increase of international liquidity is of no concern to the developing world, and their problems can be met by increased aid, the brutal fact remains that while the richer countries are pre-occupied with their own problems (brought about to some extent by the shortage of international liquidity), the amount of aid they are willing to provide will certainly not increase. Indeed, as the annual World Bank report has shown, the level has remained practically stagnant for the last five years, and official aid has fallen from 0.8 per cent of national income in 1961 to 0.6 per cent in 1965. The increase in the outflow of private capital is concentrated on a few small petroleum exporting countries, and probably more than offset by higher dividend and interest payments. At the same time, development aid is becoming more expensive—the amount of grants declined from 70 per cent in 1960 to 52 per cent in 1965, interest rates rose from 3 per cent in 1964 to 3.6 per cent in 1965, and average maturities shortened from 28.3 years to 22.1 years. In the meantime, the debt repayment burden increases at a frightening rate, and is costing the poorer countries some 3½ billion dollars a year—9 per cent of their export earnings. Balance of payments difficulties have forced one group of countries to trim their aid programme, budgetary difficulties have prevented another from

stepping up their programmes to fill the gap.

As the Managing Director of the I.M.F. said: "Preoccupied with their domestic problems of pursuing economic growth, combating inflationary pressures, and protecting payments or reserve positions, the industrial countries as a group have not expanded their various forms of assistance to developing countries. In view of the sheer immensity of the problems, and the needs facing the developing world, this situation is of the gravest concern." At the I.M.F. meeting in Washington, all hopes that any immediate action will be taken on increasing international liquidity receded to the background. It, therefore, looks as if, once more, this crucial issue is to be relegated to further discussions. Given the insistence of the Continental countries—particularly France, that deliberate reserve creation shall not take place before the deficits of the reserve currencies have been eliminated—nothing more than "further studies" can now take place. Even the generally accepted belief that there is a need to set up contingency planning machinery to be used as and when the necessity arises, may not materialize in view of the fundamental difference in the French attitude on the future of reserve currencies. While it is always possible that the other countries may go ahead on this plan without the French, this does not seem a very practical issue. In putting forward their now views on the reform of the international monetary system, the British have suggested that while they have no wish to take a rigid position on the form of the new asset, they had a marked preference for a new international monetary unit, rather than increased drawing rights on the Fund. The French, on the other hand, are adamant that no monetary system can be based on anything but gold, and that there is an overall excess of international liquidity which threatens inflation on a global scale.

The developing countries have every right to feel disappointed at the fact that the liquidity argument has once more been bogged down. They are being fobbed off with the fact that the richer countries have at least agreed to proceed with the second and wider phase of the negotiations in which the less developed countries will be represented through their membership of the I.M.F., but in reality,

the participation of these countries through their directors on the I.M.F. Board will, after all, be slight.

World conditions have not been favourable for the satisfactory growth of developing countries. While their ability to use external financing effectively has continued to increase, net availability has remained at static levels. Industrial nations faced with balance of payments difficulties are powerfully tempted to cut aid, rather than employ measures which are politically unpopular at home. On the other hand, high interest rates make it very expensive to raise money on the open market.

MISL TO DOUBLE CAPACITY

The Mysore Iron and Steel Ltd., (MISL), Bhadravati, is planning to expand the capacity of its alloy steel plant from 77,000 to 150,000 tons per annum, according to Mr. M. D. Shivananjappa, Managing Director. DEMAG of Duisburg, has been asked to prepare a detailed project report. The steel plant, in 1960, embarked on a major expansion programme aimed at increasing its crude steel capacity from 30,000 tons to 130,000 tons. In 1964, the company decided to convert the works into an alloy steel plant, utilising the additional capacity of 100,000 tons ingots for the production of 77,000 tons of high-grade and alloy steel per year. For implementation of the scheme, a consultancy agreement was concluded with DEMAG, Duisburg, W. Germany, AEG, W. Germany's heavy electrical concern and Boehler of Austria.

With the entire equipment required for the conversion installed, Bhadravati steel plant has recently begun to produce alloy steel and is expected to reach its rated capacity by the end of next year. The W. German Government Bank for Reconstruction (AFW) has so far provided credits to the amount of 86.6 million marks. Up to the 77,000 ton stage, the project costs (including foreign exchange) amounted to Rs. 25 crores, at post-devaluation rates. In 1965-66, MISL achieved a turnover of Rs. 12 crores and reported a net profit of Rs. 70 lakhs (162 lakhs gross income minus 92 lakhs for interest), giving the company a handsome return of 18 per cent on investment. After reaching the rated capacity, MISL expects a turnover of Rs. 70 crores yearly.

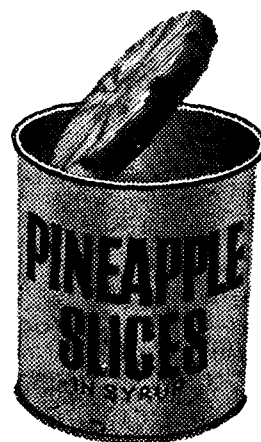
pick of the season...



Poysha containers

Food and pharmaceuticals. Vegetable and mineral oils. Paints and dyes. Things you need and use every day. They all come to you in protective Poysha containers—with their original quality intact.

Quality and service always come first with Poysha. It's the second largest container maker today, making eight times as many containers as it did nine years ago. To serve you even better, it has already launched an ambitious expansion plan. When its 3 new



bring it to you

factories start production before the year-end, Poysha will make 5 containers for every 2 it makes now. Will offer better technical advice and service to Indian industries. A wider range of packaging materials, too. Plus all the advantages of multi-plant operation. It'll meet the needs of the country's key centres individually. Cut canning and transport costs. And, ensure prompter deliveries and on-the-spot service. All this to help bring you more and more of the better things you need—in Poysha containers.

POYSHA: INDIA'S FASTEST GROWING CONTAINER MAKER!



POYSHA INDUSTRIAL COMPANY LIMITED

BOMBAY • NEW DELHI • COCHIN Subsidiary: KAIRA CAN COMPANY LIMITED, ANAND

BOOKS

Planning for Steady Growth

Reviewed By PROF. V. L. D'SOUZA*

THE author belongs to the younger group of Indian economists who are making increasing use of mathematical tools and models for explorations in economic truth. Nowhere is this technique of analysis and research more fruitful than in the comparatively new field of growth, development and planning. His application of Cambridge thought and tradition and of the unwritten modes and methodology of Cambridge economists to the Indian scene must be considered as a valuable exercise in extending the body of economic knowledge.

The nucleus of this study† was a Stevenson Prize Essay submitted at Cambridge University in 1959 which was later expanded into a doctoral thesis. The analytical frame-work is derived from Joan Robinson who was his guide, and from Kaldor, Kahn, Harrod, Hicks, Dobb and Sraffa. Dr. Gautam Mathur defines the long-term objective of a plan as the achievement of a "steady-growth state" at the highest standard of living which modern technology allows, assuming a long-run rate of growth of population. Planning non-inflationary progress in under-developed countries is an important desideratum. The study combines the methodology of a simplified type of Process Analysis with the theory of capital accumulation which is being developed by Joan Robinson and others on the lines associated with post-Keynesian macrodynamics.

All development aims at an optimum golden age as represented by a state of steady growth at full employment, with the highest consumption level per man steadily attainable given an autonomously determined long-term rate of population-growth and a rate of increase in technical knowledge. Dr. Mathur works out the requirements and conditions

for a country to be in a state of steady growth. He weighs the relative advantage of an analysis in terms of the aggregate rate of saving, aggregate capital-output ratio and national income against the highly disaggregative dynamic process analysis after the fashion set by Newmann, Leontif and Sraffa. A certain amount of disaggregative becomes necessary in order to discover what exactly holds back growth. That is, one has to select a small number of significant variables and study their inter-relations.

The achievement of a "golden age" at full employment being postulated as the objective of all long-term development plans, Dr. Mathur

Books and Publications Received

The Changing Phases of Indian Economy (The Sir William Meyer Endowment Lectures in Economics 1963-64), by Prof. V. L. D'Souza, published by the University of Madras, Rs. 4.50, Pp. 151.

Perspectives on the Welfare State edited by S. P. Aiyar, Manaktalas, Bombay, Rs. 32.50, Pp. 384.

Social Responsibilities of Business sponsored by India International Centre, New Delhi, published by Manaktalas, Bombay, Rs. 30, Pp. 288 + Index.

The Automobile Industry in India—A Study, published by the Department of Economic and Market Research, Hindustan Motors Limited, Nilhat House, 11, R. N. Mukherjee Road, Calcutta-1, Rs. 7.50, Pp. 102.

Crossroads 3 (Automobile-Cars) published by Standard Motors Products of India Ltd., Madras-2.

Report of the Seminar on Fourth Plan of Andhra Pradesh and Inter-State Co-operation, published by Sri Venkateswara University and Society for International Development, Tirupati Chapter, edited by

launches on a re-examination of the theory of growth applicable to countries at various stages of progress. In the course of the re-appraisal, he reveals some properties of technological structures and forms of technical development. The various types of balanced and unbalanced growth are enquired into. The strategies to attain the planning objectives are clearly defined. There is an attempt at integrating the theory of economic growth with economics of development. Technical and institutional factors as well as certain policy mandates like avoidance of inflation are woven into the texture of the thesis.

The book makes a fresh approach to development planning and opens out a new field for further research. There is a rather forbidding array of mathematical symbols and concepts but these are now acknowledged to be the necessary tools of research. It is well that Dr. Gautam Mathur is pioneering in this field and brings the resources of scientific technique to bear on our economic problems.

B. K. Narayan, Pp. 92 + Appendices.

Souvenir—Regional Conference of Share Holders, Madras, Madras Share Holders Association, 322-323, Linghi Chetty Street, Madras-1; Edited by S. M. B. Easwaran, Rs. 5, Pp. 146.

India's Trade with East Europe, A study by the Indian Institute of Foreign Trade, published by the Directorate of Commercial Publicity, Ministry of Commerce, New Delhi.

Press in India, 1966 (Part I), Tenth Annual Report of the Registrar of Newspapers for India, New Delhi.

1966, *Statistical Annual (Silk in India)*, published by Central Silk Board, Bombay.

The Eastern Metals Review, (Mid-year number, August 15, 1966), Editor, M. Vinayak, 38, Strand Road, Calcutta-1, Rs. 5, Pp. 895.

Khadi Gramodyog, Anniversary Number (October 1966), Khadi and Village Industries Commission, Gramodyoga, Irla Road, Vila Parle (West) Bombay-56, Rs. 2, Pp. 146.

* Prof. D'Souza is retired Vice-Chancellor of the University of Mysore.

† Planning for steady growth by Gautam Mathur, Indian Branch, Oxford University Press 1965. Pp. 386, Price Rs. 45.

Workers Endorse Wage-Freeze

By COLIN JONES*

THE support given by British trade unions—at their annual conference at Blackpool in September—to the British Government's policy of freezing pay increases is an epoch-making event. What was significant was not the relative narrowness of the majority in favour, but the fact that there was a majority at all. As *The Guardian* commented: "They had to bring themselves to vote in favour of measures that must jar with every historic instinct—in favour of a wage freeze, of restrictions on free bargaining, of allowing Government interference, and of making the threat to strike in some circumstances a criminal offence."

This was contrary to every tradition of the trade union movement. Indeed, there are no more persistent advocates of the free enterprise system in Britain—reflected in the established processes of collective bargaining between employers and unions—than British trade union leaders. They were asked to give up some of this, and the majority voted to do so.

Just as the power of industrial monopolies can, from time to time in practice, thwart the smooth workings of the competitive market economy, so can the strength of large organized groups of work-people. It was restraint in the use of that strength that the British Prime Minister, Mr. Harold Wilson, requested in his speech of September 5 to the Trades Union Congress. And this, from the majority, he secured. No wonder the trade unions were divided. But it was precisely because unanimity from employers as well as from the unions could not be expected for a policy of freezing all pay increases for six months, followed by severe restraint for a further six months, that the Government provided itself with the powers to make the policy compulsory by parliamentary statute. And when the Prime Minister addressed the Congress, he made it quite clear that the Government would use these powers if necessary.

* Mr. Colin Jones is Editor of *Statist*, London.

The narrowness of the trade union voting, and the actions threatened by some unions (including testing the legality of the refusal by employers to pay increases in wages already agreed, on the grounds of the Government's request for a voluntary pay freeze), make it seem likely that those statutory powers may have to be invoked well before the six-month period of "deep freeze" is up. The Government has made it unmistakably clear that it really means business. Mr. Wilson emphasized to the trade union leaders that this must be so because, in particular:

In a world where trade and finance are being increasingly threatened by growing illiquidity, where the world currency situation is pushing up interest rates in market after market, one false, careless step—particularly by the custodians of a major trading currency—could push the world into conditions not unlike those of the early thirties, where nation was set against nation, seeking to export its deficits, then its unemployment to its neighbours, where panic economic nationalism, taking refuge in every device of currency manipulation and protectionism, produced uncertainty and stagnation in world trade.

In other words, everyone in Britain has a particular obligation not to rock the boat because of sterling's role in world trade and finance. A really major blow to confidence would not just hit Britons, for many of whom the effects might seem remote and slow to build up. It would also, because sterling is used both as a reserve currency and to help lubricate world trading, be a savage blow to the whole world economy. Mr. Wilson made it absolutely clear that the British Government was resolutely determined to accept and carry out these obligations. He said the alternative to acceptance of the Government's policy was to take the risk that, because Britain is a nation more dependent than almost any other on overseas trade, she "could well be plunged into a depression such as we have not seen in this generation, where the workless might be numbered not as 1½ to 2 per cent but at 1½ to 2 millions."

It was the prospect of this alternative, plus loyalty to a Labour

Government, plus a willingness to try to find a way out of continual inflation and balance-of-payments crises, that moved Britain's top trade union leaders to recommend, and a majority of their members to support, the Government's price and incomes policy. With a similar preparedness on the part of the nation's top industrialists, supported by the majority of the others, Mr. Wilson now has "tripartisan" support for his Government's economic policy.

There is no agreement about every aspect. Nor could there be. But the Government has now done its part: taken the steam out of an over-heated economy, and in an uncertain manner. Now the majority of employers and trade unions are demonstrating their readiness to fulfil their roles—not to use their bargaining strengths to the full to secure increases in incomes over and above increases in unit output. With legal powers available in the background to prevent any dissidents from frustrating the Government's policy, there is now, for the first time, a real chance that the British economy can secure the breathing space it so badly needs in order that the more fundamental reforms set in hand to put the country's economic problems right once and for all can be accomplished.

READ
Throughout the World
ECONOMIC AFFAIRS
A Monthly Journal
of Theoretical
and
Applied Economics
Edited by
HIMANSU ROY
10, Galiff Street, Block 5
Suite 64, Calcutta-3

SOUTHERN

AVIATION

Fare Cuts Stimulate Traffic

AIRLINES in USA will spend almost \$14,000 million, chiefly for new planes, in the next decade, according to a recent projection by the Air Transport Association (ATA) in the United States. In the next five years, the airlines will be laying out about \$5,500 million on new aircraft alone. In 1965, the airlines spent about \$1,000 million for new equipment and facilities. But the rate of expenditure will have to increase in the future, to accommodate the growth in the number of people flying.

By 1975, the Association expects that about 336 million airline tickets will be purchased, as compared with 94.7 million in 1965. Officials base this higher figure on the assumption that the present mileage of the average plane trip will stay about the same. Lately, however, there has been a trend toward longer trips per passenger. If this trend should continue, the number of fares purchased would decrease.

Since 1950, U.S. Airlines' traffic volume has increased by an average of 13.5 per cent yearly. If this annual increase continues for the next five years, the volume will nearly double—increasing from 68,000 million passenger miles (109,412 million passenger kilometres) in 1965 to 129,000 million (207,561 million) in 1970. Recently, the pace of the traffic growth has been 16.2 per cent, greater than the 12-year average. If this greater rate continues, traffic in the next five years will more than double.

A general cut in fares has greatly stimulated the airlines' business in recent months. A recent survey showed that 62 per cent of the U.S. population had never flown. This is a considerably lower figure than the 75 per cent level recorded not too long ago. A major concern of the airlines is whether airport development can keep up with the increase in traffic.

THE presence of overseas-built aircraft in Britain's Farnborough Air Show demonstrated conclusively that the British aircraft industry has gone international. Mr. John

Seekings, aviation writer, observes that it is not without significance. This foreign participation, restricted even as it was to aircraft which had substantial British content, was actively resisted in certain quarters of the industry. Without doubt, the main feature of Farnborough, 1966, was its proof of the industry's acceptance of international co-operation. If prizes are to be given for initiative in this field, it would be fair to award first place jointly to the two major aero-engine manufacturers, Rolls-Royce and Bristol Siddeley, which are soon likely to be joined together.

The major airframe constructors, without exception, have also been able to demonstrate co-operation. Beagle are working on joint marketing arrangements with Sud Aviation of France; the British Aircraft Corporation have a formidable range of joint Anglo-French projects under their wing, notably the Concord supersonic airliner, the Jaguar trainer/strike aircraft, and the so-called "variable geometry" (swing wing) bomber.

All divisions of Hawker Siddeley are also active in the Anglo-French field, their biggest potential undertaking being the proposed 250-seat airbus; Scottish Aviation have built up a healthy export business making components and overhauling American aircraft and engines; Short Bros. are responsible for the manufacture of several major assemblies for American and British aircraft; and Westlands have established a close relationship with the leading American helicopter manufacturer, the Sikorsky division of United Aircraft Corporation.

International co-operation also helps to overcome another growing problem facing aircraft manufacturers: the sheer size of the big projects is now becoming so large that not even in the United States are individual manufacturers able to raise the finance on their own. America's supersonic transport (SST) is to be financed mainly by the U. S. Government, while the other big project, the so-called Jumbo Jet Boeing 747, is going to be shared between a consortium

of manufacturers. "While the Americans are powerful enough to finance major aircraft projects internally—even if it proves beyond the resources of individual companies—in the rest of the world, this is now clearly impossible."

AT the recent meeting of its Containers Board, the International Air Transport Association (IATA) agreed upon minimum requirements for the registration of air freight containers which are supplied by shippers. The main points of the agreement are: (1) Construction features for the containers concerning minimum strength of the container bottom and for devices for handling by loading machinery such as fork lifts, etc.; (2) Standard norms for checking resistance to crush forces; (3) Official certificates of examination for registration by the Containers Board; (4) There will be two classes of containers, the multiroute containers and the single-route containers. The single-route containers will have to withstand only half the crush pressure than the multi-route containers of the same size. (5) 12 standard sizes have been agreed upon for containers with an outer volume of 1.75 cbm or more. Only containers with the agreed measurements will be registered and authorized in future.

The new agreement was officially announced on September 1, 1966, and will be in force as of September 1, 1967, thus giving one year's introduction time. The new directives will not influence the calculation basis for container freight.

LIKE other big airlines operating important long distant flights, Air France thinks that the progress made in aeronautical construction would permit to carry up to 450 passengers with aircraft of large dimensions. It will thus reduce passenger fares to an appreciable extent. Air France, has therefore chosen the Boeing 747, as a solution and has just ordered four of these aircraft, which will be delivered in the beginning of 1970.

**ACCIDENT
INSURANCE!**
WHO ME?

Well, perhaps not. But for everyone else, Accident Insurance is a sensible precaution. Don't take risks. Contact LIC for all your Accident and General Insurance needs.

**FIRE ■ MARINE ■
MOTOR ■ ACCIDENT ■
MISCELLANEOUS ■**



**LIC FOR
GENERAL
INSURANCE**

Serves you through 750 centres all over India.

ASP/LIC/GN-5

COMPANY NOTES

Alucoin Raises Dividend

ALUMINIUM Corporation of India Ltd. has increased the dividend on its equity shares from 6 per cent to 9 per cent for the year ended March 1966. The results depict an alround increase in production, sales and profits. Gross sales of the Company have touched a new high of Rs. 436.50 lakhs against Rs. 356.74 lakhs last year showing an increase of Rs. 79.76 lakhs. This rise was mainly due to the increased production in Fabrication Department. The rise in the turnover is reflected in the improvement in Gross Profits from Rs. 66.13 lakhs to Rs. 100.71 lakhs, an increase of 52.3 per cent. Allocations have all been higher. Depreciation takes away Rs. 41.08 lakhs against Rs. 36.75 lakhs last year. A sum of Rs. 9.96 lakhs has been provided for Development Rebate Reserve against nil last year. Transfer to General Reserve is Rs. 32.50 lakhs against Rs. 16.50 lakhs while dividends claim Rs. 17.33 lakhs against Rs. 11.95 lakhs.

The production in all Departments was well maintained and registered an increase in all the Fabrication Departments. The results would have been much better, but for the high cost of power to the Corporation which pays almost double of the rate paid by the aluminium industry in India, the increased prices of raw material, stores and spares, particularly imported, and increase in wages. A firm and steady demand for the Company's product continued throughout the year. The Company is actively pursuing the Scheme to expand the plant further and negotiations are in progress.

GANGES MANUFACTURING

THE Ganges Manufacturing Company Ltd., has maintained the ordinary dividend of 5 per cent on the equity shares for the year ended March 1966. Taking into consideration the difficult trading conditions prevailing in the industry during the year, the results may be

considered satisfactory. The sales are higher at Rs. 609 lakhs against Rs. 589 lakhs in the previous year. The rise in sales has been duly reflected in the profits before depreciation which stand at Rs. 32.38 lakhs against Rs. 23.29 lakhs in the previous year, thus showing an increase of over Rs. 9 lakhs. A sum of Rs. 14.40 lakhs has been provided for Depreciation against Rs. 14.22 lakhs while Rs. 4.71 lakhs has been set aside for Development Rebate Reserve against nil in the previous year. A sum of Rs. 4.50 lakhs has been transferred to General Reserve against Rs. 3 lakhs drawn from it in the last year. Adjustment in respect of previous year is made at Rs. 3.71 lakhs against Rs. 7.51 lakhs in the previous year. The carry forward stands at Rs. 36,416 against Rs. 15,896. Trading conditions during the year were difficult. Raw Jute remained scarce because of the short and inadequate jute crop during 1965-66, and the disruption of imports from Pakistan because of Indo-Pakistan Conflict. Consequently the price rose very high and manufacturing costs shot up. Further, an increase in wages, freight, interest, electricity charges and the introduction of E.S.I. and Bonus Acts, etc., added to the costs.

INDUSTRIAL INVESTMENT TRUST

THE Industrial Investment Trust Limited reports a higher earning during 1965. After providing Rs. 3.10 lakhs towards the estimated tax liability, the Trust reported a net revenue of Rs. 6.13 lakhs compared to Rs. 5.47 lakhs in 1964. Adding Rs. 36,000 being the amount transferred from reserve and Rs. 1,571 being the sum brought in, the disposable amount was Rs. 6.50 lakhs. From this, the directors recommended a dividend of Rs. 6.50 per share (subject to tax deduction) which absorbed Rs. 6.50 lakhs. The company's investments appreciated in value by 2.37 per cent in 1965. The company has been able to achieve a reasonable 'spread'

of its investments as between various categories of shares, with shares under miscellaneous group predominating.

ANTIFRICTION BEARINGS

THE Antifriction Bearings Corporation Limited showed an improved turnover in 1965. The profit, after providing for depreciation amounting to Rs. 5.25 lakhs, will be Rs. 8.28 lakhs out of which Rs. 7.41 lakhs are adjusted towards the loss of earlier years. A sum of Rs. 80,756 is written off towards preliminary expenses. This leaves a carry-forward of Rs. 6,904. The production and sales of both Thrust Bearings and Roller bearings showed an increase. The process of phased indigenous production has now been completed and the company is producing all the components necessary for the assembling of complete roller bearings. Repayment of a sum of Rs. 4.27 lakhs has been made in 1965 towards the loans of the ICICI and all the formalities connected with the grant of the additional loan of Rs. 7.20 lakhs by ICICI and the 2.5 million schillings Austrian loan have been completed.

DENA INVESTMENT

THE Devkaran Nanjee Investment Company Limited showed a net profit of Rs. 1.36 lakhs during the year ended March 31, 1966, after providing Rs. 23,000 for taxation. This, together with Rs. 1,865 brought in and Rs. 33,004 being the excess provision for taxation in 1964, amounted to Rs. 1.71 lakhs. Out of this, a sum of Rs. 10,000 is written off for underwriting commission. This leaves a balance of Rs. 1.61 lakhs. Dividend, at Rs. 1.60 per share (taxable), absorbs Rs. 1.60 lakhs, leaving Rs. 1,392 to be carried forward. During the year under review, Grauer's Sales Corporation of which the company is one of the partners, has made good progress, yielding a net profit of Rs. 28,361 compared to Rs. 19,118 in the previous year.

SARAN ENGINEERING

THE Saran Engineering Company Limited showed good results during the year ended March 31, 1966. The surplus for the year is Rs. 6.74 lakhs compared to Rs. 5.38 lakhs in the previous year. A sum of Rs. 97,557 has been provided for depreciation, compared to Rs. 1.11 lakhs in 1964-65. The dividend, at 10 per cent (same as last year), absorbs Rs. 60,000. The Industrial Finance Corporation has recently sanctioned a loan of Rs. 30 lakhs to the company for the production of pneumatic hammers in collaboration with M/s. Beche Grohs of West Germany.

CAPITAL ISSUES

Burn and Company Ltd., Calcutta has been accorded consent to issue bonus shares of the value of Rs. 168 lakhs as fully-paid bonus shares by capitalising its reserves.

Vazir Sultan Tobacco Company Ltd., Hyderabad has been accorded consent to capitalise reserves to the extent of Rs. 100 lakhs and issue fully-paid equity (bonus) shares in the ratio of one such share for every share held.

Walls Flour Mills Company Ltd., Bombay has been granted consent to capitalise Rs. 60 lakhs out of general reserve and issue 24,000 fully paid equity shares of Rs. 250 each, as bonus shares in the proportion of two bonus shares for every equity share held.

Colour Chem Ltd., Bombay has been granted consent to capitalise Rs. 50 lakhs out of general reserve and issue 8,000 fully-paid equity shares of Rs. 100 each as bonus shares in the proportion of two for every five equity shares held.

The Sarabhai Chemical Works Company Ltd., Baroda, has consent to capitalise a sum of Rs. 48,16,700 out of its free reserves and issue 48,167 fully-paid equity shares of Rs. 100 each as bonus shares in the proportion of one for every three equity shares held.

Lallubhai Amichand Private Ltd., Bombay, has been granted consent to capitalise Rs. 46,36,000 out of general reserve and issue 4,636 fully-paid equity shares of Rs. 1,000 each, as bonus shares in the ratio of one bonus share for every equity share held.

Bengal Paper Mill Company Ltd., Calcutta has been accorded consent to issue bonus shares of a value of Rs. 41,84,570 by capitalising its free reserves.

Shree Changdeo Sugar Mills Ltd., Bombay has been accorded consent to capitalise Rs. 37.50 lakhs from free reserves and issue bonus shares in the ratio of one new share for every equity share held.

Associated Battery Makers (Eastern) Ltd., Calcutta has been granted consent to issue bonus shares of a value of Rs. 35.4 lakhs by capitalising its free reserves.

Hind Lamps, Ltd., Shikohabad, has been accorded consent to the issue of capital of Rs. 30 lakhs comprising 60,000 'A' fully paid equity (bonus) shares and 60,000 'B' fully paid equity (bonus) shares of Rs. 25 each on capitalisation of reserves to a like extent.

Khatau Makanji Spinning and Weaving Company Ltd., Bombay has been granted consent to capitalise a sum of Rs. 29,92,500 from general reserve and issue bonus shares in the ratio of one bonus share for every four equity shares held.

Crompton Engineering Company (Madras) Ltd., Madras has been accorded consent to capitalise Rs. 20 lakhs from its general reserves and issue 20,000 equity shares of Rs. 100 each as fully paid-up bonus shares.

Photophone Equipments Ltd., Bombay has been granted consent to capitalise Rs. 12 lakhs and issue 12,000 fully paid equity shares of Rs. 100 each as bonus shares to the existing equity shareholders in the proportion of two bonus shares for each share held.

Peria Karamalai Tea and Produce Company Ltd., Coimbatore has been accorded consent to capitalise Rs. 11,58,976 from its general reserve and issue 5,79,488 equity shares of Rs. 2 each as fully-paid-up bonus shares.

Highland Produce Company Ltd., Alleppey has been granted consent to capitalise Rs. 9 lakhs from its general reserve and issue 90,000 equity shares of Rs. 10 each as fully-paid bonus shares.

International Instrument Private Ltd., Bangalore has been accorded consent to capitalise Rs. 8,23,600 from general reserve and issue 8,236 equity shares of Rs. 100 each, as bonus shares in the ratio of two shares for five shares held.

Pigments and Chemical Industries Private Limited, Calcutta, has been granted consent to issue 1,250 fully paid equity (bonus) shares of Rs. 100 each, to the existing members in the ratio of 1:3 on capitalising the general reserve to a like extent.

Audco India Limited, Bombay, has been accorded consent to capitalise Rs. 1.20 lakhs from the general reserve and issue bonus shares in the ratio of bonus share for every 10 shares held.

Spirax-Marshall Limited, Bombay, is to capitalise Rs. 1,00,000 out of general reserve and issue 10,000 equity shares of Rs. 10 each, as bonus shares in the ratio of two for every five equity shares held.

Mahalakshmi Syndicate (Private) Limited, Allahabad, has been accorded consent to issue capital of Rs. 40,000 in 4,000 fully paid equity (bonus) shares of Rs. 10 each on capitalisation of free reserve and surplus of the Company to a like extent in the ratio of four bonus shares for every nine shares held.

Md. Shethria Private Limited, Bombay, is to capitalise Rs. 12,500 from the general reserve and issue bonus shares in the ratio of one bonus share for every four equity shares held.

Madhusudan Brothers Private Limited Bombay, has been granted consent to capitalise Rs. 2,000 out of general reserve and issue 40 fully paid-up equity share as bonus shares to the existing share holders of the company.

Parle Products Private Ltd., Bombay, has been granted consent to capitalise Rs. 22,93,200 from the general reserve and issue bonus shares in the ratio of 13 bonus for every 20 shares held.

Gabirel India Limited, Bombay, is to capitalise Rs. 19 lakhs, out of general reserve and issue bonus shares in the ratio of one bonus share for every two equity share held.

in the service of
Agriculture

FACTAMFOS

(Ammonium Phosphate 16:20)

ULTRAFOS

(Finely ground
mineral phosphate)

**AMMONIUM SULPHATE
SUPERPHOSPHATE
NPK FERTILISER MIXTURES**

in the service of
Industry

**ANHYDROUS AMMONIA
SULPHURIC ACID
SULPHUR DIOXIDE
AMMONIUM CHLORIDE
SODIUM FLUORIDE**

FACT
first in the field!

**THE FERTILISERS AND CHEMICALS
TRAVANCORE LIMITED**

Regd. Office: Eloor, Udyogamandal P. O. Kerala State

Criterion-FT-511

Xm 21, N 63 SE

N 63.4 - 5

SOUTHERN ECONOMY

*safest for
everything*

MEI

*in electric
power control*

**HV & LV
SWITCHGEAR**

have gained an excellent reputation
for dependability and efficiency
in large factories, industries, electricity
undertakings, power stations etc.
throughout India.

Manufactured by:
THE MYSORE ELECTRICAL INDUSTRIES LTD.
Bangalore.

Engineering-Fabrication,
Sales & Service

IAEC

(BOMBAY) PVT. LTD.

43, Forbes Street, Bombay 1.

Branch at : "K" Block, Chawdhary Bldg., Connaught Circus, New Delhi.

Associated Offices :

I.A.E.C. (Madras) Pvt. Ltd., "Dinroze Estate", 2/17-G, Mount Road, Madras 2.

I.A.E.C. (Mysore) Pvt. Ltd., 54-55, Silver Jubilee Park Road, Bangalore City.

I.A.E.C. (Hyderabad) Pvt. Ltd., Barman Bldg., Gunfoundry, Hyderabad.

I.A.E.C. (Calcutta) Pvt. Ltd., 19, Rajendranath Mukherjee Road, Calcutta 1.

