

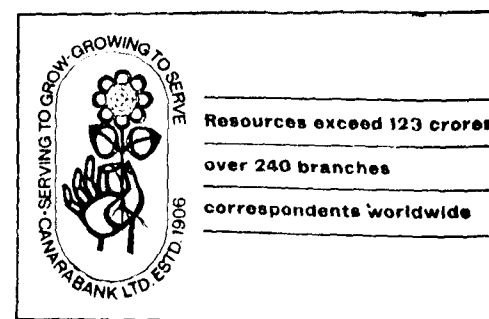


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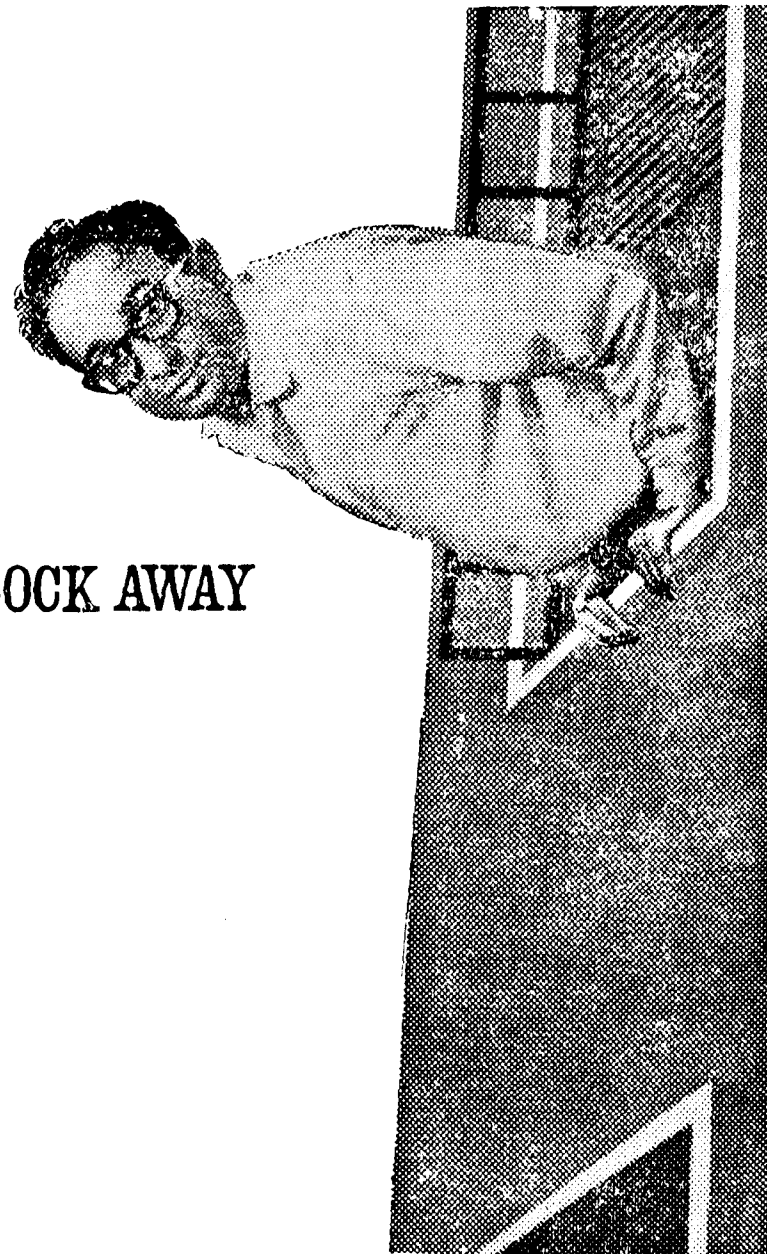


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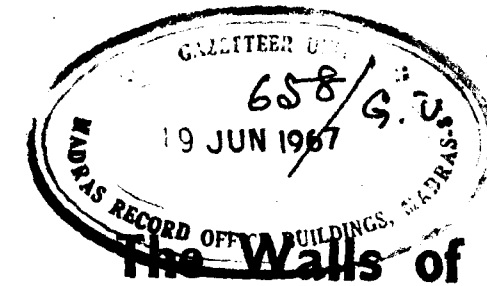


EASTERN ECONOMIST

JUNE 9, 1967

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The Walls of Jericho

THE BIG powers—meaning the United States and the Soviet Union—were not able to prevent the war now raging in West Asia. But they should, in their own interest, be able to desist from prolonging it. An Arab-Israeli clash is bad enough for the peace of the world, but a US-Soviet conflict will be a disaster for the world itself. Fortunately, President Johnson and Premier Kosygin appreciate this. Hence the simple and direct resolution of the Security Council on June 6, calling for an immediate ceasefire as a "first step" towards the restoration of peace. The Soviet Union displayed great statesmanship on that occasion by refraining from insisting on the resolution also asking for the return of the belligerents to positions ante-bellum. There was realistic recognition in Moscow that the issue of "withdrawal" would promptly get bogged down in a debate over the status of the Gulf of Aqaba. The Soviet Government was not slow to reap the fruits of its diplomacy. On the next day, the Security Council, which had passed the earlier resolution unanimously, agreed, again unanimously, on a Soviet resolution fixing a deadline (1.30 a.m. IST on June 8) for the cessation of "all firing and other military activities." At the time of writing however the ceasefire is still to be accepted by Israel or the Arab countries (excepting Jordan which has pulled out), although the UN time-limit has been crossed. The situation obviously calls for bold new initiatives in the Security Council for the ending of the armed conflict. Here is a responsibility which only the United States and the Soviet Union can discharge and this also only if they act in concert.

The Israeli offensive in the first four days of the war has been swift, sure and successful. The back of Jordan's military effectiveness has been broken and the forces of the UAR driven back across the Sinai peninsula. Cairo has been made to let go its command of the Tiran Strait, while in the north-west the Israeli thrust has been carried to the eastern bank of the Suez Canal. Syria however has advanced into northern Israel, but this military effort will have to develop much more before it becomes truly threatening. In any case, Israeli superiority in the air and on the land vis-a-vis the UAR has already been so clearly established that it is not going to be easy for the Arab alliance to reverse the shift in the political and military balance of power so spectacularly effected in the last 100 hours. The ceasefire, when it comes, will have to be more than a step in the direction of a return to the unresolved conflicts and tensions of the Arab-Israeli relationship. This time a settlement can only be in terms of peaceful coexistence between Israel and the Arab states. This would mean that the Arab states should give up their revisionist dreams while Israel for its part should gracefully assume and discharge its obligations for the re-settlement of the Palestine Arab refugees.

Before we conclude, we must condemn, of course, the ludicrous posturing of the Government of India. In a situation in which it could have done so little really, it not only tried to do too much, but said and did all the wrong things. Words, such as "aggression" and "escalation" are entirely out of place in the context of the Arab-Israeli confrontation which has its course set for it by its own history and geography. When President Nasser abruptly and arbitrarily closed the Gulf of Aqaba to Israeli shipping he was either playing at brinkmanship or was provoking a military showdown. In either case he had acted most irresponsibly. It is true that there had been violations of Syrian territory by the Israelis earlier, but President Nasser chose to deal with them by activating an offensive alliance of Arab states, the motives and purposes of which Israel could ignore only at its peril. If border incidents in our uneasy world are to be dealt with by threats of full-scale war, the world will not know any

that the state's Industrial and Development Corporation can invest directly in the equity capital of the new companies and extend also liberal loans on the lines of the Madras Industrial Investment Corporation. Mysore can overcome the adverse effects of the slow progress in the past decade if entrepreneurs from within the state and those from outside can draw up plans on a co-ordinated basis to promote new industries.

While efforts are being made to expedite industrial development, the state government should also generate larger blocks of power from the Sharavathy project in order that it could derive a good return from the heavy investment in the civil works and the power station. In view of the slow utilisation of newly created facilities and the poor growth in consumption of electricity, there is the danger of slackness in the installation of additional sets. It is unnecessary to emphasise that any prolonged delay in completing the first stage of the project will result in a low return on investment and increase the cost of power exported to Madras and Andhra Pradesh. In view of the fact that Andhra Pradesh will continue to experience a serious deficit

and Madras will be dependent to some extent on outside purchases, there is no reason why the remaining six sets should not be commissioned in the next two or three years. Kerala too may require some quantities after two or three years.

It has to be remembered that the expeditious completion of the Sharavathy project would help the postponement of some other project requiring a large outlay. Between Sharavathy, Idikki, Sabarigiri, Neyveli and Kothagudem, the southern region is in a position to maximise power generation in a short period and it would be inexcusable if through lack of foresight or the absence of an integrated distribution system, power shortages were allowed to be experienced in any part of it. The opportunity should also be utilised for evolving tariff rates which will be beneficial to the consumers in all the four states. The availability of abundant power should ensure significant progress in the industrial and agricultural sectors in the current Plan period in the four southern states if nature proved to be kind and there was a co-ordinated approach to outstanding problems.

Gujarat's Programme for Power Expansion

AMONG THE states which have recognised that power is the backbone of economic development, the palm must go to Gujarat. Surely the stepping up of availability of power from barely 300 megawatts in 1960 to nearly 600 megawatts by the end of the third Plan is a remarkable achievement. It is heartening to note that the state is planning to double its power capacity during the fourth Plan period. The state has managed to keep itself in a state of preparedness to draw any new power the moment it is released. A case in point is the completion of the extra high tension 220 kV transmission line from Baroda to Tarapur, with an intermediate 220/66 kV step-down substation at Navsari, to receive power from the first atomic power station in the country, i.e. Tarapur, when it will be commissioned in June, 1968. Incidentally, this has enabled Gujarat to provide the initial supply of power to the Tarapur Atomic Power Station for commissioning purposes.

The new state of Gujarat came into existence on May 1, 1960, and, at that time, the biggest power generating unit was the Ahmedabad Electricity Company. Besides this private sector undertaking, there were five other small thermal power stations at Uran, Porbander, Shapur, Kandla and Sikka—all owned by the Government, and a few diesel generating sets scattered in different towns. The power generated by all these stations put together did not add up to even 300 megawatts. Slowly but steadily, as well as surely, Gujarat has gone on augmenting its power potential so as to keep pace with, if not be ahead of, the growth of its industrial potential. When bilingual Bombay was divided into Maharashtra and Gujarat, Gujarat took over its share of the erstwhile Bombay Electricity Board also which has since been duly rechristened as the Gujarat Electricity Board. It is to the senior officers of the board who opted to Gujarat and to the succession of able chairmen such as the late Mr Hasham Premji and Mr H. M. Patel that the Gujarat

State owes its enviable record of progress in harnessing electrical energy.

By the end of the fourth Plan, Gujarat would boast of not only thermal power but atomic and hydro-electric power as well. Unlike states in the south, the river system of Gujarat does not permit of generating abundant hydro-electric power, but this handicap has not deterred Gujarat. It seems to have driven the state energetically and effectively to exploit the other sources of power open to it. Indeed, it is the 254 megawatts of Dhuvaran that constituted the main additional source of energy during the third Plan period. At the same time the generating capacities of the existing stations also were increased by the addition of a few more units. And it is by expanding the capacity of the Dhuvaran station again—by 280 megawatts—that Gujarat wants materially to add to its total quantum of electrical power supply during the fourth Plan period. According to Mr S. T. Raja, the new dynamic chief of the Gujarat Electricity Board, the fourth Plan power programme of the state consists of (i) expansion of the existing Dhuvaran thermal power station by 280 megawatts to raise the station's installed generating capacity to 534 megawatts each; (ii) commissioning of four second-hand capacity of 94 megawatts (made up of two new sets of 27 megawatts each); (iii) commissioning of four secondhand sets of 10 megawatts each; and (iv) drawing of 190 megawatts of atomic power from the Tarapur Atomic Power Station.

The first of these viz., the Dhuvaran Expansion Project, which is estimated to cost Rs. 43 crores (foreign exchange component: Rs. 24.2 crores) has already been approved by the Central Government. Orders for the main equipment also have been placed and Mr Raja expects the project to be completed by 1970. The second facet of the programme also concerns Dhuvaran and comprises the installation of two new gas turbines to be imported, and four old gas turbines to be procured locally. Here, again, the

project has already been cleared by the Central Water & Power Commission and the Planning Commission. Even the foreign exchange sanction is expected soon, it is stated. The new gas turbines would contribute 27 megawatts each, while the old ones 10 megawatts each. Inasmuch as the installation of gas turbines is supposed to take relatively less time than that of steam turbines, this additional supply of 94 megawatts of power is expected to be completed by the end of next year.

Details about the Tarapur Atomic Power Station, which, by the way, is being constructed by the Atomic Energy Establishment, have appeared in this journal. This station is to have an installed generating capacity of 380 megawatts (from two reactors of 190 megawatts each) which will be shared equally by Maharashtra and Gujarat. According to the latest available indications, the first reactor is expected to be commissioned in June, 1968, while the second will follow in October, 1968. By the end of 1968, Gujarat is likely to be in a position to offer to consumers of power in the state an additional supply of 284 megawatts of power. These consumers have only to await the transmission lines carrying this additional power to be energised, thanks to the completion of all the preparatory work betimes.

In regard to hydro-electric power, however, Gujarat may have to wait till 1971. But work on the Ukai project, the first hydro-electric project of the state, has been started. The Ukai dam (together with the associated 220 kV substation), to be constructed at a total cost of Rs. 22.60 crores, is designed to generate 300 megawatts of power through its four generating units of 75 megawatts each.

As important as generation is the task of transmission of power. In order to cope with the large-scale additions as above to the existing supplies of power in Gujarat, it is estimated, the total mileage of transmission lines will be of the following order:

- (i) 345 miles of 220 kV.
- (ii) 1100 " " 132 kV.
- (iii) 1835 " " 66 kV.
- (iv) 2120 " " 33 kV.
- (v) 1890 " " 22 kV.
- (vi) 6070 " " 11 kV.

The total investment in these lines alone will be some Rs. 62.5 crores while the fourth Plan envisages further expenditure of Rs. 33 crores on transmission and distribution, which means some more transmission lines and sub-stations. These additions include inter alia, 345 miles of 220 kV, 607 miles of 132 kV, 377 miles of 66 kV, 860 miles of 33 kV, 1412 miles of 11 kV. (all circuit miles).

A notable feature of Gujarat's power expansion programme is the special emphasis on rural electrification. Owing to paucity of power in the state, only 10,000 wells had been electrified even as late as 1964-65. About 5,000 additional wells were electrified in 1965-66, but a substantial addition of 11,000 wells was made in 1966-67 to raise the total number of electrified wells to 26,000. Even so, it is believed, this is but 10 per cent of the number requiring electrification, and there is said to be steadily rising demand for electrifying wells. Wells fitted with diesel engines appear to

have lost their charm to the farmer, thanks to growing difficulties in procuring diesel oil and frequent troubles of maintenance. Cashing in on this known shift in favour of electrical energy, the Gujarat Electricity Board has evolved a scheme under which a group of farmers could combine and make a loan to the board (to enable it to add to its resources under the Plan) for taking power lines to wells in a given village. The loan, repayable in 10 years, is returnable with interest thereon paid annually. (It is estimated that on an average approximately Rs. 5,000 would be needed to electrify one well.)

The power policy of the state government is based on no ideology but on purely business lines, as Mr Raja maintained. In order to attract industries to the state, the Gujarat Electricity Board offers to supply electricity at competitive rates vis-a-vis neighbouring states. For highly power-intensive industries, the board offers special rates, besides, of course, the other kinds of help that the state government offers to stimulate industrialisation. In this connection, it may be noted here, the state government has been negotiating with interested parties to exploit the rich deposits of high grade bauxite ore in Jamnagar and Kutch. It seems to be the intention of the Government to set up an aluminium plant with a capacity of 1,00,000 tonnes of alumina and 25,000 to 50,000 tonnes of aluminium ingots.

A noteworthy feature of the power tariff policy of the board is the introduction of uniform tariffs all over the state. The obvious aim is to give a fillip to the starting of industries even in remote and relatively backward areas, such as, for example, Kutch.

The Gujarat Electricity Board is evidently quite ambitious. Not content with trying to cater to the power needs of agriculture, industry and street-lighting, it wants to take a hand in electrifying a section of the Western Railway—the Virar-Ahmedabad Section—during the current Plan period. It has offered to supply the entire energy for traction on the line and that too at a very reasonable rate acceptable to the railways. If all goes well, the combined and simultaneous efforts of the board and the railways should see the electrification scheme completed by March 1971, i.e. by the end of the fourth Plan period.

Eastern Economist 20 Years Ago

JUNE 6, 1947

The Procedure Plan for the final transfer of power, revealed to leaders of Indian communities on June 2 and broadcast over the radio the following day, is really not a procedure plan. It is a substantive plan in the sense that its authors know very well—and knew at the time of formulating their procedure plan—what the results of the procedure are going to be. Under every head of the Plan, the results are foregone conclusions. Hence, however, innocent and well-meaning the British Government may be, it cannot escape the moral responsibility for partitioning India and for laying the foundations of a Fascist regime in parts of the country. The signs are ominous. Having accepted what he could under the so-called Procedure Plan and gained a sovereign foothold in parts of the country, Mr Jinnah, like Hitler would demand other contiguous parts on the analogy of German Sudetanland in Czechoslovakia.

Economics of a People's Radio

T. V. RAMAMURTI

AS WITH the low-cost or "people's car" there has been speculation also on the need for low-cost receivers or "janata radio." While a low-cost car is not likely to be within the means of the common man even if produced at the prices mentioned in the press, a low-cost receiver, if priced right, is not beyond the means of millions.

The cheapest single-band, medium-wave receiver currently sold in the market is priced at Rs. 125 and the output is quite small. The turn-over being low, the dealer or retailer tends to concentrate on selling costlier models. A study of the cost structure of radio receivers being manufactured by well-organised firms indicates that the marketing and selling expenses amount to 56 per cent of the selling price of the receiver. In the case of the small-scale sector it amounts to 37 per cent. An analysis of the cost of components which go into the manufacture of single-band, medium-wave receivers indicates that, by a judicious combination of selective imports kept to the barest minimum, with indigenous components and parts bought in bulk, it is feasible to keep the cost of components down to Rs. 45 per set. This figure has also been confirmed as realistic by an internationally reputed firm which has worked out independent estimates.

Essential Prerequisite

To bring down costs, it is essential to plan for really large-scale production of one type of receiver—very much larger than even our manufacturers are currently turning out. The largest production unit averages about 300 sets per day of two or three different types. The real reduction in price will come from drastically cutting down marketing and distribution expenses by adopting methods of distribution quite different from those followed at present. In recent months a single-band, medium-wave receiver is being sold through the Super Bazar for Rs. 85 exclusive of taxes. One manufacturer in the small-scale sector had the vision and initiative to offer the set at a concessional rate to the co-operative store which sells with a very low margin of profit and the response from the public has been far beyond expectations. The present demand is so great that there is a long waiting list and sets have to be booked well in advance. The firm has been asked to increase its production to 20,000 sets per month. The same set is being sold through dealers for Rs. 125 exclusive of taxes. This proves in ample measure that if low-cost receivers are distributed through co-operative organisations, the price can be kept down quite appreciably.

In order to assess the potential market and ways and means of distributing low-cost receivers without incurring heavy marketing expenses, we may examine the feasibility of employing organisations and departments other than the Super Bazaars as the main distributors.

In the corporate sector we have 26,000 joint stock companies of which 5,000 are public limited companies and about 20,000 are private limited. There are 8,700 registered factories in India employing 2.9 million workers. The railways employ 1.2 million, communications 0.4 million and the labour in the organised sector is four million. The total comes to 8.6 million and if we add government employees in secretariats and various departments at the Centre and the states, we arrive at a figure of 10 million. It was estimated that in the third Plan, there would be an addition of about 5.7 million at the end of the Plan. The average wage or salary of a worker in the industrial sector is about Rs. 1,300 per annum. The railways pay a higher wage which is about 1,900 per annum. The average salaries of those who are other than workers such as executives, staff etc. comes to about Rs. 3,300. Those who are employees

other than workers in the industrial sector form only a very minor percentage of about 0.3 million. If we take government officers in the higher income bracket in all fields into account, we may estimate about one million in all who can be expected to buy sets which are in the higher price range. This leaves us with nine million employees with an average salary of about Rs. 1,500 per annum, who are likely to be the potential customers for the low-cost receivers in the urban sector. (The statistics are from the third Plan report).

We have no statistics to go by regarding the very much larger rural sector where too, there is an enormous potential market, since the receiver operates on batteries and can be used in the remotest villages. The batteries are usually torch-light cells, which are easily available even in rural areas.

Some doubt may be felt about the feasibility of this scheme as the radio receiver being a complicated device, will require frequent servicing and the customers will not like to buy the set unless they are sure of service facilities. The problem of servicing the receivers, however, is not a major one, as a transistor receiver is much more rugged than a valve receiver, particularly with printed wiring. It is expected that these receivers will give trouble-free service for a long period provided we have very rigid inspection of the sets before they

ROUGH BUDGET ESTIMATE FOR THE PRODUCTION OF ONE MILLION LOW COST RECEIVERS

Number of single band medium-wave receivers to be produced:	...	1,000,000
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Turnover at Rs. 65/- per set ex-factory	Rs.	65,000,000
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EXPENDITURE		
Capital:		
Building—60,000 sq. ft. @ Rs. 20/- per sq. ft.	...	1,200,000
Services and fittings Rs. 10/- per sq. ft.	...	600,000
Cost of assembly equipment with automatic testing for ten production lines	...	1,000,000
Transport, power facilities, utilities etc.	...	500,000
Equipment for Prototype Lab.	...	300,000
Total	...	3,600,000

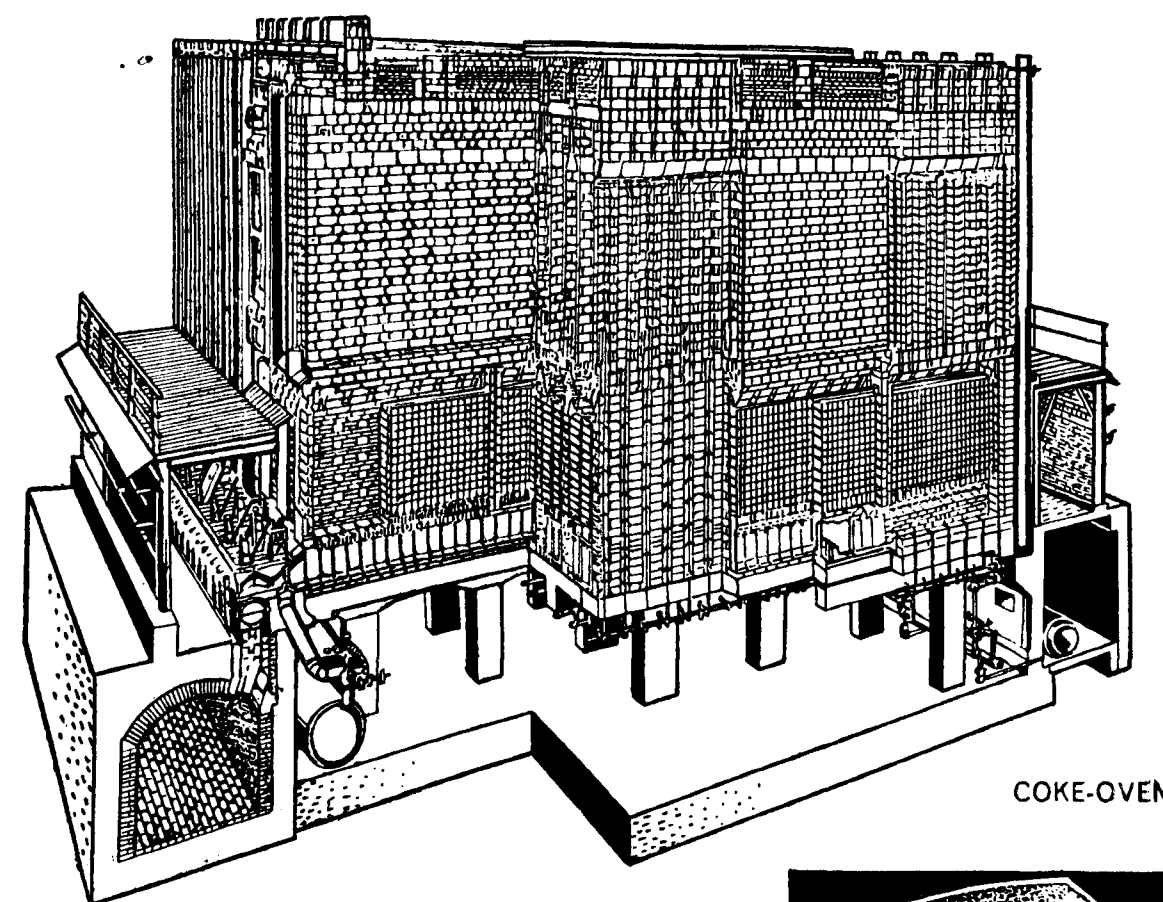
Recurring:

Cost of components and raw materials at Rs. 45/- per set.	Rs.	45,000,000
Assembly and overhead charges	...	10,000,000
Distribution charges at Rs. 5/- per set	...	5,000,000
Total	Rs.	60,000,000

Foreign exchange required for equipment and machinery	...	800,000
Foreign exchange for components and raw materials	...	4,000,000
Total	Rs.	4,800,000

Wages for assembly workers (330) at Rs. 200/- per man per month	Rs.	800,000
Salaries of management at Rs. 600/- average	Rs.	600,000
Total	Rs.	1,400,000

Gross Profit at Rs. 5/- per set	Rs.	5,000,000
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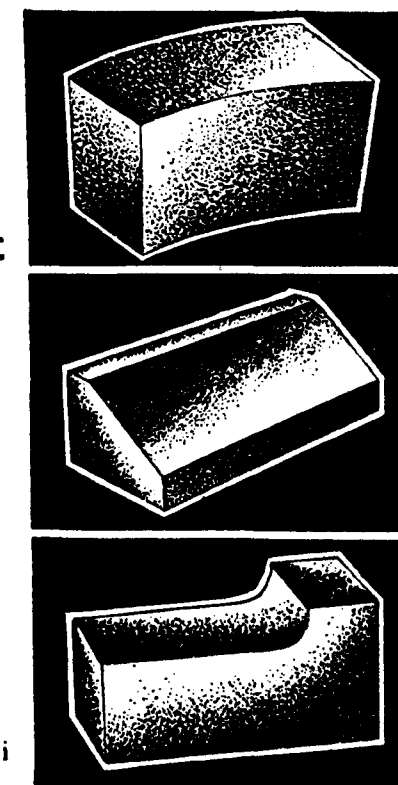
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Special Article	SA
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Questions Hours	QH
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leave the factory. In order to ensure confidence in the customers, in the initial stages of the programme, the factory may offer to replace a set free of cost for any manufacturing defect within a year. This is not likely to entail any undue burden.

The potential market is an expanding one as more industries come up. Plan forecasts are about 40 million employees in 1973. It will not be an undue risk if we plan to produce just one type of medium-wave single-band receiver at the rate of 3,500 per day or one million per annum, which is just about 10 per cent of the probable demand in urban areas alone. As stated earlier the demand in rural areas will be much more. All India Radio is installing more transmitters to provide a very wide medium-wave coverage. So more than one medium-wave station can be heard on the single-band receiver.

The proposed factory should be organised on the following lines:-

(1) Setting up an assembly plant on the most modern lines with automatic and semi-automatic equipment to make the receivers with the minimum amount of manual labour and strict inspection procedure.

(2) A nucleus of a prototype or engineering laboratory for developing different models of low cost receivers according to international standards as prescribed by UNESCO and CCIR.

(3) An engineering applications laboratory.

(4) A cell for actively investigating the possibilities of export of the set to underdeveloped countries in Africa and south-east Asia. UNESCO has estimated the potential demand for such receivers to be about 300 million to 350 million receivers including Latin American countries.

(5) A cell for negotiating with organisations such as the Ford Foundation, the Rockefeller Foundation, the Asia Foundation and USAID. They are all handicapped in their activities in the field of farm programme, extension services, family

Federal Officers and Politics

K. SANTHANAM

NOW THAT the Presidential election is over, it is possible to discuss dispassionately the point raised by Mr M. C. Setalvad at the time of the nomination of Chief Justice Subba Rao as a presidential candidate. He raised the important point whether it was proper for a functioning Chief Justice of India to enter politics. But the time when he raised it was not propitious for an objective consideration of the issue. Further, the question had been decided, though in an unfortunate manner, by the ruling party when the Chief Justice of a High Court had been taken into the party on the morrow of his relinquishment of office, sent abroad first as ambassador and then appointed as Cabinet Minister. It was rather fatuous to object to a Chief Justice of the Supreme Court contesting for Presidentship as it is certainly far less objectionable that a high federal officer should seek an elected office than that he should accept an appointment at the disposal of a party leader. Mr Setalvad had also further compromised his case by suggesting that if he had been approached by all parties, Mr Subba Rao would have been justified in accepting the candidature.

It is obviously undesirable for the healthy evolution of our politics, that those high officers whose appointment is specifically provided for in the Constitution, who are expected to stand aloof from party politics and who are expected to be impervious to the influence of the executive should, while in office, be contemplating and planning to enter the political arena either through resignation or immediately after retirement. Invitation to contest came to Mr Subba Rao suddenly and unexpectedly and this was a redeeming feature of the situation. But the mere fact of his contest may become a precedent. It is important, therefore, to ensure that in simi-

Planning Programme etc., for which funds in foreign exchange are provided by them, by not being able to contact directly the individual farmer or his family by means of pamphlets etc., because of widespread illiteracy. The foundations may not be averse to buying the receivers for distribution and pay for it in dollars. Since the import content for the low-cost receiver is only Rs. 4 per set, each dollar earned will provide imports for about two receivers. In other words if 50,000 low-cost transistor receivers can be sold to these organisations at, say, Rs. 75 or \$10 each, it will be possible to earn all the foreign exchange required for essential raw materials and components needed to be imported for one million receivers.

An estimate of the investment, by way of capital and recurring, for a production of one million receivers is given in the table on page 1168. The figures for the automated assembly plant are based on quotations from a well-known international firm and the staff estimate is based on the norms established in light electrical and electronic industries.

During discussions with many manufacturers of components and receivers it came to light that the climate was ripe for a bold venture in making really low-cost transistor receivers in numbers. Component manufacturers have indicated that they are prepared to reduce prices by 30 per cent to 50 per cent for low-cost receiver production provided quantity orders are forthcoming. There has been a recession in radio receiver sales and even sets in the Rs. 150 range are hard to sell. The long waiting list at the Super Bazar for the Rs. 85 set shows that the market is there if the price is right.

It is hoped that the many organisations and high-powered committees set up to implement the Bhabha Committee report will realise that, along with planning for the manufacture of components on a large scale, a mass market for absorbing the components produced will also have to be encouraged and given all assistance. Otherwise entrepreneurs will not set up the licensed capacity.

lar cases in the future previous preparation and political manoeuvring does not take place.

By federal officers, I mean the judges of the Supreme Court and the High Courts, the Comptroller and Auditor-General, Election Commissioner, members of the Union Public Service Commission and Governors. One of the anomalies of our Constitution is that the provisions relating to their employment after retirement have not been made in a consistent manner. The only restriction regarding a judge of the Supreme Court is that he shall not plead or act in any court or before any authority within the territory of India. The Comptroller and Auditor-General has been declared ineligible "for further office either under the Government of India or government of any state after he has ceased to hold office." Still, an ex-Auditor-General was appointed Chairman of the Third Finance Commission on the ground that it was not an appointment under the government.

There is no restriction to the reappointment or appointment to another office of the Election Commissioner. The members of the Union Public Service Commission are ineligible for further employment under the Central or a state government.

So far as membership of Parliament or state legislature is concerned, only actual holding of an office of profit is a bar for candidature or membership. The same is true for Presidentship or Vice-Presidentship. When a person gives up office, he becomes entitled to all the rights and privileges of a citizen and the right to participate in politics, to join any political party, to contest for a seat in Parliament or a state legislature, and to become a minister; these are the elementary rights

of a citizen subject to certain qualification relating to age, solvency, sanity etc.

This position is unsatisfactory. Our politics will be seriously vitiated if high federal officers are allowed to get entangled in party politics or place themselves in a position to be influenced by temptations held out by those in power or even by leaders of the opposition parties. On the other hand it is not right to deprive such officers altogether of the right to participate in politics simply because they hold office at some time.

Some via media has to be found between the extreme of total prohibition and unreflected participation. The former would amount to depriving them of their right of citizenship while the latter will undermine the integrity of our political system. The way out seems to me to prescribe a period after retirement or relinquishment of office during which federal officers will not be entitled to contest for membership of Parliament or a state legislature or to be nominated to either. It may be recalled that in the interest of integrity of administration, the committee for the prevention of corruption recommended that officers should not take up employment under

The Future of Gold

PAUL EINZIG

ONCE MORE gold is in the headlines. As a result of the crisis in the Middle East there is an increase in hoarding and speculation and the Central Banks' Gold Pool had to meet the abnormal demand in the London market in order to prevent a sharp rise in the price. The sudden rise in the price of silver, too, tended to stimulate demand, partly because successful speculators in silver, having taken their profits, have switched over to gold in the hope that the experience will repeat itself, and partly because the discrepancy between the official American price and market price of silver has given rise to anticipations that the same system might be allowed to develop in respect of gold.

In any case, there is a growing realisation that in the long run the price of gold can only go upward. Resistance to Anglo-American pressure in favour of creating new international reserve currency continues, and hopes of an agreement on the subject at the autumn meeting of the IMF had to be abandoned. France is as firm as ever in its contention that the doubling of the price of gold is the only practicable means for increasing international liquidity. And even though the US is equally firm on rejecting this proposal, taking a long view it cannot be ruled out. After all, the cost of production of gold has trebled since 1934 when the price of gold was raised to \$35 per ounce, and a further rise in costs might handicap production to such extent as to force the governments concerned to do something about it, even if they were unwilling to go as far as to double the price.

At the present moment the US Government regards a revaluation of gold inconceivable. But the first time the US should run into a severe depression it would feel strongly tempted to change its attitude for the sake of reinforcing its deflationary measures. And such a depression is merely a question of time. The American authorities cannot continue to lose gold indefinitely; sooner or later they will have to resort to deflation in order to check the outflow. An aggravation of the crises in the Middle East and in the Far East might greatly accentuate hoarding and speculative demand for gold, and a stage might be reached at which the Central Banks' Gold Pool would no longer feel justified in supplying the market for the sake of satisfying hoarders and speculators.

There is always a risk that a deflation, following on a prolonged period of expansion, goes too far and becomes self-aggravating. Should such a situation arise the US might decide to resort to devaluation as a means for checking the downward trend.

private concerns for two years after retirement. A similar period may be imposed by legislation or convention during which federal officers will refrain from joining a political party or contesting for membership of Parliament or state legislatures or the Presidency or Vice-Presidency. This constraint would prevent any scheming while in office for an active political career. A two-year period may appear to be a minor limitation but the stiff resistance of serving officers to their being prevented from taking up private employment for such a period shows that it is no small deterrent. The official prestige and halo surrounding a person relinquishing high office will fade away in a year or two and when this artificial importance disappears, he will have to stand forth on his own individual merits.

It is essential that this issue should be discussed on an objective and non-party basis with the sole intention of ensuring the integrity of our public life. The possible advantage that may accrue to the country through a distinguished individual entering politics in disregard of this limitation should not be allowed to prejudice the development of wholesome practices necessary for keeping our political life free from corrupting influences.

The hands of the US Government might be forced by a French deflationary drive. General de Gaulle is absolutely determined to correct the French balance of payments deficit. It is with this object in view that he has asked Parliament for dictatorial powers in the economic sphere, in order to be able to deflate in spite of the unpopularity of his measures.

In any case the main reason why French capital was transferred to Switzerland and to the US last year was the fear that General de Gaulle's policy was drifting leftward. Now that it has become evident that, so far from that being the case, he is adopting an increasingly orthodox monetary policy, many Frenchmen are repatriating their capital. The removal of exchange control and orthodox monetary policy between them might attract foreign funds to Paris, though at present confidence abroad in the facilities of the Paris market is not very certain.

A firm trend of the French franc, together with the revived attraction of the Swiss franc and the D mark, might lead to further gold losses by the US. Although nothing dramatic is expected in the near future, taking a long view it must be borne in mind that a stage is bound to be reached beyond which the US is not prepared to lose more gold.

Over 50 years ago, in my books "The Future of Gold" and "Will Gold Depreciate?" I expressed my firm conviction that, taking a long view, the price of gold can only rise. My forecast seems to be taking a longer time to materialise than I had anticipated, but I am as firmly convinced as ever that it will prove to be correct in the long run.

Nothing could be more absurd than the view that was expressed recently from more than one quarter that, if only the US should decide to discontinue the purchases of gold at the official buying price, the price of gold would fall. First of all, in possession of a still considerable gold reserve, the last thing the US would want is a fall in the price of gold. In any case, since the US has been a seller of gold and not a buyer for the last 10 years it matters little what price the American authorities are prepared to pay for the gold which is not offered to them and which they cannot afford to buy. Finally, since the amount of dollars held by foreign central banks is very large and is still increasing it represents a considerable potential demand for gold. The contention that the US could lower the price of gold with a stroke of the pen will prove to have been as false as the contention made some 40 years ago that sooner or later the price of gold would decline to that of scrap metals.

FROM THE PRESS GALLERY

Poonacha Announces Minor Concessions

Our Parliamentary Correspondent

New Delhi: TUESDAY.

THE SHARP reaction to the proposed increases in railway passenger fares and freight rates did have its impact. Winding up the general debate on the Railway Budget in the Lok Sabha, the Railway Minister, Mr C. M. Poonacha, announced yesterday that the increase in the ordinary third class fares would be restricted to five per cent of the present fares, instead of 7.5 per cent proposed earlier; the maximum rise in the ordinary third class fares would be 60 paise instead of 85 paise. He, however, did not give any concession in the fares for the other classes. The concession he offered in respect of freight rates was the dropping of the proposal to levy supplementary surcharge on movement of foodgrains. The two concessions will mean a loss of Rs. 2.7 crores and one crore of rupees annually to the railway revenues, respectively.

The proposals to increase fares and freight rates came in for scathing criticism from all sections of the Lower House on the ground that they would entail additional burden on the consumer, which, it was stressed, was not justified in the present-day circumstances of the country. The criticism was aptly summed up by the Swatantra Party's spokesman, Mr N. Dandekar, who observed that the proposals of Mr Poonacha, especially in regard to freight rates, would accentuate inflationary tendencies. He deplored that in spite of the talk of holding the price-line, the Government was adopting such measures as would only contribute to rise in prices. Many a member expressed the view that the proposed increases in fares and freight rates would have been avoided if the railway administration had effected sufficient economies in its operation and had taken concerted measures to check pilferage of railway property and ticketless travel. Mr George Fernandez (SSP) suggested setting up of a committee comprising members of Parliament and others to recommend ways and means to improve the working of railways.

Rise in Operational Costs

Justifying the increases proposed by him in fares and freight rates, Mr Poonacha reiterated that the operation costs of the railways had gone up steadily mainly because of rise in prices of steel and coal and partly owing to dearness allowance inflating the wage bill. On the revenue side, there had been a shortfall because of several reasons, the most important being the fact that the increase in the originating goods traffic last year was about one-sixth of the anticipated growth, especially in respect of coal and steel. The Minister pointed out that there was a deficit in the railway budget last year also, but that it had been made good by drawing upon the reserve fund. This, he stressed, could not be done year after year. The impact of the increase in freight rates on the price level, Mr Poonacha thought, would be negligible. As a result of his proposals, steel prices, he said, could go up by 0.44 per cent. The imported wheat would cost 0.59 per cent more. The price of indigenous wheat could go up by 0.08 per cent.

Apart from the opposition voiced to increases in fares and freight rates, the course of the debate was along familiar lines. There was a good deal of criticism of overcrowding on the railways as also of the departmental catering service. Mr A. B. Vajpayee (Jana Sangh) pointed out that if the facility provided to railway officers for travelling in saloons was taken away and these saloons, numbering about 900, were converted into passengers bogies, nearly 65 new passenger trains could be run annually.

Several members called for augmenting railway facilities

in their respective states. Particular emphasis was placed on the development of railways in the border areas and the backward regions of the country. Bakshi Ghulam Mohammad (National Conference) pleaded that steps should be taken on emergency basis to link Kashmir with the rest of the country by railway. A member from Tripura wanted establishment of a similar link between Tripura and the rest of the country. Mr Sheo Narayan (Cong.) called for doubling of the Lucknow-Siliguri line. So far as the provision of better railway facilities in the backward areas is concerned, the two states specifically mentioned were Orissa and Assam. Stress was also laid on improving railway facilities in Goa. Some members called for conversion of all the metre-gauge railway lines into broad-gauge ones; lack of uniformity in the railway tracks, it was contended, was responsible for some of the disadvantages of the railways viz-a-viz the road transport.

Indiscipline Among Workmen

Mrs Tarkeshwari Sinha (Cong.) drew pointed attention of the House to the growing instances of indiscipline among railway workmen. She opined that "gheraos" were responsible for this. A good deal of concern was also voiced at the growing incidence of railway accidents. Many a member called for increase in dearness allowance of railwaymen. A left communist member, Mr Jyotirmoy Basu, warned the Government that dieselisation of traction and introduction of electronic computers in the railways would not only lead to large-scale unemployment but also put the national security in jeopardy in times of war. In the interest of raising food output, it was suggested that the railways should lease out land held by them on both sides of tracks for growing foodgrains.

Mr Poonacha gave some details of the new railway lines planned to be laid. He revealed that staff had been sanctioned for preparing estimates for the construction of the Kathua-Jammu line and survey work was in progress on several other lines also. As regards the conversion of the metre-gauge lines into broad-gauge ones, he observed that this could be done only on a phased basis; the expenditure involved was as much as Rs. 1,600 crores. Such a huge sum, he pointed out, could not be found immediately.

As regards catering, Mr Poonacha informed the House that a Parliamentary Committee was proposed to be formed soon to enquire into the complaints about departmental catering. This committee would also examine the other aspect of passenger amenities and suggest ways and means to effect improvements in them. Mr Poonacha held out no assurance for mitigating overcrowding; it, he said, was more or less a permanent problem and there was no thorough remedy for this in the present circumstances. Mr Poonacha rejected the plea for a wage board for railway employees. The various pay commissions, he pointed out, had considered railwaymen's salary scales. Besides, a pension fund scheme had been introduced for railwaymen.

Intervening in the debate, the Minister of State for Railways, Mr Parimal Ghosh, disclosed that the railways had already begun offering on annual lease the land held by them by the side of stations and stretching along tracks for food production. Of the 90,000 acres of such land available with the railways, 42,000 acres had already been given to states for allotment to cultivators. The remaining land would be leased out by the concerned railways themselves.

The budget proposals of the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, for the current fin-

ancial year, also came in for sharp criticism in the Lok Sabha which started its general discussion on the Central budget yesterday. The Swatantra spokesman, Mr M. R. Masani, expressed the view that while balancing of budget was a good attempt at stemming inflation, the increases proposed by the Finance Minister in various indirect taxes would have the effect of adding to inflation. In the debate so far, the spokesmen of the two sections of the Communist Party, Mr P. Ramamurti and Mr S. A. Dange have demanded nationalisation of banks. The increases in excise levies on tea, coffee, cigarettes and fine and superfine yarn used by powerlooms have been opposed by several members. Among the other points made are: (i) demonetization should be resorted to for eliminating black money; (ii) dependence on food imports should be reduced; (iii) the unproductive expenditure of the Government should be scaled down drastically; and (iv) the privy purses of the former rulers of states should be stopped. The Congress members generally welcomed the budget and applauded Mr Desai's efforts to curb rise in prices and to step up exports.

Hazari Report

The highlight of the proceedings of the current session of the Rajya Sabha till now has been the discussion on Dr R. K. Hazari's report on industrial licensing. In this debate, many a member, both belonging to the treasury and the opposition benches, demanded a parliamentary probe or a commission of inquiry into the activities of the House of Birlas which, they alleged, had taken undue advantage of the Government's policies. Some members, however, asserted that the fault lay with the policies of the Government and not with the House of Birlas. The demand for a parliamentary probe or a commission of inquiry into the activities of Birlas was voted down by the House. The Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, announced that the Government had decided to institute an inquiry by an expert committee into whether big business houses had gained undue advantage from the working of the industrial licensing system.

Several other important announcements were also made by the Minister for Industrial Development during this debate. These included: (i) the decision for a review of the overall economic and industrial policies of the Government by a Cabinet Committee; (ii) introduction during this session of a bill in Parliament to set up a monopolies commission; and (iii) referring to the concerned ministries specific charges made during the debate for necessary action. Mr Ahmed also announced that the Government had decided to prosecute a firm of Birlas—Hindustan Motors—for the alleged misuse of licences for spare parts. The Minister, however, ruled out Dr Hazari's suggestion that the industrial licensing system should be abolished and replaced by a system of granting licences on 'tender' basis.

An offshoot of the debate on Dr Hazari's report—the allegation of Mr Arjun Arora (Cong.) in a party meeting that some

Central Ministers were in the pay of Birlas—created a good deal of furore in the two Houses. The opposition demanded a parliamentary inquiry into the allegation but this demand was turned down by the Prime Minister on the ground that material in support of the allegation was still awaited by her from Mr Arjun Arora. She wanted to look into the relevant material before taking a decision in this regard. The two Ministers accused of being in the pay of Birlas—Mr S. N. Sinha and Mr K. C. Pant—however categorically denied the charge.

Despite stiff opposition from the Communist, the SSP, the PSP and some independent members, the Industrial Security Force Bill was referred by the two Houses to a joint select committee, comprising 15 members of the Rajya Sabha and 30 members of the Lok Sabha. The Committee has been asked to report during the next session of the Upper House. The main opposition to this bill was on two grounds. First, the bill, it was feared, might create legal and political complications and cause serious friction between the Centre and the states. The second reason put forth against the bill was that it would suppress the rights of workers. It was contended that the bill had been brought because the Government was afraid of "gheraos." The Government spokesmen stressed that the bill, in no way, aimed at infringing the rights of the stat.s. Its sole purpose was to streamline the watch and ward service of the Government undertakings into a well-trained and disciplined force.

Dearness Allowance

The Gajendragadkar Commission's report on the question of grant of dearness allowance to Central Government employees was presented to the two Houses today. The Commission has made the following recommendations:

- The compensation to the employees for the future rise in prices should be given in the form of additional dearness allowance, as it considers that no alternative form of assistance is feasible and practicable.
- For determining the additional dearness allowance admissible from time to time, the All-India Working Class Consumer Price Index (1949-100) should be used until the All-India Working Class Consumer Price Index (1960-100) is prepared, published and accepted, with a suitable linking factor;
- The increases in additional dearness allowance should be made with reference to every 10-point rise in the 12-month average of the index;
- Additional dearness allowance should be paid to those employees who draw basic pays ranging from Rs. 70 to Rs. 575 per month, as set out in the table below:

Pay range (Basic pay without dearness allowance).	Percentage of neutralisation for a 10- point rise in the average of the index above 175	Amount of dearness allowance paid at In- dex 175.	Additional dearness allowance to be paid in future when the average of the index reaches	185	195	205	215	225	235
Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
70-109*	90%	6	47	6	12	18	24	30	36
110-149	80%	7	70	7	14	21	28	35	42
150-209	55%	8	90	8	16	24	32	40	48
210-399	45%	9	110	9	18	27	36	45	54
400-449	25%	10	120	10	20	30	40	50	60
450-499	24%	11	120	—	—	33	44	55	66
500-575	24%	12	120	—	—	—	—	60	72

* This is to be taken to mean "Rs. 70 and above but below Rs. 110". The same applies to all the other slabs except the last.

- In the event of a fall in prices, reduction in dearness allowance should be made at the same rates and under the same conditions as for the rise in prices;
- Any upward or downward adjustment in regard to dearness allowance, as specified in clauses (iv) and (v) above, should be automatic;
- The above recommendations should remain in force until the expiry of two years from the date of their acceptance or until the twelve-month average of the All-India Working Class Consumer Price Index (1949=100) reaches 245, whichever is earlier;
- At the expiry of two years mentioned above, or immediately after the twelve-month average of the Index (1949=100) reaches 245, whichever is earlier, the Government should undertake the revision of pay scales of all the employees, and sanction suitable interim relief pending such pay revision.

The Government's decision on this report is expected to be announced shortly.

Question Hour

General Insurance: The Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, informed the Rajya Sabha on May 31 that the Union Government was making a detailed examination of the proposal for the nationalisation of general insurance "in all its aspects, including the possibility of achieving the objective in other ways." Representations from some Chambers of Commerce against the proposal, he said, had been received on the grounds that general insurance was part and parcel of the private sector of trade and industry and that both the public and the private sector units should be allowed to function, as at present, in healthy competition in this business.

Central Loans: Mr Desai told the Rajya Sabha on May 24 that the Government of India was not aware of any unilateral decision taken by any state government to declare a moratorium on repayment of Central loans. The Government of Bihar, however, had recently sought postponement of the repayment of Central loans. The state government had been advised that it should adhere to the terms of repayment.

No Demonetization: The Minister of State for Finance, Mr K. C. Pant, told the Rajya Sabha on May 24 that the Government did not think that demonetization would serve any useful purpose. The parties tendering notes and offering satisfactory explanations of how they acquired these notes would have to be granted conversion facilities. It was likely that practically all notes would have to be converted. Also demonetization could not deal with unaccounted wealth held in the form of bullion, land, etc., Mr Pant said.

Bokaro Steel: The Minister for Steel, Mines and Metals, Dr M. Channa Reddy, told the Rajya Sabha on June 1 that the entire Bokaro plant was likely to be commissioned by the end of 1971. Reviewing the progress of work, the Minister said that the first phase of the project envisaged setting up a capacity of 1.7 million tonnes of steel ingots and 880,000 tonnes of foundry-grade pig iron per annum. In the second phase, the capacity would be raised to four million tonnes of steel ingots. The plant would have an inherent capacity for further expansion to 5.5 million tonnes. Provision had been made in the layout and design to expand the plant still further up to 10 to 12 million tonnes capacity. The entire work of designing and engineering of the plant outside the scope of Soviet Union, the Minister added, had been entrusted to Messrs M. N. Dastur and Co.

Special Steel: The Minister of State for Steel, Mr P. C. Sethi, informed the Lok Sabha on June 2 that High Quality Steels Limited, a Birla concern, which had been licensed to set up a plant near Calcutta for the manufacture of alloy and special steels, was likely to go into production by 1970-71. The firm had entered into an agreement with a UK concern for the supply of technical assistance and know-how. The UK firm

would also invest in the equity capital of the proposed venture. Technical collaboration with the UK concern had been approved by the Government.

Steel for Export Industries: Mr Sethi also told the Rajya Sabha on May 25 that the Government had decided to supply pig iron and steel at international prices to fabricators of engineering goods so that they could step up their export. A scheme had been drawn by the Joint Plant Committee in this connection.

Rajasthan Projects: The Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, stated in the Lok Sabha on June 2 that two Central projects, namely, the zinc smelter at Udaipur and the precision instrument factory at Kotah, currently under construction, would be completed during 1967-68. Besides these two projects, a machine tools factory would be set up at Ajmer. Several projects had been included in the fourth Plan of the state in the state sector. These included: (i) development of industrial areas, (ii) setting up of a woollen mill, (iii) establishment of a leather tannery; (iv) expansion of the sodium sulphate plant, and (v) putting up of a hit-tech glass factory.

Newsprint: Mr Ahmed told the Rajya Sabha on June 1 that a project report to establish a newsprint plant at some place in Uttar Pradesh or Bihar was under preparation by Messrs Simon Handling Engineers of the UK. The decision on the actual location of the plant and further relevant matters would be taken on the receipt of this report in the near future. No decision, the Minister further revealed, had been taken so far on any foreign collaboration for this project. The decision in this regard also would depend upon the consideration and acceptance of the project report.

Cement Prices: Mr Ahmed told the Rajya Sabha on May 25 that the cement industry's proposal for increasing the wholesale and retail prices by Rs. 2.60 and Rs. 4 per tonne, respectively, was under examination. The industry's representatives had stated that the cost of production had gone up considerably since decontrol. The industry proposed to submit a memorandum on the subject in July after a detailed study.

Cotton Imports: The Deputy Minister for Commerce, Mr M. S. Qureshi, told the Rajya Sabha on May 25 that the Government was exploring the possibilities of importing additional quantities of cotton from the United States. He, however, did not give any further detail on the subject.



Call it 'revolution of rising expectations'.

WINDOW ON THE WORLD

Golden Myths

JOSSLEYN HENNESSY

I
"STAGE COACH ECONOMICS"

LONDON:

I REPORTED a fortnight ago that the Chase Manhattan Bank thinks it possible that the US balance of payments deficit could reach \$3,500 million in 1967, i.e. about \$1,000 million more than in 1966. The Bank rightly criticised the US Government for seeking to cure its deficit by restrictions on capital exports. But foreign central banks are increasingly reluctant to hold dollars as a reserve currency, and the USA's total liquid liabilities to foreigners are more than twice its gold stock, so that a run on the US gold stock could not be met. The Bank argued, in effect, that foreigners were stupid to be nervous about the dollar because it is the world's strongest currency based on the world's strongest economy. If the US decided only to buy and sell gold at its discretion, foreign holders of dollars would be up a gum tree. If foreign central banks allowed the dollar to depreciate they would boost US exports to the detriment of their own. "Thus, for the dollar holder", the Bank said primly, "there is no place to go." To do the Bank justice, it did admit that the US should avoid domestic inflation and economise on overseas government spending in order to preserve the value of the dollar, but the nub of its argument was that other nations must run deficits themselves if they wish the US to have surplus.

The truth is more complicated than the Bank admits.

Through the 1950s, foreign central banks were content to accumulate dollars, because there was a dollar shortage, i.e. the rest of the world wanted to import more goods, especially capital goods, from the USA than, by their own exports, they had earned the dollars to pay for. But as, on the one hand, the economies of Europe recovered and began increasing their exports to the USA and as, on the other, the US Government increased its overseas spending every year, the dollar shortage became a dollar glut and foreign banks had the temerity to use \$10,000 million to buy gold from the US Treasury.

Why not? The French and other central banks were only observing the rules of convertibility which the US itself had been most insistent that all other countries should observe—until its own payments swung into deficit.

International Discipline

In 1965, Harold Wilson won a round of applause when he told New York bankers that to revert to the gold standard would be a return to "stage coach economics". In fact, the Americans at the end of World War II regarded currency convertibility for settling international payments as so vital that they ensured that it was made the foundation of the new postwar international discipline for which the International Monetary Fund (IMF) was set up. Article 8 to the Fund's Charter says that when Member A (say, the USA) is asked by Member B (say, France) to buy balances that Member B has acquired in current transactions, Member A can either pay in Member B's currency or in gold. It does not say that Member B must take dollars. Moreover, don't forget that the USA considered that convertibility meant convertibility into gold and insisted that a country which could not rake up enough dollars to buy back balances of its own currency that the USA had acquired had no option but to settle in gold—until the USA started her own deficits. By putting pressure on other countries to refrain from exercising their right to get gold for their dollars, the USA was the first country to break the convertibility rule that it had set up.

Now, it is my submission that the USA's initial postwar

insistence on a return to gold convertibility laid the foundation to the healthy growth of world trade, which is now threatened by the USA's efforts to wriggle out of its own former position.

If so, why do so many high authorities agree with Harold Wilson in condemning the gold standard as "stage coach economics"? Mr Patrick Boarman supplies the answer in his magisterial study "Germany's Economic Dilemma: Inflation and the Balance of Payments" (Yale Univ. Press, 1964) when he points out that the significance of the abandonment of the gold standard was not immediately apparent because it was submerged in the crises of the interwar years of the depression, of the economic distortions created by the rising totalitarian states, and the "save himself who can" spirit of the period—with its bilateralism, clearing agreements, quotas, and exchange controls. Foreign trade was not regarded as a means of international welfare but as a carrier of monetary disease. National self-sufficiency, not the international division of labour, was the aim. The post-war USA rightly sought to end these harmful practices.

II

HOW THE GOLD STANDARD WORKED

The pre-1914 gold standard promoted the growth of wealth because it synchronised the national economies with each other. Contrary to the present almost universal belief that the gold standard imposed drastic declines in output, growth, and employment in the deficit countries, it kept movements of inflation and deflation (in countries with convertible currencies) within tolerable limits. Pre-1914 governments were required to cope neither with acute zig-zags of Stop and Go, nor with mass unemployment.

Under the gold standard, a country with a surplus allowed its domestic credit to expand, thereby raising internal prices, which encouraged imports (which, ex hypothesi, were cheaper). By diverting domestic spending to imports, the country deflated its own rising prices and reflat prices in foreign currencies which (ex hypothesi) were suffering from deflation. The process was not a jerky Stop/Go but was continuous in maintaining equilibrium between price levels. The total effect was not deflationary. It multiplied international trade by forcing the international division of labour to work so that each country maximised the use of its labour and capital.

It is the failure to enforce this mechanism of equilibrium, which slows progress today. In this era of widespread full and overfull employment, which causes prices to creep relentlessly up, many governments remain obsessed by memories of interwar unemployment and deflation. Planning further distorts market mechanisms. More and more taxes are raised today for political rather than economic purposes. The paradoxical belief is widespread that fast growth rates cannot be obtained with a stable international medium of exchange. The contrary is the truth.

The desire of the USA and of the UK to persuade the rest of the world to pile up holdings of dollars and pounds originates in their efforts simultaneously to achieve four incompatible goals: (1) a stable rate of exchange, (2) national autonomy in monetary, fiscal, economic, social, and military poli-

cies, (3) maximum participation in multilateral trade, and (4) equilibrium in the balance of payments.

But the plain facts are that the USA, despite the Chase Manhattan Bank's boast of its \$750,000 million economy, is not affluent enough to wage limitless war in Vietnam, to create a welfare state at home, and to allow her admirably thrusting entrepreneurs to seize every opportunity for profitable overseas investment. Still less is the UK affluent enough to maintain her overseas contributions to peace-keeping, boost bottomless welfarism and overfull employment at home, and keep up her overseas aid and investments.

There is no international "liquidity crisis." There are two states seeking to live beyond their means, working themselves up into righteous indignation with other countries which now feel that they have granted these two spendthrifts enough credit.

Not that all the other countries are blameless. Virtually all seek to combine multilateral trade, stable currencies and payments equilibrium with autonomous domestic policies. This means that at one moment or another the solvency of each in turn is threatened and recourse is had to Stop/Go, wage and price freezes, restrictions on imports and on exports of capital etc.

Convertibility required that a central bank's main concern should be the ratio of its reserves to its liabilities. Decreases in reserves led to increases in discount rates and other restrictive measures which checked the domestic boom, of which the worsened trade balance was the symptom, and restored internal and external equilibrium. These actions of one central bank automatically aided other central banks seeking to stem an influx of gold (of which, since it earned no interest, each bank sought to minimise its holdings). It is one of the virtues of convertibility that it provides such immediate offsets to inflationary and deflationary impulses. Convertibility prevents international disequilibrium from reaching a point at which a massive "readjustment of fundamental price and cost disparities" becomes imperative.

The tragic error after World War I was not an attempt to restore "stage coach economics" but the failure to appreciate the vast structural changes caused by war and the huge additions to the internal liquid claims which deficit financing had created. Restoration of the pre-1914 gold parities led to the collapse of the interwar monetary system because the amounts of inflation and deflation required in individual countries to maintain equilibrium at the old parities were intolerable. But that did not mean that convertibility itself was wrong in principle.

Our present balance of payments deficits and surpluses indicate that internationally related economies are seeking to grow independently of each other at different speeds in different directions. If international trade is unhindered, it tends to make individual national rates and directions of saving, spending and investment converge.

III

INTERNATIONAL ISOLATIONISM IMPOSSIBLE

As long as the effort is made to enforce national contracyclical policies autonomously, there is no common restraint on rates of growth or decline, wages, profits, exports, imports, and ebbs and flows of international liquidity. This being so, nobody should be surprised if various countries from time to time wish to resist the entry into their economies of balance-of-payments equilibrating inflation—as West Germany did during the years of its vast export surpluses. They resist because the mechanism providing for the synchronisation of national economic processes and for holding inflations and deflations within tolerable limits no longer

exists. Contemporary international bodies, like the IMF or the World Bank, or the Group of Ten, have neither the authority nor the competence to undertake the functions carried out by the gold standard. These bodies can only deal with symptoms, not causes. They try to rescue what can be rescued from the impossible combination of exchange rate stability, national autonomy in domestic policies (including social security, welfare, incomes policies, capital export restrictions—and military spending) and multilateral trade. They can, of course, only apply poultices. They cannot cure.

But isn't there a world shortage of liquidity? Comparisons of the ratio of world reserves to imports over the years suggest no necessary relation between the growth of (a) world trade and (b) world reserves. In 1928-38, world trade fell in value from \$66,400 million to \$43,800 million while currency reserves rose from \$12,900 million to \$27,600 million. Between 1938-48, world trade rose by 154 per cent, while monetary reserves increased by only 94 per cent. In 1948-58, trade increased by 74 per cent while reserves rose by only 17 per cent. In the 19th century, the UK supported a vast world network of trade and payments on minute reserves while the volume and value of world trade was rising fast.

The Exact Purpose

The point is that the purpose of the reserves of a nation is not to finance trade itself but net trade imbalances. The reserves of a nation perform exactly the same functions as those of a company or an individual. Both companies and individuals finance current activities out of working capital, turnover, or current income. They only build up sufficient reserves to meet unforeseen—and transitory—eventualities. But under the gold exchange standard, reserves come into being wherever "key currency" countries run trade deficits, thus compelling surplus countries to accumulate reserves.

If it is objected that it is the size of the net differences between a country's imports and exports that creates a need for increased international liquidity as the volume of world trade increases, the answer is that the size of the balance of trade is itself largely determined by the monetary and fiscal policies of the several countries. If it be further objected that a country's need for international reserves is determined not only by the amount of the trade balance but also by the net result of adding up all the autonomous transactions in the balance of payments, including capital transactions, the answer is that equilibrium in the balance of payments is not attained by increasing the quantity of a mythical "world money" but by enforcing conditions in which autonomous movements of capital offset the net results, positive or negative, of the balance of trade.

The concept of "international liquidity" is itself vague. How do you measure India's international liquidity? To restrict it to India's official exchange reserves is unrealistic. India's liquidity is closely related to her domestic monetary and tax policies. If the confidence of the people in the rupee were sufficient, they would not hoard gold and silver, which earn no interest. They would convert their holdings into savings certificates or shares, which do. This was France's experience after the 1958 currency reform. An "invisible" item in India's international liquidity is the willingness of other countries to grant her credit, which depends on their assessment of India's domestic policies. In brief, the amount of any nation's liquidity is to a great extent a function of its domestic policies. Chronic deficits are not due to shortage of international liquidity but to internal policies incompatible with a country's basic economic situation. The UK's recent deficits illustrate this.

It was Keynes' denunciation of gold as a barbarous relic.

that popularised the belief that the gold standard was the international anchor of the battle of inflation and deflation. The gold standard was not a neutral standard, it was a standard which each nation could be sovereign to its own back and, the truth was, about the reputation of its own and other nations' policies. Eternally

since World War II has shattered this illusion. The gold standard does not render a nation immune to fluctuations in production, employment, incomes, and prices in other countries. The five annually, as the 1930's trade policy, require extensive quantitative controls. Complete abolition of foreign trade

Focus on UNCTAD

E. B. BROOK

VIENNA

FOUR CONCLUSIONS can be drawn from the outcome of the long tariff bargaining called the Kennedy Round that will culminate with a marriage signing and mutual congratulations in Geneva on June 30. The first is that the great commercial powers and groups remain, when it comes to the crunch, as self-regarding as ever. The second, and contrary to the first, is that the developing countries remain a minor consideration in global commercial negotiations. The third, that the GATT—that comfortable, relaxed Geneva suburban club for the internationally well-off—is no longer a suitable vehicle for negotiations involving the developing nations. It must shed some of its responsibilities to UNCTAD which, with a considerable number of developing countries among its membership, can be relied upon to look after their interests more specifically. At present, UNCTAD—over two years after its creation—marks time for lack of work. Finally, the Geneva negotiations have indicated that the method prevalent for the last 20 years of item-by-item bargaining over tariffs is outmoded as are, very largely, tariff walls themselves. Present international trade groupings are too tight and too narrow. The patterns of industry and trade have left the present methods of international trade negotiations years behind in concept and conduct.

Six times since the war—a generation ago now—the nations have met to cut tariffs. Before the Kennedy Round even began, tariffs had been lowered so considerably that they were no longer a hindrance to trading by any nation with a reasonable amount of money to trade with. The 30 to 40 per cent cuts that will probably result from the Round will no doubt make trade easier still, though by no means all the benefits of the tariff reduction will be passed on to purchasers. Experience within EFTA, whose mutual tariffs are almost entirely abolished, proves this is not the case. Trade restrictions can be manipulated by industry and commerce as well as by governments.

Old-Fashioned Weapon

Increasingly during the last 10 years, tariffs have become an old-fashioned weapon. The Common Market's formidable tariff barriers to non-Market countries have been circumvented by these countries' industries, especially by those of the USA, establishing plant and factories to produce in Market countries and thus evading the tariffs almost completely. Part of the Market's, especially the French, hostility to the "American presence in Europe" in commerce is due mainly to this consideration. But national prosperity arising from rents, rates, taxes, employment and industrial skills and techniques which these US installations bring with them nullify much of the Market objection which has now, except for some residual shrillness, disappeared.

The ceremony in Geneva on June 30 may be the last of its type. Future trade groupings will need to be much wider than the Market, EFTA, a Nordic group or, for that matter, an east European group.

National industrial production is increasingly becoming international. The trend is now for factories to go to the workers rather than workers to seek the factories. The annual wave of labour migration from south Europe and north Africa to central and north-western Europe is receding partly

because the more progressive industrialized nations are so far with the concept of their labour establishing factories in other countries where labour is available and/or raw material is abundant. The examples of Swedish factories in Portugal and Norwegian in Brazil have already been cited in this column. More industrial countries are following this example.

Nor is the US-Europe industry traffic all one way. Bowater Paper has long since had several installations in the USA and Babcock and Wilcox are now to develop in the USA a process for producing nuclear fuel for the US Atomic Energy Commission's fast-breeder-reactor programme. Tariff cutting and trade groupings on narrow geographical basis is therefore getting rapidly out of date. Bigger groupings and more generous objectives have been thought of for some time. The most likely so far propounded is a world trade area, still within the framework of the GATT, "open to all countries willing to chart a course towards the greatest possible elimination of trade barriers." This grouping would need to include the United States, Canada, the EFTA countries, Japan, Australia and New Zealand. If the Common Market came in at all it would have to do so as an entity.

Another plan, with more prospects of satisfying developing countries' interests, is that of the Canadian-American Committee which also suggest a fundamentally Atlantic grouping.

New Problems

New groups and new plans, however generous in concept, would also bring new problems. Not least would be a European antipathy, led by the Market, to co-operation in a trading group in which the USA and Canada were principally influential.

Outmoded as mere tariff cutting may have been made by far-sesing industrial practice, some degree of gradualness is probably unavoidable to obtain reciprocal reduction under the GATT's most-favoured nation clause. Low tariffs should be the first to be eliminated, since their existence now has only nuisance value.

Developing countries have every reason to feel disappointed over the outcome of the Round discussions and to press for more activity and power for UNCTAD, partly necessarily—at the expense of the GATT.

Most of the tariff cuts achieved are on sophisticated consumer and industrial products that developing countries cannot make or, if they do, cannot sell in international competition. Elimination of tariffs on tropical products was largely frustrated because France would not surrender the trade advantages her former African colonies enjoy in the Common Market. Quotas for purchases of textile manufactures and semi-manufactures have been enlarged only marginally. Even the value of the wheat to be supplied free is diminished since the 10 million or so tons of wheat bought commercially is to cost 10 per cent more than originally suggested.

These considerations support the proposition that it should be UNCTAD and not GATT that handles the next round of trade negotiations and that the GATT rule that a tariff cut granted to one country should be extended to all is no longer universally applicable.

June 9, 1967

The moving finger writes

I SHOULD not be surprised if Mr M. C. Chagla were to go down to his room in the South Block one fine morning donning a cap and bells. That he has reduced his office to that of a court jester cannot be seriously disputed. His indiscretions however annoy more than they amuse. To him speech seems to come before thought. Perhaps all this is a reaction to the enforced intellectual discipline of his earlier days on the Bench. Mr Chagla however should not be allowed to relax at the nation's expense. To speak of an Asian common market may be harmless tomfoolery, but to rush into the muddled waters of West Asian power politics could be dangerous irresponsibility. Perhaps there should be an age bar to politicians continuing in office or, possibly, a periodical medical examination, which should be more than physical, for Ministers beyond a certain age.

The threat to national wellbeing from Ministers in their senility can continue to be disregarded only at our peril. The heat of a long summer's day could not have been blamed, for instance, for the outrageous performance of Mr Swaran Singh in Parliament earlier this week when questions were put to him about violations of our air space by Pakistan's military aircraft. When the time comes for a senior Minister's observations to be expunged from the records of the Lok Sabha by an order of the Speaker for the reason that they are too foolish to be made known to the rest of the world, the limit surely has been reached.

The Prime Minister, I am afraid, has not been fortunate in her stalwarts. It is therefore with some satisfaction that I note that some of her younger colleagues at least are not letting her down. From what I hear about Dr Karan Singh and Dr Chenna Reddy, both seem to be building up fine reputations for themselves for their intelligence and enthusiasm. Of these two virtues, Mr Dinesh Singh too is possessed in plenty. My favourite however is Dr S. Chandrasekhar, who, of course, is not a Cabinet Minister but is only a Minister of State. In him, Mrs Gandhi has certainly picked a winner. Besides intelligence and enthusiasm, he has an infinite capacity for hard work. Here truly is a dedicated man and if he does not make a success of the family planning campaign, few else will. Recently, in an article in 'The New York Times', the US Ambassador in India, Mr Chester Bowles, listed the reasons he had for believing that our national campaign for smaller families would succeed. In this list, Dr Chandrasekhar's appointment as Minister for Health and Family Planning came second, the first place having gone to the liberal financial provisions which the Government of India is making for the family planning programme. Now, I am one of those who are disposed to believe more in men than in money and if I were to draw up a similar list, I would have unhesitatingly placed Dr Chandrasekhar at the top. The man has the priceless quality of a bold imagination. Not surprisingly, he is apt to upset those who are less well-endowed in this respect. There was, for instance, some criticism of him recently in some sections of the press for talking about a babyless year or of his idea to use helicopters for family planning work in the countryside. Fortunately, with Dr Chandrasekhar it takes more than hard words to break any bones, and it is not going to be easy to intimidate him into giving up adventurous salesmanship.

Recently, at a meeting with economic journalists, Dr Chandrasekhar disclosed that he was certainly going to explore the helicopter idea. He explained that the mere landing of family planning personnel in a helicopter on the village com-

mon was bound to have immense publicity and promotional value for the campaign and take away much of the time and toil from the task of getting the village people together to listen to family planning propaganda. Secondly, helicopters could visit more villages more frequently than jeeps and might do it without any increase in expenditure. Investing in their purchases might present problems, but it appears that a few helicopters may be made available by the US Government. Dr Chandrasekhar's plan is that each state government should have at least one helicopter in due course for the family planning programme. Surely, Dr Chandrasekhar's proposal deserves to be seriously studied before it is pronounced on.

Another attractive idea which Dr Chandrasekhar discussed with the journalists related to financial incentives for those coming forward to undergo surgical sterilization. The Minister is in favour of increasing the amount of the bonus. He is thinking in terms of a crisp, new hundred rupee note being handed over to the individual concerned by the operating surgeon immediately after the operation is over and without formality or fuss. An alternative which is also being talked about is that, instead of money, a low-cost transistor radio receiver may be presented.

On the occasion I have just referred to, Dr Chandrasekhar and officials of his Ministry were taking part in a seminar which the Press Information Bureau of the Government of India had organised for the benefit of the editors of economic journals and leader-writers on economic matters in the daily press. The seminar which was held in the wake of the presentation of the Central budget lasted for three days and gave opportunities for an exchange of ideas between the attending journalists on the one hand and Ministers and officials of some of the economic ministries on the other. Nearly as enthusiastic as Dr Chandrasekhar at these discussions was Dr K. L. Rao, who spoke with great fervour on the need for the continuing development of irrigation. It was obvious that Dr Rao was rather uneasy that irrigation might suffer as an undesirable (and unnecessary) by-product of the current emphasis on fertilizers. His thesis was that, in a vast country such as ours, where the rainfall is so unevenly distributed from year to year as well as within the year or from region to region, the problem of having the right quantities of water at the right places and at the right times had to be dealt with on a persevering, long-term basis.

Among the officials who came to the seminar were Mr K. B. Lall, who described with easy expertise the initiatives which have been or are being taken by the Government of India in reforming the climate of international trade and tariff policies for the benefit of developing countries, Mr N. Subrahmanyam, who gave an objective and clear account of industrial prospects, and Mr B. Sivaraman, who very nearly convinced us that we were on the verge of a breakthrough in food production. Dr I. G. Patel, resting on the laurels of an excellently drafted Part A of the budget speech, was characteristically courteous in non-answering inconvenient questions, while Mr S. Jagannathan adopted the even more effective strategy of inviting critical journalists to tell him what they thought the Finance Minister could have done other than what he actually did. Before I leave this subject, a word about Mr Asoka Mehta, who was sullen, snappish and almost sour. Surely, the Prime Minister should put him out of his misery by taking a decision without delay on the reorganisation of the Planning Commission.

V.B.

Trade Winds

FAMILY PLANNING

SINCE JULY 1965, 1,791,826 women have taken advantage of the family planning programmes of the Ministry of Health and Family Planning and have had loops inserted. During 1966-67, 900,961 IUCD insertions were effected. So far 2,296,145 sterilization operations have been conducted. During 1966-67, 797,684 sterilizations were performed. The number of urban family welfare planning centres has risen to 1,581. There are 4,561 main family welfare planning centres in rural areas and 13,550 sub-centres. Other medical centres which distribute contraceptives, number 6,458. The population of India is estimated to be over 510 million. The actual population figure is placed at 510,242,226.

NATIONAL DEFENCE FUND

Contributions to the National Defence Fund up to the end of May 1967, amounted to Rs. 80.36 crores. Of this, Rs. 19.73 crores were contributed from September 1, 1965, and Rs. 116 crores represent the value of gold and silver which has been taken to government stock and credited to the National Defence Fund. The contribution in the form of gold ornaments and jewellery up to the end of May 1967, amounted to 24.74 lakh grammes, while that in the form of silver articles and jewellery during the same period amounted to 15.65 lakh grammes.

FRUIT JUICE EXPORT

The export of fruit juices, particularly mango juice, during the year 1967-68 is likely to touch Rs. 1 crore mark, according to the Processed Foods Export Promotion Council. Of this, the exports to Russia would account for about 50 per cent while the balance is accounted for by Kuwait, Saudi Arabia, the UK, etc. The export, during the last year, of canned and bottled fruits and vegetables and juices was of the order of Rs. 70 lakhs. Pineapple juice is another item for which the market is being developed in Russia. The USSR and the Middle East, especially Kuwait, are the two major areas offering market possibilities for our fruit juices.

TOURIST ARRIVALS

During 1966, a total of 1.60 lakhs foreign tourists visited India from nearly 34 countries. Of these, 66 per cent were from the Americas, Europe and Australia. The largest number of tourists came from the USA followed by the UK—the percentage being 28 and 13.6 respectively of the total arrivals. Delhi continued to remain the most popular point of tourist disembarkation. While 34.1 per cent disembarked at Delhi and 33.4 per cent at Bombay, Calcutta had only 14.7 per cent and Madras 9.1 per cent. The larger number of tourists preferred to visit India during the winter months of October to March; nearly 55.5 per cent of the tourist arrivals were in these months. The maximum arrivals of tourists was in the month of November. Tourists in the age group 31 to 50 years were 39.6 per cent of the total; while 24.6 per cent were above 50 years and 25 per cent between 13 and 30 years. The tourist arrival figures further indicated that the males were double the number of females. Occupation-wise 23.3 per cent of the tourists were educationists and scientists, whereas 17.3 per cent were businessmen and 8.3 per cent were executives. The rest belonged to various other professions.

IRRIGATION POTENTIAL

Irrigation potential of 2.4 million acre was created in 1966-67 through the major and medium projects against an approved outlay of about Rs. 114 crores. Of these two million acres are under effective utilization. Another two million acres worth of potential with cent per cent utilisation is

expected to be created in the current year. During the three Plan periods, the total potential created by major and medium projects was 17 million acres, which along with a pre-Plan potential of 23.8 million acres, increased the total available potential to 40.8 million acres. The rate of utilisation which was less than 50 per cent in the first Plan, increased to nearly 79 per cent during the second and 86 per cent at the end of the third Plan. At present, out of available irrigation potential of 43.2 million acres, 39.4 million acres is under utilisation. Nearly 500 major and medium irrigation schemes were taken up during the three Plans; about 50 per cent of these have since been completed against a total investment of Rs. 1,500 crores. Of this, the carry-over on continuing schemes into the fourth Plan is of the order of nearly Rs. 900 crores. Additional potential anticipated to be created in the fourth Plan is about 13 million acres of which nine million acres will be effectively utilised.

IZMIR TRADE FAIR

India will participate in the International Trade Fair to be held at Izmir (Turkey) from August 20 to September 20, 1967. The items of interest to the Turkish trade are engineering goods, such as tractors, air and gas compressors, welding machines, metres, safety razors, duplicating machines, gasoline and other combustion engines, spray guns, all types of ball and roller bearings, and electric goods such as electric motors, microphones and loudspeakers, radio parts and accessories, aluminium conductors, etc. Other items of interest are printing ink, insecticides and pesticides, paints and varnishes, tea, coffee, black pepper, spices, leather skins, coal and jute goods, textiles, plastic goods, linoleums, rubber goods, sports goods, shellac, mica and micawaste. Manufacturers and exporters intending to display their goods at the Fair may send a list of representative exhibits to the Director of Exhibitions, Ministry of Commerce, Udyog Bhavan, Maulana Azad Road, New Delhi, before June 15, 1967.

PROTEIN-RICH FOOD

With assistance from the United States, UNICEF and Canada, the Food Corporation of India (FCI) has started manufacturing "Balahar", a protein-rich food, at Madras. Initially this food will be utilised for combating malnutrition among children in the famine-stricken Bihar. In course of time, commercial sales will be organised to remove the imbalance in the diet of children elsewhere in the country.

This wholesome food, which can be taken in the form of porridge, gruel or uppuma, contains 70 per cent cereals—wheat or maize—, 25 per cent groundnut flour and five per cent milk or Bengal gram flour. Vitamins and minerals are also added to it. The cereals required for this food are being provided by the United States. The supply of groundnut flour is being financed out of the US-held rupees in our country. Milk is being made available by Canada. Part of the supplies of vitamins and minerals are coming from the UNICEF. The Government of India is financing all the rupee expenditure involved in the production, packaging and distribution of this food. Some portions of the vitamin and minerals required and also the gram supplies are being made available by the Government of India. When working to full capacity by the end of June, the Madras plant will turn out every month 15,000 tonnes of this protein-rich food. The total production up to September—all to be distributed in Bihar, partly on state account and partly through non-official agencies—is expected to be nearly 72,000 tonnes. The American community in India has contributed Rs. 250,000 for the purchase of Balahar for distribution by non-official agencies. The project has cost Rs. 1.20 crores.

Company Affairs

MADRAS MOTOR & GENERAL INSURANCE

MADRAS MOTOR and General Insurance Company Ltd. has made impressive progress during 1966, establishing new records in respect of both premium and profits. In fact, during 1966, the company has written the largest premium and has earned the highest profit since the inception of the company. What is more, the company has increased its capital during the year by Rs. 25 lakhs to Rs. 75.00 lakhs by issuing bonus shares for Rs. 19 lakhs in the proportion of 19 shares for every 50 shares held by the shareholders as on December 15, 1966 and by making a rights issue for cash to the extent of Rs. 6.00 lakhs.

During 1966, the net premium stood at a new high of Rs. 184.63 lakhs, registering a handsome improvement of Rs. 41.57 lakhs over the preceding year. All departments—the Fire department in particular—contributed to the overall increase in the premium income. The net premium of the Fire department recorded a sizable expansion from Rs. 30.78 lakhs to Rs. 55.63 lakhs. The effect of devaluation was felt in the quantum of net premium as well as claims paid and outstanding in respect of foreign treaties. The net profit increased, likewise, from Rs. 6.84 lakhs in 1965 to Rs. 8.89 lakhs in 1966.

Although the net premium of the Marine department registered a significant improvement from Rs. 5.70 lakhs to Rs. 8.99 lakhs, there was a loss of Rs. 0.60 lakh as against a profit of Rs. 0.09 lakh in 1965. This was mainly due to the increase in the reserve for unexpired risks by Rs. 3.29 lakhs as against Rs. 1.05 lakhs in the previous year. The net premium of the Miscellaneous department went up from Rs. 106.57 lakhs to Rs. 120.01 lakhs, while the profit was higher at Rs. 18.53 lakhs as compared with Rs. 17.50 lakhs in 1965.

MMGI is perhaps one of the very few Indian insurance companies which have not taken profit arising out of the devaluation of the rupee, in respect of foreign currencies held outside India and with Re-insurers, to profit and loss account. Instead they have been utilised for strengthening reserves. The allocation to general reserve was enhanced from Rs. 3.25 lakhs to Rs. 14.75 lakhs while taxation claimed Rs. 23.10 lakhs as compared with Rs. 17.00 lakhs in 1965. The appropriation to depreciation was earmarked with Rs. 0.80 lakh as against Rs. 4.53 lakhs in the preceding year. The directors have recommended a dividend of 13.5 per cent as against 16.0 per cent paid in the previous year. The dividend, however, is payable on an increased capital of Rs. 75.00 lakhs as against Rs. 50.00 lakhs in the previous year. The proposed dividend will absorb Rs. 9.32 lakhs and it will be paid out of the general reserve.

ATUL PRODUCTS

Mr Kasturbhai Lalbhai, Chairman of Atul Products Ltd., has forecast a very bright future for the company. All the ambitious expansion schemes taken in hand by the company would be completed within the next three years and they would start yielding results. In fact all the major schemes, except the expansion of the Azo plant and the caustic soda plant, would be completed during the current year. The naphthalene intermediates plant, which could not contribute much by way of profit during 1966, is now running well and its impact would be felt this year. The fast colour bases plant is being erected expeditiously and it will be commissioned into production by about the last quarter of the year. The full run-production by about the last quarter of the year. The fast colour bases plant would increase considerably the earning capacity of the company in the coming years. This was disclosed by the chairman when he was addressing the annual general meeting of the company held recently in Ahmedabad.

Although the urea formaldehyde plastics plant of Cibatul

Ltd., went into production in 1966, it did not operate at the full rated capacity during the year due to insufficient supplies of raw materials. As the availability of raw materials—formaldehyde, the chief raw material, in particular—has now improved, encouraging results are expected during the current year. The erection of the sulphadiazine intermediates plant and the epoxy resins plant is progressing satisfactorily and both are expected to go on stream by the last quarter of the current year.

Atic Industries Ltd., has not been able to make any progress in respect of its new schemes as the necessary permission from the Government has not been received so far. The directors hope to complete all the formalities during the current year. The company has undertaken a big expansion scheme for the manufacture of vat dyes, procion and alcan dyes. The scheme is estimated to cost Rs. 7.50 crores and it will be financed mostly out of the company's own resources and partly by bank loans.

On the whole, Atul Products Ltd. has made considerable progress during the year ended December 31, 1966. With all the plants running well, there was a marked rise in sales which went up by Rs. 116.10 lakhs to Rs. 745.93 lakhs. Gross profit, likewise, recorded a handsome improvement by Rs. 48.50 lakhs to Rs. 186.78 lakhs, after remaining almost stagnant in the previous two years. The directors have enhanced the allocation to depreciation by Rs. 33.24 lakhs to Rs. 125.13 lakhs while taxation reserve was allotted with Rs. 10.50 lakhs as against no provision in 1965. The managing agents' remuneration claimed Rs. 4.92 lakhs as against Rs. 4.27 lakhs in the preceding year. This leaves a higher net profit of Rs. 46.23 lakhs as compared with Rs. 42.12 lakhs in the previous year. The directors have decided to maintain the equity dividend at 12 per cent, which being payable on an enlarged capital absorbs a higher amount of Rs. 41.98 lakhs as compared with Rs. 38.99 lakhs paid in the preceding two years.

SANKLY WHEELS

Although the demand for wheels of different types for commercial vehicles did not increase according to expectations, there was a marked improvement in the turnover of Sankey Wheels Ltd., during the year ended December 31, 1966. The turnover, during the year under review, jumped to Rs. 141.83 lakhs, registering a significant improvement of Rs. 30.59 lakhs or an increase of more than 27 per cent over the preceding year. Even though the production of vehicles is not expected to expand substantially during the current year, the directors hope to achieve a further increase in the company's turnover during 1967, with consequent improvement in working results.

The smart rise in turnover has enabled the company to earn a higher gross profit of Rs. 14.46 lakhs as against Rs. 9.29 lakhs in 1965. After enhancing the provision for depreciation by Rs. 1.40 lakhs to Rs. 20.13 lakhs, there is a loss of Rs. 5.67 lakhs as compared with Rs. 9.44 lakhs in the preceding year. But after taking credit of Rs. 5.88 lakhs in respect of the increase in the rupee value of the company's sterling bank balances on account of devaluation, there is a small profit of Rs. 20,722. After adjusting this amount against the accumulated loss of Rs. 32.89 lakhs brought forward from the previous year

A CORRECTION

In the map on page 1057 of our special budget number dated June 2, 1967, Bhutan and Sikkim have been shown, by mistake, in blue which is the colour for Congress governments in the states. The error is regretted.

—Editor.

the net loss amounting to Rs. 22.63 lakhs has been carried forward to the next year's accounts.

The rupee liability on the sterling loan of £225,000 taken from the Commonwealth Development Finance Company Ltd., UK, at the time of the company's formation for financing the purchase of imported plant and machinery has increased by Rs. 17.25 lakhs due to devaluation and this amount has been added to the value of the imported plant and machinery.

At the extraordinary general meeting of the company held on January 31, 1966, the members had given consent to increase the issued and subscribed share capital to Rs. 1.78 crores by allotting 77,800 equity shares of Rs. 10 each at par to Commonwealth Development Finance Company Ltd., UK. It is now proposed to amend the relevant portion of the sub-article as set out in the notice. The said amendment is, however, subject to approval by the Government.

PUNJAB NATIONAL BANK

Mr. Kamalnayan Bajaj, the Chairman of Punjab National Bank Ltd., has expressed himself in favour of maintaining the present banking structure in the country. Presiding over the annual general meeting of the bank, the chairman said, that the present structure, with a state sector and private sector working side by side in healthy competition, was serving the best interests of the nation. Nationalisation, the chairman said, would only be increasing further the responsibilities of the Government without actually vesting it with any more authority. Besides nationalisation of the entire banking industry would reduce its flexibility and curb individual initiative and enterprise which, according to the chairman, were so vital for a sustained growth of banking business.

Referring to the declining profits of banks, the chairman said, that in spite of a considerable increase in their business, net profits of ten major banks in the private sector had declined from Rs. 864 lakhs in 1965 to Rs. 859 lakhs in 1966 due to a much higher increase in expenditure than in income. While the growth of the income has been restrained by the ceiling on the rate of interest and other restrictions on advances, expenditure has been fast mounting up because of the increase in the wage bill and higher rates of interest on deposits.

High rates of interest, the chairman added, might have enabled the banks to attract fresh deposits to a certain extent. But owing to a low spread between deposit rates and lending rates, accompanied by higher operational costs, the accretion of deposits did not leave adequate margin of profit. Perhaps, the opening of new branches in under-banked and unbanked areas could have contributed more to the mobilisation of deposits than the increase in the rates of interest. But the rising operational costs and consequent low margin of profits were adversely affecting the capacity of banks to open new branches. This, according to the chairman, was acting as a hindrance in spreading the banking habit among the masses.

Considering the relative role of branch expansion and high interest rates in deposit mobilisation, the chairman said, that it was essential to have a second look at the structure of interest rates. In this context the chairman suggested to the authorities concerned to consider the granting of tax concessions on special reserves created by banks on the lines of tax relief allowed to financial corporations engaged in providing long-term finance to industries.

Referring to agricultural credit, the chairman said, the commercial banks would be glad to play a more effective part in filling the gap between demand and supply for agricultural credit if proper facilities were provided. As rural credit was a risky business involving higher operative costs, the chairman said, commercial banks could not be expected to provide

rural credit on a large scale without proper safeguards and incentives.

As conventionally acceptable securities might not be available from the large number of cultivators, the chairman suggested the introduction of a crop loan system. Under this system rural credit becomes production-oriented rather than security-oriented but its success, according to chairman, would depend largely upon effective linking of credit with crop insurance and efficient marketing.

BANK OF RAJASTHAN

Bank of Rajasthan Ltd. has made commendable progress during 1966, with deposits, advances and profits registering significant improvements over the previous year. Deposits crossed the Rs. 10-crore mark for the first time and stood at the peak figure of Rs. 10.92 crores as compared with Rs. 9.23 crores in the preceding year. The total number of deposit accounts swelled to 75,685 from 65,623 in 1965. Working funds of the bank shot up to Rs. 12.35 crores from Rs. 10.61 crores, recording an increase of about 16 per cent over the previous year. Advances, including bills purchased and discounted stood as high as at Rs. 6.37 crores and it accounted for 58.3 per cent of the deposits. The total investments of the bank amounted to Rs. 3.07 crores. A major portion—98.7 per cent—of the investments continued to remain in government and other trustee securities. During the year one new branch at 'C' Scheme Jaipur was opened, raising the total number of offices to 56.

The total earnings of the bank exceeded the previous year's figure by a margin of Rs. 18.02 lakhs and stood at Rs. 95.64 lakhs while the net profit was higher at Rs. 7.01 lakhs as against Rs. 6.75 lakhs in 1965. After adding a sum of Rs. 7,990 brought forward from the previous year the amount available for appropriation came to Rs. 7.09 lakhs. The directors have stepped up the allocation to reserve fund by Rs. 0.06 lakh to Rs. 1.41 lakhs while the provision for bonus was raised by Rs. 0.31 lakh to Rs. 1.66 lakhs. A sum of Rs. 2.18 lakhs was ear-



marked for taxation as against Rs. 2.50 lakhs in 1965. The directors have recommended gross dividend of 10 per cent which will absorb Rs. 1.81 lakhs. An amount of Rs. 3,128 has been carried forward to the next year's accounts.

GUEST, KEEN, WILLIAMS

At the annual general meeting held recently in Calcutta, Sir Raghavan Pillai, Chairman of Guest, Keen, Williams, Ltd., has explained at length how the working of the engineering division, forge division and steel division has been seriously affected during 1966 on account of the drastic cut in orders by the railways and the steps that are being taken to diversify the lines of production so that the abject dependence on railways for maintaining the turnover could be reduced. Vigorous efforts are now being made to divert the capacity of the steel division to produce increased quantities of automobile spring, alloy and other special qualities of steel. The production capacity of the forge division is also being progressively diversified and this division has already started the production of automobile forgings. Unfortunately the depression in the automobile industry is seriously affecting the company's attempts at diversification and continued expansion.

Reviewing the working of the company for 1966, the chairman said, that the rehabilitation programme of the bolts and nuts division has been completed and the division is now fully equipped with the most modern plant and machinery for the manufacture of cold headed commercial and precision heat treated fasteners.

The overall performance of the Sankey division—the largest of the company's six divisions—has been one of sustained growth. Demand for electrical steel products was fairly satisfactory but growth was adversely affected by power shortage in the south owing to the failure of the monsoon and also due to shortage of copper. This resulted in the Bangalore unit of the division operating below the expected level. Production in the Bombay unit also suffered from second quarter of the year owing to shortage of cold rolled grain oriented transformer grade steel sheets. Encouraging progress has been made in the production of mild steel precision components for the automobile and electrical industries.

Vigorous efforts are being made by the company to implement its expansion programmes. Expansion of production capacity in the three manufacturing units of Sankey division to meet the growing demand for precision press work is progressing satisfactorily and a project to manufacture new products such as Torroidal cores and C cores has also been taken in hand.

Annealing furnaces have been added in each of the three units for the production of cold rolled grain oriented steel materials.

Commendable progress has also been made in the expansion project of the steel division designed to increase the annual capacity for making special steels to 45,000 tonnes and rolling bars to 135,000 tonnes. A large part of the plant for the new rolling mill has already been received. Both the rolling mill and the second electric arc melting furnace which will be of 20-tonne capacity are expected to be commissioned some time next year.

The modernisation and expansion schemes in the Forge division are making good progress. One 60 cwt and one 50 cwt drop hammers together with ancillary plant and heat treatment equipment have been received and are under erection. The installation of these and the remaining plant will equip the company to manufacture a wide range of alloy and special quality steel forgings.

The second phase of expansion of capacity for self tapping screws is well under way. The project will be completed during the current year. Good progress has also been made in the project for the manufacture of semi-tubular rivets, a new product, and the plant is expected to commence production shortly.

The chairman welcomed the Government's proposal to supply steel at international prices. This is expected to give some marginal relief to the company. Another important way in which the Government could help promotion of exports, according to the chairman, would be by allowing increased production capacity for products such as bolts and nuts and wood screws for which there is a promising market abroad.

AMERICAN EXPRESS

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Just Published

COTTON COUNTS ITS CUSTOMERS

This is a Market Research Study conducted by the Textiles Committee, Bombay, under Co-operative Agreement with the Cotton Council International of U.S.A. It gives a quantitative analysis of the various end-uses to which cotton is put in India. Separate quantitative data are given for different sectors of the Indian cotton textiles industry, namely, mills, power-looms and handlooms. The study locates areas where cotton is losing or gaining in competition with other fibres. The study will be of interest not only to cotton textile mills but also to the entire textile industry and to students and research workers.

The book is priced at Rs. 10/-. Copies may be had from the Textiles Committee, 79, Dr. Annie Besant Road, Worli, Bombay - 18. If sent by V. P. post, postal charges of Rs. 1.25 will be extra.

it can handle freight forwarding and travel problems as well as sell travellers cheques. For firms doing business in foreign countries, American Express service under one roof lower costs, saves time and eliminates a lot of paper work. Further through a single account with American Express, the client is represented by one bank throughout Europe, Asia and the USA. Moreover, as a 'Bankers' Bank', American Express places its branches at the disposal of banks in all countries for the convenience of their international customers.

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LICENCES AND LETTERS OF INTENT

The following licences and letters of intent were issued under the Industries (Development and Regulation) Act, 1951, during the week ended April 15, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licences—New Undertaking (N.U.); New Article (N.A.); Substantial Expansion (S.E.); Carry on Business (C.O.B.); Shifting—and annual installed capacity.

LICENCES ISSUED

Iron & Steel

The Secretary to the Govt. of Madras, Industries, Labour and Co-operation Department, Fort St. George, Madras-9. (Anakonam, Distt. North Arcot, Madras State): Steel Billets/Ingots by continuous Castings process—100,000 tonnes. (N.U.)

Products of Iron & Steel

M/s. Hindustan Auto Corporation, 8-9, Modi Chambers, Sandhurst Bridge, Bombay-4. (Faridabad, Haryana): High Tensile Bolts & Nuts—1200 tons. (N.U.).

Equipment for Generation, of Electricity

M/s. Hari Prasad Lohia, 38, Netaji Subhas Road, Calcutta-1. (Delhi, Mathura Road, Haryana): Power & distribution transformers up to the maximum size of 33 KV/5000 KVA—120,000 KVA. (N.U.); M/s. Transformer & Switchgear, Post Bag No. 5003, 116/117, Moore Street, Madras-1. (Madras): Power and Distribution transformers (up to 132 KV)—250,000 KVA. (S.E.).

Inorganic Heavy Chemicals

M/s. Delhi Cloth & General Mills Co. Ltd., Bara Hindu Rao, Delhi-6. (Kota, Rajasthan): Caustic—16,500 tonnes; Hydrochloric Acid—12,000 tonnes. (S.E.).

Organic Heavy Chemicals

M/s. Rattanchand Harjasrai (Plastics) (P) Ltd., 54, Industrial Area, Faridabad (NIT) (Faridabad, Haryana): Formaldehyde—6000/9000 tonnes. (NA).

Drugs & Pharmaceuticals

M/s. Wyeth Laboratories Ltd., Steel Crete House, Dinshaw Wacha Road, Bombay-1. (Bombay, Maharashtra): Prednisolone Prednisone and Hydrocortisone—420 Kgs. (S.E.); M/s. Ranbaxy Laboratories Ltd., Okhla Industrial Area, New Delhi-20. (Delhi): Pethidine and Hydrochloride Injections—1 cc/50 mg.—1,20,000 ampoules; 1 cc/100 mg.—1,20,000 ampoules. (N.A.).

LETTERS OF INTENT

Metallurgical Industries

M/s. Agarwal Hardware Works (P) Ltd., 167, Chittaranjan Avenue, Calcutta-7. (West Bengal): M. S. Billets—(Capacity to be determined) (N.A.).

Telecommunication

M/s. Mulchandani Electricals and Radio Industries Ltd., Sukh Sagar, Sandhurst Bridge, Heughes Road, Bombay-7.

(Maharashtra): Radio Receivers—90,000 Radio Receivers (150,000 Nos. after expansion) (S.E.).

Industrial Machinery

M/s. Gujarat Machinery Manufacturers Ltd., 32-34, Veer Nariman Road, Churchgate House Bombay-1. (Karamsad, Distt. Kaira, Gujarat): Rubber Lined Polythene Epoxy Resins, PVC Lines, M.S. or Cast Iron Chemical Equipment—Rs. 10 lakhs in the first year rising to Rs. 50 lakhs in the third year and onwards within the capacity licensed for the manufacture of glass lined equipment). (N.A.).

Machine Tools

M/s. Kumardhubi Engineering Works Ltd., Chartered Bank Buildings, Calcutta-1. (Kumardhubi, Bihar): Cable Making Machines—(Capacity to be determined). (N.A.); Managing Director, Praga Tools Ltd., 6-8/32, Kavaliguda Road, Secunderabad-3. (Secunderabad, Andhra Pradesh): Horizontal Spindle Surface Grinding Machines—300 Nos. (N.A.); Shri H. H. Vaziralli, (Hitland) St. Pauls Road, Bandra, Bombay-50. (Bombay, Maharashtra): Glass Manufacturing Machinery—10 Complete Machines, 15 Feeders and accessories and spares. (N.U.); M/s. Industrial & Agricultural Engineering Co. (Bombay) Pvt. Ltd., 43, Forbes Street, Fort Bombay-1 (BR). (Bhandup, Bombay, Maharashtra): Universal Texting Machines—18 Nos. (N.A.).

CHANGE IN NAMES (Owners or Undertakings) (Information pertains to particular licences only)

From M/s. Indian Patent Stone Co. Ltd., Calcutta to M/s. Bird & Co. (Private) Ltd., Calcutta; M/s. Dyer Meakin Breweries Ltd., Ghaziabad to M/s. Mohan Meakin Breweries Ltd., Ghaziabad.

LICENCES REVOKED OR SURRENDERED (Information pertains to particular licences only)

M/s. Tarasingh Harbinder Singh, Bombay—Machine Screws; M/s. Washington Steel Radiators (India) Private Ltd., Bangalore—Radiators for Transformers; Shri B. L. Jalan, Rajasthan Fertilizers & Chemicals Corporation Ltd., Calcutta—Urea.

THE NILGIRI TEA ESTATES LIMITED

(Malloor Estate, Kullakamby P.O., Nilgiris)

TEA ESTATE FOR SALE

OFFERS are invited for the purchase of the Company's Stagbrook Estate situate in Elappara Village, Peermade Taluk, Kerala State. Total area 1420 acres (Tea under bearing about 800 acres; New Clearing 22 acres). Elevation above 300 ft. above Mean Sea Level. The offer should be in the prescribed form and should be open for acceptance by this Company on or before the 20th July 1967. It must be addressed to this Company and must be received at the Administrative Office, Ancheril Bank Buildings, Kottayam, Kerala, before 12 noon on the 15th July, 1967. Every offer must be accompanied by two per cent of the offered purchase price as forfeitable advance deposit in cash or by Demand Draft on any scheduled bank in Kottayam.

The prescribed form of offer, draft Agreement of Sale, particulars of the Estate and permission to inspect the Estate can be had from the Administrative Office of the Company at Kottayam, Kerala.

The Company reserves the right to accept or reject the highest or any offer.

By Order of the Board
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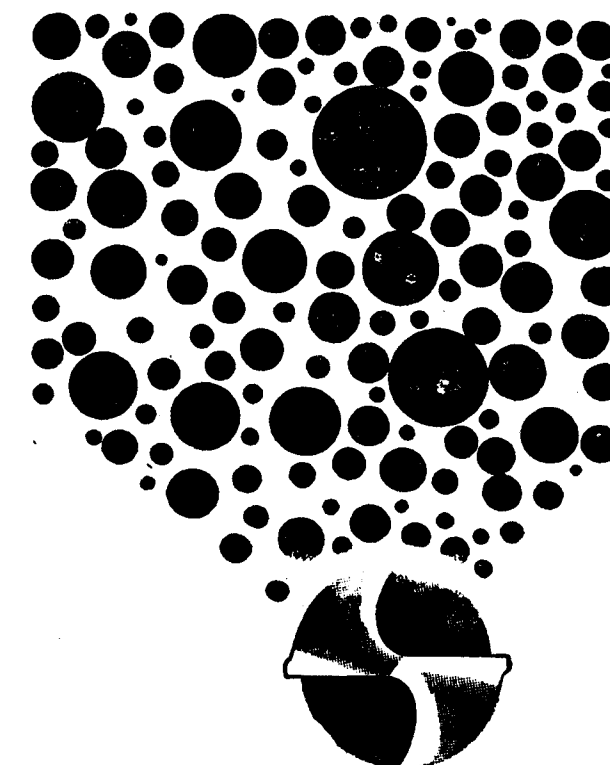
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BOOKS BRIEFLY

Ayub's Pakistan

Trade, Finance and Development in Pakistan: J. Russell Andrus and Azinali F. Mohammed; Oxford University Press; Pp. 289; Price 45 s.

Reviewed by S. S. M. DESAI

THE CHALLENGES and frustrations which Pakistan is facing are no different than those of other developing countries of Asia. It has its "problems of acute population pressure, lack of modern skills and technical know-how, illiteracy, shortage of capital and balance of payments deficits." It would therefore be extremely instructive to observe how Pakistan is tackling these problems and how its economy is shaping.

The authors set out to revise "The Economy of Pakistan" (Oxford University Press, 1958) published when the first five-year plan of that country was just getting under way; but it was rightly realised by the authors that a mere revision would not do. "The entire pattern of foreign trade has changed drastically, as Pakistan has become completely or nearly self-sufficient in textiles and several other products which previously figured heavily in imports while at the same time it has become a net importer of foodgrains. The business and financial institutions have developed a new sophistication. Pakistan like many other nations in Asia has acquired through experience a great deal of useful knowledge as to how to prepare a sound plan and how to make it work." And hence a practically new book with a new title.

After some preliminaries, the authors at once take up the analysis of foreign trade of Pakistan. The pattern of Pakistan's foreign trade during the first decade of its existence was similar to that of other developing countries. But a drastic change has taken place in both imports and exports in the past few years. Pakistan is now a large exporter of jute and cotton goods, while the share of all raw materials fell from 90 per cent a few years ago to 63 per cent by 1962-63. Machinery and transport equipment, petroleum, iron and steel are being imported in ever-increasing quantities, which fact emphasizes the developing nature of Pakistan's economy. Much less welcome change has been the emergence of very large imports of wheat and rice (nearly 15 per cent of the total imports) taking second place after machinery. This explains the emphasis of the second plan on agriculture. Another equally unwelcome feature has been the high proportion (one-third to one-half) of imports financed by foreign aid. Most of this consists of loans which must ultimately be paid off by sustained excess of exports and service receipts over imports and invisible payments. It is evident that the balance of trade has shown large deficits since 1956-57 resulting in gradual increase in aid-financed imports.

Balance of Payments

In respect of balance of payments, Pakistan finds itself in the same position as India. Though foreign assistance might continue to relieve the immediate pressure, it is to be noted that there has been a gradual hardening of terms on which foreign assistance is forthcoming. The conditions necessary for achieving ultimate viability are not going to be easy to fulfill in that country. Pakistan can dispense with foreign aid only when its economy can make directional changes involving the shift of resources to the production of export goods and import-substitutes. But its known resource endowments place fairly severe limitations on net import-substitutes. And though it might produce more export surplus by redirecting its resources, conditions of foreign demand might not permit export earning to expand correspondingly. The country must then reconcile itself to a lower rate of growth!

In the sphere of commercial and central banking Pakistan starting practically from scratch has built up the framework of banking and financial institutions. Provision of agricultural credit faces practically the same difficulties as in India, only to a much greater extent. Since institutional credit is yet

unavailable, a landless rural proletariat has emerged and its ranks are continuously swelled by the growth of population. The serious social consequences of the growth of this class in Pakistan's rural areas poses perhaps "the most baffling problem."

Inflation is the worst headache of the developing countries in Asia. In this regard, a degree of stability appears to have been achieved by Pakistan during the last few years, thanks to increased domestic production of foodgrains and expanded P.L. 480 programme. While industrial and agricultural production is forging ahead and large import surpluses can be financed by generous flow of foreign aid, the Government's financial policy has tended to exacerbate the massive expansion of liquidity emanating from credit expansion to the private sector. There is therefore need for caution if pressures on prices are not to be allowed to re-emerge.

Development Planning

It is instructive to read about Pakistan's development planning. The first five-year plan (1955-60) had five objectives, viz., to raise the national income, to improve the balance of payments, to increase opportunities of employment, to extend social services and to increase rapidly the rate of development of East Pakistan and other backward areas. The resources were assessed both in aggregate and specific terms, such as foreign exchange and entrepreneurial and technical capacities. The size of the plan was placed at Rs. 11,600 million. This included Rs. 1,500 million in public (budgetary) savings, Rs. 5,900 million in private savings and Rs. 400 million in foreign private investment. This left a gap of Rs. 3,800 million to be met through foreign aid and loans.

Expenditure under the first plan reached almost 90 per cent of the estimates; but shortfall in real terms was larger. National income rose by about 13 per cent as against the target of 15 per cent; the rise per capita was "under one per cent," against the target of seven per cent; and the foreign exchange gap widened due to smaller export surpluses and deteriorating terms of trade so that development imports fell below targets.

The second five-year plan (1960-65) differed but little from the first plan. Self-sufficiency in foodgrains replaced social welfare services in the list of high priorities. The Planning Commission estimated that Rs. 19,000 million were needed for the second plan of which the foreign exchange component would be Rs. 6,500 million.

The overall performance has been satisfactory. During the first four years of the second plan, national income rose by 23 per cent and agricultural growth target of 24 per cent is expected to be exceeded by over five per cent. The growth rate of 5.2 per cent is spectacular and so is the growth in per capita income, in spite of an annual 2.6 per cent population growth, in striking contrast to virtual stagnation of per capita income during the first plan. Indian planners need to take note of the fact that per capita income rose in Pakistan only when the growth rate in agriculture (3.5 per cent per annum) exceeded population growth rate (2.6 per cent per annum). The authors are hopeful that given reasonable internal stability and international co-operation, "Pakistan has a chance of reaching its objective of alleviating the poverty that is the lot of so many millions of Pakistanis."

The book is too small to give comprehensive account of the developments in the spheres of trade, finance and development in Pakistan. It gives the impression of being scrappy. Further, it assumes detailed knowledge about Pakistan—its geography, its people and their institutions and attitudes. The authors will do well to keep this in mind while revising the book, if they want to serve a wider world of readers and in a more useful manner.



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COMPANY MEETING

GUEST, KEEN, WILLIAMS, LIMITED

Statement by the Chairman, Sir Raghavan Pillai, K.C.I.E., C.B.E., on the occasion of the Thirty-seventh Annual General Meeting held in Calcutta on 31st May, 1967

I have much pleasure in welcoming you to this, the thirty-seventh Annual General Meeting of your Company. The Directors' Report and the Statement of Accounts have been circulated and been in your hands for some time. With your agreement, I propose that these be taken as read.

Last year I reported the retirements of three of our Directors—Messrs. W. Morrice, R. A. Binns and R. B. Ritchie. We suffered a further loss early this year by the resignation from the Board of Mr. J. M. Leighton on his appointment as Managing Director of Sankey Wheels Ltd., an associate Company within the same Group. Joining your Company in 1951, Mr. Leighton early made his mark and rose rapidly to become Personal Assistant to the Managing Director in 1957 and seven years later a Director of the Company. I take this opportunity to express our appreciation of the valuable services rendered by him to the Company and to wish him all success in his new responsibilities.

Of the four resulting vacancies, one was filled, with your approval, by the appointment of Mr. N. Gaskell. In October last year, we were glad to welcome Mr. A. K. Roy, who had retired as Comptroller and Auditor General of India, to the Board as an Additional Director. Mr. Roy has an outstanding record of public service, and with his rich and varied experience has already proved an asset to the Board. He is not a whole-time Director, but has been good enough to agree to assist us as Special Adviser on financial and economic matters. He vacates his office at this meeting, and a resolution is being placed before you approving his appointment as a Director.

Two more resolutions are being submitted to you concerning the proposed appointments to the Board of Mr. K. K. A. Ramchandran and Mr. A. W. Macdonald, both of whom have long been associated with the Company. Entering the Company's service as Works Accountant at the Andul Road Works in 1950, Mr. Ramchandran assumed additional duties as Administrative Officer in 1958. Five years later he became Assistant General Works Manager and in 1966 he was appointed Manager of the newly organised section, Management Services, at the Company's Head Office. Mr. Macdonald is a highly qualified and experienced engineer and served the Company as a foreign technical expert from 1959 to 1962, returning to the UK in the latter year to join the G. K. N. Group. Since then he has visited India many times to advise us on various development projects, and has now rejoined the Company and is in charge of its development and expansion projects. We are confident that both Mr. Ramchandran and Mr. Macdonald would bring strength and support to the Board.

OPERATIONS

When we met last year, I mentioned to you that the results for 1965, satisfactory as they were, did not by themselves provide a reliable basis on which to found hopes of continuing growth. I am sorry to say that this foreboding has proved only too true. Our sales are less, and profits even lower. This, I must hasten to say, is not the result of anything that we have done or failed to do, but is due to circumstances completely beyond our control. The drastic cut I referred to last year in the volume of Railway orders, which, as you will remember, used to contribute directly or indirectly to about half of our total production has had its expected effect on us. The failure of the monsoon for the second successive year with the

consequent loss in agricultural production has been a disaster of which there is no parallel in recent years. It has created unprecedented hardship, and one does not yet see the end of the inflationary spiral, which, added to other factors, it has helped to sustain. We are right in the middle of a serious economic depression.

It is not surprising, therefore, that instead of there being a continued increase in the value of sales which we have been witnessing for some years, the invoiced value of sales in 1966 at Rs. 27,91,76,775 is even lower than that of the previous year. Indeed, the results would have been even worse if we had not been in the process of manufacturing some of the old railway orders still on hand.

The suspension of railway orders has adversely affected three of our divisions and most seriously the Engineering Division, which is concerned exclusively with the production of Railway points and crossings, crossing sleepers and track and signal components. The sales of this Division fell by 45% compared to 1965. The crossing sleeper department has remained closed since April 1966 and the level of production in the points and crossings department has fallen to 40% of capacity. I am afraid I cannot at the moment hold out much hope of any significant improvement in the working of this Division. The plant in this Division was exclusively designed for railway work and has been kept very busy over the past many years executing railway orders—a circumstance that hardly offers immediate scope for diversification of production in this Division. Moreover, in whatever small business is available, there is inevitably very keen competition.

The Forge Division which, like the Engineering Division, has been catering mainly for Railway requirements also suffered a setback in production. Fortunately, in this Division we had already started the production of automobile forgings and the capacity rendered idle in the Forge by lack of orders for wagon components is being further progressively diverted to this item. The changeover has of necessity to be gradual because of the time lag involved in design and tooling for new items. We are able to make ourselves the qualities of steel necessary for production, and this is a great advantage. On the other hand, the depression in the automobile industry itself is seriously affecting our programme for continued expansion.

Another Division directly affected is the Steel Division. The steep fall in the demand for railway spring steel and the reduced offtake of the fabricating departments of the Company resulted in the rolling mills not operating at the normal capacity. In this Division, however, it has been possible, in spite of these difficulties, to double the ingot production following the commissioning of the 14-ton Electric Arc Melting Furnace. We are diverting steel making capacity to the production of increased quantities of automobile spring, alloy and other special qualities of steel. Production of mild steel for the export market has also helped to improve the position. In spite of inadequate supplies of good quality billets it has been possible to maintain the production of bright steel bars.

I am not without hope that in these two Divisions, we shall steadily, if not immediately, recover our lost ground by continued attempts at diversification.

Production of hot forged items in the Bolt and Nut Division was also substantially below the previous year's level. The shortfall was principally in railway track and wagon fasteners. The general recession in engineering industries, in addition,

resulted in a contraction in the market for commercial bolts and nuts and an intensification of competition.

The rehabilitation programme taken in hand some time back in the Bolt and Nut Division is practically complete. The division is now equipped with the most modern plant and machinery for the manufacture of cold headed commercial and precision heat treated fasteners.

In regard to the other divisions, it is a relief for me not to have to repeat the same sorry tale. By and large, favourable trading conditions prevailed in the Screw Division. Despite intermittent shortage of raw materials and increase in competition, sales were higher than in the previous year. The high standard of quality of the products of this division has enabled the Company to meet successfully the growing competition.

The Sankey Division is the largest of the Company's six divisions and its overall performance has been one of continued progress. Demand for electrical steel products was fairly satisfactory, but growth was adversely affected by power shortage in the South owing to failure of the monsoon and also to shortage of copper. This resulted in the Bangalore unit of the division operating below the expected level. Production in the Bombay unit also suffered from the second quarter of the year owing to shortage of cold rolled grain oriented transformer grade steel sheets. Good progress was made in the production of mild steel precision components for the automobile and electrical industries.

PROFITS

You will have noticed that, while there has been only a marginal fall in the value of sales, profits have gone down substantially. For this, the reason is not far to seek. Wage rates continued to rise throughout the year owing to the periodical increase in the rates of dearness allowance and also on account of the interim relief awarded by the Wage Board for engineering industries with effect from 1st April, 1966. This was inevitable as the general index of wholesale prices had risen during the course of the year by 15.6%, and unfortunately the rise continues unabated. There was also an unexpectedly sharp increase in the electricity rates from first July, 1966, in the Calcutta industrial area, and this added considerably to the operating costs of the Andul Road Works of the Company where power consumption for steel melting is large. A third important reason is that our interest charges have gone up considerably, partly because as a result of the Government's import policy we have had to hold a very large inventory of imported steel required for our Sankey Division, partly because of the service charge of our increased debts and partly because the rupee value of sterling debts went up as a result of devaluation. Ordinarily, we should have been able to make up for these by a corresponding increase in prices. But we have tried as far as possible to respect the Government's wishes to hold the price line. In any case, there is very keen competition in a market suddenly very severely restricted.

Finance charges for the year under review were therefore Rs. 72,60,515 as against Rs. 37,60,260 for the previous year. Debenture interest rose by approximately Rs. 14 lakhs following the issue in December 1965 of Rs. 2 crores 7-3/4% stock. Bank borrowings throughout the year were at a much higher level than in 1965 and consequently overdraft interest went up by approximately Rs. 15 lakhs. Interest on the sterling loan from Guest, Keen & Nettlefolds, Ltd., was also higher by about Rs. 6 lakhs on account of fresh drawings and the devaluation of the rupee.

The charge for taxation of Rs. 1,47,00,000 has been calculated at the rates current at the time when the Auditors signed the Accounts. At the last Annual General Meeting I referred to an additional tax liability for 1965 of Rs. 3,70,000 arising from the changes in the tax rates introduced by the Finance Act of

1965. At the same time the tax provisions charged in 1964 and 1965 Accounts were later revised in the light of a recent Supreme Court decision and the net result was a surplus tax provision of Rs. 6,72,957. This has been written back in the Profit and Loss Account for 1966.

After all the required transfers and appropriations the profit available for disposal is Rs. 77,45,736. Your Directors have recommended a final dividend of 80 paise per share which together with the interim dividend of 40 paise per share already paid makes a total distribution for the year under review of Re. 1.20 paise per share compared with Re. 1.40 paise per share last year. You will appreciate that the available profit for the year does not justify any higher rate of dividend.

DEVALUATION

I must now refer to Devaluation. I do not propose to enter into the question whether devaluation was justified or necessary. The time for that debate is now past; and what is of importance is the strategy the Government will employ to reap such benefits as the new situation affords and to minimise or counter the adverse effects which it also ordinarily produces. You will, however, expect to be told how devaluation has affected your Company. The Sankey Division of your Company and, to a large extent, the Steel Division depend on imported raw materials such as electrical grade steel sheets, special quality steel billets, ferro alloys and carbon electrodes. The manufacturing operations also depend upon imports of tool steels, rolls, die blocks and spare parts. After taking into account changes in import duty the landed cost of electrical grade steel has risen by 31% and that of other materials by 22% to 42%. This has naturally increased our costs of production.

Expansion projects have been even more severely affected. The cost of imported plant and machinery has increased by 31% after taking into account the reduced import duty. This will impose an extra burden of Rs. 2 crores. Moreover, the prices of indigenous items containing imported components have also increased in the wake of devaluation.

The foreign assets and liabilities of the Company as at 6th June, 1966, including the sterling loan from the Company's technical consultants, Guest, Keen & Nettlefolds, Ltd., also had to be revalued at the new rate of exchange. The resultant additional rupee liability amounted on that date to Rs. 60,45,395. Out of this amount, Rs. 54,53,651 related to plant and machinery and this amount was capitalised by enhancing the value of the respective assets. While, as you are aware, the increased amount will be taken into account in granting tax depreciation allowance, the interest charges of your Company have, as mentioned earlier, increased by this revaluation.

EXPORTS

The real benefit to us will accrue as we are able to develop our exports. Never before has there been greater need to increase the sales of Indian goods overseas and your Company attaches great importance to its contribution in this field. We are now exporting a wide range of products to many countries throughout the world in the face of overwhelming competition. It is with great pleasure that I am able to report that our production for sale in export markets in the first quarter of 1967 amounted to Rs. 39 lakhs and that in the second quarter is estimated at Rs. 40 lakhs, subject to shipping facilities becoming available in time. These efforts, you will agree, compare very favourably with our total production for export sale of Rs. 41 lakhs in 1966 and of Rs. 26 lakhs in 1965.

Our increased exports could have attained greater success if costs of manufacture had not gone up. Unfortunately, there has been a continuing increase in the prices of raw materials and spare parts owing to the prevailing inflationary trends. Although at the moment we get on our exports an excise draw-

back on indigenous steel and some cash assistance also these are not adequate to compensate for the higher costs of production. The proposal to supply steel at international prices will undoubtedly give us some marginal benefit, and I am not without hope that in their schemes of export promotion the Government will take a realistic view of the higher manufacturing costs in our country and adjust them accordingly. Another very important way in which the Government could help promotion of exports is by allowing increased production capacity for products such as bolts and nuts and woodscrews for which there is a promising market abroad.

The continuance of the policy of liberalised imports introduced after devaluation and the procedural changes announced recently are certainly measures in the right direction. Submission of applications and issue of licences on a continuing basis related to the need of industries as proposed under the revised procedure should lead to more effective control of inventory provided the time lag between submission of applications and issue of licences is reduced.

LABOUR RELATIONS

I am glad to be able to say that our relations with labour remained satisfactory during the year. But lack of work has rendered many of our workers surplus to our present requirements. Some of them are idle and some are underemployed. Both on humane considerations and for good relations between management and labour, it is obviously not desirable to adjust labour strength with every change in the work load. There are, however, limits to the capacity of the Company to carry surplus labour, and I can only hope that there will be substantial improvement before that situation is reached.

The Company's Apprenticeship and other technical training schemes operated throughout the year. 360 persons including 153 under the Apprentice Act, 1961, were trained during the year in the various Works of the Company. Several members of the staff were given specialised technical training in the U.K. by Guest, Keen & Nettlefolds, Ltd., the Company's associates in that country. Full advantage is also taken of the facilities existing in our country for further training of members of our staff after they have acquired the necessary experience with us.

EXPANSION

You will be glad to know that our plans of expansion are proceeding apace. Expansion of production capacity in the three manufacturing units of the Sankey Division to meet the growing demand for precision press work is progressing satisfactorily, and a project to manufacture new products, viz Torrolal Cores and C Cores, has also been taken in hand. Annealing furnaces have been added in each of the three units for the production of cold rolled grain oriented steel materials.

Considerable progress has been made in the expansion project of the Steel Division designed to increase capacity for making special steels to 45,000 tonnes per year and rolling bars to 1,35,000 tonnes per year. A large part of the plant for the new rolling mill has already been received. Both the rolling mill and the second electric arc melting furnace which will be of 20 tonne capacity are expected to be commissioned in 1968. The difficulties encountered in the procurement of land to which I referred last year have unfortunately delayed the implementation of this project, but these difficulties have now mostly been overcome.

I referred in my Statement last year to a proposal we have had under study for a further substantial expansion in our steel-making capacity. It will, I am sure, cause you no great surprise to learn that consideration of this proposal is taking longer than was expected. In the darkening economic scene, with hopes of early recovery continually receding and operational problems becoming daily more difficult, current affairs have inevitably taken precedence over future plans. Not only that,

but the changing situation has itself rendered necessary a re-examination of some major aspects of the proposal, more especially the phasing of the project and its financing. I am hopeful, however, of progress being made with this re-examination in the coming months.

The modernisation and expansion schemes in the Forge Division are progressing satisfactorily. One 60 cwt and one 50 cwt drop hammers together with ancillary plant and heat treatment equipment have been received and are under erection. The installation of these and the remaining plant will equip the Company to manufacture efficiently a wide range of alloy and special quality steel forgings.

The second phase of expansion of capacity for self tapping screws, which I mentioned in my last Statement, is well under way. The project will be completed this year. Satisfactory progress has also been made in the project for the manufacture of semi-tubular rivets, a new product, and the plant is expected to be in production shortly.

Before leaving this topic, I should like to express our indebtedness to our associates, Guest, Keen & Nettlefolds, Ltd., in the U.K. for the invaluable assistance they have given to your Company. We have drawn heavily on their research facilities and technical resources for our development schemes and in our efforts to branch out into new fields of production.

THE IMMEDIATE FUTURE

If 1966 was a difficult year, the legacy it has left is one of continuing economic disquiet for the current year. The food situation in many parts of the country remains very grave; internal prices are still rising; and industrial activity is at a low ebb. It is not surprising, therefore, that the Railway Budget gives no indication of large-scale developmental activity. And for those of us who depend largely or wholly on Railway orders, this will unfortunately be another lean year. Faced with this situation, we have sought to ameliorate it by measures designed to achieve diversification of production, improve productive efficiency, and secure economies in expenditure. In the short run, however, these measures are unlikely to yield impressive results.

While the immediate situation continues to be unhappy, the Government's keen awareness of this and, their desire to stimulate demand in the sector of industry producing engineering goods should give us hope for the future. It is a matter of satisfaction that, despite the difficult budgetary position, provision has been made for some measure of increased developmental activity, both at the Centre and in the States. The latest thinking of the Government in the matter of controls is refreshing, and we may of hope that, subject to the limitations of foreign exchange, all restraints on expansion of productive capacity will be reduced to a minimum.

The industries most seriously affected by the present recession are located largely in one region. Fears of retrenchment have caused widespread labour unrest, and it is to the interest of everyone not to let this situation grow worse. The next three months are crucial for the country; and, given a good monsoon, I hope the steps promised by the Deputy Prime Minister in his Budget Speech to stimulate investment and developmental outlays will be bold and imaginative.

It now only remains for me, before concluding, to express our appreciation to our employees who have maintained a high standard of performance under trying circumstances. The need for greater efforts and increased productivity is higher today than ever before, and I am confident that they will accept this exciting challenge.

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

ASSOCIATION MEETING

THE ASSOCIATION OF MAN-MADE FIBRE INDUSTRY

The full text of the Speech of Shri G. K. Devarajulu, Chairman of the Association of Man-Made Fibre Industry at the Annual General Meeting held on 27.5.67.

Gentlemen,

I have great pleasure in extending a hearty welcome to you all for the Annual General Meeting. From the dust and din and sweltering heat of cities to the cool and pleasant heights of the Blue Mountains, it is indeed a welcome change for us and more so to ponder over our problems and possibilities within the range dictated by the political and economic force of the country.

Since we met last, the turn of events, both political and economic, have been swift and significant. The election reverses for the ruling party have made them to turn the search light inwards. It is increasingly becoming evident, both for the learned and the laity, that one-party rule, whatever may be its worth and achievements, is bound to lead the country ultimately to political and economic disruption and as such a strong, united and purposeful opposition is a sine qua non if democracy has to survive and flourish. However, it is still in the realm of speculation whether the opposition as it exists today has any unity of purpose or is just a marriage of convenience to be broken at will. This apart, the election of Dr Zakir Husain and Mr V. V. Giri to the highest offices of the land, is an act of great political sagacity and statesmanship, for, with their record of selfless service, with their erudition and political background, with their firm faith in democracy and secularism, I am inclined to hope the destiny of the country would be safe in their hands.

On the economic plane, the year 1966 presented a picture of deterioration all round. Falling outputs, rising costs, drought and famine conditions in certain parts of the country, foreign exchange stringency, labour unrest have been the order of the day. Devaluation, with the best of intentions, has been an aggravating factor without increasing either production or exports. Unless honest and vigorous efforts are made to increase agricultural production, to reduce tax burden, to peg runaway prices and to curtail Government's expenditure on non-productive items, the economic revival of the country would merely be a distant and receding hope.

Though it may be true that devaluation, in general, has not served the end in view, yet, as far as the man-made fibre industry is concerned, it has brought in its wake certain advantages. The industry is included in the priority list and imports have been liberalised. This has been a measure of relief for the industry, starved, as it was of its raw materials. With this liberalisation there is a distinct possibility of a production increase to the extent that an exportable surplus would be available in the near future. Besides, it would not be unreasonable to assume that with the development of synthetic fibre/yarn projects following the establishment of huge petro-chemical complexes in the country, this surplus is bound to increase over the years. Unless, therefore, the surplus is allowed to be siphoned off to certain overseas markets with necessary incentives, the economy of the industry would be upset sooner or later. In this regard, the industry has been consistently representing to the Government that it would be worthwhile for the industry to export viscose filament yarn instead of exporting artsilk fabrics; for, it is felt that the time is quite opportune for developing markets abroad for Indian viscose filament yarn and if this opportunity is not utilised, some other country would step in and those markets would be lost. The Government, however, appears to have taken a different view and presently the position is that the State Trading

Corporation has stepped into the picture and a Scheme has been devised whereby imports of synthetic yarn and exports of viscose filament fabrics would be canalised through S.T.C. and the exporter would get a cash incentive to a maximum of 25% in addition to certain concessional prices at which the viscose filament manufacturers would make available their yarn to him for export purposes.

While it is hoped that this scheme might become a successful proposition, it is urged that for accelerating the tempo of exports,

- 1) a vigorous approach should be made to reduce delays and red-tapism to the absolute minimum.
- 2) The scheme of cash assistance should be modified in such a way that it would also include claims by way of drawback etc. so that the exporter can get the benefit in one stage without approaching different authorities for, such an approach has definitely proved from past experience to be abnormally time-consuming.
- 3) The flow of credit to the export sector should also be liberalised.
- 4) Rebate of Income-tax on export should be revived and certain other measures should be devised for the grant of direct tax relief on exports.
- 5) The existing scales for allowing foreign exchange for business tours abroad should be revised and the procedure for releasing lump sum foreign exchange should also be rationalised so as to facilitate first hand study of the foreign markets; for as you are aware, the export market is a buyer's market and the competition would be acute and unless there is all round co-operation and proper and adequate steps are taken by developing countries for reduction of its costs and improvement of quality of the products to be exported, the future of our exports may not prove to be a successful venture as it is imagined to be at present.
- 6) Furthermore imports of synthetic yarn and its distribution to the actual users has to be disciplined and regulated in such a way and at such a price that it does not hamper the progress of the indigenous spinning industry at all events.

IMPACT OF EXCISE DUTY ON THE INDUSTRY—VERY HEAVY AND BURDENSOME BY ANY STANDARD

Though it is the desire of the industry and the Government as well to accelerate the tempo of exports, it would be a matter of doubt and rightly so whether the present excise imposition, burdensome by any stretch of imagination, would serve the export effort, in any measure. Presently, as you are aware, the spinning industry thought it fit to give filament yarn at concessional rates on the condition that it can recoup its losses by increasing the prices in the domestic market. It would be impossible at the present juncture to recover these losses unless the Government makes up its mind to reduce excise duty to a reasonable level. If the excise duty is not reduced, the export proposition of viscose filament fabrics may not prove to be a successful venture.

Perhaps, the Government thought that rayon industry was a luxury item and as such imposition of such heavy excise duty according to them was essential to restrain consumption of this product. But, it is our submission that it is incorrect

to draw the conclusion that viscose rayon in particular is confined to the elite. It is as a matter of fact a natural cellulose like cotton only regenerated to manufacture cellulosic yarn. In this connection, I venture to bring home the fact that the growth of the rayon industry all over the world has been primarily and in substance to bridge the ever-widening gulf between internal demand and supply of cotton. If this has been the case all over the world and the growing requirement of cloth in India, in particular, cannot be met by increase in production of cotton alone, it stands to reason that other natural cellulose resources like rayon (fabrics of which in the matter of price compare favourably with low and medium priced fabrics) will have to be tackled for providing the essential needs of cloth. In the circumstances, to classify this rayon viscose filament industry as a luxury industry is not proper for it has been proved with the passage of time that it is essentially a middle-class urban necessity.

Further, it would be no exaggeration to say that ours is the age of synthetics. The discovery of oil mines and the Government's intention of setting up oil refinery establishments and Petro-chemical Complexes, all these would indicate and without doubt, the heralding an era of synthetics, sooner than later. The field of man-made fibres, as it exists here to-day is not extensive by international standards and the needs of the country; but, by the setting up of these industries, man-made fibre industry will undoubtedly get a big boost and the time would not be far off when, in our country too, fibres like dacron, terylene, acrylics and polypropylene and slogans like 'wash and wear', 'Dip and Dry' would become matters of routine and common parlance, enriching the realm of textiles by their virtues of utility, practicality and elegance.

When these are the possibilities in the not distant future, and when, in the field of synthetics, hardly two to three manufacturing units have been in production and these are straining their limits to put their venture on an even keel, it would be no exaggeration to say that the imposition of heavy excise duty on synthetic yarn would not serve to attract and stimulate further risk capital in this field and achieve the end in view of reducing the import bill in this regard.

TYRE YARN—ITS PROBLEMS

The problem of surplus disposal is not confined to viscose filament industry alone and it is present and more pressing in realm of viscose tyre cord industry too. As you are aware, automobile tyre industry, also being listed in the priority industries has, by virtue of import relaxation, been importing Nylon tyre cord and this has resulted in lesser offtake of indigenous rayon tyre yarn by the automobile tyre manufacturing units. While on the one hand the indigenous tyre yarn manufacturers have maximised their production by fully utilising the capacities licensed, the reduced offtake, on the other, by tyre manufacturers, consequent upon continuing imports of Nylon tyre cord, has naturally and inevitably resulted in mounting of stocks to the industry's detriment. In the circumstances we venture to state that to allow foreign exchange expenditure for imports of a product, at a time when an indigenous substitute like rayon tyre yarn could be used with advantage, without impairing the quality of tyres, is a thing which could and should be avoided in the adverse economic circumstances prevailing in the country. If such imports are allowed without any fetters, it would compel the indigenous manufacturers of rayon tyre cord either to keep their capacity idle or force them to carry on high inventories. It is in this context we urge upon the Government to reconsider its policy and impose complete ban on imports of Nylon tyre yarn so as to help full utilisation of the indigenous tyre yarn capacity without any hindrance from within or without.

While we are thankful to the Government for having included man-made fibre industry in the priority list, it is suggested that this priority, though belated is not a passing phase, but a due recognition of its intrinsic worth, a due re-

cognition of the role it has played for the present and the role it would assume for the future in the realm of textiles. Viewed from the production angle, in a brief span of about six decades, world production of man-made fibres has shown a phenomenal increase and in the year 1966 its output is estimated at 12897 million lbs., a new record of 7% over 1965. Rayon and Acetate output is estimated at 7274 million lbs. in 1966, while non-cellulosic fibres is expected to reach a new high of 5423 million lbs. about 21% increase over 1965 production. In India too, the share of man-made fibres in the total textile production is increasing year after year though its entry into this field, as you are aware, is just 16 years old. But within this short span of its emergence, it has made significant strides and to-day among the countries of ECAFE region, India is next in rank to Japan as regards the progress achieved in the field of man-made textiles. India's output in terms of poundage is on the increase year after year, with its production figure in 1966 reaching the vicinity of about 80 million lbs. of Rayon filament yarn and about 5 million lbs. of Nylon filament yarn and another 6 million lbs. of Polyester staple fibre. As regards viscose staple fibre, from 7 million lbs. a decade ago, the production has increased to about 95 million lbs. in 1966. As far as industrial yarn (i.e. viscose tyre yarn) is concerned, from about 1.5 million in 1962 the production today has registered a phenomenal increase—to the tune of about 34 million lbs. per annum. Apart from these production increases, there has been a perceptible reduction in imports from 48 million lbs. a decade ago to about 12 million lbs. in 1966.

The production of viscose rayon yarn in 1966 would have been more than what it was in the previous year but for the fact that four units were on strike. By and large the production of rayon yarn is showing an increase while the import bill is being substantially reduced. But in the field of synthetic fibres and yarn both production and imports are gene-



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rally showing an upward trend. As far as man-made fibre fabrics are concerned, a similar upswing is noticeable; from about 450 million metres a decade ago, the production has more than doubled registering a figure of about 900 million metres in 1966.

This apart, India's population is stated to have crossed the mark of 50 crores and the next decade it will spiral upwards to more than 55 crores. As you are aware presently the demand for textiles is far exceeding the country's production. Improved living standards would make the problem even more acute as more people will be requiring better fabrics every year. With optimum production of man-made fibres the demand for textiles would be met and the price will be stabilised, self sufficiency achieved and India's textile as a whole will gain a new dimension in textile and utility and help earning a sizeable quantity of foreign exchange by entering the competitive overseas market.

So, viewed from the angle of production, utility, variety and versatility, the introduction and development of man-made fibres have contributed decisively to the increasing mass consumption. Such a growth is possible because man-made fibres enter into all sections of textile industry on their own or in blends and into every field of apparel, household and textile manufacture—at every price. Research and development in this field are no longer specifically concerned with fibres for use in single fibre materials but are directed towards the development of fibres suitable for blending with other fibres. With the demand trends taking shape in this way, it is unimaginative to think of one kind of textile as dominating or supplanting others. I do feel that it would be rewarding if the textile industry as a whole, whether natural or man-made, sees the signs of the times and thinks in terms of co-existence and co-operation for their mutual benefit. At present in developed countries, the increased purchasing power seems to be directed towards goods other than textiles. As such if this phenomenon should serve us as a guide, the unwanted fear and compartmentalism, if any, between natu-

ral and man-made fibres should be reduced and the textile industry as a whole, should begin thinking of competing with other consumer industries. It appears that in certain countries, many industrialists are losing faith in individual publicity and are encouraging joint publicity for all textiles. I am inclined to subscribe to this view and that country-wide promotion of textiles in general would perhaps pave the way for attracting a sizable proportion of the population's purchasing power to the textiles as a whole.

Gentlemen, I have tried in a way to highlight certain problems confronting the industry and have also adduced certain reasons for optimism in the future of this industry. In this connection, I wish to emphasise that what lends prosperity for the industry is not merely the material resources and technical advantages it has over others, but the wealth of goodwill it possesses over its labour force. In the circumstances obtaining today, the role of entrepreneur appears to have been misconstrued. Gheraos, illegal strikes and violent activities would not achieve any purpose and it would only add to the increasing miseries of the people. It must be distinctly understood by all those having a sense of responsibility and social awareness that the establishment of good industrial relations is the first and foremost duty of every sector of industrial community and such relations must end in mutual benefit to both sides. Whenever any sector genuinely seeks co-operation of another, it is in their mutual interest to respond and the concept of class strife at all costs and at all events should give way to class collaboration and harmony on all sides for the social and economic upkeep of the industry in particular and the country in general.

Gentlemen, I am thankful to you for having given a patient hearing and I do not wish to take up any more of your time.

Thank you.

(This does not purport to be an account of the proceedings at the Annual General Meeting.)

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(ESTD. 1943)

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ABRIDGED BALANCE SHEET AS AT 31ST DECEMBER, 1966

CAPITAL AND LIABILITIES	AMOUNT	PROPERTY AND ASSETS	AMOUNT
	Rs. P.		Rs. P.
Authorised Capital	20,00,000.00	Cash	72,69,148.02
Subscribed Capital	18,18,200.00	Balances with other Banks	63,11,193.61
Paid Up Capital	18,15,875.00	Money at Call & Short Notice	107,70,000.00
Reserve Fund & Other Reserves	14,54,680.00	Investments	306,53,866.83
Deposits and other accounts	10,92,15,804.65	Advances	636,68,353.10
Borrowings from other Banking Companies, Agents etc.	50,699.67	Bills receivable being bills for collection as per contra	82,44,678.88
Bills payable	41,90,654.34	Constituents' Liabilities for acceptances, endorsements and other obligations per contra	10,32,825.61
Bills for collection being bills receivable as per contra	82,44,678.88	Premises including leasehold property	4,78,847.30
Other Liabilities	65,45,587.62	Furniture, Fixtures etc.	8,93,163.55
Acceptances, Endorsements and other obligations per contra	10,32,825.61	Other assets including silver	34,12,310.22
Balance of Profit	1,83,981.35	Non-Banking Assets acquired in satisfaction of claims	NIL
Total	13,27,34,387.12	Total	13,27,34,387.12

(R. Y. GARG)
GENERAL MANAGER

D.P.W. (100)

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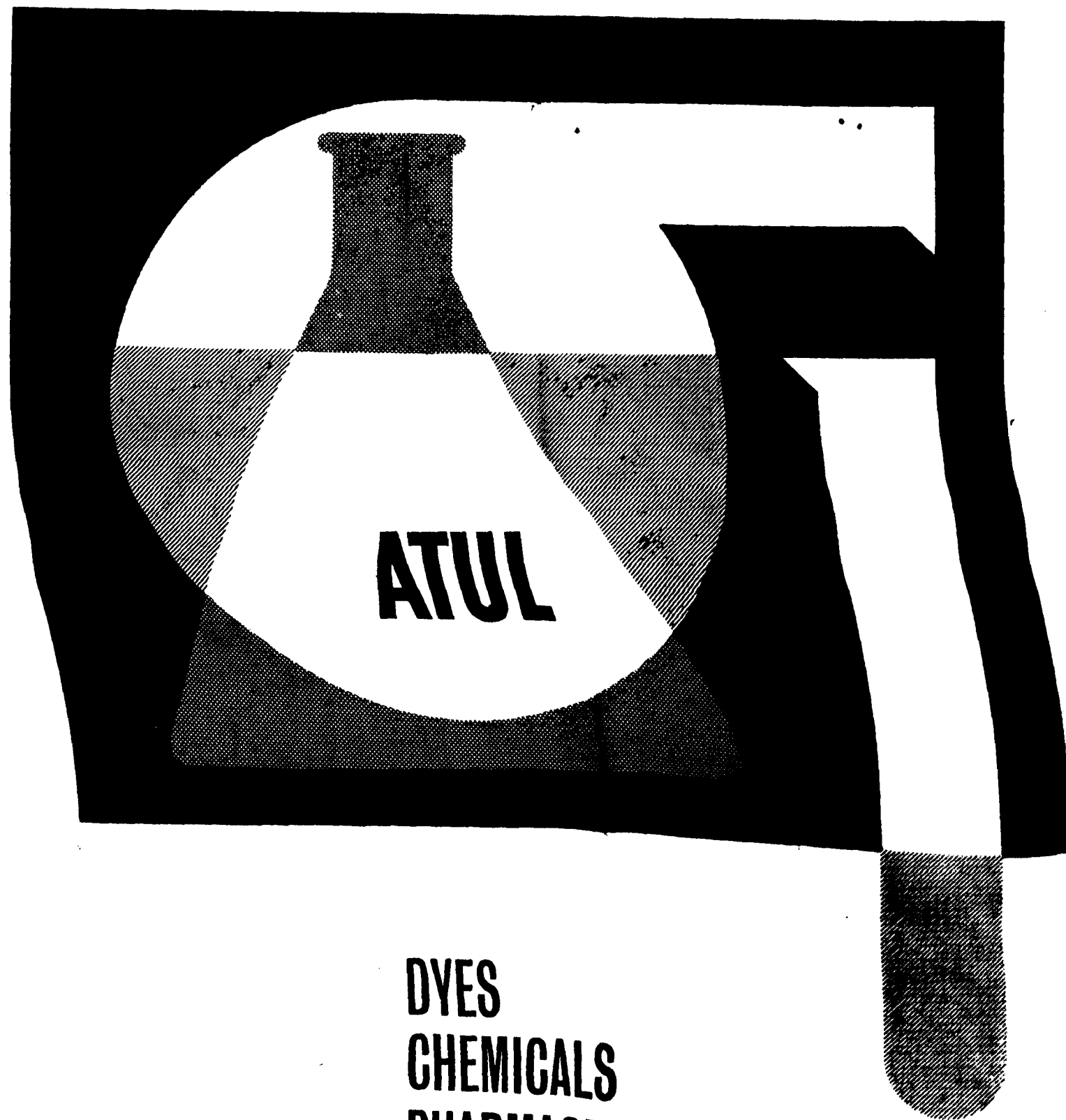


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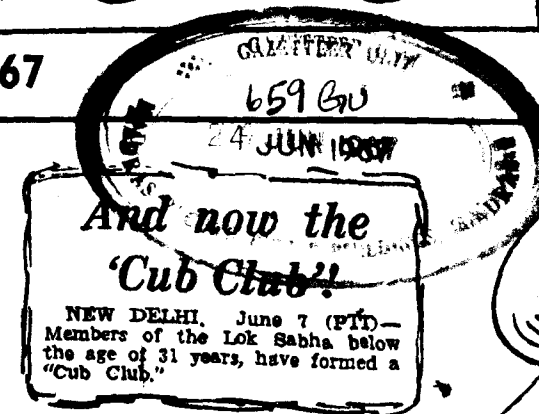
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EASTERN ECONOMIST 24

RUPEES 1.25

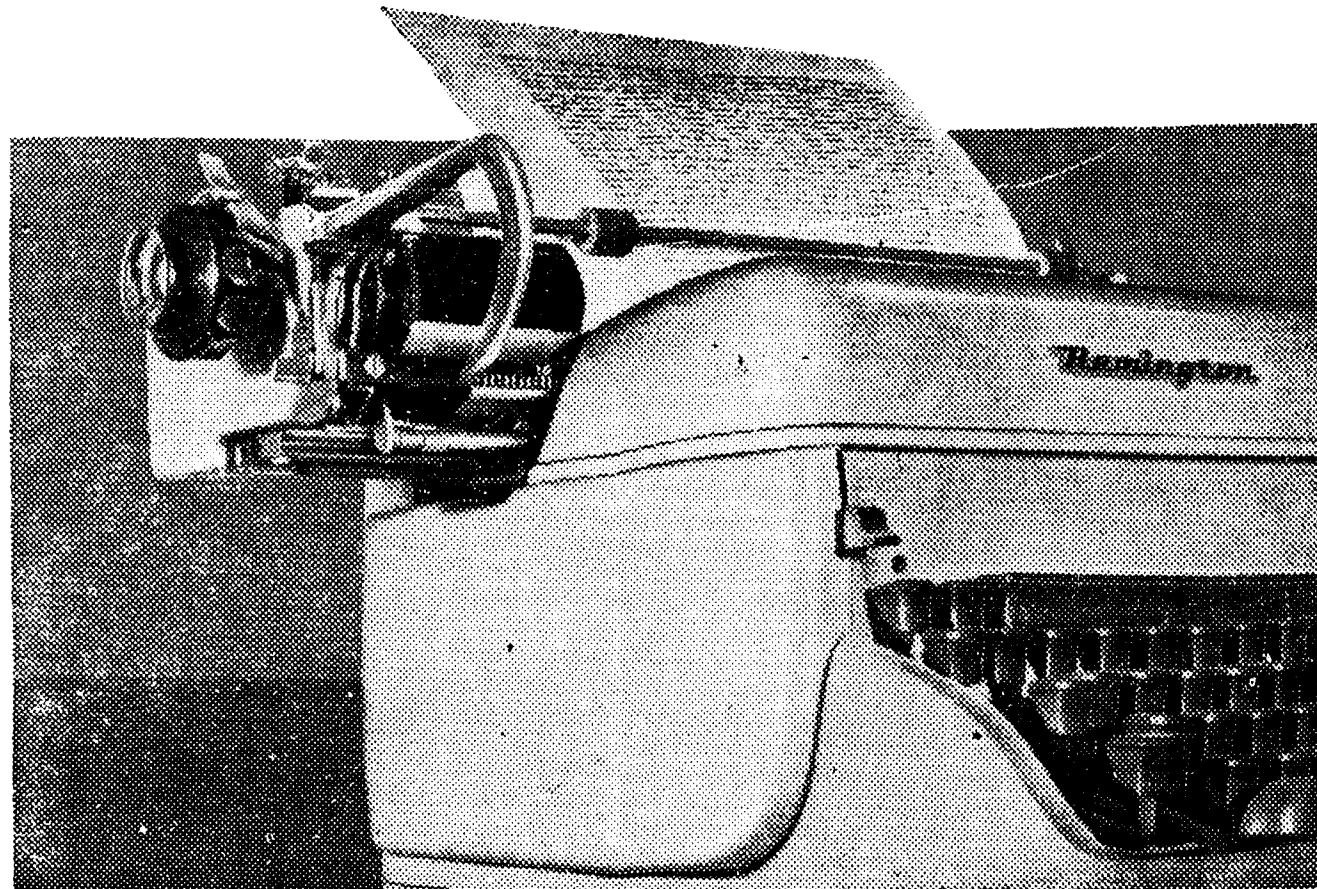
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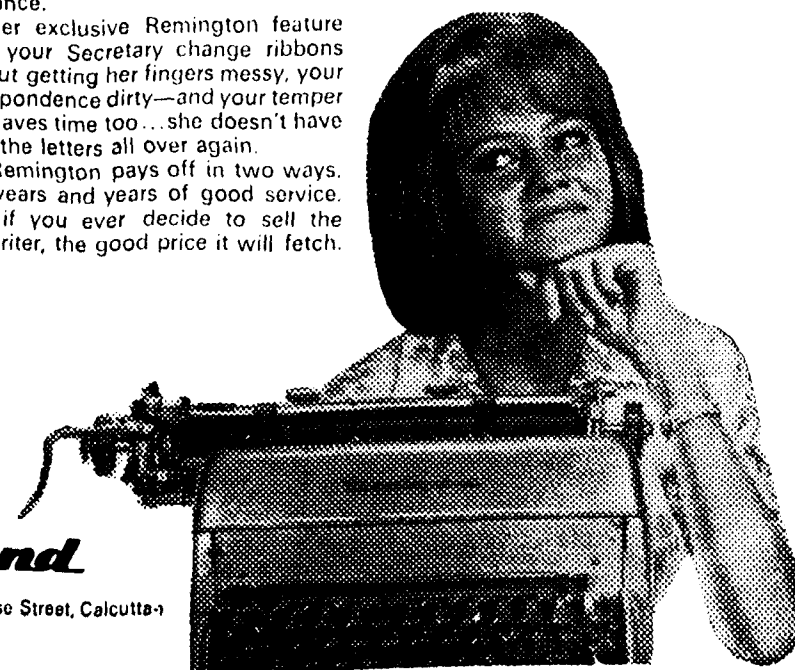
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JUNE 16, 1967

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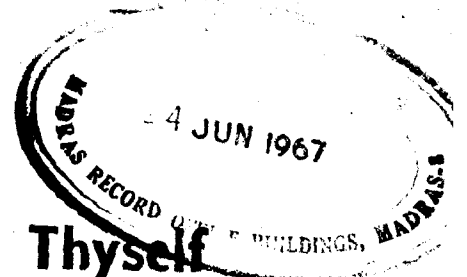
Physician, Heal Thyself

SINCE MR Morarji Desai had, in his budget speech, wisely refrained from making tall claims on behalf of his budget proposals, his defence of them in his reply to the general debate in Parliament was rendered easier to that extent. He reiterated that he had limited himself to preventing the aggravation of inflationary pressures, stabilising the economy and gaining breathing time until a more favourable monsoon could help improve agricultural production and thereby create a climate for resumed expansion. Even the tax measures were upheld by him with a minimum of aggressive advocacy. He did continue to plead that some of them, besides raising revenue, would serve such worthy purposes as the promotion of exports. But it was clear that Mr Desai's essential case was that, if he had taxed, it was only because he had some unavoidable expenditures to cover without having recourse to a budget deficit. In the circumstances, it was to be expected that he would not entertain suggestions for major changes in the scheme of additional taxation. At the same time, the objections taken to the proposed increases in some of the Central excise duties were so overwhelmingly valid that concession could not be completely denied. We are glad that Mr Desai has agreed to examine the incidence of the additional taxation on the footwear, man-made fibre and aluminium industries. But his second thoughts will be worthwhile only if revenue considerations are not allowed to influence unduly the extent of the reliefs which he may decide to provide. Growth industries, especially, should not be bled blood-white.

Mr Desai had no reassurance to offer with regard to the increased duty on sized cotton yarn for powerlooms. While his intention to assist composite mills has been appreciated, even the spokesmen of the latter, be it said to their credit, have shown no enthusiasm for the particular form which this intended assistance has taken. They have pointed out that the better way would have been for the Government to have reduced the duty on mill cloth. Since, even otherwise, the existing burden of excise taxation is too much to bear for the cotton textile industry in the prevailing conditions of slack demand, it should be possible for Mr Desai to reconsider the sharp increase in the duty on the cotton yarn for powerlooms as well as to examine anew the claim of the mill sector for a reduction of excise duties on its products. Mr Desai has shown a rare concern for the common man's woes in these days of high and rising prices. His solicitude may find no better expression than in a reduction of the excise duty on cloth which is an essential article of mass consumption.

The proposal for the deduction of income tax at source in respect of payments of brokerage or commission, professional fees and interest (other than interest on securities), has invited criticism on strictly practical grounds. Section 194-A (which is proposed to be introduced into the Income Tax Act, 1961), will result in the inequitable situation that an assessee's gross receipts will have to bear the advance payment of tax as if they were pure income. We believe that this argument will appeal to Mr Desai's sense of realism and sense of fairness.

As we had suggested in the course of earlier observations on the budget, it is difficult to enthuse over it for the simple reason that it is, on Mr Desai's own admission, an essay in marking time. His contention that he would not be justified in initiating bold action on the economic front when the nation has suffered two droughts in succession and is besieged by inflationary pressures is not convincing. Our country has at no time had a valid alternative to the pursuit of growth with stability and it is as meaningless to seek to sacrifice growth to stability as it would be to sacrifice stability to growth. In fact, the nation does not have to make a choice in these terms. Every important act of economic policy on the part of the Government must at all times persevere in doing everything that enables the economy to produce more, consume more



that of Bombay, which reveals the very inadequate efforts made by the former. The CMPO has remarked:

"Calcutta has a per capita rateable valuation of Rs. 88 and levies a consolidated tax rate of 15 to 23 per cent on the valuation. Bombay has a per capita rateable valuation of Rs. 123 and levies tax at the flat rate of 37 per cent on valuation (made up of 24 per cent property tax; $4\frac{1}{2}$ per cent water tax; a conservancy tax of $3\frac{1}{2}$ per cent; a fire tax of $\frac{1}{2}$ per cent; a city education cess of 2½ per cent; and a state education cess, for spreading primary education throughout the state, of 2 per cent). As a result, the per capita municipal tax burden in Bombay is considerably higher than that in Calcutta. In 1963-64, Bombay's per capita tax was Rs. 54 as against the Calcutta tax of only Rs. 20 in the same year.

"In recent years the Bombay Municipal Corporation has been spending annually an average of Rs. 3.5 crores on capital improvements for the city. Calcutta Corporation, on the other hand, has been spending about Rs. 50 lakhs per year and the Calcutta Improvement Trust about Rs. 1.0 crore, making a total of Rs. 1.5 crores. Howrah, with over half a million residents, collected only Rs. 14 per capita in taxation in 1963-64, and only four other municipalities in the CMD collected as much as Rs. 10 per capita. Ten municipalities in the CMD, in fact, collected less than Rs. 5 per capita. The financial situation in

the non-municipal urban areas of the CMD is even less favourable; here the tax collected amounts to less than Re. 1 per capita."

It is hardly surprising therefore that the people of Calcutta and other urban areas are hardly able to enjoy modern amenities in regard to water supply, sanitation, transport, and so on.

All this does not mean, however, that the state has no claim for an equitable treatment from the Centre in the matter of financial assistance. Mr Jyoti Basu said in his budget speech that the Government of India was niggardly and unfair in allotting funds for meeting the special needs of West Bengal during the fourth Plan period. For example, he revealed that West Bengal had got only Rs. 35 crores for her special needs over and above what was admissible to her on the population basis. But Andhra had got Rs. 77 crores, Gujarat Rs. 47 crores, Madhya Pradesh Rs. 102 crores, Madras Rs. 60 crores, Mysore Rs. 87 crores, Punjab Rs. 68 crores, Rajasthan Rs. 105 crores, Uttar Pradesh Rs. 86 crores, over and above what was admissible to them on the population basis. In view of the acute food shortage, rising prices, and other problems such as the rehabilitation of refugees, faced by West Bengal, the state's claim for a fair share of assistance deserves favourable consideration from the Central Government.



Towards Expanding Exports

MANUBHAI SHAH

In this article, Mr Manubhai Shah, formerly Commerce Minister, has emphasised the urgency of increasing exports and has spelt out the ways and means of achieving the target of exports valued at Rs. 1,700 crores in 1970-71.

or the planter in this country, by calling him inefficient as compared to his counterpart elsewhere in the world.

We will have to create conditions for increased productivity which will have to be very effective. We will have to provide for quicker and cheaper transport. We will have to provide fertilizers and more water and improved seeds, so that the productivity of the soil may go up. We will have to provide various measures of soil conservation, lift irrigation, modern cultivation and all those techniques which go to raise productivity and bring down costs. This also applies to the manufactured articles.

Government Help

The Government should be willing to render suitable help in order to make the export trade somewhat profitable, from what it is today—a more or less losing proposition. The Government should not let down any exporter of this country if it means merely neutralising the higher costs. After all, costs can and should be compensated. But it is necessary to secure the co-operation of the producers in terms of quality, packaging and sustained after-sales service—whatever follow-up service is required for the maintenance and servicing of goods that have been sold abroad. It is my experience that this tradition has not yet fully developed in this country, because we are new to the world trade; we have not yet developed modern packaging; we have not been able to establish many agencies and export houses which can do sustained export trade for a long period of time and provide for standard quality and maintenance, which alone can create full confidence of foreign buyers in us and which can bring the rewards of continuous trade with different countries of the world.

It is clear that the Government of this country—both at the Centre and in the states—should be prepared to undertake all measures to help in respect of cost and to convert any losing export proposition into a somewhat profitable one, even though it may not be as profitable as in the domestic market. The level of profit or return on export trade is likely to be modest and reasonable, because we cannot convert a very highly priced-out economy into a very profitable one, as is sometimes desired by the manufacturers and exporters.

Then, quality production and business ethics are not traits to which we are not accustomed. This country, way back in the 6th and 7th centuries and even before that, was one of the leading trading communities of the world. Ours was the most sea-faring nation of the world. The merchandise, the handicrafts and other articles produced in this country used to cross the seven seas and the trader used to take pride that whatever goods were once advertised and sold, they were followed up by better goods. So, this is one thing which our manufacturers and exporters should remember; while the Government can and should compensate on cost, it is not possible to compensate for poor quality or ineffective after-sales service.

Even if there is adequate compensation for higher cost and the quality in production is maintained, there is not as yet

THE PRINCIPAL problem today which faces India, and the supreme national obligation before us all, is export promotion not only as a long-term measure but also as an urgent task to be undertaken immediately to fulfil national priorities and plans. Fortunately, it has been recognised all round that for implementing the fourth Plan, whatever its ultimate size, it is vital to increase our exports to the level of Rs. 8,000 crores for the five-year period rising from Rs. 1,300 crores (equivalent to Rs. 820 crores pre-devaluation) in 1965-66 to Rs. 1700 crores in 1970-71, i.e., by Rs. 80 crores per year. At the moment this seems to be an impossible task.

It is conceded that our exports in the first two five-year Plans had more or less stagnated. The annual average export in the first Plan was Rs. 606 crores as against the average value of export in the second Plan at Rs. 609 crores. It is only in the third Plan period that our exports took a big jump to an aggregate of Rs. 3,825 crores or an average of about Rs. 765 crores (pre-devaluation) per year. It is also obvious that world trade is expanding. The effort of every country—whether it is a highly industrialised country, a developing country or an underdeveloped country—is in the direction of increasing its export.

Our national income is estimated to be about Rs. 20,000 crores during the current year. An export target of seven per cent of this amount should not be beyond the possibility of our endeavour, more so when every section of our community is surcharged with enthusiasm to fulfil the plans and boost exports.

A rough estimate of annual world exports would be about Rs. 135,000 crores. What we aim at is about 1 to 1.5 per cent of the world export trade for a country which commands a population one-sixth of the whole world. This is not an impossible task. It should not be difficult for us to reach our targets which are very modest, viz., an increase of about Rs. 80 crores a year in our exports, going up to Rs. 1700 crores (in post-devaluation prices) by 1970-71.

Possible of Achievement

Thus the projected increase in our exports is just ½ per cent extra every year of our average national income. If we achieve this target, we should be able not only to fulfil our national obligations, but also reactivate the economy all round. This should not be impossible of achievement if we follow the right policies and programmes for exports. I hold this view because in 1956, we wondered whether we could attain industrial expansion on the scale we were determined to achieve. Not only have we succeeded very well in the industrialisation of our country from 'a pin to a locomotive' but what we find now is that the enthusiasm among the small, medium and big entrepreneurs in this country has become so endemic and so contagious that today it is impossible to catch up with the demands of industrialisation. Those of us who were leaders in entrepreneurship, find themselves lagging behind as they are not able to cope with the rising enthusiasm.

As regards the weakness of our export trade, the primary consideration is that we are being priced out in agricultural commodities as well as industrial manufactures. This is no doubt a long-term problem which is not peculiar to this country alone. All the countries, when they started moving on the highway of industrialisation, had those very built-in handicaps of a community not accustomed to modern productivity and technology. Therefore, I would not run down, as some critics do, the entrepreneur, the agricultural producer

sufficient dynamism in a large section of our manufacturers as far as export obligations are concerned. It is a supreme national task, an urgent national obligation, for which we can not wait for another three or five years for something to happen. We should give consideration to this problem immediately so that none of our plans gets into difficulties due to poor performance on the export front. The export drive can be created in multifarious ways.

This drive has to be sustained also by the Government. Here I must confess that as far as the payments for drawbacks of excise and import duties and other export cash assistance programmes are concerned, the Government machinery has been very tardy. It is not the fault of anybody in particular. The Government machinery in a democratic country being what it is, is generally slow in action. But I do plead that on the export front these delays should be cut out to the maximum extent possible.

We have more than 500,000 exporters in this country. This is an extremely large number. Also about 50,000 registered companies and firms under the Companies Act are engaged in trade and industry. All these persons with a background in trade and industry, supported by the entire country and the Government, are no small force to push out Rs. 80 to 100 crores of additional export over the present level every year in order to see that our targets are fulfilled.

Import Substitution

I, for one, do not approve of the strategy of decreasing imports except as a measure of vigorous and rational import substitution. Mere reduction in imports can never lead to increase in economic prosperity which is almost coterminous with larger volume of foreign trade, higher technological and scientific development and various other ways which go to increase and intensify agricultural development, expand industrialisation and hasten economic growth. If we have to take some action on the import front for a little while, it should not cause any discouragement. We have faced such situations many times in the past. Import liberalisation cannot last for long or for ever by merely depending on foreign generosity. We have, therefore, to work for 'self-reliance' in most of our economic fields. This is the right strategy for economic development. Sometimes when we find that a particular effort has not reached fruition, we have to take certain other steps to conserve our resources so that the economy does not receive a

severe jolt. There is no need at all for any kind of discouragement or for any alarm if import liberalisation is replaced for unavoidable reasons by vigorous 'self-reliance'.

Then there are the well-known difficulties in transport—high costs and poor handling of our goods at ports. Our ports need to be vigorously modernised and mechanised so that the loading and unloading costs could be drastically reduced. Cheaper and more efficient transport both by rail and sea alone will, in the long run, determine whether we can continue to expand our exports. Improved ports is a 'must'.

Composition of our Exports

There is the question of the composition of our exports. Nearly four-fifths of our exports are of the traditional items such as agricultural commodities, plantation crops, textiles etc. The new additions are manufactured goods such as engineering goods, iron ore, iron and steel, chemicals, rubber goods, metallic ores etc. which consist less than Rs. 300 crores out of a total export of Rs 1300 crores (post-devaluation rate). Therefore it is obvious that we should devote more attention to agricultural, plantation and mineral items. At the same time, we should also develop exports of industrial goods and manufactures and processed commodities. Thus, there is the supreme question of increasing agricultural production which will also lead to improved industrial production. We can certainly win the battle of increased exports if this problem is dynamically tackled. Increasing agricultural production of all commodities should get the highest priority in the fourth Plan.

I should specially draw the attention of the manufacturers, processors and exporters to the urgent need of modern packaging. We are too far behind in this field. With enhanced sophistication in trade, a well got-up, hygienic and attractive packaging is the most important factor. Our industrialists and the Government have to give the utmost attention to this, specially as far as export products are concerned.

Let me repeat that it is not beyond our competence to raise exports by Rs. 80 to 100 crores per year out of an annual national income of Rs. 20,000 crores, of which about Rs. 9500 crores is agricultural production and about Rs. 10500 crores is minerals, manufactured and processed articles, other goods and services. While the task of export promotion is extremely difficult, we should not be disheartened, for success will surely come our way in reaching our modest export targets.

Price of Milk

SRIKRISHNA VANJARI

BOTH THE Government of Maharashtra and its critics (including most of the political parties) resemble a group of medical diagnosticians who are mistaking symptoms of a disease for the disease itself. What is therefore called for is an effective probe not into the price of milk distributed under the Government milk scheme as increased with effect from April 24 last, but primarily into the basic policy of the milk scheme as a transaction in state trading.

Even if, as is generally assumed, the ministerial committee appointed to tinker with the question of the increase of price recommended a scaling down of the increase sanctioned as a concession to popular protest and agitation by some of the political parties, the real problem, that is to say, of why and how it becomes necessary for the Government to increase the price in whatever proportion and maintain the high level of price, is not even touched. It is therefore necessary to examine the basis of the milk scheme itself and the type of state trading that forms an integral part of the scheme.

To begin with, the state trading operation was initiated

with the establishment of the Aarey Milk Colony in a suburb of Bombay city in 1948. The colony was primarily intended to offer alternative accommodation for milch cattle stables scattered all over the city that had to be shifted as a measure of improved city planning as well as urban sanitation. The owners of the stables were provided with clean, well-ventilated and well-kept, perhaps too well-kept and naturally expensive, stalls for cattle with provision of various facilities and amenities, not to say concessions for which they were charged a licence-fee per head of cattle. The Government dairy simultaneously, established with a modern pasteurization plant and equipment, guaranteed purchase of the milk produced by the owners.

When any town planning or improvement scheme is implemented by the Government, land and buildings are acquired with payment of compensation to their owners. In the present case, an extensive area of land was released and re-presented, or allowed to be resumed by the leaseholders—quite a windfall judging by the high prices of land in the city at that time. Buildings appear to have been constructed on the land

which, in addition to the benefits for the owners, have secured for both the Government and the City Municipal Corporation recurrent taxes and income. Surely, this factor of permanent benefit accruing from the scheme deserves to be taken into consideration in working out profit or loss of the development scheme linked with the milk scheme.

The Aarey Milk Colony has been developed into a model state dairy having a pasteurization plant, and equipment and machinery of a modern design. It possesses a palatial guest-house, a canteen, a centre for training in dairy technology, an experimental farm for breeding pedigree cows and a piggery formed with imported, aristocratic pigs and sows. Aarey has become a show-piece and a beauty spot having well-laid-out gardens and lawns with the master-showman of the name of Khurody lecturing, with the help of a portable mike and a blackboard, on the exact rainfall preferred by our buffaloes and their fastidious habits and idiosyncrasies—all for the benefit and education of assorted foreign VIPs, including guests of the Government of India. Is it not therefore reasonable to expect both the Central and the state governments to pay a subsidy towards maintenance of the colony?

The architect and mastermind of the big show, Khurody, did things in great style and on a posh scale. He got his own post upgraded and created a full-fledged milk department with an impressive general staff with a large number of posts in the higher cadre. Here is the official list:

Director, Joint Director, Controller of Milk Accounts & Financial Adviser, General Manager for Dairies, Controller of Milk Transport, Milk Accountant, Seven Accounts Officers, General Manager (Aarey & Worli Dairies), Dairy Engineer, Dairy Deputy Engineer, Quality Control Officer, Dairy Chemist, Research Officer-cum-Bacteriologist, Controller of Prices & Distribution, Three Officers under the Controller of Prices etc., Assistant Director (Personnel), Assistant Director (General), Assistant Director (Skim Milk), Public Relations Officer, Land Survey Officer, Labour & Welfare Officer, Chief Executive Officer (Colony), Animal Husbandry Officer, Principal Agricultural Officer, Animal Nutrition Officer, Dairy Manager, Stores Officer, Project Officer (Colony) for another unit at Varkas.

Government Policy & Scheme

As a matter of fact, the Government, in order to solve the problem of supply of milk in urban areas, had started the subsidised milk scheme in 1944 and it was introduced in both Bombay and Poona cities. In Bombay, milk was purchased at the rate of 12 annas a seer from producers and sold to the citizens at six annas a seer in various milk distribution centres in the city. In Poona, the local municipality ran the scheme along the same lines. The scheme was run for over two or two and a half years and incurred for the Government a loss of Rs. 3 or 4 crores. One day, the conscience of the Government was troubled and the scheme was discontinued, as it was felt that the general tax-payer was footing the bill the benefit of which was secured by only a section of the population holding the milk cards.

The principles on which the Government's policy regarding the milk scheme during the third five-year Plan period was based were:

- (i) Dairying should be a supplementary and remunerative occupation for the agriculturists in the state.
- (ii) Although agriculturists are responsible for production of milk, Government should extend all facilities to them.
- (iii) The Government should similarly accept responsi-

bility for the facilities of marketing for the agriculturists.

- (iv) The co-operative institutions should be the agency of selection in respect of production and marketing.
- (v) Since milk is a primary need of citizens, care should be taken to see that they get good quality milk at reasonable price.
- (vi) Care should be taken to see that while meeting urban demands of milk not all the milk produced in rural areas is diverted but that local needs are adequately met.
- (vii) Arrangements should be made to establish the dairy industry in the state on the scientific lines of the type found in advanced countries and provision made for securing the necessary machinery, building and facilities of technical training for that purpose.

The Government, in addition to the Aarey Milk Dairy, established another unit in the city and located it at Worli on a 21-acre site in 1961. At the end of the third five-year Plan, there were governmental milk schemes in 12 out of 25 districts of Maharashtra State. They are shown in the table below with the amounts and the quantity of milk handled:

Name of Scheme	Expenditure on		
	Land & Buildings	Machinery & Its Installation	Milk Handled Daily in 1966
	Rs.	Rs.	Litres
Bombay	5,65,81,600	1,99,97,900	3,28,300
Poona	14,95,300	21,12,300	76,300
Nasik	11,33,000	6,17,700	2,600
Kolhapur	5,01,900	5,36,800	5,400
Sholapur	7,23,900	4,79,900	8,000
Nagpur	12,64,000	6,76,900	8,600
Akola	1,85,200	1,85,100	3,100
Amaravati	1,77,500	2,91,900	2,000
Aurangabad	1,40,100	4,31,300	2,600
Konkan	—	1,57,200	2,600
Dhulia	3,84,400	20,400	25,000
Miraj	17,10,200	36,09,700	24,000
	6,39,97,100	2,91,20,900*	4,88,700

* Includes Rs. 3,000 for machinery for production of ghee at Udgir.

Truth About Co-operatives

Mr P. K. Savant, State Minister for Agriculture, had stated on the floor of the State Legislative Assembly that the increased price of milk would benefit our agriculturists and that those paying it would not or should not mind it. This statement is repudiated and proved as incorrect by the figures of milk handled daily and published by the Government itself. Out of the total quantity of 489,000 litres handled under the milk scheme daily in the state, Bombay city accounts for 328,000 litres. It consists of 100,000 litres supplied by the stallholders of Aarey who are not agriculturist but entrepreneurs. About 80,000 to 90,000 litres are supplied by the Kaira District Milk Producers' Co-operative Union in Gujarat, while mofussil milk schemes and co-operative societies in Bombay suburban district make up the balance.

At present, milk collection co-operatives are helped and encouraged to supply milk to the Government milk centres. The Government possesses an obsessional fetishism over co-operatives, although Mr A. D. Gorwala, in his report on rural credit, had pointed out how moneylenders were found to use the co-operatives as 'front'. The Co-operative Department with

its large bureaucracy is kept busy with straightening out of all kinds of abuses and malpractices of co-operatives.

The co-operatives also possess links with the party political machine in the districts and the Government itself has bitter experience of these institutions which, theoretically, can do no wrong. During the third Plan period, the assistance given to the co-operatives comprised Rs. 0.72 lakh for purchase of machinery, Rs. 7.75 lakhs as development grants and Rs. 13.03 lakhs for purchase of motor transport. They received from the District Co-operative Banks during 1965-66 loans amounting to Rs. 44 lakhs.

The Accountant-General, Bombay, in his appropriation report has described the failure of the Karjat Milk Scheme. The Scheme had been entrusted in 1959 to the Kolaba District Co-operative Milk Producers' Federation. The Federation could not function efficiently and stopped collection of milk in June, 1964. When the Scheme was formulated, 746 litres were expected to be collected in the Karjat-Khalapur area considered as milk-producing areas near Bombay city. But, during the period of about 3½ years when it was run departmentally, the daily collection was only 407 litres in 1959-60, 445 litres in 1960-61, 603 litres in 1961-62 and 372 litres in 1962-63.

The Dairy Development Commissioner, the departmental fuhrer, had stated in January, 1965, that, due to unhealthy competition by private trade, it was difficult to persuade farmers to supply milk to the Government Milk Scheme. The Scheme incurred a loss of Rs. 1.40 lakhs up to March, 1962. The department attributed the loss to low handling and increase in the purchase price of milk.

When, in this scheme, equipment costing Rs. 74,149 was made over to the Federation, it disputed its value and no mortgage deed of the assets was executed. The Federation in 1963 misutilized the amount of Rs. 90,000 paid to it for purchase of cattle by purchasing a truck and by making payments for pending claims. Only Rs. 37,563 were recovered from the Federation by adjustment against development grants payable and Rs. 5,797 in cash.

During the third Plan period, out of the total expenditure of Rs. 542.24 lakhs incurred on various schemes of dairy deve-

PROVISION FOR EXPENDITURE IN THE BUDGET

(Rs. in lakhs)

Name of Scheme	Accounts for 1965-66	Budget Estimates for 1966-67	Budget Estimates for 1967-68
Milk Supply Scheme, Sholapur	18.35	31.91	16.25
Milk Supply Scheme, Poona	163.04	293.57	180.15
Government Milk Supply, Nagpur	32.51	44.76	32.00
Pilot Milk Scheme, Kolhapur	13.07	24.48	15.00
Pilot Milk Scheme, Nasik	8.25	21.06	22.70
Scheme of establishment of Krishna valley dairy project	38.88	111.56	23.74
Scheme of establishment of a cream - cum - collection centre, Udgir	0.65	1.73	1.00
Government Milk Supply Scheme, Khalapur, district Kolaba	0.14	2.57	11.56
Government Milk Scheme, Mahabaleshwar	0.11	1.48	1.70
Scheme for milk receiving station, Arvi, district Wardha	—	0.11	—

lopment, town milk supply schemes accounted for Rs. 324.35 lakhs. Out of this amount, Rs. 158.51 lakhs were spent on spillover works of expansion of Aarey and Worli dairies; and the second largest amount of Rs. 105.41 lakhs was spent on 13 town milk schemes including the Udgir scheme of ghee production. The budget estimates of expenditure for 1966-67 for the scheme for distribution of milk in Bombay amounted to Rs. 17,99,23,000 and those for 1967-68 amount to Rs. 17,97,72,000. The position of provisions for expenditure in the budget given in the table on the previous column should indicate the manner and scale of investment made by the Government.

Concessions and High Prices

The Government helps producers of milk with supply of pedigree calves reared at Aarey. A grant of Rs. 300 per head of cattle is given for those buying pregnant buffaloes. They are sold rice and wheat bran used as cattlefeed at controlled, i.e., concessional price. They receive also a development grant at the rate of Rs. 2.50 per 100 litres. The producers are also given financial awards for good quality milk which increases their income substantially. The following table shows the purchase and sale prices of milk by the Government:

Source of Supply	Purchase Price Rs.	Sale Price	
		Before increase Rs.	After increase Rs.
Aarey colony licence-holders and suburban co-operative societies	132.22 per 100 litre)	1.30	1.70 per litre
Other producers in Bombay	1.02 to 1.22 per litre)		
Producers in Poona, Nagpur and Sholapur cities	0.97 to 1.17 per litre	—	1.60 "
Producers in other places	0.92 to 1.12 per litre	—	1.50 "

Taking into account the financial and other assistance, facilities and concessions given to producers from whom the Government buys milk, the purchase prices are clearly on the high side and are evidently justified on the ground of 'unhealthy' competition by private trade. Despite the pious hope expressed that local supply would not be crippled, since there is no evidence that production has increased substantially which would of course bring the price down, the citizens of several towns in western Maharashtra are found complaining about not only supply but also, which is more important to their purse, of increased price.

Mr P. K. Savant, the irrepressible Minister for Agriculture, had also asserted on the floor of the State Legislative Assembly that the increased price of milk sold under the Government scheme would be lower than the market price. In Bombay city, the price of milk, in the wholesale market fluctuates

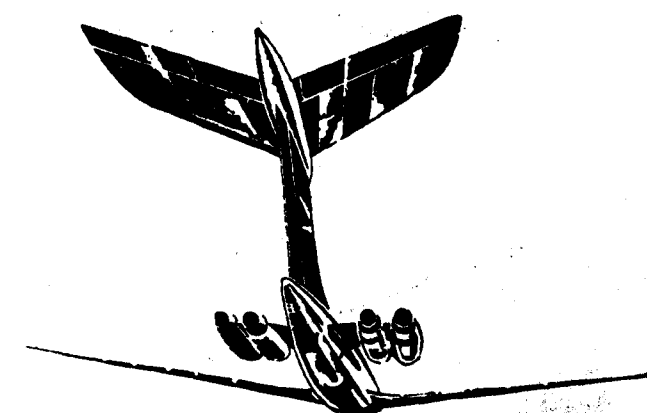
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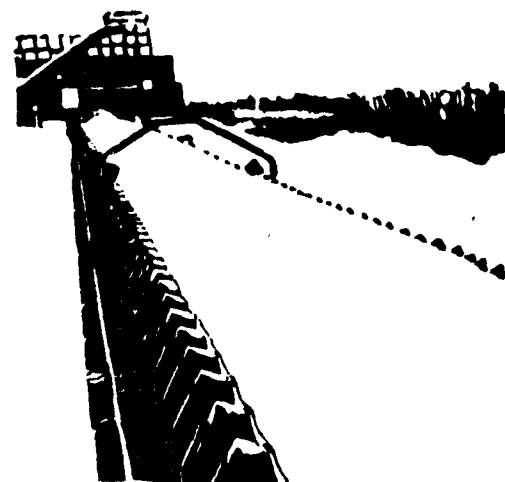
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widely every day as it is based on conditions of supply and demand. There is also the fixed annual price of home delivery of milk which, in several cases, is Rs. 1.30, as against Rs. 1.70 charged to the milk card-holders by Mr Savant. Also private dairies, unlike the Government, do not interrupt and reduce supply during the dry season or substitute toned milk for natural or whole milk. Pasteurization confers no distinct or definable virtue on the consumer beyond that of what the British psychologist MacDougall described as white magic practised by the doctor who washes his hands in antiseptic lotion every minute and succumbs to the red colour of mercurochrome. The Aarey dairy is claimed to possess machinery that can preserve milk intact as long as eight months. That is probably why it goes bad in the refrigerator on the second day! Ours is a tropical country. That is why people prefer fresh milk, fish and other articles of food. That is why the milkman brings the cow or buffalo to your door. All milk drunk and used is, as a rule, boiled which is as good as pasteurization and certainly less expensive.

Nutrition & Cost of Living

A survey of energizing components of the diet of the population of Maharashtra State, conducted by the state Bureau of Economics and Statistics on the basis of data of expenditure on food collected by the National Sample Survey, including the state sample during 1958-59, and published in 1964 had revealed that 68 per cent of the state's population was undernourished, i.e., gets less than 2,400 calories necessary per head per day and that nearly 85 per cent of the population cannot consume milk in adequate quantity mainly because of its prohibitive price. The increase in price sanctioned by the Government for milk distributed under its scheme definitely worsens the situation.

According to the figures of the state sample of the National Sample Survey for 1964-65, per head monthly expenditure on different items of consumption amounted in urban areas to Rs. 41.10. Out of this total, food items amounted to Rs. 25.34 or 61.65 per cent of the total. In the food group, cereals amounted to Rs. 7.39 and the second important item was milk and milk products amounting to Rs. 3.75 or 9.13 per cent of the food group.

The increase in the price of milk produces wide repercussions of an undesirable and disastrous character. Although, on some days since Mr Savant announced his scheme of price increase, the daily prices of milk sold in milk-shops in Bombay city were found to be lower than Mr Savant's price, the increase must encourage private trade to push up prices. Hotels, restaurants and catering establishments have justified further increase in the price of milk and other articles of food and they have effected increases twice in recent months of 25 per cent each time, despite the fact that they buy their cereals from the Government at subsidized price (Mr Savant till recently held the Civil Supplies portfolio and failed to curb excessive increase in the poor man's bread and articles of food by threatening bakers and other types of 'trade'). The increase in the price of milk is cruel, in so far as it involves children, nursing women, infirm and sick persons who must find it difficult to buy and drink milk. It also involves the general cost of living with the consequent demand for higher wages and scales of dearness allowance.

The Government of Bombay, in its publication 'Third Five-Year Plan', brought out in November, 1961, had stated that the per head consumption of milk in the state at that time was estimated at about 2.4 ounces per day as against the all-India average of about five ounces. The nutritional standard places the consumption at 10 ounces per day. The Government had

thus been conscious of the basic shortage in production of milk in the state and should have planned its milk scheme with the objective of improving production with a cost structure that could enable the population to have access to this highly protective food. Also, the Government should have treated it essentially as a nutritional problem.

The fact that it had to increase the price of milk under its milk scheme amounted to an admission of the total failure of the scheme so far as public welfare is concerned. The position of the governmental milk scheme as reviewed in this article, should show that the scheme has proved a failure. The inclusion of distribution of milk in state trading would have been justified if it had produced good results. It has failed to take a realistic view of the position of our agriculturists and our agricultural economy. While in the advanced countries, a farm contains a dairy unit, in Maharashtra dairying is a separate occupation of the milkmen.

A realistic approach towards the problem of milk production and its price which is crucial is called for. The only way production of milk could be improved is through state milk farms that could produce cheap and plentiful milk. Buying milk from any type of outside producers creates a vulnerability for the Government due to various pressures which it is not in a position to resist. Its milk scheme has created several vested interests and they have been continuously trying to exploit this vulnerability. If, instead, the Government maintains its farms unhindered production could retrieve the shortage of milk.

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Our Parliamentary Correspondent

New Delhi: WEDNESDAY.

THE LOK Sabha completed its general discussion on the Union Budget this week. Although the increases proposed by Mr Morarji Desai in the excise levies on various commodities came in for severe criticism not only from the opposition benches but also at the hands of many a Congress member, the Deputy Prime Minister and Minister for Finance refused to concede any concession in the enhanced duties on tea, coffee, cigarettes and petroleum products. In regard to footwear, he announced that he was considering grant of exemption from the duty to footwear up to a certain price. As the excise duty had been proposed only on machine-made footwear, he said, he saw no reason why prices of hand-made footwear, which constituted nearly 85 per cent of the country's output, should go up.

Mr Desai also indicated the possibility of granting some relief in the increased burden of excise duties on aluminium and rayon and synthetic fibres and yarns. The criticism offered in the House as well as the representations made by the interests concerned in respect of the levies on these items, he stated, were being examined by his Ministry. If this examination showed that the increases proposed were too high, he would consider adjustments. It appears that some portions of the increases in the duties on these two categories of goods will have to be borne by the industry, part of the enhanced burden may be allowed to be passed on to the consumer and part of the burden may be removed by scaling down the duties. In regard to the excise duty on aluminium, Mr Desai stressed that any adjustment in this would be made in such a way that the prices of utensils did not go up.

The modifications in the budget proposals, Mr Desai said, would be announced at the time of the discussion on the Finance Bill. By that time he hoped to complete the reconsideration of his proposals.

Curbing Home Consumption

Defending the enhanced levies on tea and coffee, the Finance Minister pointed out that the aim here was to curb domestic consumption with a view to releasing increased quantities of the two beverages for export. No change in his proposals in respect of both the commodities, therefore, was warranted. Mr Desai also did not feel that there was any case for scaling down the increased excise levies on petroleum products. Bus fares and goods freight, he observed, had not gone up as a result of the increases in duties on petrol and diesel oil.

As regards the deduction of income-tax (at the rate of 22 per cent) at source on interest accruals, professional fees and commissions, the Finance Minister pointed out that this step had been proposed for stopping tax evasion and checking growth of unaccounted money. Hence, no major concession was called for in respect of this proposal also. He, however, assured that he would look into the matter with a view to avoiding undue hardships that might be caused by it.

Mr Desai was quite harsh on those critics of his taxation proposals who had argued that instead of increasing the burden of excise duties, the Finance Minister ought to have effected economies, particularly in defence and administrative expenditure. He agreed with the critics that all unnecessary expenditure should be avoided but declared that defence expenditure could not be reduced arbitrarily because of the danger to our frontiers from China and Pakistan. He revealed that

whatever economy was possible in defence expenditure at this stage had already been effected as the budget had provided for as much as Rs. 150 crores less expenditure on this count than the earlier estimates. Economy in defence expenditure, the Finance Minister pointed out, could not be made at the expense of the efficiency of our defence forces. In regard to economies in administrative expenditure, Mr Desai stated that whatever economies could be effected in this field would have a bearing on his next year's budget.

The Finance Minister also defended acceptance of foreign loans but added firmly that he would not accept any strings with these loans. If acceptance of foreign loans meant having policy dictations from outside or if any pressures were applied, he assured the House that the Government would not accept them. Talking about prices, Mr Desai said that his efforts at balancing the budget and avoiding deficit financing should help in containing the price spiral.

Mr Desai revealed that he had not increased the duty on foreign liquor as he thought that any further increase in it would result in diminishing returns. The same, he added, was the case with taxes on luxuries.

Inflationary Potential

During the debate on the budget, a good deal of concern was voiced by members belonging to both the opposition and the Congress party over the inflationary potential of some of the proposals of the Finance Minister, especially those relating to tea, coffee, footwear and diesel oil. It was suggested that the increases in the duties on these commodities would adversely affect the cost of living of the common man. The need to increase agricultural production was emphasised by all sections of the House. Several suggestions were put forth to curb rise in prices of foodgrains. These included provision of incentives to agriculturists, making available of essential farm inputs, prevention of wastage of grains through construction of rat-proof godowns, etc. On the question of trading in foodgrains, the opinion, however, differed widely. While the members with leftist leanings called for abolition of private trading in foodgrains, the rightist sections suggested abolition of food zones so that the private trade could play its part in holding the rise in foodgrain prices.

Some members suggested the abolition of privy purses of the former princes in the interest of reducing government expenditure. Demonetization of the currency and nationalisation of banks and general insurance were urged by some members for reducing unaccounted money. Mr Shantilal Shah (Cong.) suggested that black money may be allowed to be invested in public sector undertakings which gave very low returns. Mr K. Manoharan (DMK) pleaded for amicable State-Centre relationship. The growing indiscipline among the labour force was referred to by many a member. Gheraos came in for severe criticism. A Congress member, Mr Randhir Singh urged the Government to make the atom bomb at any cost. He even suggested imposition of special tax for this purpose. The need to revive the capital market was stressed by many. A good deal of criticism was also voiced on the methods of planning adopted by the Government. It was generally felt that development of agriculture should continue to receive top priority in planning.

Intervening in the debate, the Minister for Petroleum and Chemicals, Mr Asoka Mehta, spoke of what he called "the

inescapable logic of development." He stressed that savings had to be increased so that investment in the public sector could be raised. The target for savings that he laid down for the country was 20 per cent of the national income in the next 10 years; since the present rate was 10 per cent, savings, he said, had to be increased annually by one per cent.

The Minister of State for Finance, Mr K. C. Pant, also intervened in this debate. He ruled out demonetization to uncover black money. Repudiating the charge that the public sector undertakings were working at a loss, he pointed out that of the 40 state enterprises which were in operation at present, only eight had shown a net loss during 1965-66. The return of 3.6 per cent on capital employed by these undertakings, he also contended, was not low, considering the fact that many of them had started production only recently. Mr Pant, however, agreed that concerted efforts needed to be made to improve the working of the public sector enterprises. He welcomed the suggestion by Mr S. A. Dange (CPI-Right) that the public sector executives should be asked to work on a salary-cum-commission basis. Mr Pant did not feel that indirect taxes which the Finance Minister had levied this year would raise prices further. Consumer resistance, he felt, would act as a brake on prices.

The Rajya Sabha had its say on the Railway Budget this week. The increases proposed by the Railway Minister, Mr C. M. Poonacha, in passenger fares and freight rates came in for sharp criticism from both the treasury and the opposition benches. The concessions announced by Mr Poonacha in the Lok Sabha last week were termed as minor. The need to take concerted measures for checking pilferage of railway property and ticketless travel was stressed by many a member. There was a general demand for provision of greater amenities for passengers. The need for providing improved railway facilities in several backward areas of the country was also stressed. Mr H. C. Mathur (Cong.) expressed the view that the Railway Administration was suffering from over-capitalisation, over-staffing and lack of proper planning. He also charged the Railway Administration with indulging in wasteful expenditure. Parliament, he said, should give it a shock treatment and see that it is thoroughly overhauled. The two other important points made in this debate were: (i) the railways should start trains on the main lines from the intermediate stations for the benefit of passengers who would otherwise find it difficult to travel on long distance trains from such stations; (ii) a high-level committee should be constituted to make the development of railways in tune with the present-day needs of the country's economy.

Increases Defended

Some Congress members, of course, defended the increase in fares and freight rates proposed by the Railway Minister on the ground that in the situation he was placed, Mr Poonacha could not provide a better budget. The present economic crisis, it was argued, was bound to affect the railways revenues.

In a statement detailing the effects of the Arab-Israeli conflict, the Minister for Food and Agriculture, Mr Jagjivan Ranu, told the two Houses this week that allotments of foodgrains to states for this month would have to be reduced because of the likely delay of one to four weeks in the arrival of a sizeable quantity of foodgrains from abroad. All the Chief Ministers, he added, had been informed about this. Only grains coming from the Pacific coast of the USA and Canada and from Australia and the Far East would not be affected by the present crisis, the Minister said.

The Rajya Sabha adopted this week the Passport Bill which aimed at regulating the issue of passports to Indians desiring to visit abroad. The need to enact this legislation arose because of a recent judgment of the Supreme Court which had said that no citizen should be denied a passport except under procedures prescribed by law. The right to travel, it had been ruled, was a fundamental one. Defending

the bill, the Minister for External Affairs, Mr M. C. Chagla, agreed that every citizen should have the right to get a passport, but some reasonable restrictions on this right had to be there in public interest and in the interest of the country's security. Mr Chagla assured the House that his Ministry would not discriminate between one party and another and between individuals in issuing passports. He did not agree with the demand of the opposition that appeals against rejection of applications for passports should be heard by a judicial tribunal; such a provision, he observed, would involve delays. The appellate authority proposed in the bill, Mr Chagla felt, could expeditiously deal with these appeals. He, however, assured the members that this appellate authority would be a person with some legal qualifications and experience. An official amendment to the bill seeking to introduce "moral turpitude" as a reason for refusing grant of passport was accepted by the House.

A bill to abolish the Companies Tribunal was introduced in the Rajya Sabha this week. The bill provides for vesting in the High Courts the powers hitherto enjoyed by the Companies Tribunal.

Question Hour

Companies Tribunal: The Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, informed the Lok Sabha on June 9 that the Government proposed to abolish the Companies Tribunal and make the consequential amendments to the Companies Act. The Tribunal, he said, had not been able to give its findings quickly during the first three years of its existence as it had to adopt meticulous and time-consuming procedures.

Cotton Textiles: Mr Ahmed told the Rajya Sabha on June 8 that the Government had approved in principle partial delicensing of the cotton textile industry, but the decision had been kept in abeyance in view of the present cotton situation in the country. The partial delicensing of the industry, the Minister added, meant that no industrial licence would be necessary for (i) the establishment of a new spinning mill with a capacity not exceeding 25,000 spindles, (ii) expansion of an existing spinning mill to 25,000 spindles, and (iii) setting up of a new processing unit or for the expansion of the existing units. Under the new policy, it would be permissible for any cotton textile mill to utilize for spinning or processing any raw material which was indigenously available.

Food Subsidy: Mr Shinde informed the Lok Sabha on June 6 that gradual withdrawal of subsidy on wheat and other foodgrains was among the main recommendations of the Agricultural Prices Commission in its report on wheat policy for the 1967-68 season. The Commission had also recommended that the "second order procurement" of wheat should be undertaken on behalf of the Government either through pre-emptive purchases or open market operations. The Commission had further suggested that the release of wheat from Central stocks should be reduced by 25 per cent immediately. As regards procurement, the Commission's recommendation was that for the 1967-68 season, a producer levy on ownership of holdings of 10 acres and above should be enforced to the extent of 10 per cent of the wheat output of such holdings. The total quantity of wheat to be procured should be at least one million tonnes, whatever might be the system or systems of procurement. The Commission had suggested a price of Rs. 57.50 per quintal for the procurement of red wheat, Rs. 61.50 for common white wheat and Rs. 65.50 for superior farm varieties in the case of Punjab, Haryana, Himachal Pradesh, Rajasthan, Bihar and Uttar Pradesh. In other states, the price should be Rs. 64 for the red variety, Rs. 69 for the common wheat and Rs. 74 for the superior farm varieties. For the high-yielding varieties of wheat, a bonus of Rs 2.50 per quintal over and above the corresponding producer-levy prices had been suggested.

WINDOW ON THE WORLD

Causes of Unemployment in the USA

JOSSLEYN HENNESSY

INADEQUATE DEMAND?

LONDON:

BETWEEN 1952 and 1966, the USA's Gross National Product (GNP) at constant prices rose from \$395,100 million to \$650,000 million and national income per head from \$1,650 to \$2,850. Despite these dazzling gains, it is notorious that until 1962 unemployment persisted around six per cent of the labour force. Thereafter it began to fall until today it is just below 4 per cent. These are official figures but academic authorities estimate the real totals to be between 1.5 and 2 per cent higher throughout. Economists continue to argue fiercely over the causes of the persistence of these comparatively high percentages.

Some authorities interpret the facts to mean that the basic cause was failure to maintain adequate demand on Keynesian lines, others that technological change has created structural unemployment.

The proponents of the inadequate demand theory, while conceding that automation disrupts demand for existing skills, point out that there is nothing new in changes in demand for particular skills which is characteristic of progress since the industrial revolution. Each advance in the substitution of machines for hand work and of more complicated for simpler machines has, in the past, not caused stagnation but created more wealth and additional jobs. The question is, however, whether the rate of technological change has outstripped, for the time being, the capacity of the mechanism of the labour market to redeploy displaced workers.

Social Policies

The "inadequate demand" school argues that shifts in the structure of unemployment do not explain the high overall rates, and points out that in good and bad times alike, certain vulnerable groups have always experienced heavy unemployment, for which the market is not to blame. The remedy, in its view, lies in social policies to reduce their persistent disadvantages in the market.

The actions of the unions add to (1) the difficulties of the vulnerable groups and (2) the high level of unemployment. When sales are stagnant or when a new technology is introduced, the unions insist that the solution is not to dismiss workers but to refrain from engaging replacements as workers retire in the normal way. But this "wasting out" shifts the burden on to new entrants who find doors closed to them and who largely consist of the vulnerable groups cited below. Meanwhile the older workers get the benefits of increased productivity by monopolising wages.

Who are the particularly vulnerable groups? Long existing discrimination against Negroes means that they include unduly large numbers of ill-educated and unskilled. Others are the young. About 7,500,000 of those entering the labour force in the 1960's will have failed to complete their high school courses, while two thirds now coming on the market lack either vocational or college training.

These groups are, moreover, vulnerable not solely because they lack education but because the proper influence of market supply and demand on the level of wages paid to those with the least skills has been steadily distorted by the concept of "social justice." Whenever a wage freeze is announced, an exception is usually made in favour of the lowest paid. But if a "socially just" wage limits the numbers of those employed, is it "socially

just"? The more expensive it becomes to employ the least educated or skilled, the less inducement have employers to employ them. Low quality labour has become overvalued. During 1953-63, median average increases in gross hourly earnings of male unskilled industrial workers and of males in skilled maintenance trades in manufacturing in seventeen US centres rose identically by 4.2 per cent per annum in 1953-58. Other unskilled advanced 4.7 per cent yearly and skilled 4.3 per cent. Between 1958-63, their respective rates of increase were 3.5 and 3.4 per cent per annum. Thus, in these years, the relative difference between top skilled and unskilled industrial wages remained unchanged, despite persistently higher relative rates of employment for unskilled workers. The conclusion is that the differential between top and lowest skills is now too narrow. The productivity of low quality labour has not risen in line with that of high quality, yet the price of low quality services has been rising as fast, or faster, relatively than the high quality. This is an incentive to employers to substitute high quality workers and capital equipment wherever possible. Low quality labour therefore inevitably suffers the highest relative rates of unemployment.

Economic Solution

The economic solution is to make unskilled workers more attractive to engage by (1) widening wage differentials and (2) up-grading their productivity. It would not be necessary to reduce their present wages. Far more use could be made of learners', beginners', juveniles' and handicapped workers' rates to open doors to those seeking jobs. Next, the speed of advance, and extension of coverage, of the national minimum wage could be slowed to protect the jobs of those already employed. Productivity could be raised by improved vocational training and by modernising traditional apprenticeship training, in which the unions enforce unnecessarily long apprenticeships and conditions in order to limit the number of the qualified and so keep wages higher than the true economic rate.

It is argued that the wage-price factor has, besides hitting the vulnerable groups, also raised total unemployment. Between 1953-63, total employment of production or non-supervisory workers in manufacturing, mining, construction and railways—all centres of union power in the USA—fell from 18.3 to 16.3 million. Blue collar workers accounted for about half of total unemployment throughout.

This unemployment is usually attributed to automation and to the shift from goods to services (as if this shift were an extraneous force, independent of the cost of labour). The "inadequate demand" school grants that competition by itself must create some technological change and displacement and that rising incomes tend to favour services rather than manufacturing, but they insist that the economic law of substitution of low quality by high quality workers, of goods by services and of domestic products by imports, should not be ignored, because the extent of such displacements depends directly on the wage-price relationships.

The argument concludes by drawing attention to the deficiency in demand from which the USA suffered for some six years. This gap, it is claimed, is the basic reason for the high overall rates of unemployment. In 1963, the deficiency in demand was estimated at about \$35,000 million. The causes included the low rate of capital formation after 1957, which cut off a strong multiplier effect; very high rates of profits tax; rising interest rates following monetary restrictions necessitated by the payments deficit; the cost-squeeze against profits, etc.

The "inadequate demand" school has at least one outstand-

ing forecast in favour of its argument. As far back as 1964, it said that closure of the gap at current prices would bring about a four per cent unemployment rate, if thereafter real output continued to rise by 3.5 per cent per annum and if productivity continued to rise on trend. The US Government launched a succession of cuts in personal and corporate taxes in 1964, and unemployment today is down to 3.9 per cent. Unemployment in the vulnerable groups has fallen but tax cuts alone cannot, of course, eliminate the structural causes of their difficulties. To cure these, effective policies to overcome racial discrimination, to improve education and vocational training and retraining and relocation are needed. The US Government's expansionary policies, while reducing unemployment, have, of course, led to the phenomena only too familiar in Europe: inflationary price and wage rises. The "inadequate demand" school argues that unless the wage structure is rationalised and subjected to the processes of the market, full employment without inflation is impossible. Their case here coincides with that of Professor F.W. Paish which I outlined here on April 23.

II

IS U.S. UNEMPLOYMENT STRUCTURAL?

The proponents of the structural explanation of the USA's postwar unemployment argue that excessive unemployment has been caused by the interaction between new technology and the changing consumption patterns of a mature mass-consumption society.

The structuralists begin with agriculture, in which productivity has soared from rising mechanisation, improved management, synthetic fertilisers, etc. By 1947, most Americans had as much food and fibre products as they could consume. Increased demand for output could only come from increased population. The decrease in farm workers from one-third of the labour force to six per cent in 1966 meant that hundreds of thousands of workers, low skilled by urban standards, had poured into the industrial labour market to compete with the least skilled and under-educated for the lowest paid jobs.

In manufacturing, since output grew rapidly in 1946-53 at a faster pace than productivity, more workers were wanted in those years. Most of this growth in output was due to stocking up, making good the shortages of the prewar depression and of war time. This process was completed by about 1957. In 1920, the USA had one motor for every 13 persons, by 1961 one to every 2.9 persons. New technologies, including automation, boosted productivity.

Broadly speaking, automation does not lower the totals of those already in jobs but changes the composition of employment. As the US economy has grown in size and complexity, paper work has risen. The stock of cars, washing machines, TV sets and myriads of other appliances has multiplied. Medical knowledge has advanced. More people take out hospital insurance. The postwar rise in the birth rate has crowded the schools. All this has meant that while the need for blue collar workers to produce goods has fallen, the demand for white collar workers for maintenance, supervision and for services of all kinds has multiplied.

Outstanding has been the growth of information processing by ever more sophisticated electronic computers, tens of thousands of which are in use by insurance companies, banks, business houses and government departments. Although the saving of labour over previous techniques is very large indeed, the growth of paper work still outruns the quickening pace of technological improvement. As in the factories, the new technologies have affected the composition of employment rather than totals. This is not, however, always apparent when only a particular clerical operation is considered. Total employ-

ment on the operation may be greatly reduced without much net change in the skill required, but the reduction in the numbers of low-skilled clerical jobs in banks, etc., obviously increases the relative importance of the higher-skilled classifications, such as executives. And the needs of equipment manufacturers for systems analysis, design and installation work are great.

Although the greatest displacement of workers in industry and in the services has been among the low-skilled generally, the low-skilled clerical worker has a higher educational attainment than the low-skilled factory or farm worker. Hence, broadly speaking, the impact of structural displacement fell at first on those at the bottom of the skill and educational ladder and has begun to reach into the middle levels. On the other hand, the higher up the ladder you go, the more has structural change intensified the demand for workers. In 1957, while the general rate of unemployment was six per cent, among college graduates it was only 0.6 per cent indicating acute shortage. Although between 1950 and 1962, the US educational system enabled the educational composition of the labour force to show a large reduction in poorly educated workers and a large increase in college graduates, new high-skilled jobs were being created at a rate with which the colleges could only at first about keep pace.

The structural theorists refute in detail the statistics of the inadequate demand school which seeks to show that if demand had been maintained the processes of the market could have absorbed all those who lost their jobs through technological advance. The structuralists (a) establish the inadequacy of certain official statistics and (b) show that they have been erroneously analysed. For example, the official classification "professional, technical, and kindred workers" is frequently regarded as synonymous with graduates, but the structuralists show that while it includes college presidents, surgeons and nuclear physicists, it also includes athletes, faith healers, musicians, actors and many others, of whom 43 per cent lacked degrees. The structuralists use other statistical analyses to conclude that data on unemployment by educational levels reveal persisting structural unemployment.

The Basic Question

The structuralists then carry the war into the "inadequate demand" camp by pointing out that not one but two kinds of measures are needed to remedy unemployment: (1) bold fiscal policies to increase aggregate demand and (2) labour market measures like retraining displaced workers to qualify for the jobs that will be created by the growth of demand. The structuralists go on to insist, however, that the basic question is: how much of each of these two measures?

In practice, the emphasis in recent US policy has been on massive fiscal action compared with merely token manpower policies. When taxes were cut by \$12,000 million per annum, the USA was providing training at the rate of only two per cent of unemployed per annum and a disproportionately large number of these re-trainees were in the middle educational levels likely to be most benefited by the tax cuts.

The structuralists demonstrate that in 1964 the maximum increase possible in employment for college graduates was less than one per cent and that the minimum increase in employment among the bottom third of the labour force that would be compatible with even a four per cent average rate of unemployment would have to have been six to eight times as large.

The structuralists say that the advocates of the tax cut as the sure road to full employment did not reveal how millions of jobs needed for low-skilled and under-educated workers could be created—a shrewd hit. Excessive faith in boosting demand has, say the structuralists, meant that retraining schemes

have been starved. The US Bureau of Employment Security suffers from acute shortage of qualified employment advisers but it estimated in 1964 that, under training programmes already authorised, it would need double the number of advisers. Recent proposals for strengthening the basic educational system to reduce those who drop out before completing the course would require double the existing numbers of teachers—who are already in short supply.

The structuralists argue that the mere passing of laws and allocation of money does not make a manpower policy effective, and that the USA risks repeating the error of some newly independent nations who gave top priority to elementary schools for the whole population when they did not have the qualified teachers to staff so vast an undertaking.

They conclude that the basic points essential for a manpower policy in line with the needs of the USA are: (1) salvage programmes to teach basic skills to those already on the displacement scrap heap; (2) continuing education for those at all levels whose training is threatened with obsolescence; (3) long term programmes to strengthen the effectiveness and attractions of education for the young. Each of these is a form of investment in human beings. In industry, investment cannot be boosted without great increases in the production of machine tools. The essential "tools" for investment in human beings are fully trained human beings.

III

VALID POINTS IN BOTH VIEWS

I have set forth these two viewpoints in some detail because they illustrate the immense difficulties of economic analysis that confront those responsible for taking political decisions. That this is a platitude does not make it any the less true. It seems to me that both the inadequate demanders and the structuralists make valid points and that the two schools are not perhaps so contradictory as may first appear.

That the over-valuation of lower paid jobs grows apace in all developed countries is a fact. If the market decides that dustmen should be paid more than bus drivers, the supply of dustmen is obviously shorter than that of bus drivers. If a new situation arises in which more drivers are required, their wages will rise, and you will get more drivers. But if you level up the wages of drivers with dustmen to correct a "social injustice," nobody knows any longer how many drivers are really needed and if you treat all wages in all skills, crafts, and professions as subject to social justice, you promote universal leap-frogging demands for higher wages, unrelated to productivity, which must prevent the standard of living from rising as fast as it otherwise could. Feather-bedding and traditional apprenticeship restrictions obviously reduce job opportunities for the young entering the market.

On the other hand, it is hard to accept that this has been more than one among several factors causing high US unemployment. Obviously, technological displacement is important and equally obviously simple reliance on boosting demand will not only not cure technological displacement but, if persisted in, will lead to over-full employment, bolster the existing structure of production and demand, and so reduce incentives to further technological advance and the higher productivity that multiplies wealth.

Managers tend to exaggerate shortages of skilled workers. In West Germany, displaced miners are producing cars without any retraining. The percentage of skilled workers in the metal industries fell from 50 per cent in 1941 to 41 per cent in 1963, and that workers doing skilled work often earn less than those working under incentive schemes suggests that there is a surplus of skilled workers, because otherwise firms could not afford the discrepancies between the wages of skilled, semi-skilled and unskilled workers.

Education and training are vitally important factors but

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their impact surely depends on the extent of unemployment at any given moment. With three per cent unemployed, retraining schemes can help substantially by increasing labour mobility. Above three per cent, there seems a strong case for raising aggregate demand. It is significant that the influence of the "inadequate demand" school reduced unemployment to 3.9 per cent in the USA.

I would hope that the influence of the structuralists, with their demand for long-term educational and training schemes, would now prevail in order (1) to prevent the USA from falling into the alternative European Stop-Go of over-full employment

De Gaulle's Delaying Tactics

E. B. BROOK

VIENNA:

EUROPE IS not yet beginning to speculate on what changes in trade patterns are to be expected when Britain enters the Common Market because almost no one on the continent feels any certainty that it will ever do so.

In certain areas, especially in Scandinavia and Holland, there is a good deal of what in former days would have been called wishful thinking. These hopes, some times strong enough to be called expectations, undoubtedly arise partly because British membership of the Market would imply the likelihood of Danish and Norwegian membership also, partly because, with the experience of EFTA, Scandinavia has become accustomed to Britain as an active trading partner on the continent. But Scandinavia, unlike Britain, is part of the main European land mass; its own Nordic League is a Europe-regarding institution and as national industry as well as national commerce expand to other European countries, the Scandinavian countries are becoming more actively European than they were ever before.

Denmark's policies are, almost of necessity, closely aligned to those of West Germany, even though Danish agriculture whose products are sold largely to the neighbouring West Germany now makes up a smaller percentage of the country's economy and Denmark's growing industries more of it. Swedish commerce is considerably concerned with the French market and French industrial sales and commerce are becoming increasingly active in Scandinavia. The big French business group, the Patronat, is more interested in the Scandinavian than in the British market. This northern EFTA group is thus, for a variety of reasons, becoming more Common Market conscious and there is no discernible wish there to see its pattern or its policies radically disturbed.

The Market, also, has increased its prestige as a result of the Kennedy Round's success. It has belied those, possibly in a majority, who, even three months ago, confidently predicted on both sides of the Atlantic that the Round would fail because of Market intransigence. The Market (and particularly France) has earned much credit for good international behaviour. Among the Six, the French are now able to claim they are not the obstructionists people said they were. Paris could undoubtedly have wrecked or damaged the Round but instead, while working hard to defend French and Market interests, it has worked also co-operatively with the other five Market members to ensure that the tariff deal succeeded.

This fair wind for France was perhaps deliberately worked for, at a particularly useful time for Paris and, perhaps also at an unfortunate time for London. For France attended the summit meeting of the Six in Rome on May 30, 1967, with its prestige and authority enhanced by the popularity of being an unexpectedly good fellow. This prestige was used in Rome to check the speed with which Britain's application to the Market should be proceeded with. France's aim is to

and (2) ensure that the USA retains the stimulus of adjusting to realistic supply and demand situations which promote continuing technological advance.

Sources and Acknowledgements: Professor George Hildebrand, of Cornell University, provides a detailed exposition, of the "inadequacy demand" view, and Professor Charles Killingworth of Michigan University the "structural" view in 'Employment Problems of Automation' (Macmillan, 1966), a report of the proceedings of a conference held by the International Institute for Labour Studies in Geneva. See also the OECD's Annual Surveys of the USA which largely support the inadequate demand view.

put off negotiations indefinitely or to let them drag on indefinitely. If, as Mr Wilson has threatened, this compels Britain to give up finally any effort to enter the Market and to seek some wider but as yet undefined grouping, no one will be better pleased than the French. Briefly, the French thesis is that Britain is still not in a condition to join the Market and that the British, while not excluded, should wait for the Market (which means, in effect, Paris) to invite them in instead of pressing a case to be admitted.

The West Germans, while continuing to be adept at expressing face-saving misgivings, are expected to support the French position; the Italians, Belgians and Luxemburgers are also expected to be negative to Britain. There is even doubt in Paris and Rome, and probably elsewhere on the continent, whether the British Government is really sincere in hoping its application will be accepted. Mr Wilson has a reputation as an astute politician, possibly in excess of reality. There is no little suspicion here that the Wilson Government expects a rebuff and plans to use its application and the anticipated rebuff to rebut British Conservative criticism that the socialist government had made no move to enter Europe.

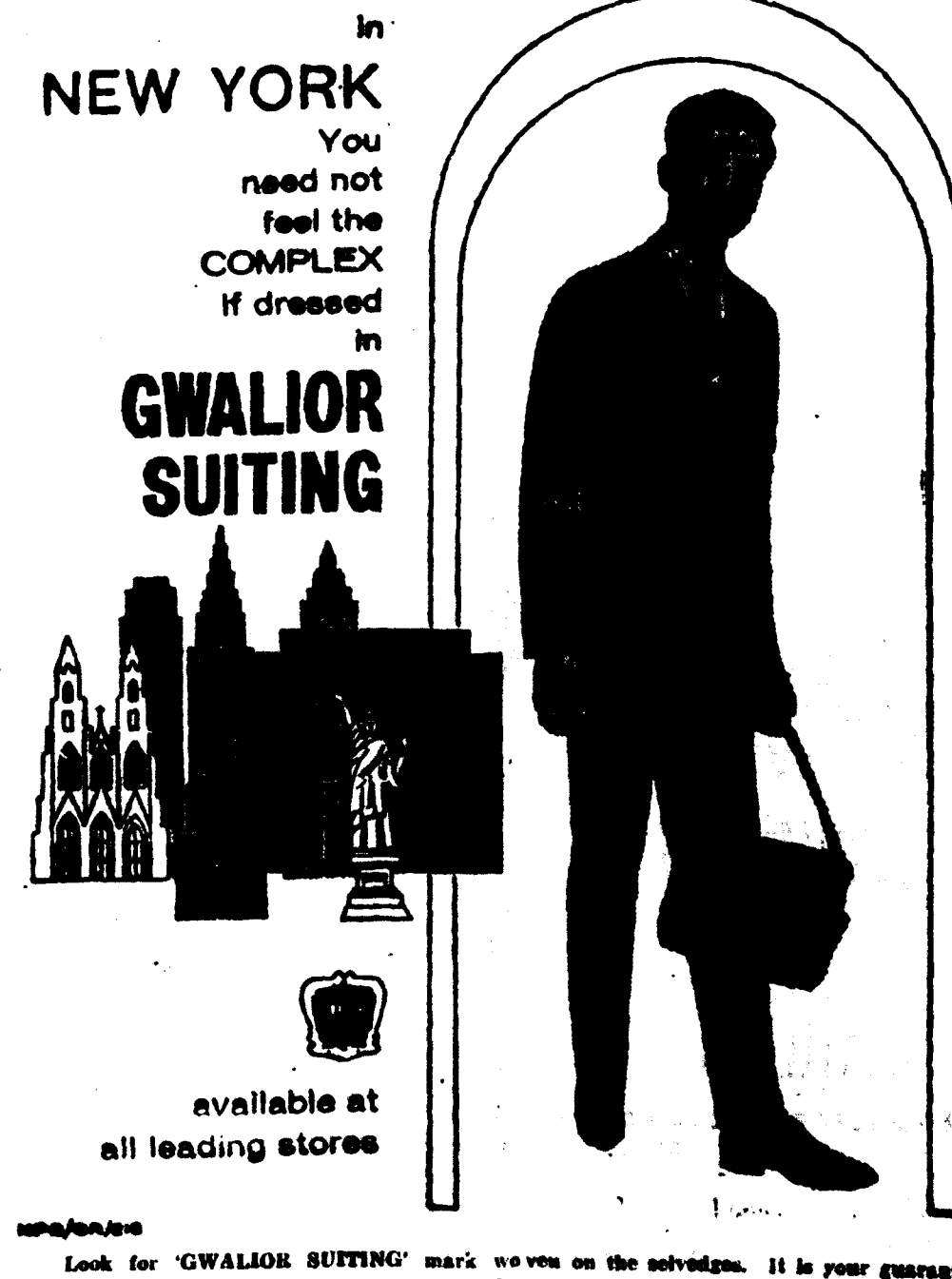
Key to the Market

Certainly, European observers say, the British have made almost no approach to what they regard as the key to the Market—France and its policies. The British support the American view over international monetary reform against the French view. The British have firmly backed the USA over the Vietnam war which is detested by the French and most other European governments. Britain has its closest links with Washington which is increasingly regarded as neglecting Europe. Finally, Britain fought so tenaciously for advantages in the Kennedy Round bargaining as to rouse suspicion that it neither expected nor wished for the protection of the Common Market's tariff walls.

Encouraged by their successes with the West Germans in getting rid of Professor Hallstein from the Common Market Commission, the French are satisfied that for a long time to come they will, despite probable occasional squabbles, enjoy the support and friendship of the West Germans. The eclipse of Erhard, the performance to date of Kiessinger and the steadily growing influence in Bonn politics of the pro-Gaullist Franz Josef Strauss reassure Paris that Bonn will remain co-operative. If de Gaulle's coming tour in Poland and Rumania achieves, as expected, closer ties with that part of nearer east Europe, the French President will have no warmer supporter than the West German Government.

That France is retaining its troops in Germany though under its own instead of under NATO command, whereas both Britain and the USA are reducing their forces, is a fact that keeps Paris-Bonn relations in such good trim that they are unlikely to be shaken by the luck or misfortune attending Britain's application.

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Trade Winds

RICE PURCHASES BY F.C.I.

THE FOOD Corporation's total purchases of rice during the crop season commencing November, 1966, have already exceeded one million tonnes mark. Of this one million tonnes of rice purchased, the quantity procured in Andhra Pradesh alone totals over 423,000 tonnes. While in Madras State the Corporation has been able to purchase over 158,000 tonnes, in Punjab, Haryana and Orissa where the state governments are actively engaged in purchasing rice, the purchases total 218,000 tonnes. Nearly 3,533 tonnes of broken rice from last year's crop for supply to Kerala, and 3,510 tonnes from this year's crop for supply to Bihar have also been purchased by the Food Corporation directly from the traders in Punjab. At the request of the Bihar Government, the Corporation recently arranged to procure and supply as an emergency measure, over 30,000 tonnes of paddy seed. In addition to rice purchases, the Corporation has been actively engaged in procuring other foodgrains. Nearly 73,000 tonnes of wheat have been procured during the season from Madhya Pradesh. During the same period, purchases of millets, namely jowar, maize, bajra and ragi exceeded 121,000 tonnes, just in two months. Over 38,000 tonnes of gram and gramdal and other pulses have also been procured for supply to various states and building up buffer stocks. In Gujarat over 35,000 tonnes of groundnut oil have been purchased during the season on behalf of the state government. Barley purchases in Punjab and Rajasthan total over 14,500 tonnes.

CESS ON TEA

A cess of four paise per kilogram has been levied on all teas produced in the country from June 9, 1967. This is in pursuance of the Tea (Amendment) Bill 1967 introduced in the Lok Sabha recently, together with the declaration under the Provisional Collection of Taxes Act 1931 whereby provisions of clauses 2, 3 and 4 of the Bill have immediate effect. At present there is an export cess of 4.4 paise per kilogram on all teas exported. This is used for meeting the expenses of the working of the Tea Board. The Tea Finance Committee has recommended that in view of the increased activity of the Tea Board, the cess should be collected on all teas produced in the country and that the rate of cess should be four paise per kilogram. The Union Government had accepted this recommendation of the Committee.

ELECTRICAL CONTROLS

A new plant is to come up shortly at Ballabgarh, near Delhi, for the manufacture of electrical controls. This was disclosed at a press conference in New Delhi last week by Mr H. P. Lohia, the Managing Director of the new company, Cutler-Hammer India Limited, and Mr Edmund B. Fitzgerald, President of Cutler-Hammer, Inc., the famous US electrical/electronics firm. The plant, which is expected to go into production by the last quarter of 1967, is estimated to cost Rs. 50.50 lakhs, of which Rs. 30 lakhs will come from the Cooley loan. The total authorised capital of the company will be Rs. 50.00 lakhs, 49 per cent of which is to be contributed by the foreign collaborators. The rest has been subscribed by the Indian promoters and no public issue has been made. The contribution of the foreign collaborators in the form of plant and machinery will total Rs. 7.35 lakhs. The product line of Indian company will include power distribution and control equipment used in residential, commercial and industrial applications such as heavy duty contactors, panel mounting eutectic alloy, thermal overload relays, oil tight push button stations and limit switches, various types of magnetic and manual starters, motor control centres and thermostats for air-conditioning and refrigeration industry. At a later date, the company proposes to expand its activities to include D.C. motor controls, magnetic brakes and many other products from Cutler-Hammer's

Power Distribution and Control Division and Speciality Products Divisions. The demand of these products within the country is considerable at the moment and will be growing as the nation's economy progresses. It may be possible for the Indian firm to export a small portion of its products to earn its own foreign exchange requirements, which will have to be there since non-ferrous metals, being scarce in India, will need to be imported. One of the leading electrical/electronics firm in the United States, Cutler-Hammer counts among its recent engineering developments an automatic drafting machine which processes mathematical data into line drawings; a laser interferometer which provides machine tool measurements up to five decimal points; and intricate power relays which will control electrical power aboard the LEM (Lunar Excursion Module), America's space vehicle scheduled to land astronauts on the moon by 1970. The firm's wide range of products extends from micro-electronic circuits which enable packaging as many as one million components into a cubic foot of equipment space to control equipment for giant processing lines in the steel, rubber and related industrial fields.

TRACTOR INDUSTRY

The Rs. 25-crore indigenous tractor industry is at the threshold of a severe crisis in view of the Government's persistence to import duty-free Russian and Czechoslovak tractors. This was disclosed by Mr H. P. Nanda, Chairman of the Agricultural Machinery Dealers' and Manufacturers' Association, at a press conference held in New Delhi last week. He demanded a review of the Government's import and production policy with regard to tractors and a ban on the import of tractors. He challenged the Government's view that the tractor industry had not been able to fulfil the country's demand. There were, Mr Nanda pointed out, more than 1,500 tractors in stock with the Indian manufacturers and their dealer organisations on December 31, 1966. The indigenous production during 1966, despite the problems created by devaluation, was 8,000 while 2,000 tractors were imported from abroad. The industry is expected to produce 16,000 tractors during the current year and the State Trading Corporation has contracted to import 4,000 pieces from Russia and 2,000 from Czechoslovakia, taking the total available for sale to 21,000 during 1967 as against between 9,000 and 10,000 sold during 1966. Mr Nanda warned that if the Government persisted in importing tractors, the indigenous production would be hit and may stand still between 9,000 and 10,000 as the manufacturers would not produce what they could not sell. It is true that there is great demand within the country for foreign-made tractors, which are imported duty free and are available to the Indian farmer at much cheaper prices than those indigenously produced. Little is however realised that the imported tractors are generally below 20 horse power and eventually less economical in operations. They are also generally non-standard and their service and spares facilities are not readily available within the country.

The Government has plans to set up in the public sector a Rs. 25-crore factory for the manufacture of tractors and farm implements. Describing this proposal of the Government as wasteful, Mr Nanda stated that there already existed in the country installed capacity to manufacture 30,000 tractors and 84,000 power tillers in various power ranges. Incidentally, the target for the fourth Plan for tractors is 150,000, i.e., 30,000 in one year and the country can fully meet the existing and even to some extent potential requirements of farm tillers. In the circumstances, there is no justification or reason for either importing complete tractors or putting up a plant in the public sector for the manufacture of additional 12,000 tractors per annum. Mr Nanda said that even in the field of import of tractors, the private sector could provide to the farmer cheaper 28 horse power tractors of the type and design already available in the

country, without subsidy if it was absolutely necessary to import tractors for a very short term. A 20-horse power tractor is not an economical proposition to the Indian farmer.

CENTRAL REVENUE IN 1966-67

The total revenue collected from dutiable items by the Central Government during the financial year 1966-67 amounted to Rs. 2248.39 crores. The corresponding figure for 1965-66 was Rs. 2016 crores. The revenue realised in March 1967 was Rs. 337.34 crores as against Rs. 318.54 crores in the same month of the previous year.

The following are the details of the revenue realised under various heads:

S.No.	Revenue Heads	(In lakhs of rupees)		Up to March 1966-67	1965-66
		During March 1967	1966		
1.	Customs	5797	5521	59224	54034
2.	Union Excise (excluding cess on salt, rubber, coal, iron ore).	9509	9051	100494	87888
3.	Corporation Tax	9335	8963	33476	30977
4.	Income Tax	9402	7570	29254	26340
5.	Estate Duty	210	173	632	661
6.	Wealth Tax	332	400	1078	1188
7.	Expenditure Tax	2	14	7	43
8.	Gift Tax	56	82	175	226
9.	Opium	91	80	499	333
	Total	337.34	318.54	2248.39	2016.90

SEMINAR ON TEA EXPORTS

The Indian Institute of Foreign Trade in collaboration with the Tea Board held a seminar on 'Tea Exports' for an intensive study of production, consumption, distribution and overseas marketing problems of tea on June 12 and 13 at Calcutta. Mr Dinesh Singh, Union Commerce Minister, inaugurated the seminar in which representatives of the concerned ministries of the Government of India, planters, manufacturers, exporters and brokers of tea, and all the institutions, associations and organisations concerned with tea industry/trade participated. Four background papers were circulated among the participants. These related to (i) production and consumption of tea; (ii) export marketing of tea; (iii) market survey findings on tea in Iran, Iraq, Libya and Sudan; and (iv) export of tea to the Middle East.

AGRICULTURAL CREDIT

Short and medium-term agricultural credit amounting to Rs. 520 crores is proposed to be disbursed through co-operatives during 1967-68. This is in addition to a long-term loan programme of Rs. 65 to 70 crores to be carried through land mortgage banks during the year. The annual report of the Department of Co-operation for 1966-67, which contained this information, stated that special emphasis would be placed on advancing loans for minor irrigation, land shaping, land reclamation and purchase of agricultural machinery. Membership of primary agricultural credit societies was expected to increase to 40 million during the year.

At the beginning of the third Plan the total short and medium-term credit disbursed was Rs. 203 crores. This increased to about Rs. 345 crores in the last year of the third Plan ending June 1966. During the same period, membership

of the societies increased from 17 million to 27 million and the coverage of rural population increased from 24 per cent to 33 per cent.

RISE IN U.P. POPULATION

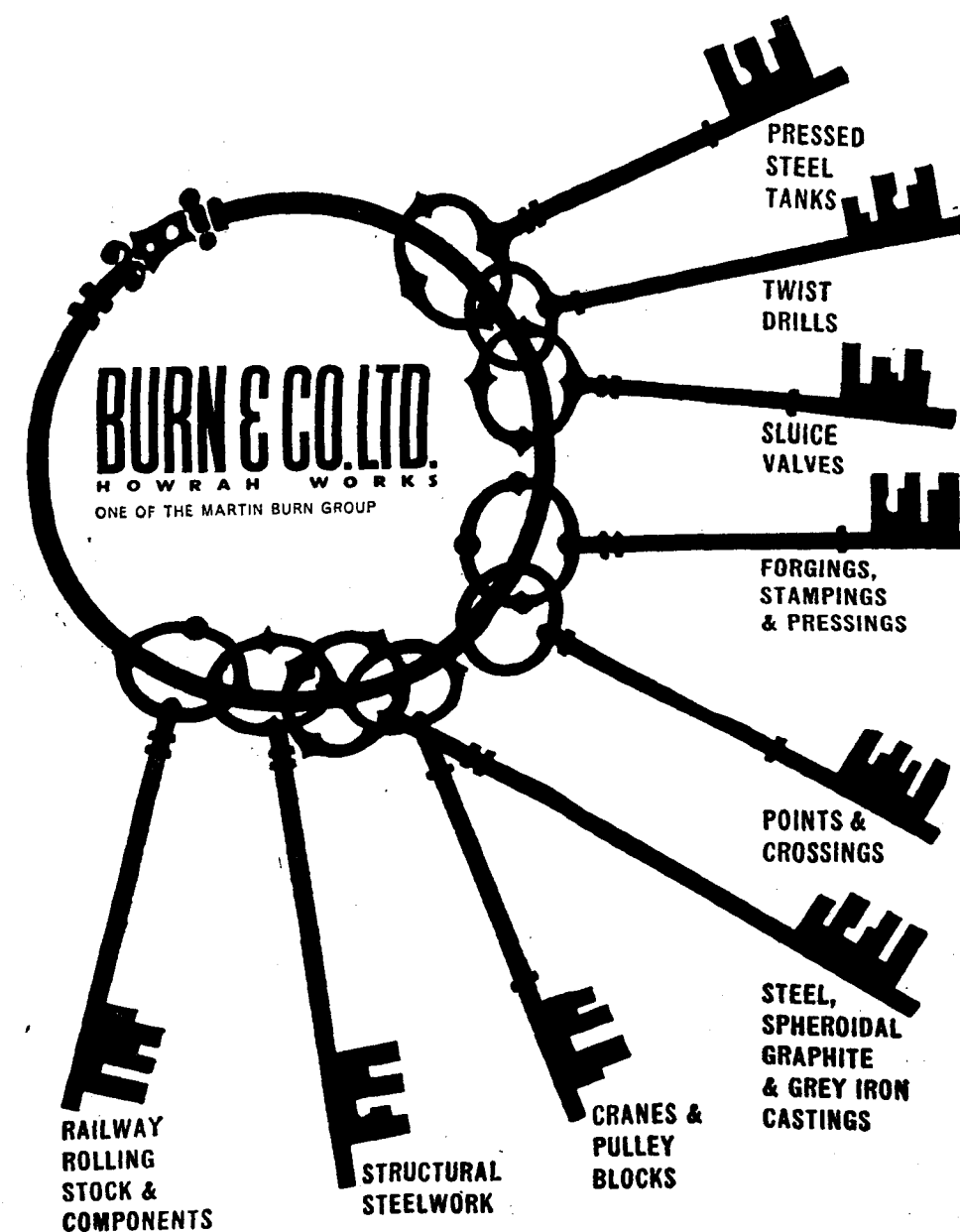
The population of Uttar Pradesh has gone up to 82.5 million according to the latest estimates compiled by the Registrar-General of Census in India. This represents an increase of nearly 12 per cent over the population on March 1, 1961. The population of the rural areas in the state was 72.1 million and of the urban areas 10.4 million. The rate of emigration from the state was 3.7 per thousand persons and of immigration into the state 2.6 per thousand. The net migration from the state to other parts of the country was 1.1 per thousand; from rural areas it was two per thousand. There was, however, a net immigration into the urban areas at the rate of 5.1 per thousand. The sample census carried out in UP was part of a bigger programme under which the Registrar-General of Census in collaboration with the state statistical agencies, conducted a complete census of population in randomly selected villages and urban areas in major states in the country.

SAMPLES FAIR AT BARCELONA

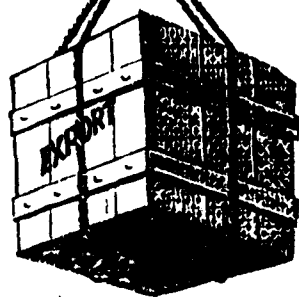
The Indian Council of Trade Fairs and Exhibitions arranged our participation in the International Samples Fair held from June 1 to 15 at Barcelona, Spain. Mr Garcia Monco, Minister for Commerce, Government of Spain, who opened the Fair, stated that Indian pavilion was one of the best at the Fair and expressed the hope that it would open considerable possibilities of expansion of trade between the two countries. About 70 Indian firms and organisations are taking part and are displaying a large variety of India's traditional and non-traditional products such as machine tools, automobile parts, steel castings, stainless steelware, knitting and sewing machines, electrical appliances, batteries, tyres, tubes, refrigerators, paper products, chemicals and pharmaceuticals, shellac and mica, textiles (cotton, silk and jute), woollen goods, tea, coffee, cashew, spices, canned fruits, tobacco, cigarettes, handicrafts, etc.



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USHA MARTIN BLACK

USHA MARTIN Black (Wire Ropes) Ltd., has received the necessary consent from the Government for taking up the new project for the manufacture of locked coil wire ropes. Orders have already been placed for the import of required plant and machinery. A technical collaboration agreement has also been finalised with the Whitecross Company of England.

The Commonwealth Development Finance Company, London, has agreed to meet the foreign exchange requirements of £2.22 lakhs out of a loan of £2.17 lakhs repayable in a single instalment in September 1977. It is also subscribing to 8,750 ordinary shares of Rs. 10 each at a premium of Rs. 2 per share. The ICICI has also granted a loan of Rs. 25 lakhs to meet the rupee costs of the project. The new project is expected to be completed early next year.

Although there has been a significant increase in sales to Rs. 228.79 lakhs in 1966 as against Rs. 199.91 lakhs in the previous year, the profit has shown a marginal fall during the year under review. After providing for depreciation and development rebate reserve and meeting other charges, the gross profit has declined to Rs. 10.26 lakhs as compared with Rs. 22.68 lakhs in 1965. The directors have raised the appropriation to depreciation reserve by Rs. 2.64 lakhs to Rs. 10.35 lakhs while a sum of Rs. 3.25 lakhs was set aside to development rebate reserve as against Rs. 7.73 lakhs in the previous year. No provision has been made for taxation as against Rs. 3.40 lakhs in 1965 while an amount of Rs. 4.50 lakhs was earmarked to general reserve as against Rs. 12 lakhs transferred in the preceding year. No allocation has been made to contingencies reserve in 1966 as against Rs. 1.12 lakhs provided in the earlier year while a sum of Rs. 59,285 was set apart to capital reserve as against nothing a year ago. The dividend on equity shares—as increased by the issue of bonus shares—at nine per cent (11 per cent on old capital) will absorb Rs. 5.06 lakhs as against Rs. 4.95 lakhs distributed in 1965. The dividend on preference shares maintained at 9.5 per cent will claim Rs. 95,000. An amount of Rs. 13,288 has been carried forward as against Rs. 38,290 brought in. An application has been made to the Income-tax Department to determine the quantum of profit for the year under review which is exempt under Sections 85 and 101 (II) of the Income-tax Act.

MAHINDRA UGINE

Mahindra Ugine Steel Co. Ltd. has commenced the rolling of alloy steel, after initial runs with mild steel. The first phase of commercial production has been achieved without much teething troubles. The EOT cranes in rolling mill and forge shops have been commissioned and the turning lathe is ready for operation. Most of the machine tools received at the site have been erected in the maintenance department and the installation of the remaining equipment is in progress.

The company has received an industrial licence for 36,000 tonnes of tool, alloy and special steel of all types and varieties excluding stainless steel and plates. In the first stage the plant will have a capacity of 24,000 tonnes of finished alloy steel products but there is a built-in capacity in some of the major items of plant and equipment as also in layout to permit expansion up to 36,000 tonnes at a minimum cost. The directors are considering the feasibility of the expansion programme.

The working of the company during 1966 has resulted in a loss of Rs. 31,286 after providing Rs. 1.13 lakhs for taxation. The loss of Rs. 75,309 has been carried forward.

For meeting the additional needs—to bring the capacity of the plant to 24,000 tonnes per annum—the company has arranged finance for Rs. 2 crores. It will be raised in the form of additional equity capital of Rs. 67.50 lakhs and long-term insti-

tutional loans of Rs. 132.50 lakhs. Additional working capital will be met by bank borrowings.

Following devaluation, the rupee liabilities had to be written up by Rs. 71.74 lakhs. The dollar and franc deposits banked in the USA and France showed an appreciation of Rs. 14.33 lakhs and this amount has been transferred to exchange reserve.

BHARAT STEEL TUBES

Bharat Steel Tubes Ltd. has suffered a set-back in its working during the year 1966. After providing Rs. 13.57 lakhs for depreciation and crediting the difference on conversion of dollar balance with the US bank amounting to Rs. 2.36 lakhs, the company has incurred a loss of Rs. 24.65 lakhs for the year as against a loss of Rs. 1.04 lakhs in the previous year. Together with the miscellaneous expenditure yet not written off, the total deficit comes to Rs. 29.37 lakhs which has been carried forward to the next year's account.

The additional liability of Rs. 4.16 lakhs in interest on dollar loan on account of devaluation, increase in the price of steel and one per cent enhancement in Central sales tax, higher cost of imported zinc and spares and the increased burden of depreciation following devaluation were, according to the directors, mainly responsible for the none-too-encouraging performance of the company during the year under review. The teething troubles and poor power supply also affected the working of the company. Besides the company had to face a severe competition in the steel tube market. Moreover, it had only black tubes to offer while the major demand in the country was for galvanised tubes.

The company produced 32,506 tonnes as against the annual capacity of 36,000 tonnes on a single shift basis. The current year, however, holds out promise of better results, as demand for steel tubes and pipes has started picking up. This is evident from the fact that sales in the first four months of 1967 have already crossed the Rs. 2-crore mark as against the total turnover of Rs. 2.56 crores for the entire period of 1966. Further the State Electricity Board has agreed to install a direct feeding line from the main substation to the company's plant which should solve the voltage problems. The plant is expected to exceed the rated capacity during the current year.

BRITISH PAINTS

British Paints (India) Ltd. has reported further improvement in its working results during the year ended December 31, 1966. With a rise in sales from Rs. 2.94 crores to Rs. 3.08 crores, the net profit has gone up to Rs. 16.35 lakhs as against Rs. 14.39 lakhs in 1965. The directors have enhanced the appropriation to taxation reserve to Rs. 35.06 lakhs as against Rs. 33.70 lakhs in the preceding year while a sum of Rs. 3.83 lakhs was set aside to depreciation reserve as compared with Rs. 4.12 lakhs in 1965. The allotment to development rebate reserve was reduced by Rs. 41,500 to Rs. 22,500 while the transfer to general reserve was raised by Rs. 7.99 lakhs to Rs. 13.14 lakhs. The equity dividend has been maintained at 15 per cent which will absorb Rs. 7.50 lakhs.

During 1966 lower indigenous production and lack of import licences forced up material costs and service charges. At the same time keen competition in a restricted market tended to soften selling prices. Consequently production had to be restricted and selling efforts directed to products that yielded the best margin and to meeting the essential requirements of established customers.

With the bulk of imported materials licensed in 1966 now flowing in and the recent restrictions on production and sales likely to be relaxed, the company looks forward to increasing

business activities and higher growth prospects during the current year. But this will depend to a large extent on the success of the Government measures in reviving the national economy under which effective demand may continue to grow.

DELHI CLOTH MILLS

At the extraordinary general meeting held in New Delhi last week, the shareholders of Delhi Cloth and General Mills Co. Ltd., have approved the company's proposal to increase the share capital of the company by Rs. 3 crores to Rs. 10.96 crores by issuing 880,000 ordinary shares of Rs. 25 each and 320,000 (9.5 per cent) redeemable cumulative preference shares of Rs. 25 each. The equity shares will be offered to shareholders at par in the proportion of one share for every three shares held while the preference capital will be offered for public subscription by the issue of a prospectus. The preference shares are redeemable at par after twelve years but before the expiry of 17 years from the date of allotment. The shareholders have also authorised the company to raise its borrowing limit from Rs. 15 crores to Rs. 45 crores.

These steps have been taken mainly to finance its Kotah fertilizer project which is now under implementation. The company has already entered into an agreement with two Japanese firms to supply plant and machinery on a deferred payment basis. The entire foreign exchange requirement will be met by foreign collaborators. The plant is expected to go on stream by the end of next year. The project is expected to cost Rs. 32 to 35 crores.

NEW INDIA ASSURANCE

New India Assurance Co. Ltd., has reported encouraging progress during the year ended December 31, 1966, with gross profit and net premium recording impressive gains over the previous year. The total net premium during the year exceeded Rs. 19.38 crores, registering an increase of Rs. 3.51 crores over 1965. The gross profit was significantly higher at Rs. 110.0 lakhs as compared with Rs. 79.0 lakhs in the preceding year. The directors have, however, decided to maintain the dividend at Rs. 6 per share but it is payable on an increased capital.

All departments—the miscellaneous department in particular—contributed to the overall increase in net premium income. The net premium of the miscellaneous department expanded by Rs. 1.61 crores to Rs. 9.19 crores while the net premium of the fire department went up by as much as Rs. 1.40 crores to Rs. 6.50 crores. The net premium of the marine department was a shade higher at Rs. 3.69 crores, recording a marginal increase of Rs. 0.50 crore over 1965.

The devaluation of the rupee had its impact on the company's operations. On the one hand there was an increase in the premium in rupee values on insurances abroad leading to an increase in unexpired risk reserves and a sharp rise in the claims on insurances abroad due to revaluation of all outstanding claims in terms of the devalued rupee. On the other hand there was a gain on exchange on the resources and assets abroad.

The overall incurred claims cost of the three departments was a little higher at 66.3 per cent as against 52.3 per cent in 1965. The increase in the claim cost was largely due to the revaluation of claims on insurances abroad.

The overall cost of the three departments, after taking credit for gain on exchange, was 22.9 per cent as against 36.9 per cent in the preceding year. The decline in the overall cost was mainly due to exchange gain on assets abroad.

The profits of the three departments—fire, miscellaneous and marine—amounted to Rs. 78.1 lakhs which have been transferred from the departmental accounts to profit and loss account. After making adjustments for other income and outgo, the profit before tax for the year came to Rs. 110.0 lakhs.

After providing Rs. 34.5 lakhs for taxation, there is a net profit of Rs. 75.5 lakhs. The directors have allocated Rs. 2 lakhs to gratuity reserve while a sum of Rs. 73.5 lakhs was allotted to dividend reserve. The recommended dividend of Rs. 6 per share will be paid from dividend reserve to which a sum of Rs. 18 lakhs has also been transferred from general reserve. The proposed dividend will absorb Rs. 91.1 lakhs.

As a result of the year's operations, the company's total funds have been augmented by Rs. 2.08 crores and it stood at a new high of Rs. 17.79 crores at the end of 1966 as against Rs. 15.71 crores at the end of 1965.

STATE BANK OF BIKANER & JAIPUR

The State Bank of Bikaner and Jaipur has reported quite satisfactory working results during the year ended December 31, 1966, with deposits, advances, investments and earnings recording substantial improvements over the previous year. Deposits were significantly higher at Rs. 48.04 crores as compared with Rs. 41.54 crores in 1965. Advances expanded by Rs. 3.63 crores to Rs. 23.56 crores, with credit-deposit ratio moving up from 47.9 per cent to 51.2 per cent. Earnings from interest, discount, commission, exchange and brokerage including income from other sources improved by Rs. 31.52 lakhs to Rs. 358.22 lakhs. But the appreciable rise in expenses—from Rs. 315.96 lakhs to Rs. 358.04 lakhs—has almost neutralised the handsome increase in earnings. Higher costs of funds and increased establishment charges accounted for the sharp rise in expenses. Over and above the normal increase in establishment expenses on account of annual increments and rise in dearness allowance, the bank had to bear the full impact of the payment of 'A' class benefits to the staff over the entire period of 1966 as against a few months only in 1965. Besides, as a result of a bipartite settlement to which the Bank is also a party, additional payments amounting to Rs. 8.78 lakhs had to be disbursed to the award staff while the revision in the emoluments to the

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June 16, 1967

supervisory staff resulted in an additional expenditure of Rs. 5.20 lakhs during the year.

Although the Bank had to incur certain additional expenditure during the year, the growth in advances has not matched with the rise in expenses. Vigorous efforts have, however, been made to step up industrial advances in order to improve profitability and the impact of the measures taken will be felt during the current year.

The steep rise in expenses has resulted in a sizable reduction in net profit which went down to as low as Rs. 18,264 as against the impressive figure of Rs. 10.74 lakhs in 1965. The setback during the year has made the Bank to skip over the dividend as against five per cent declared in the previous year. No amount has been transferred to the reserve fund as against a provision of Rs. 2.15 lakhs in 1965, while the allocation to the staff welfare fund has been maintained at Rs. 25,000. A sum of Rs. 40,303 has been carried forward as against Rs. 47,038 brought in from the previous year.

The business of the Govind Bank Private Ltd., Mathura, was taken over by the Bank with effect from April 25, 1966, and a branch of the Bank had started working there from that date. Further, the Bank opened ten branches during the year under review—all in Rajasthan, including a 'one-man' office in Kalandri. At the end of 1966, the Bank had in all 154 offices as against 143 offices in the preceding year.

UNILEVER

Unilever Limited has released the preliminary working results for the first quarter of 1967. Sales to third parties during the period under reference expanded by 2.5 per cent to £285 million, recording an impressive gain of £12 million over the corresponding period of 1966. Profit before taxation during January-March 1967 was a shade higher at £28.8 million as against £28.3 million in the similar period of last year while the consolidated net profit during the same period improved by £0.5 million to £14.8 million. Preferential dividend of parent companies during the first quarter of 1967 claimed £0.5 million as compared with £1 million during January-March 1966. Profit accruing to ordinary capital of parent companies during the three-month period ended March 31, 1967 amounted to £14.3 million—an increase of £1 million over the first quarter of 1966. Combined sales increased by 2.5 per cent with an upward trend in foods, particularly frozen products.

UNIT TRUST

The Board of Trustees of the Unit Trust of India has decided to decentralise with effect from July 1, 1967, the unit-holders' registers, maintained at its head office at Bombay, on a zonal basis. The Trust's offices at Bombay, Madras and Calcutta and the proposed new office at New Delhi, which will be opened on June 19, 1967, will service the units purchased through banks and post offices falling within the jurisdiction of these offices.

Under the new system, units purchased in Maharashtra, Madhya Pradesh, Gujarat and Goa will be serviced by the Bombay office. The Calcutta office will service units purchased in West Bengal, Bihar, Assam, Orissa, Andamans, Manipur, Tripura, Nagaland, NEFA and 99 A.P.O. Madras office will cover Madras, Andhra Pradesh, Mysore, Kerala and Pondicherry while the New Delhi office will be covering Delhi, Uttar Pradesh, Punjab, Haryana, Rajasthan, Jammu & Kashmir, Himachal Pradesh and 56 A.P.O.

Meanwhile the Trust has announced that there will be no sale of units from June 12 to 30 as its books will remain closed for annual accounting. Repurchase of units will, how-

ever, continue. The repurchase price of a unit of the Trust, valid for June 12, has been fixed at Rs. 10.20.

NEW ISSUE

Bengal Coal Company Ltd. is offering for public subscription debenture stock (1972-81) worth Rs. 50 lakhs. The debentures will carry an interest of 7.75 per cent per annum and they are offered at par for cash payable in full on application. Applications for stock must be for a minimum of Rs. 1,000 or in multiples of Rs. 1,000. The subscription list opens on June 19, 1967 and will close on June 28 or earlier at the discretion of the directors of the company but in any case not earlier than June 23, 1967. The public issue is fully underwritten.

The company is at present working fifteen collieries most of which are located in Ranigunj coalfield of West Bengal. The total raisings of coal during the year ended October 31, 1966 were over three million tonnes. The working coal reserves are ample and are estimated to be sufficient for over 50 years' working at the present level of production.

During the next five years the coal industry is required to expand coking coal production and to maintain production of non-coking coals. The company's estimated capital expenditure for these purposes will amount to Rs. 218.69 lakhs and the present issue will provide a part of the finance towards this capital expenditure.

NEW REGISTRATIONS

Eighty-seven companies were registered during April, 1967, under the Companies Act, 1956. Of these, 83 were companies limited by shares and 4 limited by guarantee. The 83 companies limited by shares include five public limited and 78 private limited companies having an aggregate authorised capital of Rs. 3.50 crores and Rs. 14.06 crores respectively.

There were five big sized companies during the period, each having an authorised capital of Rs. 50 lakhs or above. The details are as under:

Name and the State of registration	Object	Authorised capital (Rs. thousand)
Solo India Ltd., Maharashtra. (Public)	Manufacturers of Agricultural machinery implements.	50,00
Durgapur Iron Works Ltd. West Bengal (Public)	Manufacturers of pig iron etc.	1,50,00
Roneo Vickers India Ltd., Delhi. (Public)	Dealers in duplicating machines etc.	1,00,00
Electronics Corporation of India Ltd., Andhra Pradesh. (Private)	Manufacturers of nuclear electronics instruments	10,00,00
Sarita Pump Private Ltd. West Bengal (Private)	Manufacturers of Pumps and accessories.	50,00

Only one public company namely, Electronics Corpora-

tion of India Ltd., had an authorised capital of Rs. 10.09 crores.

During April, 1967, West Bengal, Maharashtra and Delhi recorded 23, 22 and 11 new companies respectively. Out of 83 companies limited by shares, 25 companies were proposed to be managed by the 'Managing Directors' while 58 companies preferred 'Board of Directors' to look after the management.

Of the 83 companies, one company is to be engaged in mining, 51 companies in processing and manufacture, nine in trading, 13 in financial business and nine in miscellaneous activities.

In March 1967, 112 companies were incorporated. Of these 110 were companies limited by shares and two limited by guarantee. Of the companies limited by shares, nine were public limited companies with an aggregate authorised capital of Rs. 5.86 crores and 101 private limited companies sharing an aggregate authorised capital of Rs. 16.97 crores.

CAPITAL ISSUES IN 1966

The Controller of Capital Issues accorded consent in all to 853 companies for raising capital amounting to Rs. 459.28 crores in 1966. As against this, 213 consents for a total amount of Rs. 275.77 crores were granted in 1965. Applications from 939 companies for Rs. 550.03 crores were received in 1966 compared to 293 applications for Rs. 443.43 crores in the previous year.

Among the consents granted to non-government companies during 1966, a total of 665 for Rs. 147 crores were for the issue of bonus shares. Thirty-three consents amounting to Rs. 46.67

crores were given to companies for issue of capital for the first time in 1966. Of these, 22 consents were for Rs. 39.33 crores involving foreign participation to the extent of Rs. 11.21 crores. In 1965, a total of 26 consents for Rs. 52.05 crores involved foreign participation of Rs. 15.19 crores in initial issues.

Of the 853 consents accorded, 256 consents amounting to Rs. 114.87 crores were given during the quarter October-December, 1966. As against this, 62 consents involving Rs. 88.87 crores were granted in the corresponding quarter of 1965, while 267 consents for Rs. 126.18 crores in the third quarter of 1966.

During the last quarter of 1966, applications from 252 companies for Rs. 104.89 crores were received, as against 74 applications for Rs. 144.17 crores in the corresponding months in 1965 and 282 applications involving Rs. 141.32 crores during July-September, 1966.

Of the consents accorded in the last quarter of the year, seven for Rs. 9.60 crores were given to government companies and 249 for a total amount of Rs. 105.27 crores to non-government companies, of which 221 consents amounting to Rs. 60.32 crores were for the issue of bonus shares.

The break-up of the amount of Rs. 105.27 crores for non-government companies is as follows: Bonus—Rs. 60.32 crores; loans etc.—Rs. 31.59 crores; equity—Rs. 9.11 crores; debenture—Rs. 3.30 crores; preference—Rs. 0.59 crore.

The industries to which consents were given included iron and steel, cotton textiles, electrical machinery, metal products, pulp and paper, sugar, cement and rubber.

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BOOKS BRIEFLY

The Inside Story

Cabinet Government in India: R. J. Venkateswaran; published by George Allen & Unwin, London; Pages 200; Price 35 s.

Reviewed by M. M. SANKHDHER

THE STIMULUS for writing this book came from the realization that there was paucity of literature on the subject. The author was aware of the fact that 16 years of operation of the Constitution could not produce a treatise on the Indian Cabinet. He was obviously thinking of a rather detailed analysis net. He was obviously working for, otherwise, most of the commentaries on the Indian Constitution do give at least, a chapter on the Cabinet. And there are scores of them. Nevertheless, there is little elsewhere on "how the Indian Cabinet has been carrying on the day to day affairs of the world's largest democracy". Hence, the book has a justification.

In spite of the penchant for minute observation, a short book of just 200 pages is an odd assortment of contents. I do not know if a brief account from Mauryas to Mountbatten was at all necessary in a descriptive study of this nature. For a very general reading, of course, a historical background might be useful, but for discerning readers the first chapter would appear highly peripheral.

From the beginning to the end, footnoting is far from perfect. On all pages the citations have no corresponding mention of the reference, though in a limited number of cases, references have been indicated. The print, however, is matchless. And Mr Venkateswaran is lucky to have one of the top publishers of the UK.

Irrefutable Evidence

On the pre-Mountbatten model of Central Executive the author has to state that "the Viceroy's Executive Council never functioned as a Cabinet." If that was really so, we could not have received "the excellent training in parliamentary democracy," on which he expresses satisfaction. In fact, India did not have even the Dominion Status. There is irrefutable evidence to suggest that the successful operation of the Westminster form of government is due more to India's own capacity to work out an exceedingly sophisticated apparatus than to the Britishers' gift of certain formal arrangements. I am of the view that the British rule was only incidental to the development of intra-governmental relationships. Confirmation may be sought in the overthrow or sabotage of democracy in many parts of the world who had also passed through the experience of British dominance before they acquired nationhood. It is naive to seek solace in what has been called 'the British contribution' to our political institutions. A more uninhibited writing of Indian history might well judge the British period as one that delayed our course of self-government. The author is, nonetheless, right in maintaining that the well-known year 1947 was the watershed in our political evolution.

The discussion in the second chapter is confined to the precise topic of the formation and the failure of the 'Interim government' of 1946. This is like going a step backward for we had been left at the post-Independence Governor-Generalship of Lord Mountbatten who had announced on August 15: "I am your constitutional Governor-General". The statement was significant in the sense that prior to that everything was 'unconstitutional' as far as India's sovereign political rights were concerned. The error of mislinking notwithstanding, the year 1946 no doubt was instructive since the fight for port-folio became symbolic of the Cabinet's rift stemming from its diverse composition. It was not merely the pull from the Muslim League that brought it down; other elements too did not have any spirit of unity. It is somewhat difficult to give

that temporary device the name of a Cabinet. It was an apology for the real thing and, therefore, did not work.

There is another break with the main theme. The third chapter entitled 'Quintessence of the Constitution' seems superfluous and only adds to the bulk of the volume. The distinctive features of the Constitution are commonplace in all textbooks and unless they touch the vital matter at some important points, there is hardly any relevance in them. A student of "government" who lifts this book with a degree of interest should presumably be versed in what are called 'the salient features of the Indian Constitution' and would not ordinarily expect them in a book specifically dealing with the Cabinet.

Myth Exploded

The book really begins with the fourth chapter. The next eight chapters make a definitive contribution to the understanding of the inside story of the Indian Cabinet. Mr Venkateswaran has excelled in marshalling a lot of information not usually found in other books. After elaborating the practices in Britain and quoting authorities judiciously, he compares the essentials with those of the Indian counterpart. He rightly emphasises the aspect of the "ascendancy of the Prime Minister" in the Cabinet as the latest trend. He has explained at length how recent developments in the political and economic sphere have rendered the Cabinet as a tool of the Prime Minister in England as well as in India. Moreover, he marks the three phases of the Cabinet development, under Nehru, Shastri and Indira. In the section 'How the Cabinet Works' the theory of parliamentary sovereignty versus Cabinet dictatorship has been exploded in its practical application and the truth affirmed: "One would not (believe from the theory of parliamentary system) that the Cabinet actually exercises effective control over the Parliament and that every major measure of importance is of Cabinet origin....." (cited from Byrom E. Carter's book 'The Office of the Prime Minister'). The theory of parliamentary control of the Cabinet is an illusion both in the case of India and England and Cabinet control of Parliament a hard reality.

Though the Indian Cabinet largely follows British principles and conventions it may well be possible in the Indian situation that a minister (V.K. Krishna Menon, for instance) be forced to resign by pressure of public opinion. But the question that needs answer in the changed context is whether a minister holding office during the pleasure of the President can be asked to quit the Cabinet if the President wills otherwise? The issue has been faced boldly and with sufficient clarity in the later part of the book where the role of the President in forming a caretaker government after the death of Nehru has been described. Yet, no conclusive opinion can be formed on the question in the eventuality of the relations between the President and the Prime Minister lacking cordiality. Of course, till now and for the present term of Presidency, it would be vain to imagine the equation being disturbed. Patanjali Shastri and K.M. Munshi have taken a different view and for equally cogent reasons. No doubt, the President's position as a constitutional monarch has the sanction of the Constituent Assembly as also of the established tradition, the future relationship of the President and the Cabinet would largely determine the shape of things to come.

One good suggestion coming out of the exploration of the Cabinet's role is in regard to budget-making. So far the budget is a one-man show; it is the handiwork of the Finance Minister. That such a vital matter should be outside the purview of the Cabinet is not favoured by the author. Ashok Chanda had made a complaint of this sort some time back. So

did C. Rajagopalachari. This is in line with Lord Woolton who had brought out the difficulties when the Cabinet is beforehand committed to financial decisions of great import taken unilaterally by the Finance Minister. But I suppose the Finance Minister does have informal and personal discussion with the important colleagues in what is called 'the inner Cabinet'? And one may not agree with Anthony Eden's contrary view that the Chancellor of the Exchequer cannot share his burdens with the Cabinet. If it is a matter of secrecy that forbids such sharing, are not most Cabinet decisions secret? Indeed, the Cabinet's preview of the budget would check mischief and avoid embarrassment. The point has been well argued except in conclusion when the author in self contradiction says albeit wrongly that "there appears to be no alternative" to the present practice after he himself had pointed out the alternative of collective initiative.

Position of Prime Minister

The working of the Cabinet committees has been very inadequately treated. Such a significant institution ought to have covered a full section. The position of the Prime Minister as 'the keystone of the Cabinet arch' has, however, been fully discussed. The question as to whether the Indian Prime Minister differs from the British counterpart has been examined. The facts and figures about the Cabinets in India have been provided. For example: "There were during the 17 years of Nehru's rule (leadership of five Cabinets during this time) many ministerial resignations and reshuffling of portfolios were affected, but the Cabinet as a whole maintained a remarkable stability and continuity....." We are told that in the first phase ending 1950 Nehru's authority was severely limited by the presence of several powerful colleagues such as S. P. Mukherjee, B. R. Ambedkar and Sardar Patel who did not see eye to eye with him on major problems. After Patel's death in 1950, Nehru was the virtual dictator. The last phase was that of the Kamaraj Plan and was one of absolute power for the Prime Minister. The difference between the second and third was that in the first occasions arose for controversies between the Prime Minister and individual ministers such as Ajit Prasad Jain, S.K. Patil, and T.T. Krishnamachari. Besides, Nehru encountered opposition to Patnaik being made the foreign policy adviser without his having any ranking in the Cabinet. Kamaraj Plan was partly an answer to these difficult problems. Then followed Nehru's era of personal glory and power culminating in the 1962 steep decline. In the words of R. H. S. Crossman, used for the British premier, Nehru was "the apex not only of a highly centralized political machine but also an equally centralized and vastly more powerful administrative machine. In both these machines loyalty has become the sup-

reme virtue, and independence of thought a dangerous adventure." Several details of the working relationships in that period have been furnished.

There are some quite interesting aspects of the book. Its treatment of the Planning Commission as a 'super cabinet' is simply original and fascinating. Mr Venkateswaran seems to echo the reaction of Professor Gadgil to the Planning Commission which he said had "failed in almost every respect." The situation can, they hold, be remedied by reducing the functions of the Commission and by cutting it to size. It should be made advisory and its personnel recast. I think some of the objections of the author would be met if the recommendations of the Administrative Reforms Commission are implemented.

About the size of the Cabinet also, nothing can be prescribed as the ideal number of members. But, the Indian Cabinet surely is unwieldy; it inflates administrative expenditure. The author shares the common feeling in the country that a large Cabinet should not be justified on account of the vastness of the country because the country is federal and has so many other Cabinets spread throughout.

Important Changes

Shastri introduced important changes in regard to the working of the Cabinet. During his time the Cabinet was more homogeneous. The dictatorial complexion of the Prime Minister's office also changed. The story of the Kashmir war and the Cabinet's responses has been unfolded with care. In fact, a lot of space has been given to the ministerial relationships as they existed in the Shastri epoch.

It was in 1966 that Indira Gandhi was elected Prime Minister. She announced her own Cabinet and brought considerable changes to bear upon its composition. The author leaves a complete assessment of the present Prime Minister to some future date. It is really too early to pronounce any judgment on the Prime Minister's capacity to solve problems.

The last essay on prospects of Indian democracy, though good in itself, ill-suits the body of the book. Not only does it digress, it makes the whole thing look more general. The volume closes with an exhortation: the Cabinet must function strictly on the basis of collective responsibility if the nation has to make any progress.

On the whole the book, from the point of view of disseminating information related to the development and working of the Indian Cabinet, is immensely rich and useful. If it lacks the academic touch, it compensates in other ways.

foil, foil-wrappings for pharmaceuticals and drugs, rigid containers, collapsible tubes, etc., which are intimately linked with the nation's all-important export drive. About five per cent goes (directly) into defence & ordnance uses, the importance of which need not be emphasized. About four per cent goes into building and construction; for durable sheds in factories, windows, doors and architectural fittings in modern homes and stores, etc. In the field of agriculture, aluminium irrigation pipes and grain bins are especially important potential items, besides foil packaging and containers for milk and dairy products. Aluminium also finds varied applications in the field of steel deoxidizing, industrial and engineering equipment, coinage, paints, welding, aluminizing of steel, casting applications, lithographic printing plates, etc.

While metals are vital for industrialization and economic betterment, aluminium is new India's metal for today and tomorrow. In the absence or acute shortage of other metals in the country, we have to depend more and more on aluminium

and increasing aluminium-substitution, in place of more scarce metals which are generally imported.

In 1965, against a demand of about 185,000 tonnes of zinc, domestic production was only about 10,000 tonnes (concentrates) and imports totalled 85,000 tonnes. Against a demand of about 170,000 tonnes of copper, production was only 9,800 tonnes, and imports 45,000 tonnes. Against a demand of about 85,000 tonnes of lead, production was only 3,000 tonnes and imports 25,000 tonnes. Against a demand of about 10,000 tonnes of tin production was nil and imports 4,800 tonnes. Against a demand of 5,000 tonnes of nickel, production was nil and imports 1,900 tonnes. Against a demand of 2000 tonnes of antimony, production was 1000 tonnes and imports 1,100 tonnes. For aluminium alone, production (in 1966) was more than import: about 83,600 tonnes being produced, while 22,500 tonnes were imported, as against a demand of over 130,000 tonnes.

For 1970-71, the plan target for aluminium was tentatively fixed at 330,000 tonnes. Even if the proposed cut to 275,000 tonnes is now accepted, it must be remembered that the present rated capacity of the industry is less than 100,000 tonnes. If the industry is to go ahead with its colossal programme of expansion, which the nation demands, surely the imposition of a stupendous additional burden of excise duty on the industry will only delay, if not call a complete halt to, this expansion.

If any one seriously believes that the increase of 217 per cent in the flat rate of (basic) excise duty on primary aluminium, 190 per cent on rolled products and 233 per cent on foils, and the increase of 100 per cent in the ad valorem rate of duty on extruded sections and tubes will not directly have an inflationary impact on prices, because producers will be compelled to hold the price line, it would be well to remember that the delay or non-implementation of the expansion programme of the aluminium industry will very seriously retard the rate of progress of the economy, through shortfalls in the industries directly and indirectly affected by aluminium, and thus push up their prices in the context of a fast-increasing population and rising demand.

It must also be pointed out that aluminium scrap prices have risen from Rs. 4.40 to Rs. 5.20 per kg., in a few days, following the sharp rise in duties. As aluminium scrap is a major raw material for small-scale alloy and casting units and re-rollers, its increased cost will directly affect these units and their customers.

In fact, the increased excise duties also have some retrospective effect, because they become applicable to stocks arising out of past production.

The expected revenue from the increased excise duties on aluminium is Rs. 10.98 crores, which is much more than even the combined gross profits of the two major primary producers who produce some 80 per cent of the total output. It must also be remembered that, from gross profits, provisions have to be made for depreciation, development rebate, taxation, etc. The aluminium industry is very heavily capital-intensive and, therefore, depreciation and development rebate add up to a sizeable amount, which obviously is not available for being distributed as dividend to the shareholders. The combined total tributed as dividend to the shareholders of the two major aluminium producers (after depreciation) of the two major aluminium producers, at the end of 1966, amounted to about Rs 78.81 crores, against which their combined net profits amounted to only about Rs. 3.97 crores, or only about five per cent. It must also be appreciated that such profit is a reward for entrepreneurship and risk bearing.

The devaluation of the rupee has increased the already heavy import bill of the industry (alumina, aluminium fluorite, cryolite, fluorspar, anthracite coal, spare parts, etc.) and the

liability on foreign loans (for expansion) by 57.5 per cent. A major aluminium producer is paying about Rs. 1,000 per tonne, as power cost (and also a heavy surcharge) for its expansion production. The other major producer lost 24 per cent of its potential metal production in 1966 because of cuts in supply of power. All other producers are also paying heavily because of such power cuts.

The industry's production of about 83,600 tonnes of aluminium in 1966, if valued at the international price of 25 cents per lb., is now equivalent to an import bill of nearly Rs. 35 crores of foreign exchange, not including excise duty and import duty. As a substitute for imported copper in the cable industry, this is equivalent to about Rs. 127 crores of foreign exchange, taking into account a price of about 46 cents per lb. for primary copper and equating one tonne of aluminium with two tonnes of copper. If we wish to save more foreign exchange for the country, otherwise payable on import of aluminium or other metals which can be substituted by aluminium, the aluminium industry should be encouraged to make a rapid and colossal growth.

Let the aluminium industry not be crippled by crushing burdens of excise duties which are bound to hinder its growth squeeze profitability margins of existing units to near shutdown levels, reduce the government revenue from corporate taxes payable by these units, cause labour unrest and possible retrenchment in these units and other units which are fed by them, deter new entrants to this recognised priority industry and aggravate a general setback in the pace of economic development.

Calcutta

S. MUKHERJI

PRICE CONTROLS

Sir,—We read with interest your excellent editorial "Towards Cheaper Drugs" (Eastern Economist, May 19, 1967) in which you have commented on our President's speech at the First Annual General Meeting of our Organisation.

We are happy to note that you endorse the industry's point of view on the question of price controls. The industry is convinced that price control is an ill wind that has done nobody any good. It has prevented the introduction of new drugs, discouraged the industry from increasing production by utilising the liberal imports now available, created rigidities in the pricing pattern of drugs and generally slowed down the pace of growth of the industry.

As regards family planning, our Organisation is carefully examining the suggestions made by Dr S. Chandrasekhar. It might be of interest to you to know that the Organisation has appointed an expert sub-committee consisting, among others, of medical directors of our member-firms, to deal with family planning matters. The Organisation is also actively co-operating with the co-ordinating committee for family planning set up by the Indian Merchants' Chamber, Bombay, in association with the Family Planning Association of India, Indian Red Cross Society (Maharashtra Branch), etc., to intensify the family planning programme among the industrial workers of Greater Bombay and the Thana industrial complex.

As our President promised, the very considerable experience and expertise of our member-firms are at the disposal of the Government and other bodies interested in family planning and the Organisation is prepared to co-operate with them to the fullest possible extent.

Bombay-1.

J. N. CHAUDHRY
Executive Director
Organisation of Pharmaceutical
Producers in India

RECORDS AND STATISTICS

Growth of Co-operative Societies: 1950-51—1965-66

THE PROGRESS of co-operative societies in this country has been outlined in the eighth annual report of the Department of Co-operation for the year 1966-67, released recently. The number of co-operative societies doubled from 180,000 in 1950-51 to 360,000 in 1963-64. The membership of primary societies more than trebled from 13.7 million in 1950-51 to 45.3 million in 1963-64. The share capital multiplied almost eight times while the working capital increased more than seven times during the same period. There has been substantial increase in the provision of agricultural credit through co-operatives. As the table below shows, at the beginning of the third Plan the total short and medium-term credit disbursed was Rs. 202.75 crores as against Rs. 22.90 crores only at the beginning of the first Plan. By the end of the third Plan, the total credit advanced was Rs. 345.50 crores.

The tables here show the advance made by the co-operatives during the last 15 years.

PROGRESS OF ALL TYPES OF CO-OPERATIVES

	1950-51	1955-56	1960-61	1963-64
Number of societies (lakhs)	1.8	2.4	3.3	3.6
Membership of primary societies (lakhs)	137	176	342	453
Share capital (Rs. crores)	45	77	222	350
Working capital (Rs. crores)	276	469	1,312	2,100

PROGRESS OF AGRICULTURAL CREDIT CO-OPERATIVES

Item	Beginning of I Plan (1950-51)	Beginning of II Plan (1955-56)	Beginning of III Plan (1960-61)	1964-65	1965-66 (Provisional)
Primary agricultural credit societies (Short & medium-term loan)					
No. of societies (lakhs)	1.05	1.60	2.12	2.01	1.97
Percentage villages covered	N.A.	N.A.	75	84	90
Membership (lakhs)	44.08	77.91	170.41	254.11	270.03
Percentage rural population covered	7	12	24	32	33
Average membership per society (Nos.)	45	49	80	126	137
Share capital (Rs. crores)	7.61	16.80	57.75	103.86	119.44
Deposits (Rs. crores)	4.28	7.04	14.59	32.58	39.45
Loans advanced (Rs. crores)	22.90	49.62	202.75	316.16	345.50
Average per society:					
Share capital (Rs.)	727	1,051	2,722	5,166	6,024
Deposits (Rs.)	408	441	688	1,621	2,007
Loans advanced (Rs.)	1,983	3,102	9,558	15,726	17,574
Average per member:					
Share capital (Rs.)	17	22	34	41	44
Deposits (Rs.)	9.7	9.0	8.6	12.8	14.6
Loans advanced (Rs.)	44	64	119	124	128
Percentage loans overdue	22	25	20	26	27
Land Mortgage Banks (Long-term loans)					
No. of Banks:					
Central	5	9	18	18	18
Primary	286	302	463	643	670
Loans advanced during the year to individuals (Rs. crores)	1.38	2.86	11.62	39.48	55.88
Loans outstanding with individuals (Rs. crores)	6.59	13.47	37.74	121.37	164.50
Debentures issued during the year (Rs. crores)	N.A.	N.A.	10.62	32.58	48.79

Source: Department of Co-operation.



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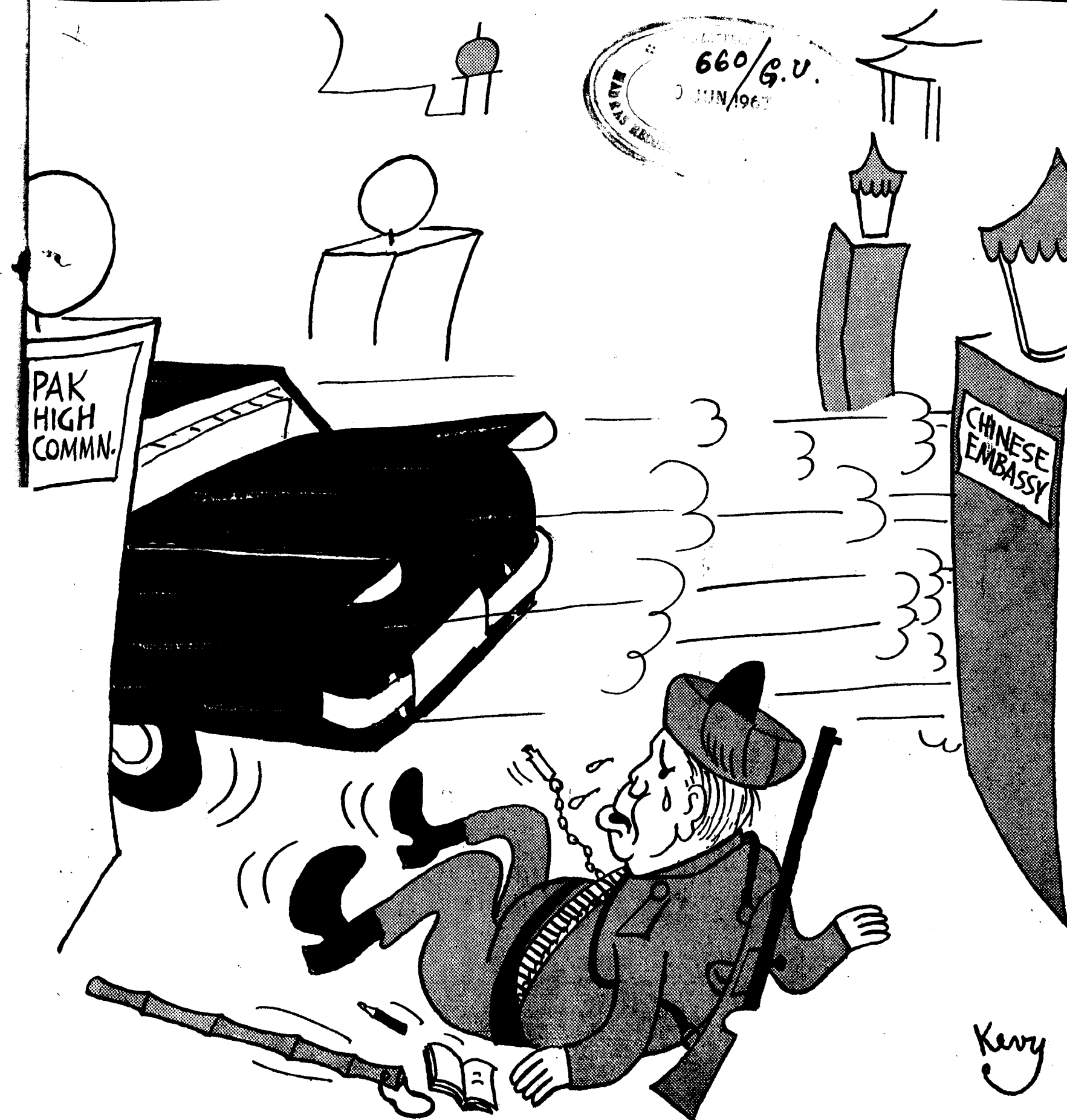
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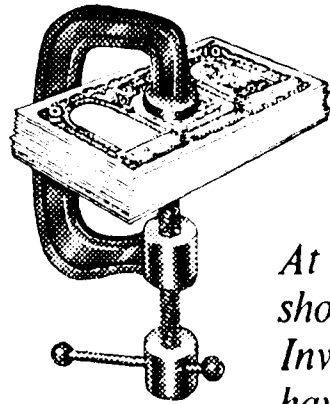
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EASTERN ECONOMIST

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On Merits, Madam?

YOU HAVE been claiming, Mrs Gandhi, that your Government's foreign policy judges issues and situations on their merits. Two questions arise: First, is your claim valid? Secondly, is your Government's judgment reliable?

To start with, although the state of Israel is a member of the United Nations, your Government has refused to establish normal diplomatic relations with it. It is true that this is a legacy which you have inherited from previous Prime Ministers, but even during the brief period you have been in office, you have not only not tried to normalise diplomatic relations with Israel but have actually allowed a certain deterioration to take place in the relations between the Government of Israel and ours.

In sharp contrast, you have continued and strengthened the policy initiated by the first Prime Minister of our country of sympathising with and supporting the Government of the UAR, not only in its detailed disputes with Israel but also in its challenge of the very statehood of Israel. It is true that you or your Government have never said in so many words that Israel has no right to exist, but it has certainly been the declared position of your Government that tension in West Asia is a natural consequence of the creation of Israel thereby implying that there could be peace in West Asia only if Israel would settle with the Arab countries, and particularly with the UAR, on the latter's terms, whatever these terms may be.

In the circumstances, can it be denied that your Government has always been partisan of the Arabs in the Arab-Israeli conflict in West Asia and that, consequently, your Government is not qualified to judge objectively and impartially between Israel and the UAR, especially in times of stress? Why, then, have you, Prime Minister, been in such a hurry to accept the UAR versions always and without apparently taking any trouble to find out what the other side may have to say?

Thus, although on May 20 the UN Secretary-General had warned the Security Council that the relations between the Arab States and Israel had become a menace to peace in West Asia, you had no hesitation in writing to President Nasser at about this time unreservedly accepting his assertion of injured innocence. How was it that it did not at all occur to the Government of India on this occasion to advise its friend and ally to refrain from any action that might heighten tension and increase the danger of war?

Even as you were corresponding with (the then President and now Prime Minister) Nasser, the UNEF forces in Gaza area were being withdrawn at the instance of the UAR Government, while the UAR troops were taking up battle positions along the frontier with Israel. Three days later, Cairo closed the Gulf of Aqaba to Israeli shipping. Not many days later, your precious Foreign Minister, Mr Chagla, was to attempt to justify these moves as action legitimately taken by the UAR to counter the threat of an Israeli attack on Syria, but I am not aware that your Government had at any time tried to persuade its friend and ally in Cairo to refer to the Security Council the charge against Israel of planning an attack on Syria. Can it be the contention of your Government, Mrs Gandhi, that governments which are members of the United Nations have no obligation to seek the peace-keeping services of that body but might decide, on their own sweet pleasure, to be their own policemen and take international law into their hands?

On May 25, speaking in Parliament, Mr Chagla chose to defend the UAR moves on the ground that they were precautionary measures taken to deter Israel from any aggressive designs against Syria. Was this not a preposterous description? It was plain for all to see that the blockade of the Gulf of Aqaba,

in the circumstances in which it was announced and enforced, could only have precipitated a military showdown between Israel and the UAR. Even if this was something which your Government could not grasp immediately, it could at least have sought guidance from the UN Secretary-General before it permitted its Foreign Minister to characterise the blockade as "a precautionary measure." Why was this not done, Mrs Gandhi?

Worse still, when other nations, whose stake in peace in West Asia was no less than our own, were quick to realise the explosive possibilities of the Gulf of Aqaba blockade and were making a resolute attempt to bring the Security Council into the picture before the belligerents had crossed the point of no-return, why, in the name of all that is sensible or proper, Mrs Gandhi, did the Government of India instruct the Indian delegate, Mr G. Parthasarathy, to block action in the Security Council? On May 23, when Canada and Denmark, supported by the USA and the UK, moved a resolution in the Security Council requesting "all member states to refrain from any steps which might worsen the situation," your Government, through the Indian delegate, took it upon itself to oppose this resolution because your Government could not tolerate the implied recommendation in that resolution that the UAR should not persist in the provocative blockade of the Gulf of Aqaba. In retrospect at least, Mrs Gandhi, would you agree that, by helping to prevent the Security Council from bringing the blockade under international discussion, your Government had contributed to the subsequent tragedy of the war and had thereby served neither the larger cause of peace in West Asia nor even the more limited interests of the UAR?

There was a eleventh-hour chance of saving peace in West Asia had the United Nations succeeded in bringing the issue of the blockade to a debate on the forum of the Security Council or perhaps the General Assembly. Your Government, Mrs Gandhi, was criminally blind to this possibility and chose to misinterpret the blockade as a narrow legalistic issue concerning the UAR's sovereignty, whereas it was, in reality, a political issue involving Israel's security and survival. Did you not go wrong, Mrs Gandhi, when you allowed the lawyer's quibbling of your Foreign Minister to distort the perspective of what was essentially an issue of war and peace?

After the war had broken out, in a statement to Parliament, you condemned the Israeli attack on the UAR and Syria as an act of "escalation" of war. Was your Government under the impression that wars were fought as a parlour game, with one party saying to the other, "Your move, now, please"? Given the warlike preparations in West Asia over the years and the fierce confrontation of hostile forces along Israel's frontiers with the UAR, Jordan and Syria, was it really fair and reasonable for your Government to single out a particular act of hostility and label it "aggression" or "escalation"? In any case, is it not rather odd for your Government, which has so much experience of hostile neighbours, to presume to indulge in

remote dictation to the Israelis of how or when they could legitimately use force to defend themselves?

Talking of escalation again, Mrs Gandhi, what made your Government remain silent when (the then President) Nasser made wild charges of conspiracy and collusion against Britain and the USA and proceeded to close the Suez Canal to international shipping? Surely it should have been clear even to your Government that the UAR was desperately bidding to widen the area of conflict, internationalise the war and plunge the world into an Armageddon if it could. Was there no escalation then, Mrs Gandhi?

Then, after the Arab forces had been knocked out of battle and Israeli troops had overrun UAR and Jordanian territories and when it had become vital to world peace that hostilities should be brought to an end as early as possible, what made your Government lend a hand to the obstructing and delaying of the adoption of a simple cease-fire resolution, Mrs Gandhi? It was not even as if you were serving the interests of the UAR to which cessation of hostilities should have been most welcome. Was it not passing strange, Mrs Gandhi, that you and your advisers could really have imagined at that moment that a cease-fire would have been possible at all had the Security Council been misguided enough to insist on the condition that Israel should withdraw its troops to pre-war positions forthwith?

Even now, Mrs Gandhi, why is your Government taking the position in the United Nations that Israel should withdraw behind its borders before talks could begin on a peace settlement? Is your Government, by any chance, under the impression that there is an analogy between the Indo-Pakistan war of 1965 and the Arab-Israeli war? Has it not still been driven home to your Government that Israel has fought and won a battle for survival and that it cannot possibly let itself be robbed of a chance of obtaining safeguards for its security? Is your Government interested in the restoration of peace in West Asia or in resurrecting the prestige of Prime Minister Nasser, Mrs Gandhi?

In any case, is it possible that your Government does not realise that its ill-starred diplomatic intervention in the West Asian war is imposing harsh, but avoidable strains on Indo-American relations? Is it the time, Mrs Gandhi, with Pakistan's hostility unabated and China's bellicosity flaring up again, for your Government to act in a manner which invites the distrust of peoples and governments whose active friendship is of the greatest relevance to our national security?

What is your order of priorities, Mrs Gandhi? Are you satisfied that your Government has done or is doing everything that is possible to secure our country's defences in both diplomatic and military terms? You and your Foreign Minister assert that your Government takes decisions on merits. How reliable is your Government's judgement, Mrs Gandhi?

—THE EDITOR

Best of Both Worlds

THE MADRAS Chief Minister, Mr C.N. Annadurai, who also holds the Finance portfolio, is seriously worried that the implementation of the approved fourth Plan, calling for an outlay of Rs. 64 crores, is jeopardised on account of the lack of resources and the unhelpful policy of the Centre. Mr Annadurai has even gone so far as to suggest that the concentration of resources with the Centre, through its facility to raise large revenues in many ways, has prevented the states from planning on correct lines and developing regional resources in an effective manner.

In the second year of the fourth Plan an effort has been made to increase the outlay in Madras State by pruning expenditure in several directions. But not more than Rs. 85 crores could be found and it is considered doubtful whether, in the absence of a new system of devolution of revenues from the Centre in a more equitable manner, state planning can be attempted on an ambitious scale. It is contended that the effect of the recommendations of the fourth Finance Commission has been nullified by the necessity to incur heavy expenditure on the grant of higher dearness allowances to government employees and others. It has been estimated that Rs. 64 crores additional will be available from the Centre during 1966-71. But the increased expenditure through revised dearness allowances alone will account for Rs. 45 crores. If further amenities have to be given to the employees, as is likely, the quantum of resources available for plan schemes will considerably fall short of requirements. It has also been complained that Central assistance in the current year has not been calculated on the basis indicated earlier and it has been necessary to levy additional taxation even for meeting the modest outlay on plan schemes in the current year.

The demand has, therefore, been put forward that the relationship between the Centre and the states should be redefined and the state governments should have freedom to formulate schemes after a decision had been reached in regard to the allocation of resources. There is no doubt that there is need for greater state autonomy and greater freedom for formulating plan schemes. But it should not be overlooked that there are practical difficulties in the way and the Centre is hamstrung on so many sides that it has not found it possible to plan in a big way and satisfy the aspirations of the states. An expert body will have to be appointed for investigating how financial relations between the Central and state governments can be redefined and how larger resources can be mobilised. It is, however, incorrect to think that merely by a transfer of resources from the Centre to the states, a higher rate of economic growth can be assured and the states will not have any problem in regard to the availability of financial resources. The Central and state governments are now spending available funds in equal proportions. It might be felt in some quarters that the method of implementation of Central projects has led to uneven development of particular regions in the country. In that event, what is needed is

an examination of how Central planning can be reshaped to yield better results and how these schemes can be dovetailed with those of the states. A mere transfer of tax sources to the states cannot lead to miracles.

Mr Annadurai has also called for the appointment of an expert body to examine how debt repayments to the Centre can be rephased and how Central assistance can be made more effective. It has been pointed out that interest charges which absorbed only 3.5 per cent of state tax revenues in 1950-51 accounted for over 20 per cent in 1966-67 and it is expected that this will rise further to 23 per cent in the current year. As the expenditure incurred on the implementation of many projects which have resulted in the creation of educational and medical facilities and even irrigation works is not likely to give a return on investment which will be adequate for the repayment of the debts and payment of interest charges, the question of rephasing debt obligations cannot be postponed for long. The Centre may, for its part, find it difficult to maintain its assistance at a high level if there was a lowering of interest charges and also a reduction in loan instalments. In any case, the genuine difficulties of the state governments have to be recognised and some acceptable solution has to be found. Unless a compromise formula for the reallocation of tax

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revenues and for assuring availability of Central assistance can be evolved, with non-Congress governments in power in many states, the relationship between the Centre and the states may become strained in the near future. The state governments, however, should not overlook the realities of the situation and delude themselves into the belief that the main reason for the mistakes in planning is the lack of autonomy for the states. What is needed is correct planning and effective utilisation of available resources and not merely a reallocation of responsibilities.

The Madras Government's contradiction in thinking is clearly brought out by its anxiety to secure larger assistance for its own schemes as well as Central implementation of the Salem steel project and the Tuticorin harbour project. The main problem relates to the mobilisation of resources and the avoidance of deficit financing. Unless there is effective co-ordination between the Centre and the states and remunerative use of available resources is achieved, the drift noticeable in the past few years cannot be ended.

Even the new Madras Government is not fully aware of what is possible and desirable. In its anxiety to subsidize sales of rice an expenditure of five crores of rupees will be incurred for implementing the scheme in the first stage in the statutorily-rationed areas. When the informally-rationed areas are covered and larger sales are effected through the fair price shops larger amounts will have to be found for subsidizing sales. This project will not succeed unless there is a distinct improvement in the food

Government Must Govern

WHEN MR Subodh Banerjee, Labour Minister of West Bengal, was asked how he felt being gheraoed in his office by the employees of a commercial firm, he replied that he took it in good grace and that he enjoyed it. But not all the victims of gheraos in West Bengal have found their experience enjoyable. The state government's attitude to gheraos seems to have become a little realistic lately. Formerly, the Government had ordered the police not to take action on gheraos unless specifically asked to do so by the Chief Minister or the Labour Minister but now the police have been instructed to intervene where their action is called for on the merit of each case. This is some improvement over the previous position, though it does not effectively meet the needs of the situation. In the first place, neither the Chief Minister nor the Labour Minister has clearly and categorically condemned gheraos as the Chief Ministers in Orissa and some other states have done. Secondly, the police are still unsure whether in cases of intervention they will get adequate protection from the Government.

At the meeting of the representatives of the Chambers of Commerce with the Chief Minister on May 16, employers took the stand that the proposal to set up a committee to examine cases of closure, retrenchment and lay-off should be implemented only after the Government had taken effective

situation in the whole country. The policy of nationalisation of bus transport is also proposed to be implemented and it has been announced that bus routes over 75 miles would be taken over by the Government as and when the permits expired. The wisdom of this step in a state where bus transport in the private sector has been developed efficiently can be questioned.

The budget proposals for 1967-68 have been formulated in an ingenious manner. There will be an overall balanced budget. The deficit of Rs. 4.70 crores is proposed to be covered by the levy of taxes. The adjustments in sales tax will fetch additionally Rs. 3.25 crores. Apart from raising the rate of tax on luxury goods to 12 per cent, there are adjustments in the rates on declared goods and in the multi-point tax. There are also changes in the method of compounding agricultural income tax though the exemption limit has been raised. This has been done with a view to offsetting the loss that will be sustained by the abolition of tax on dry land held by small farmers. Motor vehicles taxation, which is already high in this state has been further raised, to fetch a crore of rupees. Additional revenue is also proposed to be secured through a stricter enforcement of the rules relating to the levy of stamp duties. Suitable legislation is proposed to be introduced for giving the necessary powers to government officials for scrutinising documents where it is felt that there has been underestimation of sale value for evading the payment of stamp duties. It is felt that higher taxes will result in a further rise in prices while road transport will become more costly.

Steps to stop gheraos, coercion and intimidation as methods for settling labour disputes. The employers had also stated that if workers in any part of the state resumed such activities, the committee would stop functioning. As these assurances were not forthcoming, the proposal to set up the committee to consider cases of retrenchment and closure has been deferred. Meanwhile, the Government has announced its intention to amend several labour laws at the forthcoming session of the Assembly. The Government has not as yet published its proposals. Nor has it consulted the employers' organisations. The official attitude has naturally caused concern to employers. The official view seems to be that the Government's duty is to protect and promote the interests of the workers only and that employers should learn to adjust themselves to the new situation. In fact, Mr Subodh Banerjee himself declared some days ago that his attitude would always be pro-labour because, after all, he was Minister of Labour and not of Management!

The Government's proposal to amend labour laws unilaterally clearly violates the convention, followed for many years both at the Centre and in the states, to have prior discussion and, if possible, agreement on the amendments, at tripartite meetings. The new procedure will create other difficulties as well. As the six Chambers of Commerce in

Calcutta have observed in a joint memorandum to the Government:

"Although 'labour' is a concurrent subject under the Constitution of India, labour laws in any state should not be at variance with those in other states, particularly in respect of the Central Acts. Lack of uniformity in labour laws will not only create various complications but will also put employers in West Bengal at competitive disadvantage vis-a-vis their counterparts in other states. Further, most of the Central Acts have been amended from time to time in the light of difficulties experienced in administering them. It may also be mentioned in this connection that any far-reaching amendment to the existing labour laws should not be contemplated at this stage when the entire field of labour-management relations and the laws governing them are being examined by the National Commission on Labour."

The state government has often complained that, because of the Centre's policy of discrimination, other states have been able to achieve faster progress than West Bengal. Maharashtra, for instance, has been receiving more licences for the establishment of new industries and expansion of the existing ones. Consequently, West Bengal's supremacy in the industrial field has receded. It is all the more surprising, therefore, that the Government of West Bengal should persist in policies which are likely to slow down the state's industrial progress.

Mr Ajoy Mukherjee, the Chief Minister, speaking in Calcutta on completing 100 days in office, said that his government has not as yet been able to achieve much. A period of three months is, of course, too brief for any government to show outstanding results. But concern arises

Planned Parenthood

THAT, MINISTER or no minister, Dr S. Chandrasekhar will not give up his adventurous salesmanship was again brought home the other day when he delivered the ninth Convocation Address of the Demographic Training and Research Centre, Chembur (Bombay). In order to sell family planning, a pet thesis with him long before he became a minister, he made two provocative observations that are bound to evoke both interest and controversy and, eventually, we hope, lead to some good for this country as well. The two observations referred to are:

(i) "It is obvious that the emancipation of our women, in the full economic, legal, political and social sense, can basically alter the magnitude of our population problem. For then, understandably, women themselves would decide when and whom they would marry, whether they would be homemakers or career women or both, and when and how many children they would choose to bear and rear. Under such circumstances almost all our children would be wanted ones, and few would be unplanned accident."

(ii) "This (reduction of birth rate) involves, among other things, that the citizen must become aware that the

not so much from the absence of positive achievements but from deterioration in certain respects. For instance, in a statement issued on June 15, Mr I. M. Thapar, President of the Indian Chamber of Commerce, Calcutta, said:

"The recent large-scale disturbances in north Bengal, particularly in tea plantations, and forcible entry and unauthorised occupation of property is a new phase leading to further disruption of the economy of West Bengal. The feeling of insecurity is growing among large masses of the people. In the background of the overall recession in the country, such developments are giving cause for much concern. Little is it realised how greatly the current situation is weakening the state's and the country's economy. As a result of growing indiscipline in industry, forced closure of factories due to inadequate police protection and growing insecurity, production is going down consistently which is accentuating shortages and harming exports and the cumulative impact of the present crisis on the economy is steadily increasing."

Mr Thapar estimated that since March, 1967, as a result of the new labour policy, West Bengal had lost over three million man-hours, production valued at more than Rs. 20 crores, and government revenues exceeding five crores of rupees. Mr Thapar says these are "conservative" estimates. It is clear, however, that the loss will continue to be substantial unless the Government governs firmly and impartially and upholds at all costs the rule of law. As the Federation of Indian Chambers of Commerce and Industry and the All-India Organisation of Industrial Employers pointed out in a joint statement in May, "the worker cannot work or the manager manage if the Government does not govern."

most private individual act of conjugal union has tremendous public—familial, national and international—repercussions of an economic, social and political character. Perhaps, there is no other instance of a single private act leading to a public tragedy. Therefore, this act must be a responsible act, an act where the consequences are controlled in the interests of ensuring the health and happiness of individual families and the material prosperity and social progress of the country."

Some may say the language employed here is very strong, but let there be no mistake it is the language of a reformer. And to the extremely complacent, if not indifferent, people that we are, anything less strong would leave us practically unmoved. This is because even today many in this country do not seem to appreciate, let alone apprehend, the dangerous implications of the population explosion not only to ourselves but to the world at large. So, when Dr Chandrasekhar spoke of "international repercussions", he was not thinking of mere effect, but meant every letter of it. Indeed, this was the essence of the theme of his address.

India's Minister for Health and Family Planning is always

known to drive home his points by putting them across graphically and vividly, and his convocation address was not devoid of this familiar feature. He first posed the problem which is that we have not been reducing our birth rate in the same measure as we have been reducing our death rate. Incidentally, Dr Chandrasekhar does not wholly subscribe to the view that the decline in death rate, whether in the advanced countries of the west or in this country, is due to modern medicines and vaccines; his view is that it is due to political stability, extension of irrigation system and better transportation system, all of which lead to more food supply and better distribution thereof. There are, according to the Minister, a little over 100 million couples in our country today, of whom as many as 90 million are couples in the reproductive age group of 15-45. No less than 42 million or 46.8 per cent of these have four or more children and 14 million or 15.5 per cent have three children. Since the optimum number of children per family from the national point of view (also as per Maharashtra's new rule denying all concessions to parents with more than three children) should not exceed three, it follows that these 56 million couples (63.3 per cent) should not have any more children. And that is feasible only if all these families undergo sterilisation. Dr Chandrasekhar is not even prepared to let these families employ conventional contraceptives for the purpose, as he does not want to take any chance of failure. For the remaining 34 million couples who may be having one or two children, he recommends restraint by the use of IUCD so as to put off the arrival of the second or third child.

All this is so far as married couples in the reproductive age group are concerned and whatever success meets the efforts envisaged can only delay births but not decrease them. To Dr Chandrasekhar, however, even a minimum reduction of one child per married woman of completed fertility is worth striving for. Hence his exhortation that the age of marriage must be raised from 15 and 18 (for girls and boys) to 20 and 23 years, respectively. In no other country, even among Asian countries with comparable cultural mores, are the mean ages at which men and women marry lower than in India! The Minister has no patience, therefore, to listen to women who argue that girls are sweet at 15 (Does not the epithet sweet always go with 17?), his reaction being "I hope the sweetness of our girls does not end at 15 years." Surely the best way not to rob them of such sweetness is by not foisting marriage on them at 15.

What is the target for reduction in the birth rate? The immediate minimum, we are told, must be to reduce the present 40-42 rate to 25 per 1,000 per year, but Dr Chandrasekhar would like it to go down even lower to 20 over the next 10 years if our hard won economic gains are not to be swallowed up by our population increase. The Minister evidently knows what he is asking, recognising, as he does, that we cannot still be precise about our vital statistics, though we have been having a census organisation since 1871. Even these "tentative" vital statistics are scaring enough to those that can visualise what is likely to happen if we let sleeping dogs lie and fail to take prompt remedial

action. With us, it is not just a case of the population growing as it is bound to; it is the alarming rate of increase of this population. Over the first two decades in the twenties, the addition to our population was no more than 12.9 million; in the next 20 years, it was 67.3 million, and, between 1941 and 1961, it was even higher at 120.4 million. As Dr Chandrasekhar said, at this rate, namely 2.5 per cent, per year, in the next 30 years—between 1967 and 1997—we shall probably double our present number and reach the incredible figure of 1,000 million or one billion! Many of us will understand better what this means if, as the Minister put it, we are told that about 20 million babies are born every year, as against about eight million deaths per year. In other words, whereas our birth rate is about 40-42 per 1,000 per year, our death rate is 16-17 per 1000 per year.

We have indeed reached a stage when we must pause to ponder over our population proliferation. What does a billion population connote in terms of food, clothing, housing, education and medical aid? To meet the requirements of just half that population we are simply tottering today. Is it at all asking for too much, then, to insist that even the most private individual act of conjugal union shall not be indulged in irresponsibly?

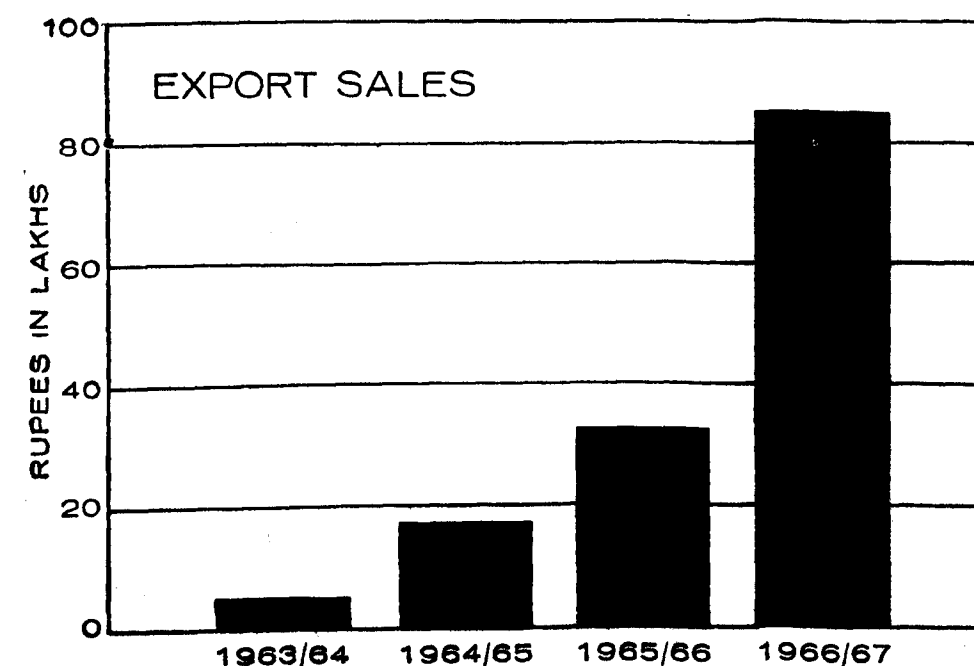


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can be assured. It is only now being realised that agriculture has been badly neglected in the past and it would be easier to plan for economic growth if the deficiencies in agricultural production could be overcome. A large tax element on essential articles of consumption is to a certain extent inevitable in a transition period. But we have overreached ourselves in some directions and even a trend of stagnation in general consumption has emerged not to speak of a decline in demand for cotton fabrics and the like. If it is found that the heavy excise duties have an inhibiting effect, even after a recovery in agricultural production to the levels of 1964-65, it should be examined how the harshness of the incidence of indirect taxes has devitalised the fixed-income groups and how consumption could be stimulated.

Apart from the heavy duties on essential articles, a strange policy has been adopted in respect of taxation of producer goods and intermediate products. The objective is, of course, to raise funds. But the cost inflation that has been brought about will be injurious to the industrial economy over a period and will make the task of export promotion more difficult than it is now. Besides, irrational adjustments in excise duties in the recent budget on rayon, synthetic fibres and yarn, aluminium and aluminium products and sized-yarn, have made it difficult for many industries to function on a profitable basis. The duties on this group of articles can be raised only up to a point with a view to reducing profit margins wherever they are flattering. But it should not happen that the healthy progress of vital industries is prejudiced by an undue anxiety to raise funds and to limit profit margins. It will turn out to be a case of slaying the goose that lays golden eggs.

Depressed Capital Market

As a result of the diversion of large resources to the exchequer through direct and indirect taxes and high prices for essential articles of consumption, the capital market has been in an extremely depressed state in the past few years. After the boom in new capital issues in 1958-62, there has been virtually no enthusiasm for starting new enterprises. Only the established units have been implementing expansion programmes by issuing fresh capital to their shareholders and obtaining finance from the statutory corporations in large measure. But this process has slowed down noticeably and there is the danger of a difficult situation arising at a later stage in regard to the availability of goods and services. The successful flotation of many new companies in the last boom and the expansion schemes of many old enterprises have been responsible for significant growth even during the period when the economy was passing through a difficult phase. This progress cannot be maintained unless the capital market is revived purposively. There will have to be parallel growth of the public and private sectors if the take-off stage is to be reached in the near future. Mr Morarji Desai has failed to provide the necessary incentives in his budget for reviving confidence in the capital and stock markets. Since it is reported that there will be a simplification of direct taxes and the position will be reviewed later in the year, if the efforts to revitalise the agricultural sector yield results, it is only to be hoped that the supplementary budget, when presented, will contain proposals which will ensure reasonable reward for work and which will encourage healthy enterprise.

What is required for the nation now is an incentive-oriented tax system which will provide the economy with a climate suitable for capital formation. Most western countries have already shown an awareness of the evils of excessive taxation and have actually started towards the adoption of efforts to remedy the state of affairs. The late President Kennedy, while addressing the Economic Club of New York in December, 1962, drew attention to the adverse effects on an economy hampered by restrictive tax rates and pointed out that if the burden on private income is reduced, the larger net after-tax income would produce a stronger market for the products of industry; consumers would purchase more goods,

plants would seek to produce more goods, more men would be hired for employment, investment would increase, as also profits and with it the revenues. As the late Kennedy put it, "The surest way to raise revenues in the long run is to cut rates low."

The situation in this country today requires similar treatment. An awareness of this could be seen in the words of Mr Nicholas Kaldor who observed: "It is far better to have a fool-proof system of taxation with a moderate rate schedule than a system having the appearance of high progression but which cannot be effectively or impartially administered." Mr T. T. Krishnamachari showed an awareness of this whenever he spoke on taxation but he did not translate his ideas fully into action. Also, he was not continuously in office to carry out these ideals. Now it is left to Mr Morarji Desai to follow the advice of Mr Kaldor.

I would like at this stage to suggest certain measures which, if adopted, will go a long way to make our tax system efficient as well as equitable. The maximum for company taxation should not be above 45 per cent. On personal taxation the exemption limit can be raised to Rs. 10,000 and the maximum can be fixed at 60 per cent. (Many may raise their eyebrows but the loss of revenue will be only Rs. 10 crores. This can be much less if the reduction in the work of the income tax department is borne in mind.) Further, the distinction between agricultural income and business income should be abandoned and, if need be, as recommended by the Matthai Commission, both the incomes should be aggregated for computation purposes. Apart from lowering taxation, there should be positive inducements such as tax rebate in respect of profits ploughed back and investments in equities of new industrial undertakings. (The tax credit system as conceived now has failed to secure the desired results.) There should be suitable alternatives to the Annuity Deposit Scheme which will afford attractive tax relief for diversion of savings in specific channels. Indirect taxes should not be indiscriminately levied and when it is found that they have increased production costs, there should be appropriate adjustments. These measures, if introduced, will reduce the incidence at all levels in such a way as to smoothen the unevenness of the tax structure besides paving the way for larger capital accumulation and sustained economic development which is the need of the hour.

Eastern Economist 20 Years Ago

JUNE 20, 1947

The Mountbatten Plan, whatever its merits or demerits, has served to check the state of drift to which affairs in this country had come to sink. With the seal of approval put on it by the main political parties, it should be possible, in the immediate future, to restore to the administrative machinery the requisite energy which it has so sorely and manifestly lacked during the past several months. With the threat of a full-blooded civil war, fortunately eliminated, it should also be possible to devote thought to the problems of rehabilitation of a war-shattered economy and to the provision of immediate economic relief to the masses. The spheres of administrative jurisdiction and control having been clearly defined and delimited, it should be possible now to provide necessary direction to economic endeavour without the possibility of internal friction and resultant paralysis within the Government. In a word, by making the task of the transfer of power smooth and, in a large measure peaceful, the new British Plan has made it possible for our leaders in Government and outside, to give thought to pressing questions clamouring for attention.

Public Debt and Inflation

L. G. BAPAT

BORROWING IS generally considered a non-inflationary method of financing developmental expenditure. Hence, prima facie at least, our Government's public debt must not have any insalubrious effect on our economic stability. Is it so in reality?

Table I below shows the internal debt position of the Central Government from 1950-51 onwards. Our Government's total internal debt was Rs. 2,473.63 crores in 1950-51. By the end of the first five-year Plan, it increased to Rs. 3,070.27 crores—an increase of 24 per cent in five years or a little less than five per cent per annum.

During this period, our national income at 1960-61 prices increased from Rs. 9,850 crores to Rs. 11,670 crores—an increase of 18.5 per cent in five years or 4.5 per cent per annum. Thus, the increase in public debt during the first Plan was more or less in step with that in the national income.

But from the inception of the second Plan, the situation changed abruptly. During the ten years of the second and third Plans, the public debt increased from Rs. 3,070.27 crores to Rs. 8,178.45 crores—an increase of 166 per cent or 16.6 per cent per annum. As against this, the national income at 1960-61 prices increased from Rs. 11,670 crores in 1955-56 to Rs. 15,930 crores in 1965-66—an increase of 37 per cent or 3.7 per cent per annum.

However, 1965-66 was a difficult year. It was a year in which the country faced the worst drought for a long time. Hence the Planning Commission uses the year 1964-65 as base for the purpose of its projections. In that year, our national income at 1960-61 prices was Rs. 16,630 crores. This gives us an increase of 43 per cent in national income during the second and third Plans—or 4.3 per cent per annum. Still, there was a vast imbalance between the average growth of public debt and that of the national income during the second and third Plans. In the first year of the fourth Plan, this imbalance continued.

The growth of public debt and that of national income

TABLE I
INTERNAL DEBT POSITION OF GOVERNMENT OF INDIA 1951-68

End of March	Rupee Loans	Treasury Bills	Small Savings	Other Obligations	(Rs. crores)	
					Total Internal Debt	
1951	1,438.46	364.72	327.64	342.81	2,473.63	
1952	1,403.51	332.51	372.57	351.24	2,459.83	
1953	1,403.58	315.44	412.16	361.82	2,493.45	
1954	1,364.27	334.95	450.51	355.44	2,505.17	
1955	1,474.39	471.87	505.70	391.97	2,843.93	
1956	1,508.67	595.25	576.06	390.29	3,070.27	
1957	1,633.61	935.70	637.68	406.55	3,513.54	
1958	1,699.50	1,295.12	706.98	422.37	4,123.97	
1959	2,180.96	1,225.32	785.50	437.21	4,628.99	
1960	2,438.23	1,297.60	869.68	530.99	5,136.50	
1961	2,571.33	1,106.30	974.56	825.77	5,477.96	
1962	2,688.45	1,174.98	1,061.47	931.38	5,856.28	
1963	2,840.94	1,299.55	1,136.38	1,035.81	6,312.68	
1964	3,113.92	1,381.95	1,251.63	1,154.58	6,902.08	
1965	3,267.53	1,443.52	1,398.56	1,322.37	7,431.98	
1966	3,428.63	1,611.82	1,538.21	1,599.21	8,178.45	
1967 (RE)	3,562.93	1,918.82	1,663.31	2,004.04	9,149.10	
1968 (BE)	3,656.83	1,918.82	1,793.41	2,218.67	9,587.12	

Sources: 1. RBI's various reports on currency and finance and figures released with the interim budget for 1967-68
2. NCAER, New Delhi: 'Management of Public Debt in India.'

must go hand in hand if economic stability is to be maintained. This is a general principle adopted in developed countries such as West Germany, the USA, France, etc., which have made progress with reasonable economic stability. Only when there is a recession, a large dose of borrowing is justified as it creates additional demand and leads to a revival of the economy. Otherwise such a policy carries with it germs of inflation.

The aim of borrowing is to mobilise scattered savings for investment. If loans are largely subscribed by private individuals or by institutions without liquidating their previous holdings of government securities, then there would be a mere transfer of purchasing power to the government. Theoretically then, there should be no inflation.

Manifold Increase

Has our Government's debt policy succeeded in mobilising savings in the above sense? The data regarding the ownership of government securities up to 1963 have been published by the National Council of Applied Economic Research (NCAER) in their publication entitled 'Management of Public Debt in India.' It is seen from it that the debt held by the Government and the Reserve Bank rose from Rs. 465.8 crores in 1951 to Rs. 1,233.3 crores in March 1963 a rise of 205 per cent in 12 years against an increase of only 108 per cent in the total marketable debt of the Government. Further data published in the Reserve Bank of India bulletins show that this trend has continued unabated during the subsequent years, the combined holding in 1965 being Rs. 1,430.8 crores.

The debt held by individuals declined in absolute terms from Rs. 84.64 crores in 1959 to Rs. 64.5 crores in 1965. In terms of percentage, the decline was much steeper, from 3.8 in 1959 to 1.8 in 1965. The data for the period prior to 1959 are not available on this point.

The same is the case with joint stock companies, trusts, local authorities etc.,—their share in the total debt declining from 26.7 per cent in 1951 to 11.8 per cent in 1965. The debt

held by the non-residents also declined from four per cent to mere 0.6 per cent during the same period.

The share of commercial and co-operative banks has remained steady around 20 to 25 per cent. However, in absolute terms their holding of debt has increased from Rs. 391.60 crores to Rs. 786.90 crores during 1951-65. At the same time, we find that their indebtedness to the Reserve Bank has also increased. Thus, the state co-operative banks held government securities of Rs. 34.97 crores in 1965-66 against Rs. 13.76 crores in 1955-56. During the same period their borrowing from the Reserve Bank against these securities increased from Rs. 13.20 crores to Rs. 33.85 crores. Thus, it seems that they are obtaining loans on old securities for buying new ones. The same is the case with commercial banks to some extent. This means that a certain proportion of these securities though held by these banks, is indirectly purchased by the Reserve Bank itself. However, no exact information is available in this respect.

When the Reserve Bank purchases the government securities on its own account, the total money supply in the economy expands. This is an indirect method of deficit financing. How this happens is succinctly discussed by the NCAER in its above-quoted book as under:

"Taking the banking sector in isolation, an increase in money supply is caused by increases in monetary assets minus increases in non-monetary assets. In terms of monetary analysis deficit financing, as officially defined, causes an increase in money supply because through the issuance of ad hoc treasury bills, the monetary (or financial) assets of the RBI go up while reduction in the cash balances of the Government causes a decline in the non-monetary liabilities."

"For the same reason, when the RB pays dated rupee securities of the Government, its assets go up. If the same amount is credited to the cash balances of the Government, the non-monetary liabilities of the Bank will rise by the same amount and the immediate effect on the money supply will be nil. But when the Government spends the money, the cash balances go down causing reductions in the non-monetary liabilities of the RB. Thus, the money

supply will increase by the amount of government securities purchased by the RB."

Reverting to the ownership of debt, we find that the share of the public debt held by insurance companies, finance corporations and provident funds has increased absolutely as well as in terms of percentage. These institutions are either part of the Government or its creation. They have no independence in investing their funds. Hence the NCAER calls them as "captive market."

As the Government securities are not attractive from the point of view of their yields, these institutions most probably would have invested much less in them if left to themselves. More would have then been invested in the private sector undertakings. It means that the Government is appropriating more for itself at the cost of the private sector. Thus, on the whole, one has to conclude that our Government's borrowing programme did not result in mobilisation of additional or new savings in any real sense.

Low-Interest Policy

In order to keep the interest burden low, the Government has adopted a policy of low interest rates. As a direct consequence of it, private individuals and independent institutions are keeping themselves away from these securities. They have been investing their savings in private non-banking companies by way of fixed deposits as the interest offered on the latter is much higher.

From the point of view of the economy as a whole, this policy of low interest rates had perhaps so far no adverse effects on the total mobilisation of savings in the economy. But a recent development is likely to have such effects. The Reserve Bank by its notification which came into force from January 1, 1967, has set a ceiling on the deposits held by the non-banking companies.

Probably it is hoped that by this restriction, more funds will flow to government securities. The individuals being unable to invest in fixed deposits of private companies would be forced either to purchase government securities or deposit their money with commercial banks. As the latter are under statutory obligations to keep a certain proportion of their

deposits in liquid assets, they would purchase more securities as their deposits augment. So directly or indirectly more savings will be invested in government securities.

No doubt, to a certain extent, this may happen. But the interest rates on government securities are so low that some of the resources so released may very well go into unproductive channels like purchase of gold, real estates etc. To that extent, the Government would not gain whereas private companies would lose. This will affect their production programmes adversely and reduce the total supply of goods and services in the economy.

Lastly, borrowing for developmental process has to be self-liquidating. It is generally so, as investments soon begin to yield returns from which payment of interest and repayment of loans can be made. There is then no burden on the general revenue of the Government for either purpose. Here too, the conditions obtaining in this country do not fulfil this expectation.

Table II shows investments in public sector commercial undertakings and dividend and/or profit accruing to the Central Government from them. The average yield on government investment has been less than one per cent throughout the fifteen years of planning. This is not sufficient even to meet the debt servicing charges (including interest pay-

Sterling and the Middle East

PAUL EINZIG

THE SUDDEN flare-up of the crisis in the Middle East came as a shock to the foreign exchange market. Even though the United States was expected to be much more directly involved on this occasion than Britain, sterling was affected much more strongly. This was due to the fact that sterling was not prepared psychologically to face an unexpected shock. Technically her defences improved beyond recognition as a result of the repayment of IMF drawing rights and Central Bank credits, and also as a result of the reduction of the Bank of England's forward dollar commitments. Indeed on the very first day the authorities allowed it to be understood that the credits, drawing rights and swap facilities which have been reduced are now available once more if needed for the support of sterling.

The second day of the crisis witnessed a spectacular increase in the selling pressure. It was believed in some quarters that the loss of dollars for the first two days must have been of the order of £100 million. It is understood that the exchange was not provided by drawing on the old credits but new Central Bank credits were arranged for that purpose. This is presumably because France has always objected to participate in credits provided for meeting withdrawals of foreign sterling balances.

It is said that on this occasion Sudan withdrew her entire sterling balance. Tempting as it is to refer to rats leaving the sinking ship, the British Government has itself to blame. When Mr Wilson decided last year to try to enter the Common Market I pointed out in these pages that in doing so he has forfeited his claim to the loyalty of Sterling Area countries. While on the past occasions withdrawals of sterling balances were on much larger scale on account of non-sterling countries, on the present occasion it was much larger on account of sterling countries.

Fortunately from the point of view of sterling this time the acute crisis appeared to be of short duration, owing to the swift outcome of the Middle East crisis. The long-range effects of the hostility of the Arab world and of the change in the oil situation remain yet to be seen, but the immediate shock is over. Which is as well, because even in the absence

ments), let alone repayment of loans. For example, interest payable on government debt in 1965-66 amounted to Rs. 128.33 crores against the total yield of Rs. 32.28 crores on entire government investment.

Thus, the conclusion is clear. Our Government's debt policy has not mobilised new savings to any reasonable extent. The desire to keep the burden of interest payment low through lower rates of interest has rendered the government securities unattractive to the common man. The efforts at manipulating the market conditions through indirect pressure on the captive market and on the public through ceiling on deposits to be accepted by the private companies, are simply diverting funds. Increase in total availability of funds for production which is necessary for rapid economic development is not realised through these efforts.

On the contrary, it is very likely that the funds may get diverted to unproductive channels. Finally resources appropriated by the Government are being less economically used as is revealed in low return on them. In these circumstances the public debt rising much more rapidly than the national income is bound to accentuate inflation by increasing the money supply and hence the total monetary demand in the economy on the one hand and adversely affecting production and hence the supply of goods on the other. A review of Central Government's public debt policy is, therefore, imperative.

of the Middle East crisis the market was beginning to be concerned about sterling.

It was difficult not to be concerned about the almost insane optimism displayed in official circles about sterling. Quite evidently political pressure on the Government to relax the squeeze is bearing its fruit, even if it continues to go through the gestures of maintaining the wage freeze. The latest move is the decision to increase old age pensions. Justified as it is, it is singularly ill timed.

Nevertheless, some circumstances of the sterling crisis of June are such as to inspire confidence. For weeks there has developed a growing suspicion that Mr Wilson is only waiting for an opportunity to devalue sterling. There can be no doubt that he now regrets not to have devalued in 1964 when he could have blamed the previous administration. Now he would have to face the blame himself, all the more as he must have restated his non-devaluation pledge scores of times, unless there were a good excuse.

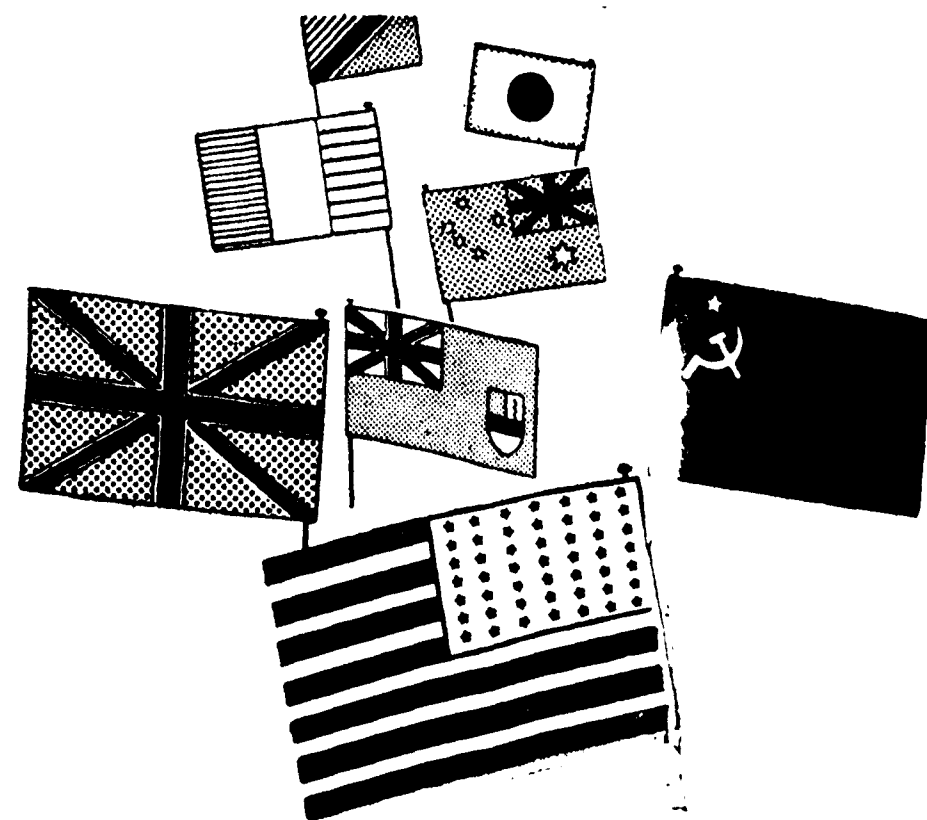
The main reason why he suddenly changed his mind about joining the Common Market is that it would provide such an excuse. He can claim that General de Gaulle insists on devaluation as a condition of Britain's admission. Or, should negotiations fail, he could claim that Britain's inability to join the Common Market has created a new situation in which Britain would have no alternative but devalue.

While I was unable to discuss this trend before the Middle East crisis I am now inclined to think that it has no foundations. If Mr Wilson had wanted an excuse, the attack on sterling would have provided one. Instead he borrowed foreign exchanges and used them in defence of sterling. Now it is quite obvious that the increase of foreign exchange liabilities increases losses incurred through a devaluation. We entered the danger zone when Britain repaid the IMF and Central Bank credits and reduced her forward exchange liabilities. That would have been the near-ideal moment for devaluing. Instead, Britain has increased fresh liabilities in defence of sterling. Were she to devalue now instead of a week ago the cost of the operation would be much higher. This fact can be accepted as evidence that Mr Wilson has at present no intention to devalue.

TABLE II
INVESTMENTS AND YIELDS OF GOVERNMENT UNDERTAKINGS

	1950-51	1955-56	1960-61	1965-66 (R. E.)	1966-67 (B. E.)
Departmental undertakings					
Investment	894.73	1,064.30	1,682.63	3,039.33	3,305.90
Yields	10.28	9.02	13.17	23.64	34.90
Government companies and Corporations					
Investment	9.43	69.81	591.83	1,318.40	1,432.56
Yields	2.97	-0.10	-0.18	8.64	6.71
Total investment	904.16	1,134.11	2,274.46	4,357.73	4,738.46
Total yield	13.25	8.92	12.99	32.28	41.61
Percentage of yield to investment	1.5	0.8	0.6	0.75	0.89

Source: For figures of investments and yields: RBI currency and finance report 1965-66: pp. 5, 80 and 8, 93.



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CHB-HA

FROM THE PRESS GALLERY

Demand for Break with Peking

Our Parliamentary Correspondent

NEW DELHI: Monday.

IF THE Sino-Indian relations overshadowed the discussions in Parliament on the Union and the railway budgets this week, there was nothing unexpected about it. The expulsion of our Second and Third Secretaries in Peking, Mr K. Raghunath and Mr P. Vijay, by the Chinese Government after a sham trial "in absentia" on cooked up charges of espionage and the humiliation to which these diplomats were subjected by hysterical Red Guards to whom they were handed over at the Peking and Canton airports on the journey to Hong Kong, in utter disregard of all diplomatic courtesies and conventions, angered the entire nation. As representatives of the people, the Parliamentarians were expected to take up the matter and they did so on Wednesday in the form of an adjournment motion, sponsored by the Samyukta Socialist Party member, Dr Ram Manohar Lohia.

Along with the spokesmen of the Swatantra Party, the Jana Sangh and the Praja Socialist Party, Dr Lohia demanded immediate severance of diplomatic relations with China. Although this demand was not endorsed by the members belonging to the Congress party and the communists, they were not wanting in expressing their anguish over the Chinese excesses. The Government's policy on Tibet and its advocacy of China's admission to the United Nations came in for scathing criticism.

Though the adjournment motion was defeated with the Government announcing expulsion of two Chinese diplomats from this country and yielding on the question of reconsideration of the Tibet issue, the subsequent events—defiance of the Government order by the expelled Chinese diplomats, besieging of our embassy in Peking and slapping of a police official by a Chinese diplomat outside the Chinese embassy here—led to renewed furores in the two Houses. Even retaliation by the Government to the Chinese order confining our diplomats within the compound of our embassy in Peking failed to assuage the feelings, with the result that the demand for severance of relations with China grew.

Excise Duties Opposed

So far as the economic issues are concerned, the Rajya Sabha inconclusively debated the Union Budget this week. While the Finance Minister's attempts at balancing the budget and avoiding deficit financing were appreciated by almost all the sections of the House, the entire opposition and some Congress members were highly critical of the increases proposed by him in excise duties, specially those which affected the common man. Several members highlighted the inflationary potential of the enhancement of levies on tea, coffee, cigarettes, aluminium, rayon and synthetic fibres as well as of the re-imposition of the duty on footwear. The cause of the fixed-income group was espoused by many a member, both belonging to the opposition and the treasury benches. It was pointed out that the dissatisfaction in this group, which formed the backbone of the nation, if continued, would not be in the larger interests of the country. It was suggested that even now it was not too late for the Finance Minister to scale down the excise levies on items of daily consumption. For making good the loss of revenue, the Finance Minister, it was stressed, should effect adequate economies in expenditure. The Finance Minister's proposal to get income-tax deducted at source on interest accruals, professional fees, brokerage and commissions above certain levels also came in for sharp criticism, particularly from the spokesmen of the Swatantra and the Jana Sangh groups, on the ground that it would complicate maintenance of accounts.

The opinion among members on the nationalisation of banks and general insurance was divided. While the members

belonging to the two communist groups, the PSP and the SSP expressed themselves in favour of nationalisation, the Swatantra and the Jana Sangh members opposed it. From the Congress benches some members pleaded for extension of social control of banking, but several others wondered whether the Government had fully analysed the control that was already exercised by the Reserve Bank on scheduled banks. The need for relaxation of restrictions on credit for industry was stressed by several members. So also the urgency to revive the capital market.

There was also a sharp difference of opinion on the scaling down of defence expenditure. While Mr Niren Ghosh (CPI-M) pleaded for a reduction in defence expenditure from the present level of Rs. 900 crores to about Rs. 500 crores, a Jana Sangh member took the Finance Minister to task for even reducing the defence budget by six crores of rupees. He called for the manufacture of atom and hydrogen bombs.

Emphasis on Inputs

The need to step up agricultural production was reiterated by all sections of the House. Pleas were made for providing the necessary agricultural inputs in adequate quantities at appropriate times. Special emphasis was laid on the provision of credit, fertilizers and irrigation facilities. But on the question how the fertilizer production could be increased, the opinion again was divided. Some members argued in favour of seeking foreign collaboration for augmenting the output of fertilizers. Several others expressed themselves against giving of concessions to foreign collaborators.

The question of prohibition figured prominently in the debate. Many a Congress member supported the prohibition policy of the Government. Some even went beyond it and urged that total prohibition should be introduced throughout the country before the Gandhi centenary celebrations. The Finance Minister, it was suggested, may consider provision of additional funds to the states for continuing or introducing prohibition.

Before taking up for discussion the Union Budget, the Rajya Sabha completed its debate on the Railway Budget. In a spirited reply to this debate, the Minister for Railways, Mr C. M. Poonacha, vigorously defended the increase in passenger fares and freight rates. He pointed out that some additional burden on the users of railways could not be avoided in view of the growing operational costs as a result of the mounting wage bill and the fuel expenses of the railways at a time when their revenues were being affected owing to the recession in the economy. The gravity of the situation, Mr Poonacha said, could be judged from the fact that in its present form, the Railway Budget did not include any contribution to the development fund which should have been Rs. 20 crores. The contribution to the depreciation reserve fund, he added, was also Rs. 15 crores less than before. The railways, he further stated, would have to borrow Rs. 19 crores to meet the cost of development programmes, increased passenger amenities and staff welfare. Mr Poonacha announced that a vigorous sales drive had been launched by the railways to prevent diversion of goods traffic to road transport which was being caused by some advantages enjoyed by the latter. He denied that the railways were over-capitalised and pointed out that unlike other countries, production units were part of the Indian Railways. This entailed a good deal of investment. Mr Poonacha stressed that it was the aim of the railways to meet from within the country the entire demand for engines, coaches and wagons. The indigenous content in diesel locomotives, he hoped, would go up to 98 per cent by 1970-71. By then the entire railway's

requirements of diesel engines, he observed, would be fully met from internal production. The railways, Mr Poonacha further said, would soon be able to earn sizeable foreign exchange by exporting locomotives, wagons and coaches.

The Lok Sabha this week adopted the Anti-Corruption (Amendment) Bill which sought to replace an ordinance issued a few months ago. During the debate on this bill, several opposition members demanded an assurance from the Government that it would be applicable to ministers also. When the Minister of State for Home Affairs, Mr V. C. Shukla, gave this assurance, some members asked for its incorporation in the bill; a court of law, they argued, could not go by a minister's assurance. Citing a recent judgement of the Supreme Court, Mr Shukla pointed out that the term "public servant" in the Indian Penal Code (to which one had to go for its definition) had been interpreted to include ministers. This, however, did not satisfy the House and the Deputy Speaker ruled that the Government should come forward with an amendment of the Indian Penal Code in a suitable manner so as to specifically include ministers in the definition of "public servants." Mr Shukla assured that, if necessary, such an amendment would be brought before the House. The Government, he said, was not opposed to it.

The Rajya Sabha passed the Companies Tribunal (Abolition) Bill. This bill sought to vest in the High Courts the powers of the Companies Tribunal after its abolition.

Question Hour

Textile Mills: The Minister for Commerce, Mr Dinesh Singh, told the Lok Sabha on June 16 that the corporation proposed to be set up by the Government to take over the "sick" textile mills "may even start new mills." The production of the mills that would be taken over or started by the corporation would be oriented towards exports as well as for internal consumption. The workers of the mills that might be taken over would be given a fair deal. The difficulties of the older mills in the textile industry, the Minister said, arose out of their failure to renovate their machinery and management and lack of resources. The question of giving them funds was being looked into by the finance agencies. Cotton shortage, the Minister pointed out, was only a temporary phenomenon. Mr Dinesh Singh promised to examine the suggestion by a member that imported cotton should be auctioned. Earlier, on June 15, Mr Dinesh Singh denied in the Rajya Sabha that the Government had any proposal to nationalise the distribution of raw cotton.

Foreign Investments: The Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, informed the Lok Sabha on June 16 that he would bring before the House soon a resolution on foreign private investments in the country.

Small Car: Mr Ahmed told the Rajya Sabha on June 15 that his "personal" view was that the small car project should be taken up in the public sector. A questionnaire, he said, had been issued to those who had applied for licences to manufacture the small car. The final decision on the question would be taken only after the replies to this questionnaire had been received.

Referring to scooters, Mr Ahmed stated that 191 applications had been received by the Government for the issue of licences for their production. They had been scrutinized by an official committee and it was found that 17 applications could be considered. No decision, however, had been taken since the fourth Plan target for scooter production had not been fixed. The view of the Ministry for Industry was that there should be an installed capacity to manufacture another 36,000 scooters to meet the present demand.

Oil Exports: The Minister for Petroleum and Chemicals, Mr Asoka Mehta, informed the Rajya Sabha on June 14 that the Indian Oil Corporation proposed to export 100,000 tonnes

of furnace oil and 170,000 tonnes of high-speed diesel oil to Thailand this year. The foreign exchange earning would be about Rs. 2,88 crores.

Retrenchment by Oil Companies: The Minister of State for Labour, Mr L. N. Mishra, announced in the Rajya Sabha on June 16 that the Government had decided to set up a commission of inquiry under the Commission of Inquiry Act to go into the retrenchment of staff being effected by the three private sector oil companies in the country by introducing rationalisation and automation. The terms of reference of the proposed commission had almost been finalised. The commission was expected to start functioning very soon.

Automation: Mr Mishra also told the Rajya Sabha on June 16 that the Government would permit introduction of automation in industry only on a "selective basis" and would see to it that it did not lead to unemployment. He did not agree with the suggestion that in view of the present economic condition of the country, there should be a ban on the further spread of automation. Mr Mishra clarified that the Government had agreed that there should be no automation for desk work and it should be permitted only for technical work in the interest of improving efficiency, if it did not lead to retrenchment.

Rationing Policy: The Minister for Food and Agriculture, Mr Jagjivan Ram, told the Lok Sabha on June 13 that he would take the states into confidence while revising food allocation in the context of delayed supplies from abroad because of the trouble in the Suez Canal. He ruled out any change in the present rationing policy of the Government. It was not possible to introduce statutory rationing throughout the country, he said. The total supplies of foodgrains from the US during 1967, according to the definite commitments made so far, the Minister revealed, would be 2.58 million tonnes of wheat and 1.6 million tonnes of milo.

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WINDOW ON THE WORLD

Focus on West Germany

JOSSLEYN HENNESSY

POLITICS AND POLICIES

LONDON:

THE PRESENT West German Government, formed last December, after the break-up of the coalition of the Christian Democratic Union (CDU) and the Free Democrats (FDP) and the resignation of Dr Erhard from the Chancellorship, is a coalition of the Social Democrats (SDP)—who had previously been in opposition since the formation of the Federal Republic—with the CDU and the Christian Social Union (CSU). Dr Kurt Georg Kiesinger (CDU) is the Chancellor. Herr Willy Brandt (SDP) is Vice-Chancellor and Foreign Minister. The state of parties in the Bundestag is CDU-CSU 245, SDP 202, and the FDP (now the sole opposition) 49.

The Government would like to see the UK in the European Economic Community but, because it fears that the Americans may withdraw from Europe after some direct deal with the Soviets, it wants the support of France still more. So, although anxious to persuade President de Gaulle to accept the UK in the EEC, the West German Government would ultimately bow to his veto, even though they regret the President's break with NATO.

The Main Plank

Reunification remains a main plank in the Government policy and the desire to improve relations with the communist countries looks like an effort to outflank Herr Ulbricht's East German regime. West Germany's resumption of diplomatic relations with Rumania on January 28, which fits into this picture, is a departure from the hitherto rigidly enforced "Hallstein doctrine" ruling out diplomatic relations with any country (except the USSR) which recognises East Germany. It is significant that the Rumanians did not make the recognition of the Oder-Neisse line as Germany's eastern frontier a condition of the agreement.

Just as the dropping of the Hallstein doctrine does not imply acceptance of the existence of East Germany, so the Rumanians conveniently forgot about political barriers because they were not out to score politically but to expand their exports. As the table below shows, Rumania's exports to West Germany have

WEST GERMAN TRADE WITH COMMUNIST COUNTRIES

	(DM millions)					
	Exports			Imports		
	1964	1965	1966	1964	1965	1966
Total	2,317	2,676	3,309	2,412	2,917	3,150
of which:						
Eastern Europe:	2,207	2,352	2,786	2,202	2,615	2,774
of which:						
USSR	774	586	542	937	1,101	1,153
Bulgaria	156	221	433	121	165	171
Poland	314	366	376	363	435	482
Rumania	331	463	558	245	290	298
Hungary	296	308	371	247	288	321
Czechoslovakia	332	402	503	288	336	347
China	102	316	518	207	291	370
East Germany*	1,151	1,191	1,619	1,027	1,263	1,345
Yugoslavia*	533	557	757	367	473	541

* Not included in total.

Source: 'Economist' Intelligence Unit.

risen far less than her imports. Indeed, the Rumanians not only want to sell much more to the Germans—a wide range of consumer goods, chemicals, petroleum and petrochemical products, such as synthetic fibres—they also hope for closer industrial co-operation including production under licence of West German goods in Rumania. Possibly even more important, however, is Rumania's need for many types of capital goods, and the Rumanian trade organisation Masimport has just placed contracts worth DM 85 million with a West German consortium led by Krupp for equipment required for the open-cast lignite mines at Girta, Beterega and Tismana. The widely-held expectation that West Germany's rapprochement with Rumania would be a precedent for similar arrangements with other east European countries has not so far been realised. In fact, it looks for the moment as though these other countries frown on Rumania for having "let down the side." In any case, it is still too early to be sure what concessions Bonn might make for the sake of friendlier relations with its eastern neighbours. Meanwhile, Bonn's antagonism towards the Ulbricht regime has not prevented further expansion of mutual trade. West Germany's exports to East Germany rose in 1966 by nearly 37 per cent to DM 1,600 million. But since (1) these "inter-zonal exchanges" are really barter arrangements and (2) the West Germans no longer need the large quantities of East German lignite which in past years formed a large part of their deliveries, a balance on such a high level could not be achieved. Further expansion of trade will therefore be difficult unless large long-term credits can be arranged.

II

NEO-KEYNESIAN DOCTRINE

Economically, West Germany has been passing through an interesting cycle since 1964, when a steady decline in the rate of growth of national output began. The year 1965 saw the highest vacant jobs-unemployment ratio and the biggest current balance of payments deficit ever recorded, together with the steepest consumer price rise since the post-Korean boom. The Government's budgetary policy clashed with the Bundesbank's monetary policy. Pre-electoral largesse led to steeply rising government expenditure accompanied by income tax cuts, which together boosted over-full employment and prices. In efforts to counteract this, monetary policy had been steadily tightened since mid-1964, and the Government was induced to enforce fiscal restraint in 1966. More stable cost-price conditions and a sharp improvement in the balance of payments followed. But the Government's vacillations meant that stronger and more violent restrictive measures than would otherwise have been needed had to be taken; these were so drastically effective that by the end of 1966 everyone was talking of recession. The gross national product (GNP) which had risen by 4.8 per cent in 1965, rose by only 2.6 per cent in 1966, and the forecast for 1967 is two per cent. Unemployment (seasonally adjusted) is currently running at about two per cent, but this understates the real percentage by omitting the large number—perhaps 250,000—of foreign workers who, after dismissal, have left the country. Even so, well over a million foreigners remain. Finally, there is an appreciable margin of unutilised capacity.

The one really bright spot has been the overflowing stream of exports, showing a surplus in 1966 of DM 7,900 million. The reasons for this surplus are partly the low demand for imports caused by the depressed level of domestic economic activity, but chiefly, as I have often explained here before (see, e.g. "West

Germany in the Dock", March 12, 1965), because of the built-in competitiveness of the West German economy.

There is, however, a good deal of evidence—in recent EEC Business Surveys—that managements are now beginning to feel that the business climate may set fair, largely because the Federal Government has, as many foreign observers have pointed out with an air of triumph, "at last been converted to Keynesian contra-cyclical budgetary doctrines". There is an element of truth in this, but expressed thus crudely the conclusion is superficial. In view of the virtually world-wide prevalence of Keynesian doctrine, it is worth trying to disentangle in some detail what the West German Government has done.

The Government agreed that positive measures were needed to reflate the economy, and the easy, and obvious, Keynesian way to achieve this would have been to pump money into the economy by straight deficit-financing which would have followed from the DM 3,700 million gap between revenue and expenditure in the 1967 budget estimates. To allow such a budget deficit, as I have repeatedly pointed out here, merely raises global demand. The result must be inflation because demands are thereby increased for goods of which, at prevailing prices, consumers may want less, but without any decrease in the demands for goods wanted more. Income is inflated to meet inflated wages and prices. This supports the existing cost-price structure and destroys the incentives present in a free market to correct an obsolescent cost-price structure. Over-demand for output is created and the structure is relieved of the need, and deprived of the means, to adjust to changes in comparative cost relations in other countries.

The West German Government has, in fact, balanced its budget by severe pruning of, inter alia, military and civil defence disbursements but not authorisations of development aid. Revenue estimates were raised chiefly by provisions for higher government borrowing.

Investment Vs. Consumption

But, you will say, what, then, happens to reflation? The answer is that, in addition to the conventional balanced budget, the Government introduced a contingency budget of DM 2,500 million to be devoted entirely to investment. The Bundesbank—the keeper of the Government's budgetary conscience—agreed to finance this because it is a once-for-all emergency measure which should not stimulate unselective global consumption, as a straight Keynesian deficit would have. The contingency budget involves incentive deficit spending. The aim is to base reflation on investment, and to finance it by short-term funds out of bank liquidity.

This is in line with the recommendation of December 22, 1966, of the EEC Council for short-term policy in 1967. But in giving its blessing in the latest quarterly survey of the "Economic Situation in the Community," the EEC Commission goes out of its way to add that it might have been wiser to have checked even more sharply expansion of those items of federal expenditure mainly or wholly on consumption.

The EEC Commission says that the expansion of public current expenditure on goods and services and of transfer payments (including social security)—the bulk of which swells private consumption—is still so rapid that there is danger next year that appreciable budget deficits may emerge, even if in the meantime the recovery of economic activity is reflected in rising revenues. The EEC Commission considers that the West German Government's solutions are incomplete and short-term. Accordingly, the Commission urges Bonn to tackle without delay the thorough reform of federal finances as a whole. The EEC Commission refers to the "Bill for Promoting Stability and Growth" now before the Bundestag. This bill

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requires the federal and state governments to pursue budgetary policies in conformity with the needs of the business cycle by means of financial planning covering a period of years. The EEC Commission says that it would not be enough to limit action to the provisions of this bill, but that the Government should be enabled to curb public expenditure on consumption in order to ensure that stabilisation can be promoted without unduly penalising investment. Throughout their observations, the Commission stresses the contrast between expenditure on (i) consumption and (ii) investment.

Not least, the EEC Commission declares flatly that once West Germany's economy gets going, the Government should repay the short-term loans referred to above. Such repayments would become the more important the more that liquidity expands, because crude antediluvian Keynesian deficit financing, added to the financing of social security and to the foreign trade surpluses, would combine to swell liquidity.

In the space available, sweeping generalisations and omission of qualifying details are inevitable and doubtless make my exposition of a complicated technical subject hard to follow, but the basic point to grasp is that the EEC and West

Arab Embargo on Oil

E. B. BROOK

VIENNA:

THE SPEED and completeness of the success of Israeli arms in the Middle East conflict has taken all Europe so much by surprise that insufficient thought has yet been given to the oil situation. It is difficult to say whether Europe's surprise is greater at Israeli armed efficiency and brutality or over the shocking ineptitude of the Egyptian forces. It is not so generally remembered that Egypt has the best of its army irretrievably locked up in the Yemen. Even so, the Egyptian army's inability to use Russian armament at all in the Sinai peninsula has staggered Europe from Moscow to London.

Nor is western Europe in the slightest impressed nor eastern Europe deceived by the Arab talk of continuing the war and of continuing recruitment at full pace. Whether the Israelis are regarded as brutal or as resoundingly efficient no one in any part of Europe doubts that they will remain easily more than a match for the many types of Arab armies still formally ranged against them, with their varying efficiency, varying armaments and varying—usually low—preparedness for swift modern combat. The only Arabs drawing one iota of sympathetic reaction in Europe are the Jordanian refugees, and this does not amount to much, not even in the socialist countries despite the high propaganda content of their broadcasts.

What, however, will increasingly concern western Europe is the oil situation. If the Arabs keep up their embargo, their fearful loss and self-denying refusal to trade in oil with those they quite rightly regard as their enemies may be the Soviet Union's opportunity. The Middle East supplies 10.3 million barrels of oil a day to non-communist countries in Europe and North America. This is one-third of the world's daily oil consumption. If the Middle East oil shutdown continues for more than a few weeks a critical transport and supply problem will develop which will not be met by the individual efforts of oil companies.

This may give the Soviet Union, if it is willing to step into a market temporarily vacated by the Arabs whom it supports politically, an opportunity to come in with supplies. Soviet efforts to become entrenched, largely through the Italian companies, in west Europe's oil markets have for some years been persistent and partly successful. The USSR has even managed to establish an oil selling centre in West Germany and is negotiating a share in the Austrian market for its oil and natural gas.

It is possible that the Soviet Union may hesitate to appear

Germany are feeling their way towards increasingly sophisticated evolution of the doctrines that Kenyes developed 40 years ago to deal with economies suffering from mass unemployment. In contrast to these pioneering efforts towards a neo-Keynesian era it is amusing to read the scolding which the OECD's latest annual survey of West Germany gives Bonn for failing to counter the recession by what it regards as the established modern orthodoxy of deficit budgeting. The OECD condescendingly spells the Keynesian doctrine out in detail, obviously unaware that in so doing the OECD's economists reveal that they have no idea of what the West Germans and the EEC Commission are trying to achieve. If anyone is clinging to the "conventional wisdom" it is the OECD.

Sources and Acknowledgements: I have been privileged to consult, on your behalf, the latest quarterly review on West Germany, published by the 'Economist' Intelligence Unit (27 St. James's Place, London, S.W.1.) I have also drawn extensively on the EEC Commission's latest survey and had a good laugh over the OECD's Annual Survey. None of these authorities is, however, responsible for my interpretation of the facts based (as the artist James Whistler once said of his pictures) on the experience of a life-time.

to be taking commercial advantage of friends' necessity, particularly if the advantages proved only temporary. Two considerations arise here—west Europe's need and willingness to buy and the length of time the Arabs can afford to keep their wells shut. One should not forget also—a point for the Arabs also to consider—that it is exactly extensive and deliberately-created shortages such as this that instigate the western world to use its immense investigating and inventive resources to discover and manufacture substitutes. Oil and natural gas are fast ousting coal as industrial combustibles. It is not impossible that a Middle East oil shutdown lasting months would force the creation of a new locomotive energy and for this an adaptation of atomic energy should not be lost sight of. Nothing much has been heard of the US atomic ship Savannah, but this commercial vessel exists while atomically-propelled submarines are already the coming vessels in north American and European navies.

The Emergency

What, however, has happened so far, is the declaration of an oil emergency in the USA and a threat of oil rationing in the UK. On the continent so far no measures have been taken, though they will undoubtedly follow the more western example if the cut-off in supplies lasts long. Normally in the USA the Restrictive Practices Act, administered by the Justice Department, effectively prevents the great oil companies from rigging the market as regards either prices or supplies. When, however, one-third of the supplies are cut off from source the provisions of the Act are lifted and oil companies are officially called upon to combine and help control supplies in precisely the manner forbidden to them in normal circumstances.

The US oil industry is now drafting plans to overcome the disruption of the flow of petroleum from the Middle East. Its first problem is to mobilize a tanker fleet to move alternative supplies already available. The Suez Canal closure and the shutdown of pipelines terminating in Lebanon and Syria disrupts a daily flow of oil equivalent to the capacity of about 1,350 tankers each holding about 150,000 barrels.

Fortunately for the United States the crisis has occurred at a juncture when surplus US oil supplies are taxing excess storage space and were even beginning to affect prices. The US crude oil inventories had reached excessive proportions, exceeding market needs by more than 300,000 barrels a day. In the first three months of the year the US oil industry had produced

29 million barrels of crude oil a day and two million barrels of natural gas liquid a day. In addition, they had imported just over one million barrels a day from communist countries and are continuing to do so.

With communist suppliers ever eager to sell, it is not im-

Bridges to Eastern Europe

PAMELA BROOKE

WASHINGTON:

THE DEBATE over whether or not the United States should expand its trade relations with eastern Europe is getting noisy as President Johnson continues urging Congress to pass his East-West Trade Relations Bill. Americans are divided on this issue as they are on what course of action should be taken in the Vietnam war. Indeed, the two issues are often discussed side by side. Americans want to know why they are committed to an escalating war with North Vietnam on the one hand while on the other President Johnson is pressing for a liberal policy of "peaceful engagement" with eastern Europe. Are they not birds of the same feather?

For the most part those opposing expanding trade with communist countries are ultra-conservative politicians and their followers who are always lagging behind the mainstream of public opinion and digging up buried bones. For over a decade the official attitude was that doing business with communist countries would merely help them continue and spread their way of life. This attitude is now changing. The USA, has realised that the Soviet bloc countries will find western nations with which to trade whether the Americans engage in such trade or not. If the Americans shut themselves off completely from economic exchange they, and not the communist nations, will be the losers.

But now, with Americans being killed in Vietnam at an ever increasing rate, the ultra-conservatives are finding new allies to help them advance their case. They argue that in expanding trade with eastern Europe the USA is giving aid to the communist enemy and helping to solidify communist rule. The "ordinary Joe" in America is beginning to lend his support to it. A recently organised committee called CEASE (the Committee To End Aid to the Soviet Enemy) has John Davis Lodge, brother of former American ambassador to Vietnam, as its chairman. CEASE reports that it is now in the process of procuring more than two million signatures to a petition urging the Johnson administration to prevent all shipments of supplies to the USSR as long as the Vietnam war continues.

Irrefutable Argument

Even though expanded trade with eastern Europe would only be in non-strategic materials, the fact that President Johnson has given his support to an Export-Import Bank loan of \$50 million to help Italy build a Fiat plant in the USSR is a real spearhead for the ultra-conservatives. Every one knows, they argue, that the same equipment that is used to build automobiles can be swiftly converted to the manufacture of war materials. With such an argument, irrefutable in the war-charged atmosphere which gives it strength, why has the administration put forward an expanded trade bill?

The evidence of the last ten years supports the administration's judgment that expanded trade opportunities encourage the modification of communist forces within a country rather than the opposite. If the Americans fail to build bridges to eastern Europe through every possible channel, they are forfeiting the chances of influencing the direction in which those countries will move.

Yugoslavia is an example of what can happen when a country has options other than being locked inside the communist bloc. The US continuance of normal trade with Yugoslavia was

possible that, however contrary this may appear to the current direction of politics, this supply to US crude oil and natural gas liquid stocks from communist sources is likely to continue and even build up. If this forecast supply turns out to be a reality the self-damaging Arab oil boycott will have been made ineffective partly with the profitable help of their political allies.

a vital support to that country and now 65 per cent of its foreign trade is with non-communist countries and its citizens can work and travel abroad.

The progress of other east European states toward national independence has been influenced by American strength and policy, by the existence of institutions such as the NATO and the European Common Market, and by the firm Western position in west Berlin. The communist nations in east Europe are showing a recognition that their best interests lie in economic development and peaceful trade, not in support of futile attempts to gain advantage through the use of force.

The spokesmen of the Johnson Administration say that American policy should be formulated and administered to assist the spread of changes in the communist countries such as the move of these countries towards national independence and responsive self-government, and their desire to modernize their industries. There is evidence that east Europeans desire to restore the traditional friendships they have had with western Europe and such a restoration would help them play a more important and constructive role in world affairs. This would contribute to the health of the entire continent.

Spirit of Co-existence

Of course, the hope that the peoples of west and east Europe can work together, can only be realized if both accept the existence of each other's political system and avoid interference in each other's internal affairs. Progress depends in no small degree on the development of more open societies in the east but these changes can only come from within. They can, however, be encouraged by the American readiness to co-operate. Whatever trade policies the United States adopts towards the East must assure that the American people will patiently support the east Europeans in a process which will inevitably last a long time. At present, no such assurance seems to be forthcoming.

The Administration does not argue that increased trade and commercial communications between the USA and the communist countries will resolve the basic social and political conflicts between communism and a society founded on free enterprise and individual freedoms. But it is hoped that a quid pro quo trade policy will moderate the suspicions, tensions and intolerances which divide them.

But this is all talk for the future. What about the here and now of Russian weapons, planes and missiles in North Vietnam? Whether the Americans like it or not the Governments of the Soviet Union and eastern Europe consider North Vietnam as an allied communist country, and believe it is their duty to support it when it is engaged in a conflict. But the Johnson administration seems satisfied that the Soviet and east European governments would like to see the Vietnam war ended since it contributes primarily to Peking's interests.

Nothing the Americans say or do will change basic communist doctrines. Developments within the Soviet Union, and particularly eastern Europe, have made the Soviets more conservative in taking risky actions. This trend is likely to continue as time goes on; only improved relations between the East and the West can speed the day of understanding and friend-

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ship. This is the administration's answer to why the USA is trying to improve relations with the East while there is a war going on in Vietnam. Certainly the war is making it more difficult to come to agreement with the Soviet Union and eastern Europe. And the conflict in the Middle East does not make it any easier. But such agreements as the Americans have been able to reach tend to relieve tensions and encourage the Soviet Union and others to use their influence in ending these conflicts.

This is the background of the debate on the President's proposed East-West Trade Relations Bill. If passed (the Bill failed last year and probably will not be passed in this session) the President would be authorized to extend the most-favoured nation tariff treatment to individual nations when he determines this to be in the national interest. In other words, the goods of such a nation would not attract higher tariffs on entering the USA than the goods of any other nation. Aside from the export of strategic items which would, of course, remain prohibited, the trade itself would depend on the decisions of individual private firms. The President would also have power to suspend or terminate such commercial agreements if he was of the view that the other party was not living up to its obligations or if trade was no longer in American interest. Communist China, North Korea, North Vietnam, Cuba and the Soviet zone of Germany (German Democratic Republic) are specifically excluded from the provisions of this Bill. Poland and Yugoslavia presently enjoy most-favoured nation status without which it is nearly impossible for east Europeans to trade with the USA.

The Thaw

Last year there were a number of positive governmental steps toward a thaw in American trade relations with communist countries. In May of last year, the administration first introduced the East-West Trade Relations Bill. In October, the President authorized the Export-Import Bank to provide normal commercial credit guarantees on industrial exports to Poland Czechoslovakia, Hungary and Bulgaria; this facility had already been made available to Rumania. There are indications that the Exim Bank, the Agency for International Development and the World Bank will consider a more flexible approach in supporting long-term US trade development.

Still another liberalization in US Government policy was the removal of more than 400 non-strategic items from the Commerce Department's Commodity Control List. These products can now be shipped without specific export licences. The list was expanded last month and it is reasonable to anticipate that other products, presently requiring a specific export licence, will be dropped from the Commerce Department's List in the future. These recent shifts in US policy toward eastern Europe assure that the Congress will give serious consideration to the President's Bill, but do not assure that individual Congressmen will ignore conservative opinion in their home districts to vote for the Bill. Likewise, there is danger that ultra-conservative Congressmen will lead an attempt to amend such legislation as the Export-Import Bank Charter renewal, handicapping its usefulness in expanding trade.

With all this tension in the air, what assurance does the United States have that east European countries are anxious to expand their trade with the US?

Technological developments in the US for the production of non-strategic items has been much faster than in the USSR and eastern Europe because the US economy has been consumer oriented to a much greater degree for a much longer period of time. Communist countries have indicated an increasing interest in US products and technology and also a willingness to pay not only by way of reasonable prices or royalties, but also by protection of patents and trade marks.

The increasing complexities of the Soviet economy are also

compelling Moscow to experiment with new methods of decentralization and incentives. Their economists are studying the methods of the US and western Europe in an attempt to understand the reason for their extraordinary post-war economic success which has belied so dramatically the predictions of Stalin's economists of the West's early economic collapse. In Moscow, one no longer hears such predictions. In fact, Ambassador-at-Large Averell Harriman stated recently of his discussion with a senior economist in Moscow who complained that too many of the Americans he met were specialists on the Soviet economy. He wanted to talk instead to the specialists on the American economy."

What is the present size of US trade with the Soviet Union and nations of eastern Europe? Trade in 1966 exceeded \$375 million as compared with \$277 million in 1965. The balance of trade was slightly in favour of the United States with US exports approaching \$200 million while total imports were about \$180 million. Compared to the other leading manufacturing countries of the world, the US is not getting its share of the fast growing east European market. Whereas the trade between western and eastern Europe, exclusive of the Soviet Union, was over \$5 billion in 1965, the US trade was less than \$200 million.

Americans are beginning to realize that they have a very real economic stake in expanding trade with other nations of the world and history has proved that American ban on trade is not likely to retard the growth of Soviet bloc nations. With other western nations expanding their trade policies it does not make sense for the USA to continue to restrict its trade to non-strategic goods only. This self-denial is achieving no useful purpose and certainly will not help the USA in ending the Vietnam war. The administration has rightly come to the conclusion that the USA is simply losing business to west European competitors and creating a lot of unnecessary ill will.



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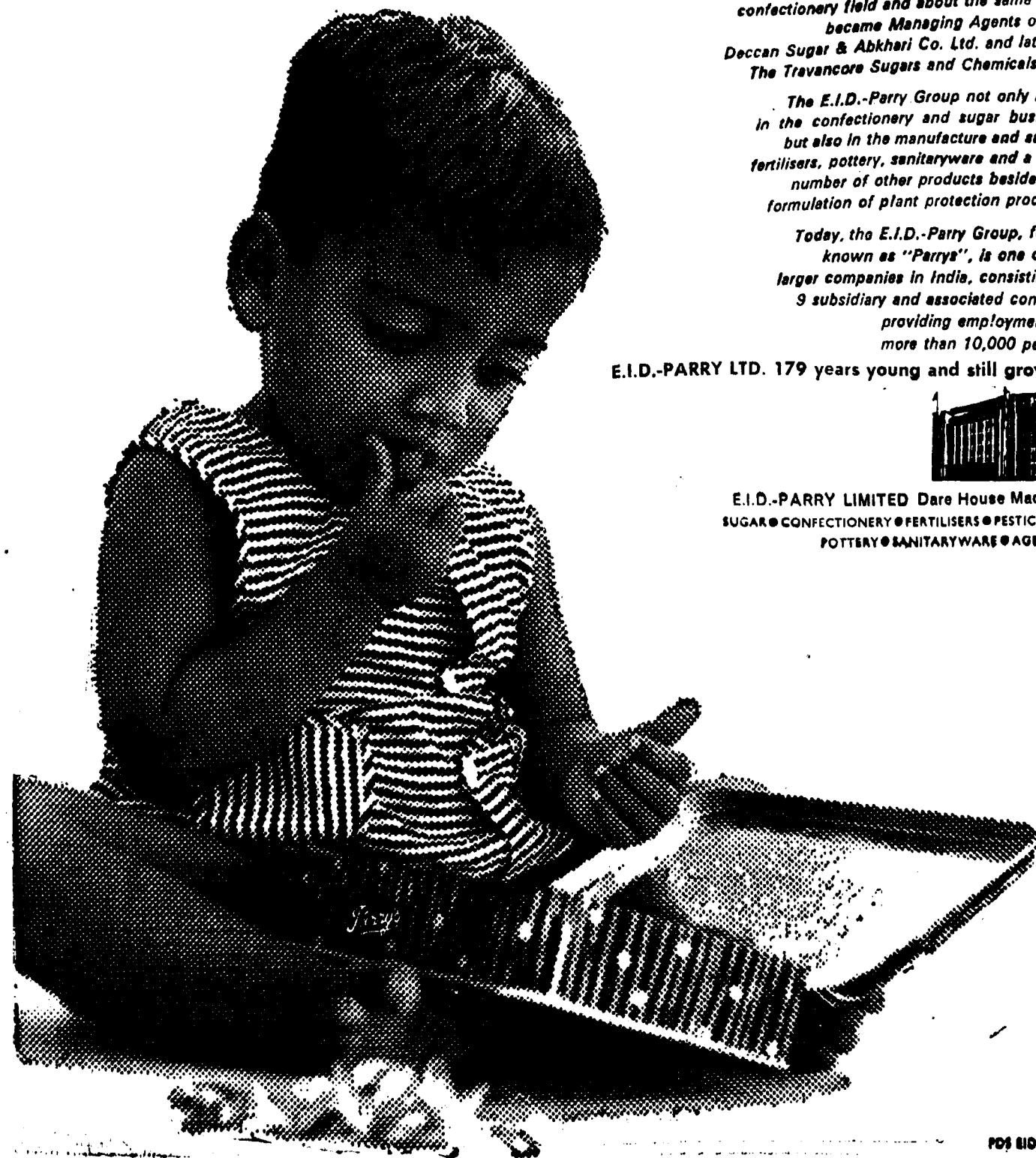
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The moving finger writes

MR MORARJI Desai has come a long way in the short time he has been Deputy Prime Minister. He clearly is the de facto leader in Parliament and is apparently well set to become the de facto leader also of the Congress parliamentary party. It is now a matter for legitimate speculation how long the leadership of the government will continue to elude him.

The secret of Mr Desai's strength and success, of course, is his firmness on issues of discipline in public life. Preaching politicians, I agree, are seldom popular, but Mr Desai's moralising has now taken on a mellowness with the result that more and more people seem more and more inclined to listen to him. Nowhere is this trend more marked than in the two Houses of Parliament where he is beginning to be heard with a respect or attention which no other personality on either side of the House seems able to command. Recently, for instance, when an opposition demand that the Government of India should make available to the Orissa Government the CBI report on Mr Biju Patnaik had led to noisy scenes in the Lok Sabha and threatened to disrupt the proceedings of the House, it was Mr Desai's intervention which saved the day. Very few could have combined sternness with sincerity into such an effective mixture of appeal for decorum and dignity as Mr Desai did when he emphasized the common obligation of all members to enable the House to transact its business. It was not surprising therefore that the bankers, who met the Deputy Prime Minister on June 18 to hear what he had to say on how the Government of India proposed to set about the business of promoting "social control" over the banking system, came away with a feeling that Mr Desai would deal with the issue responsibly, realistically and equitably, without letting himself be influenced by prejudice, pressures or special pleading.

After having spent a few days in Calcutta last week, I have no doubt at all that—Naxalbari or no Naxalbari—it will be an outrageous folly for the Government of India to intervene except to the extent that the state government itself calls for assistance in the maintenance of law and order or in the extreme event of national security being imperilled by a breakdown of administration or a violent uprising in a border area. This is not to say that all is well in West Bengal. The mood of organised labour, for instance, still continues to be defiant and destructive, although the state government seems to have had some very necessary second thoughts on the workers' democratic right to practise "gherao." There is, for instance, the sickening case of labour interference with the functioning of an important industrial plant against which force is being used by its own employees to prevent it from moving supplies to meet its export commitments or defence orders. In this case, the workers, I was told, were insisting on searching the company's officers every time the latter enter or leave the factory on the ground that the officers might indulge in sabotage in order to incriminate the workers. These things surely cannot go on indefinitely without West Bengal's economy being hurt or the national economy being more than slightly inconvenienced.

But I doubt that the Centre can do very much by way of political intervention to set matters right. It seems to me that the remedy must lie in public opinion asserting itself, as it has done in Naxalbari. Even governments far more cohesive than the United Front Ministry of West Bengal cannot afford to remain insolent or indifferent when a general body of people, with no sectional axe to grind, but resolute on their right to live an orderly, peaceful and sensible existence, start making its presence felt. It is true that there is no angry alle-

nation of the public yet from those who are now in power at Writers' Buildings, but the post-election honeymoon between the United Front Ministry and the people is now definitely over and among uncommitted men—and these are a vast body—there is increasing disillusionment with ideology as an instrument of administration. How long Mr Ajoy Mukherjee can manage to sit it out I do not profess to know. But there is at least one area of popular need where he and his colleagues must act quickly or risk rout. The reduced weekly rice ration at 500 grammes is much less than what people must eat to live—and this is all the more so because the only thing most people in West Bengal seem to know about what to do with the wheat quota in the ration is to exchange it wherever possible for one-fourth of its weight in rice. The situation is not improved by the fact that the population not served by controlled distribution has often to pay up to Rs. 3 per kilogramme of coarse rice. More rice in the ration and rice at a reasonable price—these are what West Bengal must have if it is to know industrial peace, or for that matter, peace of any kind. Mr Chavan, in other words, should have less to do with Calcutta in the coming weeks than Mr Jagjivan Ram.

People's memory is proverbially short and some newspaper editors' memory seems to be shorter still. On June 6, 'The Times of India', in its editorial on the Arab-Israeli war, delivered its Daniel's judgment in one short, sharp sentence that "Israel has once again committed aggression against the United Arab Republic." The leader-writer proceeded to dismiss Tel Aviv's claim that it had acted in self-defence as "an extremely flimsy excuse," and, with a fine show of Looking Glass logic, declared that "since President Nasser had gained all his immediate objectives, there was no reason at all why he should have provoked an armed conflict whose outcome must be considered uncertain." How precisely President Nasser, to quote 'The Times of India', "had gained all his immediate objectives" and whether the way he did it was not a provocation to armed conflict were matters which, evidently, were not thought to be worthy of consideration, especially when they would have spoilt the dramatic opening sentence of the editorial declaring Israel aggressor. 'The Times of India', of course, is entitled to its views or even to change its views, but what beats me is that having written as it had on June 6, how it could have taken it upon itself the very next day to indict AIR bulletins and commentaries of pro-Arab partisanship. I hold no brief for All India Radio and I am only suggesting here that those who live in glass houses would be wise to resist a certain temptation.

Talking of newspapers, happening to find 'The Amrita Bazar Patrika' on the breakfast table one morning, during my visit to Calcutta last week, I had a look at a gem of a pair of sentences with which that paper's correspondent in Chinsura had led his report on "High-yielding Varieties of Rice and Fertilisers." I put it down here verbatim: "In course of my Destination-Rice Research, it was heartening to find that notwithstanding on the ministries coming and going, it might like Tennyson's Brook chime, 'I go on forever'. With all the examples of food scientists in the world under the generous and all-embracing patriapotestas of the F.A.O., the workers of the Rice Research Institute, Chinsura, are not resting on their oars."

There can be nothing basically wrong with a people who could swallow such a sentence with their breakfast cup of tea.

V.B.

Trade Winds

FINANCE MINISTER MEETS BANKERS

THE DEPUTY Prime Minister, Mr. Morarji Desai, recently asked commercial banks to reorient their lending policies to make them "more responsive to the requirements of the Plan and other high-priority needs such as those of agriculture and small-scale industry." At a top-level meeting with bankers, Mr. Desai stated that he had asked the Finance Ministry to undertake a factual study of the structural and policy changes necessary to modify the lending pattern of commercial banks. This report, he added, would be completed in about six weeks and he invited suggestions from the bankers in this connection. The two-hour conference, attended by the Chairman of the Indian Banks Association and chairmen and managing directors of 12 banks, expressed full agreement with Mr. Desai's objective of providing larger financial assistance to agriculture and small entrepreneurs and assured the Government of their full co-operation. The bankers offered to study the problem in depth and submit concrete suggestions very soon.

The meeting, held in the Reserve Bank, was attended by representatives of the State Bank, Central Bank of India, Bank of India, Punjab National Bank, Bank of Baroda, United Commercial Bank, Union Bank of India, Dena Bank, Karnataka Bank, Indian Overseas Bank and Canara Bank. Representatives of the Government included Economic Affairs Secretary S. Jagannathan, Reserve Bank Governor P. C. Bhattacharyya, Mr. L. K. Jha, Governor-designate of the Reserve Bank, and Deputy Governor B. N. Adarkar.

CHECK ON ADVANCES

Mr P. C. Bhattacharyya, the Governor of Reserve Bank recently called for a significant reduction in advances against seasonal commodities by the banking system in the current slack season in view of the continuing pressure on prices. In the course of his meeting on June 15 with the chief executives of large Indian and foreign banks, Mr. Bhattacharyya indicated that the policy for the current slack season would be governed chiefly by two considerations. An extra pressure was likely to develop on the banking system in the ensuing busy season in view of expectations that the monsoon would be normal and that the industrial production would recover. It was, however, too early to have any precise idea about the extent of credit expansion in the busy season. It could be assumed that there would be need for a further expansion in credit to the extent of at least Rs. 400 crores against Rs. 427 crores in the 1966-67 busy season.

The other factor was that deposit expansion in the current slack season would be much less than that in the slack season of 1966-67 due to the Government's determination to limit deficit financing and other factors. In the circumstances, bankers should concentrate on ensuring a larger return flow of the preceding busy season's credit. The most fruitful field where they could bring about such a reduction in advances was in respect of seasonal security advances. Mr. Bhattacharyya expressed the hope that the contraction in such seasonal security advances would be more than the increase in credit in the preceding busy season. The reduction in advances against seasonal securities could be expected to be about a third more than the expansion of credit against these commodities during the 1966-67 season. In the case of sugar, stocks were steadily declining and the releases of the commodity were also regulated. In view of the shortfall in the production, the closing stocks at the end of the season were expected to be much lower and the return flow of funds in respect of credit against this commodity could be much more than the expansion in credit made available during the last busy season. Mr. Bhattacharyya made a particular reference to the need for reducing credit against commodities which were in short sup-

ply, e.g., vegetable oils, oilseeds and indigenous cotton. The advances against these commodities were to be brought down in a phased manner, and the action in this respect was left to the discretion of the bankers themselves. There was a general agreement among bankers on the need for bringing about a reduction in advances.

STATE BUDGETS

Haryana

Haryana's budget presented on June 9, by Mr. Mool Chand Jain, the Finance Minister, revealed a deficit of Rs. 7.27 crores. Mr. Jain sought to cover part of the deficit by levy of new taxes which will yield Rs. 3.10 crores during the rest of this year (Rs. 4.14 crores during a full year). He left a deficit of Rs. 4.17 crores uncovered. If the additional liability of Rs. 1.50 crores (Rs. 2 crores during a full year) to be incurred by the payment of dearness allowance to its staff at Central Government rates was added, the uncovered deficit amounted to Rs. 5.67 crores. Presenting the budget the Finance Minister announced that DA at Central Government rates would be paid to its staff with effect from June 1. But those earning a salary of Rs. 51 and over will have to deposit half the increase in the DA in a cumulative time deposit account. Revenue receipts were placed at Rs. 57.89 crores and expenditure at Rs. 59.49 crores. The new taxation proposals included an increase in water rates, to bring them at par with neighbouring UP, which will bring an additional revenue of Rs. 2.12 crores. A purchase tax at the rate of 1.50 per cent will be levied on paddy, inclusive of rice, yielding an additional revenue of Rs. 8 lakhs. Stamp fee on transfer of movable property has been enhanced from 6 per cent to 7 per cent, yielding an additional revenue of Rs. 25 lakhs. Passenger tax has been raised from 25 paise to 35 paise and will yield Rs. 8 lakhs more. Royalty on mines and minerals has been doubled, yielding an additional revenue of Rs. 5 lakhs. The annual renewal licence fee on brick kilns has been raised from Rs. 100 to Rs. 500 to yield an additional revenue of Rs. 3.4 lakhs. The rise in entertainment tax will yield an additional revenue of Rs. 3 lakhs. A lumpsum conversion tax for change in land use from agricultural to non-agricultural or from less profitable to more profitable use will be imposed, yielding an income of Rs. 20 lakhs.

Maharashtra

The Maharashtra Finance Minister, Mr. S.K. Wankhede, presented on June 15 to the State Assembly the additional budget for 1967-68 which shows an overall deficit of Rs. 7.75 crores. The Finance Minister expected to cover the major portion of the deficit through market loans. He proposed wide-ranging taxes which will more than cover the remaining balance of about Rs. 2 crores. The new levies, to be effective from September 1, will yield about Rs. 2.4 crores in the remaining part of the current financial year. The yield from new levies in a full year is estimated at Rs. 4.74 crores. Additional levies include enhanced sales tax on certain luxury goods and non-essential items, namely iron and steel and other furniture, refrigerators, water coolers and their parts, wireless reception instruments, radiograms, sweets and sweetmeats, toilet articles, plastic goods made from thermo-setting plastic material, and other plastic goods, including roofing, wall and flooring tiles. The Finance Minister also proposed to enhance motor vehicle tax and entertainment duties, and levy a new tax on advertisements exhibited through slides and films in cinema theatres.

The Finance Minister explained that the overall budgetary deficit of Rs. 7.75 crores, on account of both plan and non-plan schemes included in the additional budget, did not take into account the liability arising out of the state Pay Commission's recommendations and the debt service charges in respect of the

open market loans to be raised during the current year. Mr. Wankhede added that he proposed to keep in reserve an amount of Rs. 50 lakhs for meeting the contingent expenditure in scarcity-affected areas. Thus the overall deficit would go up substantially in the course of the year. The Finance Minister did not specify the amount of open market loans he proposed to raise during the current year as it would depend upon the conditions prevailing in the money market. He, however, added that taking into account all these factors including the balance of the current year's plan outlay still to be provided, the state would be faced with a deficit of about Rs. 2 crores, which had to be covered by the additional taxation. The additional budget estimates revealed a surplus of Rs. 9.87 crores on revenue account, against a surplus of Rs. 12.72 crores indicated in the interim budget.

Madras

The Madras Chief Minister, Mr. C. N. Annadurai, presented to the State Legislature on June 17 a Rs. 6.37-crore deficit budget, and proposed additional taxation for Rs. 5.25 crores, leaving only Rs. 1.12 crores uncovered. The revenue receipts for the current year are estimated at Rs. 210.82 crores and expenditure on revenue account at Rs. 217.19 crores, leaving the deficit of Rs. 6.37 crores, against a Rs. 7.60-crores deficit in the interim budget. About half the deficit is to be covered by an increase in inter-state and intra-state sales taxes—to be raised from two per cent to three per cent—the revised rates coming into effect on June 18. Other proposals include an increase in Central and state sales tax rates (Rs. 3.25 crores), motor vehicle taxes (Rs. 1 crore), tightening levy of stamp duty on transfer of immovable property (Rs. 90 lakhs), increased excise and sales tax on imported liquor (Rs. 10 lakhs), and withdrawal of provision of composition of agricultural income-tax, expected to yield Rs. 1 crore. Mr. Annadurai, who is also in charge of Finance announced abolition of basic land assessment on all dry lands, benefiting 75 per cent of the 60 lakhs of "pattadars" in the state. This will involve a loss of Rs. 1.6 crores in revenue. An expert committee, he promised, would consider the twin problems of removal of basic land assessment on wet lands and the maintenance of the water rates.

Rajasthan

Mr. Mathura Das Mathur, the Finance Minister of Rajasthan, proposed new taxes expected to yield Rs. 25 crores in his budget for the current financial year introduced in the Rajasthan Assembly recently. Among the new taxes are a surcharge on land revenue and increased irrigation rates. These measures will help reduce the gap in the revenue and expenditure and result in a nominal surplus of Rs. 8 lakhs. The duty and result in a nominal surplus of Rs. 8 lakhs. The Government hopes to collect Rs. 50 lakhs. The increased sales tax on a number of commodities is expected to yield another Rs. 50 lakhs. The state government has decided to impose a 100 per cent surcharge on land revenue on holders of 30 standard acres and more and the yield expected is Rs. 40 lakhs. An equal amount is expected from the increased excise licence fees and other steps to increase the excise revenue. The 25 per cent increase in all irrigation rates will help the state government collect Rs. 25 lakhs. A new tax on all sales of domestic animals is expected to bring in Rs. 20 lakhs. Increased rates of entertainment are expected to yield Rs. 15 lakhs.

Mr. Mathur indicated that the Government's decision to exempt small holdings from land revenue will cause a deficit of Rs. 75 lakhs. The operational surplus of state electricity boards will fall by Rs. 175 lakhs as a result of the reduced power output from the Chambal station and the high cost of power output from other sources. He stated that the Government

hoped to earn Rs. 50 lakhs more by streamlining the excise department administration. Similarly an increase of Rs. 20 lakhs was expected from measures to improve sales tax collections. The Government expected Rs. 20 lakhs more from better collection of electricity duties, Rs. 10 lakhs from increased output of sodium sulphate, an equal sum from improvement in mines revenue, and Rs. 10 lakhs more from forests. The state's share in the new Central taxes has been estimated at Rs. 1 crore.

Uttar Pradesh

A Rs. 55-lakh surplus Budget was presented by the Finance Minister of UP, Mr. Ram Swaroop Verma, in the Vidhan Sabha on June 16. Revenue receipts were estimated at Rs. 324.82 crores and revenue expenditure at Rs. 324.27 crores. The Minister announced no new tax proposals and promised strict economy in unproductive expenditure, rationalisation of the tax structure and stern measures to prevent tax evasion and leakage and an earnest drive for popularising the small savings scheme. Steps were also being taken for realisation of Government dues. The Minister could say nothing definite about the final size and shape of the fourth Plan which would be discussed afresh by the Planning Commission with the state government in view of the changed situation in respect of resources. Mr. Verma added that the estimated revenue receipts included Rs. 14.34 crores as anticipated subvention from the Union Government for Plan schemes. Similarly the estimates contained a provision of Rs. 37.85 crores for revenue expenditure on Plan schemes. As against the anticipated surplus of Rs. 55 lakhs on revenue account the capital account showed a deficit of Rs. 20.72 crores. Taking the revenue surplus into account, the net deficit would amount to Rs. 20.17 crores. This would be covered partly by net accretion to the provident fund (Rs. 4.63 crores) and reserve fund etc. (Rs. 7.04 crores) and the balance of Rs. 8.50 crores by raising additional resources and de-investment of Treasury Bills.

PROGRESS OF AUTOMOBILE INDUSTRY

While addressing the annual general meeting of the Association of Indian Automobile Manufacturers, Mr. Fakhruddin Ali Ahmed, Union Minister for Industrial Development and Company Affairs, stated that by and large the automobile industry had done well during the third Plan period. The industry had geared itself to produce about 95 per cent of the components indigenously. The remaining five per cent indigenisation was proving to be difficult, but he hoped that the industry was resourceful enough to achieve as near 100 per cent indigenous contents as possible within a short period. Import of some raw materials, especially steel of the required quality was unavoidable until indigenous capacity was developed both qualitatively and quantitatively. The assistance rendered by IDA, he added, had been helpful in the production of commercial vehicles as well as ancillaries over the last few years.

Mr. M. A. Chidambaram, President of the Association, indicated that the production of commercial vehicles fell short of the third Plan target of 60,000 by as much as 47 per cent which clearly indicated the state of stagnation that had set in the industry. He added that the growth of this industry had been strangled as a result of successive imposition of taxes and levies both by the Centre and the states. As a result the vehicles prices had increased quite speedily. The National Council of Applied Economic Research, he added had assessed, that the total incidence of tax and duties on a commercial vehicle ranged from 43 to 49 per cent and in the case of cars and jeeps from 42 to 47 per cent. Mr. Chidambaram pointed out that as much as 98 per cent of the total price increase on a commercial vehicle during the last eight years had been on account of government levies, devaluation and other factors beyond the control of the vehicle manufacturers. Only 2 per cent rise have been caused by the manufacturers to off-set the rise in

prices of indigenous raw materials and bought-out components.

U.N. AID FOR FOUR PROJECTS

United Nations assistance for four development projects in India was approved recently by the Governing Council of the UN Development Programme meeting in Geneva. The projects to receive assistance are: Advance Vocational Training Institute, Calcutta; Indian Grain Storage Institute, Hapur; National Apprenticeship Scheme; and Tool Room Centre, Hyderabad. This brings the total number of Indian development projects to receive assistance from UNDP to forty-five. The UNDP is earmarking \$1.05 million for the Advanced Vocational Training Institute, Calcutta. The counterpart contribution of the Government of India will be the equivalent of \$764,000. The purpose of the project, the duration of which is five years, is to assist the Government of India in establishing an advanced vocational training institute which could serve as a model for similar institutes to be organized later in the important industrial cities of India. Another project, the duration of which is also five years, will assist the Government of India in establishing the Indian Grain Storage Institute which will have the broad objective of reducing the present losses and wastage in foodgrains. The headquarters of the project will be at Hapur. The UNDP allocation for this project will amount to \$1.10 million. The counterpart contribution of the Government of India will be the equivalent of \$421,000.

The purpose of the National Apprenticeship Scheme project, is to assist the Government of India in establishing central technical services and four regional apprenticeship headquarters in order to implement the proposed expansion of the country's apprenticeship scheme. The UNDP assistance will total \$1.14 million, while the Government of India will be contributing the equivalent of \$6.18 million. The fourth project, to receive assistance from the UNDP is a Tool Room Centre for small-scale industries to be located at Hyderabad. The seating capacity of the Centre, for training purposes, will be forty-eight students at any one time and it will have two and three-year courses. The UNDP (Special Fund) is earmarking \$961,500, while the Government is contributing the equivalent of \$576,000.

DELHI OFFICE OF UNIT TRUST

Mr Morarji Desai who inaugurated the New Delhi office of the Unit Trust of India recently stated that more resources had to be found for investment without which economic progress was not possible. He added that the very difficult situation facing the country on account of food shortage should not stand in the way of economic and industrial progress. Mr Desai pointed out that the Unit Trust was established for the specific purpose of helping in the healthy growth of the capital market and to encourage small investors to invest their money. He wanted the Trust to be more adventurous in its investment programme. Though the Unit Trust was a government undertaking, he indicated, that it would be better if there was healthy competition between a similar trust set up by non-official agencies. He asked the Trust to expand its activities in the rural areas also in order to tap more resources for development.

Mr R.S. Bhatt while welcoming the Union Minister for Finance, stated that the period of about three years was relatively a short one to judge the activities of an institution like the Unit Trust of India. He added, however, that during the third year there had been considerable recovery in the sales. The aggregate sale of units from July 1, 1964 to March 1967 amounted to Rs. 29.93 crores and the number of applications was over 183,000. He added that of the unit sales after December 1965, nearly 60 per cent of the total number of applications from individuals were for 50 or smaller number of

units, 25 per cent being for the minimum lot of 10 units. Another 20 per cent of the applications were for 60 to 100 units. Thus applications for units in lots of 100 units or less accounted for the bulk (80 per cent) of the applications for sales of units from individuals. Occupational distribution of the holders revealed that 'salary and wage earners' formed the largest single group and 'students and persons engaged in household work' accounted for a further 15 per cent of the total applications. He pointed out that five metropolitan cities of Bombay, Calcutta, Delhi, Ahmedabad and Madras accounted for nearly 60 per cent of the total number of applications and 60 per cent of the sale of units. The Trust investment as at the end of April 1967, including the initial capital of Rs. 5 crores, amounted to Rs. 33.15 crores of which Rs. 13.56 crores represented investment in ordinary shares, Rs. 3.67 crores in preference shares and Rs. 12.49 crores in debentures. The balance was in other investments such as bonds of public corporations. The New Delhi office will receive application from Delhi area, Punjab, Haryana, UP and Rajasthan both for sale and repurchase of units.

DIRECTOR-GENERAL OF F.A.O.

India has nominated Mr B.R. Sen, Director-General of the Food and Agriculture Organisation, for an additional term of two years. There is stated to be a general desire on the part of many members of the UN that Mr Sen should continue for some years more, as he has been serving the FAO with considerable distinction since September 1956, when he was first elected to head that international organisation.

NEW VICE-PRESIDENT OF I.F.C.

Mr George D. Woods, President of the World Bank and its affiliate, the International Finance Corporation (IFC), recently announced that Mr James S. Raj had been promoted to be Vice-President of IFC. Mr Raj joined the Corporation in June 1966 as Deputy Executive Vice-President. Mr Raj, an Indian national, was a lecturer in Economics at the University of Rangoon, Burma, before joining the Indian Government Service in 1942. He served in several administrative and economic advisory posts in the Ministries of Supply and Food and Agriculture. In 1953, Mr Raj joined the staff of the International Monetary Fund (IMF) as Chief of the Multiple Currency Practices Division. In 1956, he was appointed Alternate Executive Director for India for the IMF and the World Bank, rejoining the IMF later in the year to serve as Director of its Asian Department. Mr Raj returned to India in 1959 and was appointed Deputy General Manager of the Industrial Credit and Investment Corporation of India the following year, obtaining a leave of absence in January 1964 to serve in Nigeria as the first General Manager of the Nigerian Industrial Development Bank.

SUBMISSION OF INCOME-TAX RETURNS

With effect from the assessment year 1967-68, all assesseees have to file their returns of income in the revised forms which have been notified in the Gazette of India Extraordinary, dated March 10, 1967. Under the existing provisions of law the assesseees have to furnish their returns of income for the current assessment year before June 30, 1967 or where they have business income, before the expiry of six months from the relevant accounting year, whichever is later. In special cases, these time-limits can be extended up to a prescribed maximum by the Income-tax Officer on an application being made to him in this regard. As this is the first year in which the new forms have been introduced, it has been decided to allow extension of time to the assesseees for filing of returns for the current assessment year up to August 15, 1967, without any application being made to the Income-tax Officer for this. This extension would be applicable to cases where voluntary returns of income have to be filed under Section 139(1) of the

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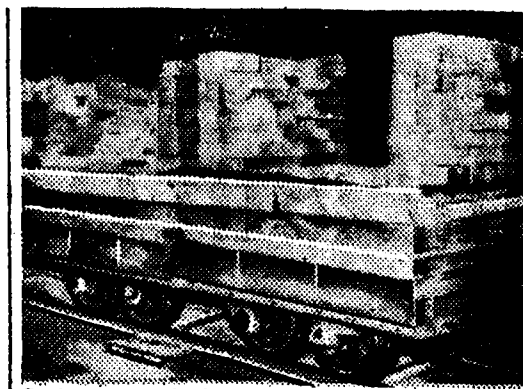
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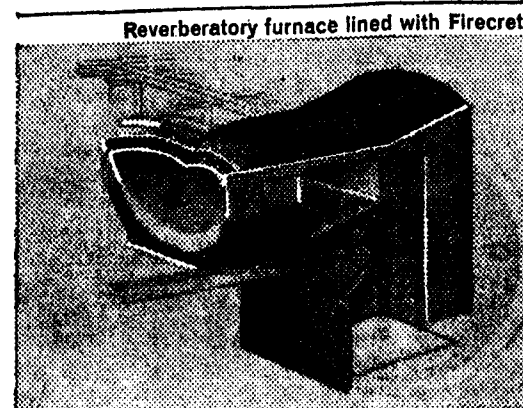
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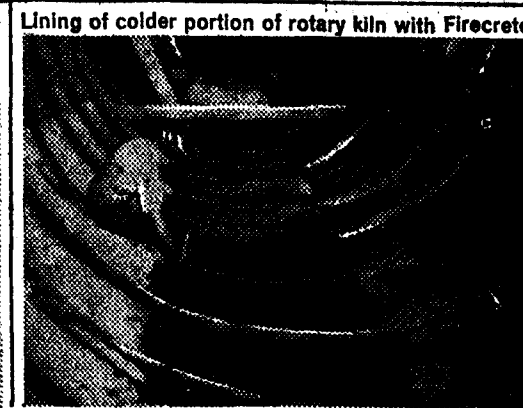
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June 23, 1967

Income-tax Act, 1961 for the assessment year 1967-68 before August 15, 1967.

COTTON SHORTAGE WITH MILLS

Mr Madanmohan Mangaldas, Chairman of the Indian Cotton Mills Federation, stated recently that the cotton mill industry was greatly disappointed because of the fact that far from giving any concessions to this hard-pressed industry, the Union budget has deeply increased the excise duty on sized yarn of fine and superfine counts. In the present depressed conditions in the cloth market, this levy, he added, could not be passed on to the consumer and would have to be wholly absorbed by the manufacturer, who was in no position to do so. A reduction in excise duty, particularly on coarse and medium mill cloth of mass consumption, was an urgent necessity. The cotton mill industry had been undergoing severe trials and tribulations and closure of a fortnight or a month's duration was staring it in the face because of cotton shortage, he added. Mr Mangaldas was also surprised over the fact that the Chief Minister of Maharashtra, who had recently announced his intention of reducing wages in the state-run mills, should have come forward with a proposal to increase the sales tax on cotton from two to three per cent. In view of the serious problems facing the cotton mill industry, he requested the Finance Minister of Maharashtra not only to drop this proposal but to reduce, if not abolish, this regressive sales tax on an essential raw material like cotton.

USE OF PORT SUEZ

The United Arab Republic has informed us that all exports from our country to the UAR and imports to this country should be brought to Port Suez at the Red Sea entrance of the Suez Canal. This would obviate having to use the Suez Canal. The ships can bring cargo and take cargo away from Port Suez, the authorities stated.

SMALL INDUSTRIES EXHIBITION

A permanent Small Industries Exhibition was inaugurated in Ahmedabad recently by the Gujarat Minister of Industry, Mr Jashwant Mehta. The Union Deputy Minister for Industrial Development and Company Affairs, Mr Bhanu Prakash Singh presided. This was the seventh such exhibition to be established under a scheme which envisages one exhibition in each state. Delhi, Bombay, Calcutta, Bangalore, Madras and Kanpur already have permanent exhibitions. At the Ahmedabad exhibition were on display 2,500 products of small scale units in Gujarat. Products of small scale ancillary units were also displayed. The exhibition has been organised by the Small Industries Service Institute.

TRADE AND INDUSTRIES FAIR IN MADRAS

The Indian International Trade and Industries Fair is scheduled to take place from January 12 to February 17, 1968 at Madras. Considerable progress has been made with regard to the organisation of this Fair. The Fair site is almost developed and is ready for occupation by the participants, some of whom propose to commence construction of their pavilions

during the first week of July, 1967. The work relating to construction of roads, main entrance gate, central tower, International Centre, main garden, lake and the restaurant is in full progress and is expected to be completed very shortly. The Fair office building was completed as early as January, 1967. Arrangements for adequate water supply are also in an advanced stage. For this purpose, seven wells have been sunk within the Fair grounds. The drainage and sewage arrangements are almost in a completion stage and are expected to be ready by September-October, 1967. The electric supply at 400 volts, 3 phase or single phase is also available at any point in the Fair site. Facilities have been afforded to the organisers of the Fair i.e. A.I.M.O. for publicising this event in India and abroad.

SERVICE CONDITIONS FOR POWER WORKERS

The Industrial Committee on Electricity, Gas and Power, which concluded its inaugural session recently has suggested that a pool of construction workers engaged in power projects be created. Wherever such workers were rendered surplus as a result of completion of projects or otherwise, they could be moved to the new construction sites. It was felt that the pools could either be regional or confined to states. The Committee welcomed the decision of the Government to bring forth legislation to abolish contract labour and where this was not feasible to regulate such labour through implementation of various welfare provisions. There was general agreement among employees and employers that efforts should be made to bring about uniformity in service conditions of employees engaged in the state electricity boards and various establishments of the Oil and Natural Gas Commission. Standing orders in this respect could be framed wherever necessary. A sub-committee could explore what minimum benefits in the form of medical facilities, housing and fringe benefits should be given to workers. About the question of absorbing workers of private electricity undertakings after the taking over by electricity boards, the Committee was of the view that all suitable workers should be absorbed.

EXPANSION PROGRAMME FOR PALAM

Work has begun on the project for the expansion of the terminal building at Palam, its face-lift and improvement of passenger handling facilities which will cost Rs. 32 lakhs. The terminal building will get a distinctive facade on the airfield side with three giant arches and canopies extending on to the drive along with apron. A green lawn with fountains will be laid at the edge of the apron. This will give a face-lift to the present terminal building which is a war-time structure.

FOREIGN TRADE IN MARCH, 1967

The provisional figures of our exports (including re-exports) of merchandise by all routes i.e. sea, air and land during March, 1967, according to information available, were recorded at Rs. 115.10 crores. Imports during the month stood at Rs. 235.56 crores. The figure for imports is incomplete due to partial coverage of imports on Government account, particularly of foodgrains.

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BIHAR RELIEF COMMITTEE

Sadaquat Ashram, PATNA - 10

the present ban on the expansion of the automobile tyre industry and the opportunity this project offers for diversifying the company's activities.

Meanwhile the company's output continues to be sold out as its products are now well established in the markets. The nylon truck tyre has earned a name for itself for its long life and superior quality. The retreading material which was introduced in the latter part of 1965 has also been well received by consumers and it is now being offered for sale in increasing quantities.

Production during 1966 expanded by 19.5 per cent over the previous year, whereas the indigenous production of automobile tyres increased by only seven per cent. The production could have been still higher but for the shortage of raw materials in the first eight months of the year and the 40-day strike in September-October. Consequently the plant could operate at only 75 per cent of its installed capacity. With the liberalisation of imports of raw materials following devaluation, the plant has started operating in excess of its licensed capacity since November last. This year's production is expected to be considerably more than last year. Unless the road transport industry is seriously affected as a result of the recession in trade and industry, the company is confident of selling its entire output. Exports showed a declining trend after devaluation but here too the company hopes to improve its performance during the current year.

SESHASAYEE INDUSTRIES

After providing for depreciation and managing agents' remuneration Seshasayee Industries Ltd. has earned a lower net profit of Rs. 5.01 lakhs for the year ended December 31, 1966 as against Rs. 5.18 lakhs in the previous year. The allocation to depreciation was a shade higher at Rs. 9.64 lakhs as compared with Rs. 9.16 lakhs in 1965 while the amount set aside for managing agents' remuneration has been maintained at Rs. 18,000. After adjusting the year's net profit against the carried over loss of Rs. 6.21 lakhs, a deficit of Rs. 1.20 lakhs is carried forward to the next year's account.

The company had to face a 25 per cent power cut for a period of seven months and also labour unrest for about four months. There was no significant change in the pattern of production as compared with the previous year. But the cost of production went on increasing. Following devaluation the cost of imported spares and zinc went up steeply, leading to a further increase in production costs. Despite these adverse circumstances the company managed to maintain production at Rs. 1.38 crores.

With significant increase in the volume of production the directors hope to earn handsome profits in the coming years. The carried forward loss of Rs. 1.20 lakhs is expected to be wiped out during the early months of the current year.

The company has entered into a collaboration agreement with Messrs. Merlin and Gerin of France for the manufacture of special types of electrical porcelain such as multicore insulators, solidcore insulators and pressure conduits. It is said that the Tatas in collaboration with Messrs. Merlin and Gerin has established a company under the name of Tata-Merlin and Gerin Ltd. for the manufacture of switchgear and airblast circuit breakers. This company is about to reach the stage of commercial production and it is said that they will be taking their full requirements of speciality porcelain only from Seshasayee Industries Ltd. Since these items constitute highly specialised electrical porcelain, the directors hope to earn a reasonable profit margin from the sale of these products as compared with the sale of conventional items of HT insulators.

IMPERIAL TOBACCO

The Board of Directors of Imperial Tobacco Company of India Ltd. has recommended a final gross dividend of 4.5 per cent for the year ended March 31, 1967. The final dividend, together with the two interim gross dividends of three per cent and 2.5 per cent would make a total dividend of 10 per

cent for 1966-67, the same as in the previous year. The final dividend, if approved, will be paid on or before August 10, 1967 to those shareholders whose names appear on the register of the company as on July 20, 1967.

The net profit, after providing for taxation and development rebate reserve and allowing for all charges and expenses, has been maintained at Rs. 2.01 crores. Taxation reserve absorbed Rs. 2.03 crores during the year under review as against Rs. 2.81 crores in the preceding year while a sum of Rs. 5.01 crores was transferred to development rebate reserve as compared with Rs. 5.00 crores in 1965-66.

CAPITAL AND BONUS ISSUES

Consent has been given to seven companies to raise capital amounting to more than Rs. 19.56 crores. Three of them are to issue bonus shares exceeding Rs. 8.6 lakhs. The amount of bonus shares ranges between Rs. 2 lakhs and Rs. 44 lakhs. The consents are valid for 12 months. The details are as follows:

Padamshi Mulji Ginning & Pressing Co. Pvt. Ltd., Maharashtra, has been accorded consent for capitalising general reserves to the extent of Rs. 4,42,858. Of this, Rs. 1,42,858 will be utilised for increasing the par and paid-up value of the existing shares from Rs. 857,142.86 to Rs. 1,000 each and the balance of Rs. 3 lakhs for issuing fully-paid bonus shares of Rs. 1,000 each in the ratio of three bonus shares for every 10 equity shares held.

Rashtriya Metal Industries Ltd., Bombay, is permitted to capitalise Rs. 2,25,400 out of general reserves and issue fully-paid equity shares of Rs. 100 each as bonus shares in the ratio of one for six held.

Bangalore Chemical & Manufacturing Co. (Pvt.) Ltd., Bangalore, has been given consent to capitalise Rs. 2 lakhs out of general reserves and issue fully-paid equity shares of Rs. 100 each as bonus shares in the ratio of five for one held.

Toshiba Anand Lamps Ltd., Ernakulam, has been accorded consent to issue capital of Rs. 1 crore consisting of Rs. 70 lakhs in equity shares of Rs. 10 each and Rs. 30 lakhs in 9.5 per cent cumulative redeemable preference shares of Rs. 100 each. Out of the equity issue, shares of a value not exceeding Rs. 34.30 lakhs will be subscribed by the company's foreign collaborators at par for consideration other than cash, and the balance of Rs. 35.70 lakhs by the company's Indian promoters for cash. Out of the preference issue of Rs. 30 lakhs, Rs. 10 lakhs will be subscribed privately and the balance of Rs. 20 lakhs offered for public subscription. The proceeds will be utilised for setting up a new industrial undertaking for the manufacture of electrical consumer goods.

Indian Explosives Ltd., Calcutta, is permitted to issue capital of Rs. 16.68 crores in series "A" equity shares of Rs. 10 each for cash at par. Of this, shares of the value of Rs. 2.16 crores will be offered for public subscription by prospectus, and the balance of Rs. 14.52 crores subscribed by the existing shareholders. The proceeds will be utilised for implementing the company's fertiliser project at Kanpur.

Aluminised Steel Ltd., Bombay, is given permission to issue capital of Rs. 1.30 crores. Of this, Rs. 97.50 lakhs will be issued in equity shares of Rs. 100 each and the balance i.e. Rs. 32.50 lakhs in 9.5 per cent redeemable preference shares of Rs. 100 each, free of company's tax but subject to deduction of taxes at source at the prescribed rate. The proceeds will be utilised for the manufacture of aluminised steel sheets.

Amalgamations Repco Ltd., Madras, is permitted to issue capital of Rs. 50 lakhs in equity shares of Rs. 10 each for cash at par. Of the issue, Rs. 24.50 lakhs will be subscribed by Repco Ltd., Australia, in the form of capital goods or cash, Rs. 8 lakhs by Bimetal Bearings Ltd., Madras, Rs. 5 lakhs by Amalgamations Private Ltd., Madras, and the balance of Rs. 12.50 lakhs will be offered for public subscription.

RECORDS AND STATISTICS

Export Trade After Devaluation

DEVALUATION HAS provided stimulus to a number of items, important among them being fish and marine products, raw skins, leather and leather manufactures, cashew kernels, iron ore and manganese ore, iron and steel, handicrafts, coir manufactures, engineering goods and chemicals and allied products, says the annual report of the Ministry of Commerce for 1966-67. India's foreign trade continued to display considerable resiliency, particularly during the closing months of 1966 despite the impact of two successive unfavourable agricultural seasons on the production trends of a number of commercial crops and agro-based industries. Exports of these items recorded a decline which to some extent was compensated by a rise in the exports of many other goods listed above. The report reveals that on the whole, India's exports (including re-exports) during 1966 at 1582 million dollars were six per cent less than in the previous year. Imports during the year under review also declined by nine per cent as compared to 1965. The deficit in balance of trade in 1966 amounted to \$1078 million as against \$1226 million in the preceding year.

Among the items showing a decline in exports during 1966 were jute manufactures, cotton textiles, handloom piece goods, tea, vegetable oils, oilseeds and oilcakes, unmanufactured tobacco, sugar and coffee.

The report points out that the new liberalised import policy is export-oriented and aims at providing raw materials, components and spares to the industrial units in priority sectors up to their assessed requirements so as to maximise production, both for export and home consumption.

According to the report, India's imports during 1966 amounted to \$2660 million as compared to \$2913 million in the previous year, i.e., a decline of nine per cent. Imports of commodities other than foodgrains and fertilisers, however, showed a much more marked decline, particularly in the second half of 1966.

Promotional Measures

As part of the effort to expand and diversify the export trade, the Ministry initiated several export promotional measures during the third Plan period. The report says that as these were found to be inadequate to achieve the objective, the Ministry took several other steps to boost exports during the period under review. After the devaluation of the rupee, all promotional measures based on import entitlements and tax credits were abolished. Simultaneously, higher priority was given to the requirements of raw materials, components and parts of the export products to exporting units and industries. Highest priority was also given to the allotment of capital goods, equipment, etc. 59 industries, which include export-oriented ones, were selected 'priority industries' and import licences were issued to meet their full requirements of raw materials, components and parts on a six-monthly basis. The report points out that modifications were made in the import trade regulations for stimulating the export trade.

The report adds that the Board of Trade which was re-constituted in July 1966 approved a scheme of public recognition and awards for outstanding export performance.

The annual report says that total production of tea during 1966 recorded a moderate improvement of 9.1 million kg. over the preceding year, the actual output being 375.4 million kg.

against 366.3 million kg. in 1965. Exports of tea during 1966 stood at 171.7 million kg., valued at Rs. 132.5 crores. In the preceding year, the quantum of exports was higher at 199.4 million kg., the value being Rs. 115.0 crores (pre-devaluation rate).

The 1966-67 coffee crop is estimated at 70,000 tonnes, comprising 45,000 tonnes of Arabica and 25,000 tonnes of Robusta. The report points out that this is a new record in the history of coffee industry in India. While a total of 28,840 tonnes of coffee was sold for export out of 1965-66 crop, the allocation for export out of the 1966-67 crop is placed at 31,000 tonnes.

During 1966, the production of natural rubber was 53,196 tonnes as against 49,387 tonnes in the previous year and that of synthetic rubber 15,604 tonnes as against 15,689 tonnes during 1965. Imports in 1966 consisted of 15,621 tonnes of natural rubber and 4,969 tonnes of synthetic rubber.

The report says that India is the largest exporter of cardamom accounting for nearly 90 per cent of the world trade. It is estimated that the total export earnings from cardamom would amount to Rs. 7 crores during 1966-67.

Fourth Plan Target

The draft outline of the fourth five-year Plan has fixed a target for per capita availability of cloth at 16.1 metres. The production of cloth in mill sector is to be 5,000 million metres and that in the decentralised sector (including Khadi) is to be 4,500 million metres. Production of yarn and cloth during 1966 amounted to 901 million kg. and 4239 million metres, respectively, as against 939 million kg. and 4,588 million metres in the preceding year. The output of cloth in the decentralised sector showed upward trend, the figure for 1966 amounting to 3,097 million metres which compares with 3,056 million metres during 1965. Exports of mill-made cotton piece-goods at Rs. 70.54 crores during 1966 in terms of value registered an increase of Rs. 6.52 crores over those in 1965 valued at Rs. 64.02 crores. Exports of cotton yarn increased significantly from Rs. 6.31 crores in 1965 to Rs. 9.16 crores in 1966. This was because of increased exports to the UAR and Hong Kong. Exports of apparel amounted to Rs. 2.17 crores during 1966 as compared to Rs. 3.28 crores in the previous year. The decline is due to the reduced offtake by the USA of "Bleeding Madras" garments, the report explains.

The total jute production during 1966 amounted to 1,119,000 tonnes as compared to 1,335,300 tonnes in the preceding year. Exports of jute goods during 1966 amounted to 7.43 lakh tonnes valued at Rs. 210.16 crores compared to 9.28 lakh tonnes valued at Rs. 183.87 crores in the previous year.

The export target of Rs. 5100 crores for the fourth Plan which was adopted before the devaluation of the rupee, continues but the figure has been revised to Rs. 8030 crores on the basis of the present rate of exchange, the report discloses.

Export targets are proposed to be worked out, commodity wise and destination-wise, in detail and placed before the nation. If this country is to meet the challenge of balancing the external payments account, there would be need for not only increases in indigenous production in agricultural, industrial, mineral and fisheries sectors, but also considerable restraint on domestic consumption. The report emphasises the increased productivity, increased production and reduced domestic consumption will be the key to vigorous promotion of exports in the fourth Plan.

EXPORTS OF MAJOR ITEMS

(Value in Rs. crores and US million dollars)

Item	Jan.-Dec. 1966		Jan.-Dec. 1965	
	Rs. crores	million dollars	Rs. crores	million dollars
Tea	137.29	207.3	114.60	240.8
Coffee	14.05	22.6	11.24	23.6
Spices	26.81	44.4	20.29	42.6
Tobacco	18.09	30.2	23.03	48.4
Vegetable oils (Non-essential)	2.53	4.2	4.38	9.3
Vegetable oils (Essential)	3.00	4.7	2.75	5.7
Oil cakes	42.90	70.4	37.97	79.8
Gums & resins	2.26	3.7	3.32	6.9
Lac	5.02	7.9	3.95	8.4
Sugar (excl. molasses)	14.85	25.2	11.66	24.5
Cashew kernel	37.63	59.2	28.76	60.5
Fruits & vegetables other than cashew kernel	11.07	17.1	6.83	14.4
Raw cotton	8.66	14.1	10.69	22.5
Cottonwaste	4.32	6.7	3.68	7.7
Fish	13.24	20.4	6.59	13.9
Raw wool	7.07	11.6	5.97	12.5
Bones	4.72	7.3	3.08	6.5
Bristles	2.05	3.3	1.37	2.9
Leather tanned dressed	52.50	81.3	27.18	57.1
Hides & skins (except fur skins) undressed	12.73	20.2	9.35	19.6
Leather manufactures	0.22	0.3	0.22	0.5
Jute manufactures	216.24	342.6	183.89	386.3
Cotton fabrics	55.17	90.7	56.64	118.9
Woollen manufactures	8.47	13.4	6.13	12.9
Fabrics of art silk and synthetic fibres	4.46	8.0	4.35	9.1
Coir manufacture	12.71	19.8	10.18	21.4
Iron ore	59.01	96.8	39.14	82.3
Manganese ore	12.71	21.1	9.30	19.4
Other minerals and ores	5.08	8.0	4.24	8.9
Mica	12.78	20.4	10.99	23.1
Coal & coke	2.14	3.5	3.55	7.4
New manufactures	61.86	99.8	44.06	92.5
(a) Ferro-manganese other alloys	1.30	2.7	4.02	8.5
(b) Cement	0.26	0.4	0.35	0.7
(c) Metals	20.05	32.1	11.52	24.1
(d) Engineering goods	21.49	34.0	16.66	35.0
(e) Chemicals & allied products	10.21	16.5	7.47	15.7
(f) Footwear	8.09	13.2	3.60	7.6
(g) Plastic goods	0.46	0.9	0.44	0.9
Sports goods	0.32	0.5	0.25	0.5
Misc. items including re-exports	123.34	193.4	94.36	198.2
Grand Total of exports	994.30	1580.1	803.03	1687.0



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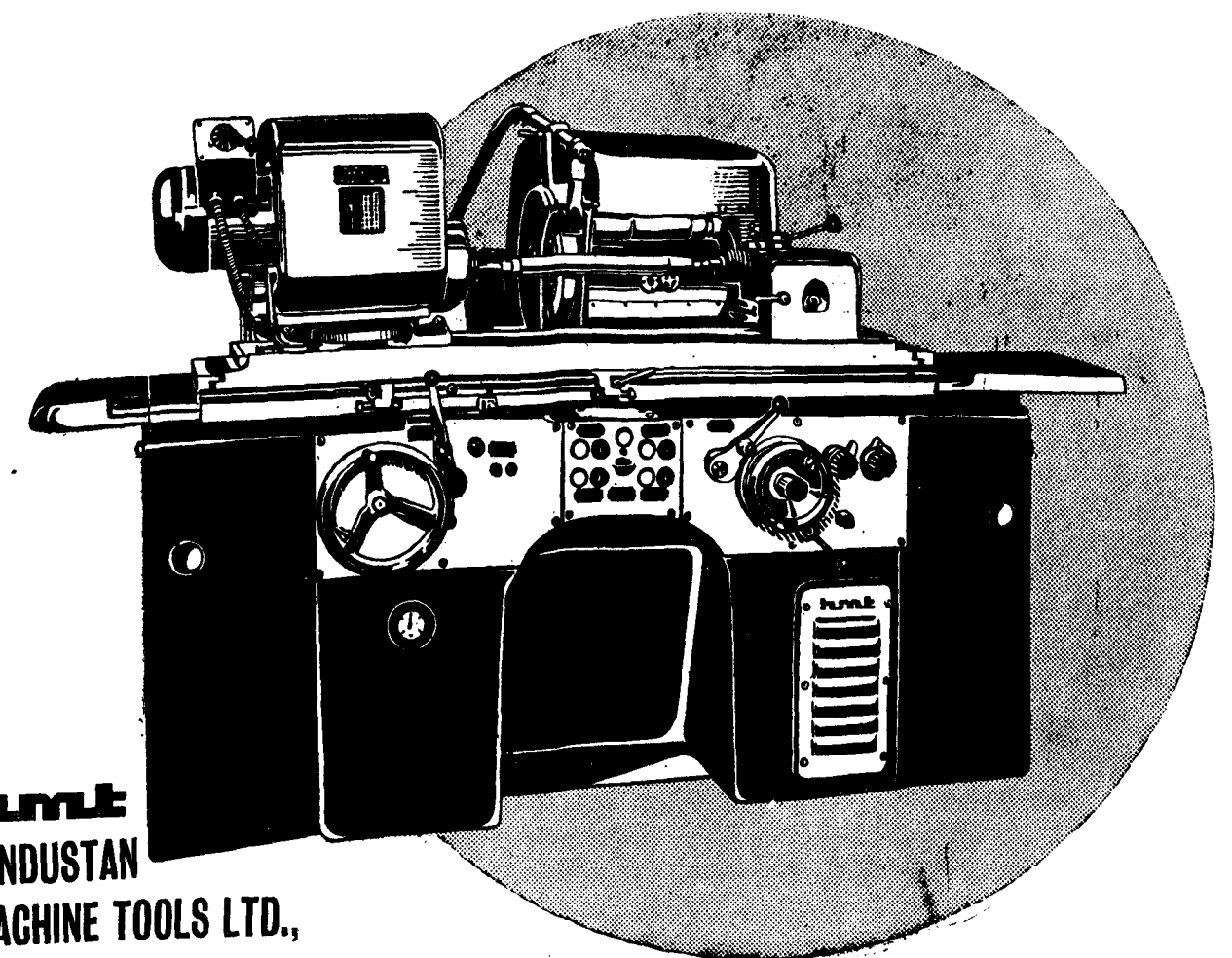
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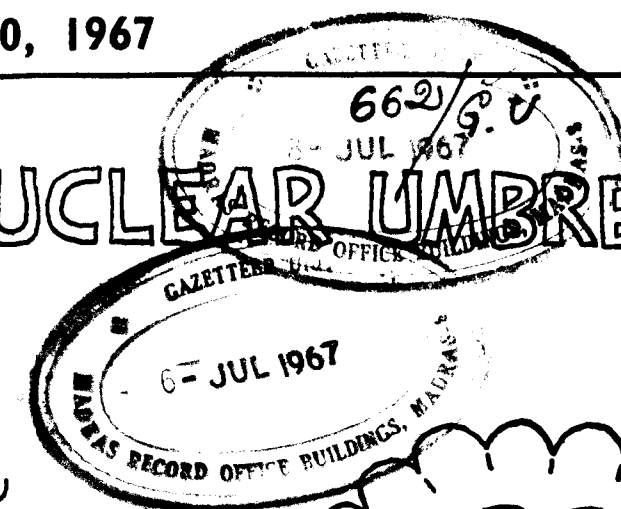
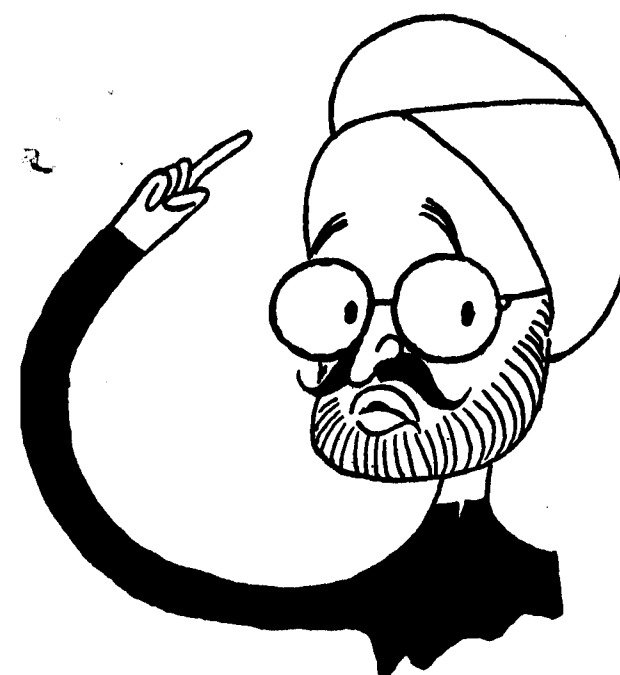
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VOLUME 48

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DUNLOP KEEPING PACE WITH INDIA'S EXPORT DRIVE

OPRC-168

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JUNE 30, 1967

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First Things Last?

ARE WE, as a people, yielding to a death wish? In any case, we do not seem to be trying particularly hard to keep ourselves, as a nation, alive.

It is undeniable, surely, that the difficult economic situation in which we have been for some time now is not becoming less difficult, although, in all probability, statistical or other, the rains this year will be at least as good as they were last year and are extremely unlikely to be as bad as they were the year before last. Granted this, the output of foodgrains and other agricultural produce is bound to show some improvement in the crop year 1967-68. In the Ministry of Food and Agriculture and also in the Planning Commission they are already talking of a harvest of foodgrains which may be as much as 90 million tonnes or more and may not, in any case, be less than 80 million tonnes. This should certainly make a big difference to food supplies from October this year onwards. Even so, there is no gainsaying the fact that between now and this blessed October things would be pretty grim, especially for the people in the drought-stricken or deficit states. What are we, government or people, doing about this problem which is staring us in the face?

On June 25, the food trade held a conference in the Capital and got Mr Jagjivan Ram to address it. Rather distressingly, neither the minister nor the merchants seemed to have many ideas about what to do. Each side seemed determined to see only its half of the truth. It is true that government regulations are hampering grain movements and causing artificial shortages and increases in prices. But it is equally true that to trust the trade wholly to distribute scarce foodgrains evenly and equitably across the land would be to gamble on frail human nature. Logically and reasonably, there must therefore be some constructive compromise of viewpoints. The sensible course, of course, would be for both private trade and government-controlled distribution to become more trustworthy and efficient. Here is involved no deep political or economic philosophy, but a simple matter of management applying to both government and business administration. Why then is it that after 25 years of food regulation (reckoning from war-time controls), we are still unable to agree even broadly on a simple, common programme of action? Could the answer be that we are putting politics before food?

Let us take, for instance, the food situation and the food administration in West Bengal. It will at once be conceded that West Bengal is acutely deficit in food and that its food economy has to be sustained by fairly large supplies from outside. But it does not mean that this state does not have to do anything to help itself or even that it cannot do more than what it is doing to organise its local food supplies. West Bengal is now supposed to have the blessings of a ministry which is allegedly in the enjoyment of the confidence, sympathy and support of what are described as the masses. Why then is this so-called popular state government being so pitifully ineffective and inefficient in improving and increasing the official procurement of foodgrains grown in the state? It is also relevant to ask why this so-called popular government is doing so little to persuade people to accept wheat more readily as part of their ration when it must be obvious to all concerned that it is just not possible for the Government of India to assist West Bengal with food supplies unless the people of West Bengal are prepared to accept considerable quantities of wheat in lieu of rice. It is indeed strange that a so-called popular ministry which claims to be overwhelmingly concerned with the basic needs of the people is, in actual performance, found to be so wanting in elementary endeavour in such a vital area of popular well-being as food supplies. Quite obviously food does not come first with this ministry or at least with the major partner in this ministerial setup.

who seems to be more interested in precipitating an ideological revolution than in running the day-to-day government.

The lapses in West Bengal become all the more difficult to tolerate in the context of the performance of another state government which could claim, perhaps with greater justice, to have won a mass basis as a result of the last general election. We are referring to the DMK Ministry in Madras which has certainly been far more responsible and realistic in the field of food administration than the United Front Ministry in West Bengal can dream of claiming. Although there is no love lost between the central government and the Madras Ministry (just as there is no love lost between that government and any non-Congress ministry in the states, including the United Front Ministry in West Bengal), the Madras Government has certainly done a lot more to solve the food problem in that state than the West Bengal Government seems ever likely to do. For one thing, although the DMK Ministry's promise of one Madras measure of rice per rupee was an election pledge and therefore political tactics, it has at least set about fulfilling its promise in as practical a manner as possible. Having once decided that a reduction in the price of rice is an urgent and justified demand of the people, it has not hesitated to provide money for the purpose out of the state's resources. More important still, the DMK Ministry has vigorously stepped up procurement while taking more effective steps to prevent the smuggling of rice out of the state. As a result, the Madras state is one of the very few deficit states in the country which is now in a position to state that its food problem has not only become manageable but is being managed. We concede that the food deficit in Madras state is not as acute as in West Bengal or, say, in Kerala. But we do assert that the food situation in West Bengal or for that matter in Kerala would have been less difficult than what it is now had the so-called popular ministry, whether in West Bengal or Kerala, really put the people's need first and its own political strategy of waging ideological warfare with the Congress ministry at the centre next.

Even as we had pointed out in the case of West Bengal, in Kerala too there is a clear necessity for more efficient local procurement as well as for the popularisation of the wheat part of the ration. Unfortunately, the politics of communism could leave but little time for the problems of food management. Mr Ajoy Mukherjee argues that Naxalbaris and gheraos will go on until rice is plentiful and cheap in the shops of West Bengal. The question is whether Mr Jyoti Basu really wants Naxalbaris and gheraos to end at all.

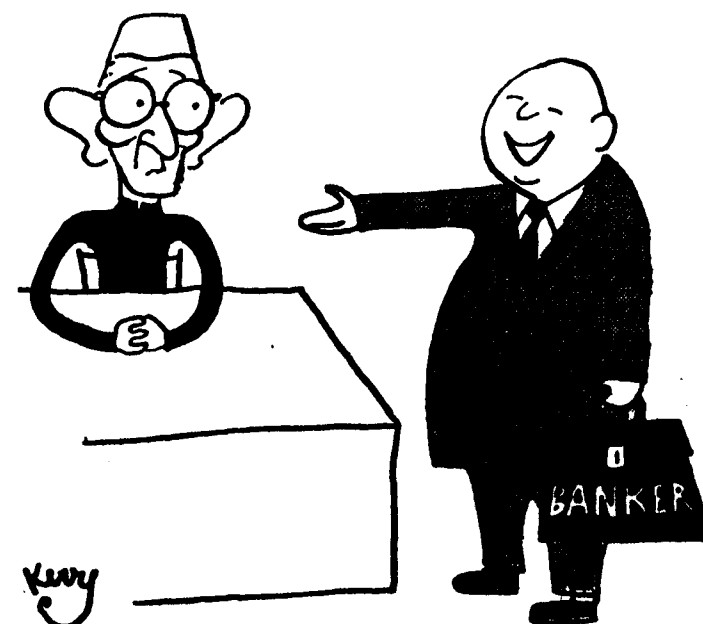
Let us consider now the more general economic situation. The more the virtues of Mr Morarji Desai's act of balancing the budget are criticised the more aggressive he is becoming in their defence. He, in fact, appears to have persuaded himself to believe that economic stability has been well and truly achieved by his budget. How far is this a fact and how far mere fancy? Even in the limited context of matching expenditure to revenue, Mr Desai surely cannot be as hopeful now as he was on paper when

he presented his budget estimates in the last week of May. His assumption that a deficit would be avoided was based, among other things, on the expected flow into central government receipts of the rupee proceeds of PL 480 food and Consortium-aided maintenance imports. It now appears extremely unlikely that his anticipations in this respect will be fulfilled.

If only because of the closure of the Suez Canal, shipments of PL 480 grain as well as maintenance imports are already being delayed and there is no knowing how long the Suez Canal will remain blocked. It is obvious that the mere increase in the time taken in ships going round the Cape will occasion delay in receipt of imports, while the increased freight charges may deter importers. Add to this the political anxieties and uncertainties which our Government's foreign policy postures and posturings are doing nothing to relieve. He would indeed be a bold man who would assert that imports, and consequently, budgetary resources will not suffer. Apart from such external factors which are likely to affect the flow of imports, there is also the fact that the industrial stagnation is continuing. In fact, there is a deepening depression in such areas of industry as engineering which are normally large consumers of maintenance imports. Plagued by declining demand and labour lawlessness expressing itself in gheraos and the like, the engineering and other industries are hardly in a position to plan enthusiastically for the utilisation of import licences for raw materials or components.

The outlook is not rendered any brighter by the obvious lack of buoyancy in export industries. In a rash moment, writing in one of the weeklies soon after the central budget was presented, Dr A. M. Khusro (of the Institute of Eco-

New Delhi, June 20—Sixty-eight Government companies with a total investment of Rs 2,225.88 crores gave a return of only Rs 53.03 crores or 2.4 per cent in 1965-66.



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omic Growth, Delhi), declared that "the most admirable strategy—and the boldest in the budget—is the substitution of export promotion for import substitution". We wonder how enduring Dr Khusro's enthusiasm has proved. In any case, his assertion that "many export taxes, the biggest enemies of export, have been slashed" was factually incorrect. The only genuine reduction in export duties was the cut in the duties on jute goods, but it was known to those who had some practical knowledge of this business that the reduction which the Finance Minister had chosen to effect was wholly inadequate for his declared purpose of sustaining and stimulating the export of jute goods. It was recognised, particularly, that the export duty on hessian, even after the reduction in the budget, continued to be too high for the trade to be able to maintain its markets abroad. The trend of export trading in jute goods since the budget has confirmed this assessment while showing up the irrelevance of Dr Khusro's untutored admiration for the budgetary exercise in export promotion.

Scarcely better informed was Dr Khusro's appreciation of "the excise levies on tea, coffee, tobacco products, superfine cloth, etc." as "the only crucial measure that will promote exports" since—so ran his argument—in the absence of large agricultural availabilities these additional excises were eminently suited to divert goods from the home to the foreign market. Dr Khusro, once more, was unmindful of facts and impatient in his analysis. He evidently missed the point that the increase in excise duty was not on superfine cloth as he believed but on superfine sized yarn for powerlooms and that this levy had no export implication, its purpose being only to reduce the disadvantage of the mill sector vis-a-vis the powerlooms in the domestic market. As for the excise levies on tea, coffee and tobacco products, the argument for the conservation of supplies for export has no application with regard to tea at least. Had Dr Khusro been able to give more leisurely and detailed attention to the subject, he would perhaps have learnt that the real difficulty with regard to tea export was the declining unit value which was depressing export earnings. While an increased excise duty on higher grades of tea may depress home consumption less than is supposed because these qualities of tea would still be an attractive drink for the more well-to-do consumers who go for them, an increase in the excise duty on inferior grades of tea, by forcing more of them into the auctions, may well have the unfortunate effect of depressing further the unit value of tea exported. In any case, there are enough resources in the tea industry to increase promptly to take care of all prospective home and export demand provided rational taxation and other policies are followed with regard to this industry. As it is, by increasing the aggregate burden of taxation on the tea industry, the central budget has only undermined further the financial solvency and economic viability of this export-oriented industry.

It follows that no smugness is permissible with regard to the economic outlook, but there is not only smugness but even a fine sense of irresponsibility among the powers that be, as was demonstrated a few days ago through the proceedings of the All-India Congress Committee in New

Delhi. Let the party and its orators wrangle as much as they like about the causes of Congress defeats in the general election or over the apportionment of blame for the party's political misfortunes. But when matters reach a stage where Congressmen plan to woo and win mass support by resorting to obvious demagogic government programmes, it is surely time for the question: what happens to the public interest? We do not propose to discuss here the merits of the Congress party's proposals for abolishing the privy purses of ex-rulers or even the nationalisation of general insurance, or the extension of the public sector into banking or foreign trade, but we do want to point out that decisions on matters such as these are being sought to be forced on the Government at pistol-point by a rabble of politicians which does not seem to have the faintest idea of national priorities. It is true that the Prime Minister may be depended upon to show a certain personal courage and the Deputy Prime Minister considerable strength of character in resisting pressures of the kind which were worked up at the A-ICC session, but then they too are politicians depending on the support of other politicians.

The outlook therefore is grim—but not so much because the specific proposals aired at the A-ICC session are adventurist and destructive, but because a political atmosphere is being built up in which the basic economic interests of the nation are likely to suffer seriously. If the Congress party ever had any valid claim to be the first servant of the people it was surely on the strength of the fact that,

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despite its shortcomings, it represented the largest single spread of political moderation and responsibility. With its wits scattered by election reverses and in its unseemly hurry to recover its past pomp and glory, the Congress party now seems bent on destroying its own title to public confidence and respect by engaging itself in a race with leftist elements (whether nominally within its fold or openly outside it) in committing excesses of demagoguery. Unfortunately, it could not have chosen a worst time to do

Progress Without Profit

SUBSTANTIAL GROWTH in deposits, accompanied, however, only by a nominal increase in profits, anxious introspection regarding the cost structure and considerable bewilderment over the phrase "social control of banks" were the highlights of the experiences of the banking industry last year.

The deposits of scheduled banks at the end of 1966 rose to a new peak at Rs. 3,378.4 crores, crossing the Rs. 3,000-crore mark for the first time and registering a rise of Rs. 491.4 crores in one year. It may be recalled that the Rs. 2,000-crore level was crossed in 1962 when deposits totalled Rs. 2,038.9 crores. Thus, in four years deposits rose by more than Rs. 1,300 crores. Also, in no single year in the history of banking in this country had deposits of these banks risen by such a large amount, the highest earlier increase being Rs. 363 crores in 1965 over 1964. What is of greater significance is that the first 14 banks—ranking according to deposits—achieved a rise in deposits of the order of Rs. 514.17 crores, which was larger than the net increase in the deposits of all scheduled commercial banks. The obvious conclusion is that the smaller banks numbering 62 lost ground in 1966.

Among the 14 leading banks in the country, including the public sector giant, the State Bank of India, there have been some dramatic changes in ranking according to deposits, the most important being the case of the Punjab

this. As has been set out here, with food having become politics in many states, the precarious balance in the central budget showing every sign of being upset, the shadows of industrial depression lengthening and little prospects of exports improving materially, our nation is clearly headed for conditions of economic instability which the frightening away of private enterprise at home and abroad—a natural consequence of the political excesses we see today—can only expedite and exaggerate.

National Bank yielding its third place to the Bank of India. In 1965, the Punjab National Bank had scored over the Bank of India in deposits by a nominal amount of Rs. 11 lakhs. In 1966, the Bank of India took a great leap forward by improving its deposits by Rs. 67 crores while the appreciation in the deposits of the Punjab National Bank was Rs. 37 crores only. The other banks which have improved their ranking by deposits (See Table I), among the 14 leading banks, are the Dena Bank, the Indian Overseas Bank and the Union Bank. The banks which have maintained last year's ranking are the Bank of Baroda, the Canara Bank, the Central Bank, the State Bank, the Syndicate Bank, the United Bank and the United Commercial Bank.

The Indian Bank, with deposits at Rs. 71.66 crores, held the 14th rank amongst the leading banks, indicating that each one of the 14 leading banks had, at the end of 1966, deposits of more than Rs. 70 crores. (Last year, the lowest level amongst these banks was Rs. 54 crores). In 1955, there were only two banks—the State Bank of India and the Central Bank—each of which had deposits of more than Rs. 70 crores. Thus, in the past 11 years, the number of banks commanding deposits of more than Rs. 70 crores has increased from two to 14.

Attention needs to be drawn to four banks in south India which showed exceptional progress during the past decade. They are the Canara Bank, the Syndicate Bank,

TABLE I
FOURTEEN LEADING BANKS: DEPOSITS AND OTHER ACCOUNTS

(Rs. crores)				
	1955	1960	1965	1966
Allahabad Bank	34.87(7)	50.80(8)	84.13(9)	91.50(11)
Bank of Baroda	40.52(6)	84.96(6)	186.03(5)	249.96(5)
Bank of India	64.74(4)	106.33(4)	240.43(4)	307.42(3)
Canara Bank	11.98(12)	29.90(11)	98.98(8)	114.04(8)
Central Bank	127.08(2)	195.62(2)	316.36(2)	359.88(2)
Dena Bank	16.08(10)	35.08(10)	81.57(10)	95.26(9)
Indian Bank	29.28(9)	39.48(9)	58.35(13)	71.66(14)
Indian Overseas Bank	14.18(11)	28.30(12)	54.16(14)	72.80(13)
Punjab National Bank	90.12(3)	138.14(3)	240.52(3)	277.38(4)
State Bank	225.77(1)	571.32(1)	735.12(1)	875.98(1)
Syndicate Bank	6.67(14)	18.87(14)	59.11(12)	74.03(12)
Union Bank	9.04(13)	28.13(13)	69.32(11)	93.10(10)
United Bank	31.21(8)	51.19(7)	102.83(7)	114.24(7)
United Commercial Bank	47.69(5)	85.58(5)	146.39(6)	190.22(6)
	749.23	1463.70	2473.30	2987.47

Figures in brackets indicate the ranks of the banks in the particular years.

the Indian Overseas Bank and the Indian Bank. Between 1955 and 1966, their deposits multiplied more than five times. The growth in deposits of these banks was made possible by the large-scale absorption of the weaker units. Special mention needs to be made of the Syndicate Bank the deposits of which in 1955 were Rs. 6.67 crores only but which had risen to the 12th rank last year with total deposits at Rs. 74.03 crores—more than 11 times the level in 1955.

The expansion in deposits last year, however, did not result in any significant increase in the profitability of these banks. While the deposits of the 14 leading banks rose by about 14 per cent, their profits rose by three per cent only. Except for the State Bank of India, the gains in profit recorded by most of the other leading banks were only marginal. According to the "Trend and Progress of Banks of India, 1966"—a Reserve Bank of India publication—the profits of 33 scheduled commercial banks rose over the year by 2.1 per cent only, whereas last year, the increase was of the order of 9.2 per cent. A rise of 2.1 per cent only in profits as against 17 per cent rise in deposits shows that the banks are now caught in a wage spiral. Expenses moved up to mop up most of the increase in earnings. This has naturally caused concern to almost all the bankers. By and large, it is the impact of the increased wage bills and commitments on revised service conditions of employees following the bipartite settlement of October 1966 which has reduced the profitability of the banks.

Mr I. P. Goenka, Chairman of the United Commercial Bank, recently expressed the view that while bank employees had been treated liberally, they had not responded favourably so as to improve productivity. The banks, he said, had willingly taken upon themselves the additional burden of 15 to 20 per cent of their salary bill in the hope that employees would willingly contribute towards greater efficiency. He made an earnest appeal—in his address to the last annual general meeting of the bank—to the employees to cooperate in improving productivity. Mr Goenka also blamed the Government for its inability to control the price situation in the country. He said that massive capital expenditure incurred by the Government on projects with long gestation period had added to the inflationary pressure and had increased the demands for higher wages by the employees.

Sir Homi Mody, in his address at the annual general meeting of the shareholders of the Central Bank, made a pointed reference to the decline in profits; he said that this was a serious portent and that necessary corrective steps needed to be taken before there was further erosion. He emphasized that banks should become more cost-conscious and re-examine the economics of the free services rendered by them to the customer. It would be worthwhile to undertake a study and ascertain to what extent the action of various banks in vying with one another in offering free facilities had directly resulted in the growth of deposits, he added.

Mr K. P. J. Prabhu, Chairman of the Canara Bank, agreed with Sir Homi Mody in this regard. He disclosed in his speech at the annual general meeting of his bank that measures were being taken to "streamline the various service charges". He expressed the view that without this,

the banks would not be able to strengthen their reserves adequately as required by their rapidly growing responsibilities.

The subject of "costs and productivity" received special attention in the annual address of Mr Devji Rattansey, Chairman of the Union Bank of India, who advocated a revision in the entire range of service charges in line with the cost considerations. "The growth in total operating earnings", according to Mr Rattansey, "has stemmed mainly from the rise in interest on loans and advances predominantly after 1963, the year when the inter-bank agreement on rates of interest on advances came into being. Other heads such as commission on letters of credit, collection bills, remittances and other services have registered a growth rate which lags very much behind the rate of growth in the overall current operating earnings". Mr Rattansey is of the view that a broad agreement amongst the banks on the service charges, some of which have remained unchanged for more than a decade, would considerably assist in augmenting their earnings.

The Indian Overseas Bank, it appears, has conducted some studies in cost evaluation. Said Mr M. Ct Muthiah, Chairman of the bank, at the last annual general meeting: "The bank has recently initiated studies to ascertain the unit cost of customer services operated at our branches. The findings relating to a branch in Madras City were quite revealing. It cost the bank 45-55 paise to pay cash against a cheque or receive cash for credit of a current account. Deposit or withdrawal of cash in a savings account cost 25-30 paise. The expense to the bank in issuing a demand draft worked out to 80-95 paise, while encashment of a draft cost a little over 50 paise. Unit cost of issuing a telegraphic transfer (excluding the telegram charges payable) was around 180 paise. These estimates are averages of several transactions and cover both direct cost, i.e., cost directly attributable to the production of the service in question, and indirect or overhead cost including proportionate head office expenses. Our main objective in initiating these studies is to arrive at a rational policy in regard to service charges. As it is, it would appear that charges bear little relation to cost. I would, therefore, very much welcome other banks investigating their service costs so that, in due course, it would be possible to frame a realistic schedule of

Eastern Economist 20 Years Ago
JUNE 27, 1947

The most cheering news of the week was the report that high level discussions are going on between the Viceroy and the dissentient Indian States. Representatives of forty Indian States as well as of four hundred "residuary group" states are expected to attend the session of the Constituent Assembly of the Indian Union which is scheduled to meet on the 14th July. The New Statesman and Nation has wisely cautioned the British Cabinet that "we ought not to back reactionary princes with our bayonets". No question of British bayonets now exists whether to support the recalcitrant states or to oppose them. But even though the legal status of the states is far from clear, the dangers of independence have become clearer within the last one week.

service charges. In this matter, the Indian Banks' Association could play a useful role by formulating appropriate guidelines so that banks could work out cost estimates on a uniform and comparable basis".

Even though the scheduled commercial banks have been increasingly helping small-scale industries, the feeling persists in government circles that not enough is being done for them. Mr Morarji Desai is reported to have said recently at a gathering of leading bankers in New Delhi that there is a need for special arrangements "to assist young entrepreneurs who had the requisite talent but no financial standing to meet the usual criteria adopted by banks". According to an analysis made by the Reserve Bank, the scheduled commercial banks in this country have been steadily increasing their commitment to small-scale industries. Their advances rose from Rs. 73.83 crores at the end of March, 1965, to Rs. 90.76 crores at the end of March, 1966. The share of small-scale industries in the total advances of the scheduled commercial banks increased from 5.7 per cent in 1965 to six per cent in 1966. The number of such accounts also increased from 26,144 to 28,172. The average amount per account increased from Rs. 28,241 to Rs. 31,876. All these figures point to increasing assistance that is being given by the scheduled commercial banks to small-scale industries. Even then, the bankers have held out the assurance to the Finance Minister that they would increase their assistance to the small-scale industries.

The case for reducing the Bank rate was made out in an effective way by Dr. S. B. Dutt, Chairman of the United Bank of India. His criticism of the increased Bank rate was on the score that it had failed to achieve its expressed goals, namely, "economy in the use of capital and financial discipline." On the other hand, it had "adverse effects on the capital market, fiscal operations and the economy in general". Refuting the plea that high Bank rate tended to attract foreign capital he said, "besides current yield and opportunities for capital gain, other considerations which are likely to attract foreign capital are confidence in the future of the country and freedom to remit profits and re-

patriate capital, efficiency in administering various economic controls, ease of capital issues and availability of capital, raw materials etc." He made two points regarding the ineffectiveness of the Bank rate in the present economic structure of the country. The Bank rate in this country, he said, had not acted as a signal in the sense it might indicate the direction in which the official policy desired the economy to move. Secondly, none of the rates of interest ruling in other spheres of the economy, e.g. deposit rates, lending rates of banks and for other financial institutions, rates on debentures and bonds are linked to the level of the Bank rate. They are, according to Mr Dutt, determined on the basis of specific factors operating in each case. Thus, the level of the Bank rate is of little avail in influencing other interest rates or acting as a guide in the economy. In these circumstances, the Bank rate has not assisted the Government but has, on the contrary, increased interest charges on borrowings from the market.

The Chairmen of most of the banks this year have commented on the Congress party's reference, in its election manifesto, to the "social control of banks". While Sir Homi Mody said that it was difficult to know what the Congress party meant by "social control", Mr Kamalnayan Bajaj, Chairman of the Punjab National Bank, tried to spell out the difference between social control and nationalisation. He said: "The difference between nationalisation and social control is that in the case of the former, both the ownership and control vest in the Government while in the latter case, ownership does not necessarily vest in the Government, but control is exercised in the interest of society". If this interpretation given by Mr Kamalnayan Bajaj is a correct reflection of what the Congress party means by social control—and he is a veteran Congressman—the banks are already under social control. It is not known what additional steps the Congress party wants the Government to take in order to bring about the brand of social control which it has in mind. It is not easy to envy Mr Morarji Desai, who has to reconcile irreconcilables of political vested interests with the public interest.

TABLE II
PROFITS OF FOURTEEN LEADING BANKS

	1955	1960	1965	1966
Allahabad Bank	15.62	17.07	36.71	37.95
Bank of Baroda	29.65	15.83	90.12	89.93
Bank of India	84.91	103.37	149.93	149.74
Canara Bank	10.01	20.30	35.95	35.67
Central Bank	77.76	193.05	226.99	226.34
Dena Bank	11.11	23.55	31.38	31.20
Indian Bank	20.28	40.32	18.26	8.61
Indian Overseas Bank	16.56	44.66	17.03	18.30
Punjab National Bank	64.41	118.04	147.65	144.11
State Bank	135.94	217.59	330.00	379.34
Syndicate Bank	5.96	25.30	31.00	32.94
Union Bank	9.45	27.16	34.12	33.61
United Bank	14.61	14.63	26.32	26.31
United Commercial Bank	36.69	67.43	84.79	84.55
	5329.6	9283.0	1260.24	1298.60

Agriculture in the First Three Plans

L. L. SARIN

AGRICULTURAL PRODUCTION has been the sheet-anchor of all our development Plans. In allocating priorities, the first five-year Plan stated: "For the immediate five-year period, agriculture, including irrigation and power, must in our view have the top-most priority. For one thing, this emphasis is indicated by the need to complete projects in hand. But further, we are convinced that without a substantial increase in the production of food and raw materials needed for the industry, it would be impossible to sustain a higher tempo of industrial development." In the second five-year Plan, agricultural programmes were "intended to provide adequate food to support the increased population and the raw material needed for a growing industrial economy and also to make available larger exportable surpluses of agricultural commodities" The second five-year Plan, therefore, implied even more than the first a close inter-dependence between agricultural and industrial development. In drawing up the third five-year Plan, one of the principal aims was to achieve self-sufficiency in foodgrains and to increase agricultural production to meet the requirements of industry and export.

The total outlay during the first three five-year Plans on agriculture and irrigation in the public sector amounted to over Rs. 30,000 million or 22.7 per cent of the total development outlay. The investment in private sector on these programmes is estimated at Rs. 17,250 million. In regard to agricultural production, however, it may not always be possible to establish any correlation between the financial outlays and the results achieved. While the government may make available to ryots facilities for increased food production such as various inputs, technical advice and credit, the actual result would depend upon the response and intensity of efforts of thousands of farmers and the degree of acceptance by them of the improved practices commended to them.

Successes Recorded

Amidst all legitimate concern, which has been expressed recently about the sluggish rate of growth in agricultural sector, it will be quite useful for the purpose of evaluation and further planning to take note of the fair measures of success recorded in the last fifteen years. In the first Plan, the annual rate of growth of foodgrains production was 2.8 per cent, primarily through extension of area under cultivation (2.5 per cent). It increased to 3.9 per cent during the second Plan, productivity accounting for an increase of 3.2 per cent. The index of agricultural production rose from 96 in 1950-51 (base: 1949-50=100) to 142 in 1960-61. Over this period, the production of other crops also increased, notably, cotton from 2.6 million bales to 5.3 million bales, jute from 3.3 million bales to 4.1 million bales and oilseeds from 5.2 million tonnes to about 7 million tonnes. The performance of agriculture in the third Plan, in contrast with the earlier two Plans, has, however, been less spectacular. The average production of foodgrains during the third Plan period was 80.5 million tonnes against an average of 75 million tonnes during the second Plan period and of 66 million tonnes during the first Plan period.

It should be remembered that for a country like ours the seasonal factor still plays a prominent part in determining levels of agricultural production. A study of the figures of agricultural production over the last few years has revealed that the difference between a good season and a bad season could be of the order of 10-15 million tonnes. It will, therefore, be neither possible nor scientific to assess the success of any agricultural programme solely by a comparison of the actual yields in different years. We, therefore, generally assess the results

of agricultural production programmes in terms of additional production potential created by the efforts put in.

The table below shows that from 1953-54 to 1961-62 the actual production of foodgrains exceeded the production potential except for 1957-58. During the third Plan period, a series of unfavourable seasons adversely affected agricultural production. The last year of the third Plan coincided with one of the worst droughts in living memory when production of foodgrains fell to the level of 72.3 million tonnes.

PRODUCTION OF FOODGRAINS

(Million tonnes)

Year	Actual production (Adjusted up to 1955-56)	Production potential	Col. (2)—(3)
1	2	3	4
1949-50	60.6	60.6	—
1950-51	54.9	61.5	(—) 6.6
1951-52	55.5	62.7	(—) 7.2
1952-53	61.6	63.7	(—) 2.1
1953-54	72.2	64.7	7.5
1954-55	70.6	65.8	4.8
1955-56	69.2	66.8	2.4
1956-57	72.3	68.2	4.1
1957-58	66.5	70.0	(—) 3.5
1958-59	78.7	72.3	6.4
1959-60	76.6	74.7	1.9
1960-61	82.0	77.2	4.8
1961-62	82.7	79.8	2.9
1962-63	78.4	82.0	(—) 3.6
1963-64	80.2	84.5	(—) 4.3
1964-65	89.0	87.0	2.0
1965-66	72.3	90.0	(—) 17.7
1966-67	76.0	95.0	(—) 19.0

A few studies undertaken in the recent past to evaluate the main agricultural programmes have, however, brought out the deficiencies in the implementation of agricultural programmes. They deserve close scrutiny so as to avoid upsetting of targeted growth in agriculture during the fourth Plan period.

In the agricultural economy of this country, irrigation occupies a significant place. The total expenditure on irrigation during the first three five-year Plans has exceeded Rs. 19,500 million. The outlay on minor irrigation works alone, which include small tanks, small anicuts, diversion weirs and bandharas, wells, tubewells and lift irrigation from streams and drains,

amounted to nearly Rs. 5,000 million, providing irrigation to about 31.5 million acres. This included areas over which irrigation has been stabilised.

Studies on minor irrigation works have been undertaken in the past by many organisations, such as the Committee On Plan Projects (COPP), Programme Evaluation Organisation (PEO) and the National Sample Surveys (NSS). Their field studies throw light on actual development through these schemes. The COPP team has observed that the minor irrigation schemes have received much less attention—both technical and organisational—with regard to their planning, execution, operation and maintenance, than what would appear commensurate with the contribution they make. There are numerous agencies in the field to look after these schemes causing considerable confusion and duplication of work. Another startling observation of the team is the lack of co-ordination between irrigation and agriculture departments at almost all levels. These works are generally taken up on an ad hoc basis; the irrigation practices being faulty, they lead to highly uneconomical use of water. There is no uniform procedure of levy of water rates on minor irrigation works in the country. State irrigation works are generally revenue-oriented rather than production-oriented. For most of the works, correct record of their performance is not kept with the result that it is not possible to check their operational efficiency. The PEO has drawn attention to the problem of reducing the time-lag between the completion of the works and realisation of benefits, particularly from large tanks and state tubewells. Maintenance of the executed minor works is not up to the desired level since the losses due to depreciation are considerable. As long as the existing works are not properly maintained, the net increase in irrigation will be smaller than the figures of new construction would suggest. Many of the states do not have any organisation entrusted with the task of co-ordinating and building up an integrated and reliable record of the potential created and utilized under the minor irrigation works, their state of maintenance and needs of improvement or restoration. Whatever records are maintained do not show, separately, areas newly brought under irrigation, areas which previously received precarious supplies of irrigation water but have now been stabilized, and areas going out of irrigation from the older works.

Co-ordination Required

The pumpsets and tubewells require energisation before they are put to use. This implies proper co-ordination between construction of minor irrigation works and the rural electrification programme. The PEO report says that the time-lag between the date of application for electricity and the date of getting connection for agricultural purposes has been too long, on an average about 11 months as against 6 months in the case of industry and 3 months in commerce and domestic uses. The demand is also not fully met. In some areas, the electricity rates for agricultural purposes are higher than the economic rate which is reckoned at 9 paise per unit. Rural electrification is expensive. To secure the maximum return from this investment, it should have been so planned as to install the largest number of pumpsets, preferably in clusters rather than being scattered over vast areas. The best way would be, as suggested by Dr. V. K. R. V. Rao, to draw maps of possible minor irrigation works and of existing transmission lines and proposed electrification programme by districts and, in fact, even by blocks. If these maps are then transposed on one another, a rational programme of rural electrification, linked with minor irrigation, may result.

The performance, during the first three Plans, in the field of major and medium irrigation in respect of both creation and utilization of potential has been far below expectation. Thus over the three Plan periods, against the targeted potential of

29.5 million acres of irrigated area to be created by major and medium irrigation works, the estimated achievement is only 18.7 million acres or 62 per cent of the target. The utilization has been still lower. If we compare the targeted potential with the estimated utilization, the proportion comes to only 50.7 per cent. Thus for every two acres which constituted the target for irrigation potential under medium and major irrigation works, the area actually utilized for irrigation came only to one acre. This is one of the main explanations for the shortfalls in agricultural production during the planning period. Lack of co-ordination between the agricultural and irrigation departments has been one of the major causes of this unsatisfactory progress. Adequate attention does not seem to have been paid towards timely construction of field channels, levelling of land, development of suitable cropping patterns and following up of improved agricultural practices by the farmers in the command area of these irrigation projects.

Most Significant Inputs

Experience all over the world has indicated that fertilizers and pesticides constitute the most significant inputs for rapid increases in agricultural output. Our agriculture has been hit hard by the failure in fertilizer production. Against the third Plan target of one million tonnes of nitrogen (revised 0.8 million tonnes), the actual production in 1965-66 was less than 300,000 tonnes (N). Similar shortfalls occurred in the production of phosphatic fertilizers. The creation of demand for fertilizers without adequate provision for satisfying it led to frustration and dissatisfaction on the part of cultivators with adverse effects on the growth of fertilizer use. The failure to achieve the production targets was partly due to the delay in setting up of fertilizer factories each one of which took five to six years for completion, as against the usual three to four years, and partly due to under-utilization of capacity of these units. If the factors that have inhibited production had been identified and specific action taken to remove them, it should have been possible to raise production to at least 80 per cent of capacity as against 60-65 per cent as at present.

The basic question that plant-protection measures are not effective unless they are carried out over a compact area, at the proper moment, in a co-ordinated manner, within a very short time and at a very short notice, seems to have escaped the attention of the state governments. Such measures become, wholly or partially, ineffective even in regard to the fields treated by the farmers, when even a small percentage of the farmers in the block do not adopt them. The only answer to the problem would have been area saturation approach. Other factors which hindered progress included paucity of foreign exchange for pesticides and equipment, high cost of plant protection material and equipment, shortage of staff and inadequacy of measures to popularise the programme.

The cultivators are aware of the potentiality of improved seeds for raising productivity of land. In fact, no other method of agricultural improvement meets with as ready a response from the farmers as the use of improved seeds. Progress under the improved seed programme has been reviewed periodically by experts of the department of agriculture, the PEO and seed multiplication team of the COPP. These reports have shown that the programme failed in implementation in many states, especially in the matter of locale, organisation and management of the seed multiplication farms. They have also listed several handicaps of this programme. Among the shortcomings noticed, the important ones are: inadequate availability of nucleus/breeder and foundation seed, improper organisation of system of registered seed-growers; defective seed processing; lack of interest on the part of co-operatives to handle the unprofitable undertaking; and absence of any systematic renewal and replacement of seeds. Enough attention does not seem to have been given in the past to the fact that good seed yields large output

when accompanied by appropriate inputs of water and fertilisers.

Improved cultivation also needs high quality agricultural implements. An agricultural team of the COPP undertook a study of improved agricultural implements and machinery in this country. In its report (June, 1966), the team observed that the existing organisation and arrangements for research, testing, training, manufacture, distribution and extension in agricultural implements are far from satisfactory. These require to be reoriented and re-organised, keeping in view the urgency of the problem and our requirements. This is what the report has to say about the research programme carried out in the country: "A closer assessment of work will reveal that, by and large, systematic and sustained efforts have been lacking in most of the states. The research programmes taken in hand have been, more or less, sporadic without determining priorities for the various items. The result has been that most of the implements developed in the states have hardly gained any popularity amongst the farmers." Regarding the standardisation and quality control of the implements, the team found that "at present there is no quality control in agricultural implements either in regard to the correctness of the design of prototypes or the material used in their manufacture. This has given rise to unhealthy practices causing considerable loss to the cultivator and undermining his confidence in the improved agricultural implements". Not only are there great variations in the designs, specifications, efficiency and prices of implements but the cultivator is confronted with serious difficulties in getting repairs done owing to want of standard design and non-interchangeability of parts.

For training village artisans in the manufacture and repair of implements, to test and modify them and to teach village level workers (VLWs) in the use and maintenance of improved agricultural implements, workshop wings have been established at the gram-sevak training centres. The COPP team has noticed that "the training programme is not only inadequate but is also far from satisfactory, thus defeating the very purpose for which the workshop wings had been set up."

Meagre Data

The experimental data on the role played by improved agricultural implements in increasing production is meagre and in some cases almost lacking. No planned programme has been drawn up of cost-benefit research, covering all aspects of tillage operations performed by the implements, which are necessary to produce proper soil tilth for optimum crop production, and to work out their efficiency and economics in relation to their production capacity and quality of work. There is also need to crush the tendency of launching subsidy-oriented programmes, which must, gradually, give place to a realistic approach. Since there is an acute shortage of farm labourers and workers in the context of modern methods of farming, it is high time that a firm policy in regard to mechanisation of agriculture is framed by the Government.

So much has been written about the evils of soil erosion that there is hardly anything left to add. Even though the first Plan initiated a national programme for soil conservation, it was not until the later part of the second Plan that the programme could be said to have got going. The area brought under soil conservation during the first three Plan periods added up to 13 million acres. It has been observed that this programme needs to be particularly strengthened and expedited in a number of directions. There has been, in the past, considerable time-lag between the sanctioning of the soil conservation scheme and the completion of the contour survey. A study of the norms of achievement, per unit of the staff, adopted in different states, reveals that they have been fixed at a lower level in some states. The panchayats and co-operatives have not been drawn into the programme in most of the states. The importance of

associating people's organisations with the programme does not seem to have been given sufficient recognition. One of the weaknesses of the programme, as it has been operated, is the unsatisfactory nature of the demonstrations. So far, soil conservation has been limited to erosion control measures in widely dispersed cultivators' areas and the approach has not been on the complete watershed basis. Even the soil conservation laws have not so far been enacted in a few states.

Credit is another important requirement for the promotion of agricultural production. In spite of many years of existence, the co-operative structure is in need of assistance both for extension of its coverage and its improved functioning in respect of the services rendered to its members. According to the All-India Rural Debt and Investment Survey of the Reserve Bank, the amount of agricultural credit provided by co-operatives came to only 25.8 per cent of the total borrowings of cultivator households in 1961-62. The amount of co-operative credit, however, was spread very unevenly. The proportion of co-operative credit to the total estimated borrowings of cultivators was 55 per cent in Maharashtra, 41 per cent in Gujarat and 31 per cent in Madras. In such states as Assam, Bihar and Rajasthan, the proportion was not more than 10 per cent. In other states, it did not exceed 30 per cent. What was even more unsatisfactory was that co-operative loans were given generally against the mortgage of land and there was no significant shift to the crop-loan system in most states. There are no survey reports to show if the position has improved during the last six years. Agricultural money lenders, professional money lenders and traders thus still have a significant hold on the agriculturists.

Land Reform

Land reform has been another important instrument for creating the necessary motivational background for increasing agricultural production. 'Land to the tiller' has been the basis of this programme. A study on tenurial conditions in package districts of the country has been made by Mr Wolf Ladejinsky, a well known expert on agrarian reform. In his report he has candidly drawn attention to the deficiencies in the implementation of land reforms. In four of the five IADP districts, visited by him, the tenurial system is not satisfactory since a sizeable area is still cultivated by tenants. In two districts more than 50 per cent of the farmers cultivate wholly or partially leased lands, mostly on oral leases. The land records do not contain any information about tenants. The landlords still continue to change tenants, from plot to plot, to defeat tenancy laws. The few tenants who were allowed to continue over a fairly long period feel insecure. Thus, a large number of cultivators hold no title to leased lands, pay extortionate rents and are never certain of their status. They are left with little to subsist on and much less to invest. The reason for this state of affairs is two-fold: one is the faulty legislation itself, and the second is the negative attitude of government officials at state, district, block and village levels. Generally, no serious attempt has been made to enforce the enacted land reform legislation.

As has been rightly pointed out by Wolf Ladejinsky, such tenurial conditions are not conducive to agricultural production. The situation is made much more difficult because VLWs hesitate to prepare production plans for the 'pure' tenant farmer and, in respect of leased lands, for the owner-tenant farmer, unless the landlord agrees to it. As part of this situation, a co-operative society would not provide him with a short-term loan unless he produced a lease deed from the landlord or his signatures on the loan application. Even where a tenant succeeds in all this, the maximum loan that he can get is very small. There is ample evidence, therefore, that the vast majority of tenant cultivators are poor investors thus seriously reducing the chances of success of the agricultural production programme.

Copper: Problems and Perspectives

V. RAMACHANDRIAH

AMONG NON-FERROUS metals, perhaps, no other metal is as vulnerable to wide fluctuations in prices and susceptible to supply bedevillments as copper. In fact, it is one of the most unstable commodities in international trade today. Although the world copper market has taken a relatively bearish tone of late, this phase should not be taken for granted for many factors such as strikes in major producing countries at any time may reverse the trend. Besides, this temporary situation of soft prices should not deter our long-term plans for copper development. The LME prices were sky-rocketing, nay zooming, to all-time highs just over a year ago spurred by strikes in Chile, the major Latin American copper producer coupled with the transport bottlenecks experienced while making shipments by Zambia. But prices of wire bars have shown a downward trend from that unbelievable price of £790 per ton in April 1966 to as low as £364 per ton in June this year. Basing on the present indications, one can confidently say that there is more likelihood for the market dropping than rising in the near future.

World copper supply, however, is inadequate to meet the ever-rising global demand; more so in the industrialised nations. The USA which is the major copper consumer as well as producer is fast moving towards the Great Society calling for more and more consumer and capital goods. The bulk of its copper supplies at present is, however, pumped to the Vietnam war efforts thereby reducing the availability for civilian uses. The USA consumes about two million tonnes of copper metal per annum. The impact of war on civilian consumption can best be seen from the fact that assuming there are no strikes in all the leading producing countries, the Vietnam war continues and no stocks are released during the current year, the civilians can hope to obtain 1.35 million tonnes of copper releases as compared with 1.55 million tonnes in 1966.

In Zambia, the production of copper has been subdued due to difficulties associated with coal imports needed for the refining process. Hitherto, Rhodesia had been a big supplier of metallurgical coal. Interruption of traffic between Zambia and Rhodesia during 1966 had adversely affected production and the Zambian works were operating at 75 per cent of capacity at the start of this year. Amidst this cloudy supply situation a silver lining has, however, been the recent announcement made by the Anglo-American Corporation and Roam Selection Trust that output is to be increased to 90 per cent of capacity this year.

Silver Lining

Added to the political uncertainties, was the tussle between Kinshasa and Brussels on the nationalisation of the Union Minerie, the copper producing company in the Congo. It will be recalled that late last year the Union Minerie and the Congolese Government had a show-down over the latter's insistence that the company's headquarters should be shifted to Kinshasa. The Union Minerie refused. Till February 1967, the Congolese Government blocked all shipments of the company which had led to tight market conditions as about 10 per cent of world supply of copper originates in the Congo.

Despite all these crises, the LME prices have not firmed up in recent months. The possible explanation for this curious phenomenon is that the European demand for copper has slackened considerably. The indications are that if the USA and Chile do not experience—this is a big if—severe strikes the LME prices are likely to decline further.

Copper in nature occurs widely distributed and in many unusual places as native copper or sulphide or oxide ores. It is found in rocks, soils, river silts as well as in oceanic clays. Although commercial deposits of copper ore occur in every continent, six principal producing areas contain world's proved and indicated reserves. These are the western slope of Andes

in Chile and Peru, the Central African Copper Belt covering Rhodesia and the Congo (Kinshasa), Western USA, the Ural Mountains and Kazakhstan areas in the USSR, the pre-cambrian areas of Central Canada and the Lake Superior region of North America. These areas, in fact, account for substantial quantities of the world output. The measured and indicated world reserves of copper in terms of metal content are put at 212 million tonnes. In our country, copper-bearing minerals have been reported from every nook and corner. Deposits of economic value, however, occur at Mosabani, Patharghara, Raka Mines, Ramachandra Pahar, Tama Pahar, Surda, etc., in Bihar. In Rajasthan they are found at Khetri, Kolihan, Dariba, Akwali, etc. Besides, Bhotang, Dikcher, Packekwaw in Sikkim and Agnigundla in Andhra Pradesh report fair amounts of copper ores. It has lately been estimated that we have 41 million tonnes of proved reserves of copper with an average copper content ranging between 1.8 to 2.3 per cent in Rajasthan while another 35 million tonnes of copper are indicated at Roam Sidheswar Block in Bihar and in Maharashtra and Madras states.

A new record of world production of 6.1 million tonnes of copper metal has been estimated in 1966. The USA remained the largest producer of refined copper, though its percentage of world production has declined considerably in recent years. The USSR stood second followed closely by Chile and Zambia. We produced about 9,500 tonnes of copper metal in 1966. An idea of world mine output of copper and reserves can be had from Table I.

TABLE I
WORLD MINE PRODUCTION AND RESERVE

Country	Mine Production		Reserves	Grade of ore (percentage)
	1965	1966*		
Canada	0.47	0.49	7	1.7
Chile	0.58	0.62	43	2.0
Congo (Kinshasa)	0.29	0.29	18	4.0
Peru	0.18	0.18	11	0.9
USA	1.23	1.28	30	0.8
Zambia	0.69	0.63	24	3.7
Socialist countries (excluding Yugoslavia)	0.93	0.93	34	2.2
Others	0.73	0.78	45	2.0
World Total*	5.10	5.20	212	2.0

* Estimated.

Ever since there has been any knowledge of the world production of metals, copper has exceeded all other metals in importance except iron. A comparison of the total world consumption of non-ferrous metals in 1935 and 1965 indicates that the consumption of aluminium, lead, copper, zinc, tin and nickel has just about quadrupled. Among them, however, aluminium has recorded remarkable rise in recent years. Today aluminium occupies a place of pride having ousted copper to the second position. A principal reason for the swing is the reversal in price trends whereby, copper hitherto cheaper than aluminium has become more costly. Moreover, because of its high electrical and thermal conductivity, corrosion resistance, good ductibility, malleability and high strength, copper finds a variety of uses and is still irreplaceable altogether. It is the basis of brass, bronze and other alloys. The major portion of the world production of copper is utilised by the electrical industry. Of the left-over, the greater part is combined with other metals to form alloys. An addition, for instance, of about 0.21 per cent of copper to low carbon steel will increase

its resistance to atmospheric corrosion by as much as 20 to 30 per cent.

Viewed against this background, our copper industry at present paints a gloomy picture. Table II shows the slow progress made in Indian copper industry together with the domestic needs met during the present decade.

TABLE II
KEY INDICATORS OF INDIAN COPPER

Year	Production		Imports		Total availability (tonnes)	Dependence Rate (percentage)
	Copper Ore ('000 tonnes)	Copper Metal (tonnes)	Quantity (tonnes)	Value (Rs. million)		
1960	448	8,910	63,339	217	72,249	87.66
1961	423	8,336	62,316	196	70,652	88.20
1962	492	9,781	71,790	238	81,571	88.00
1963	474	9,582	74,008	254	83,590	88.53
1964	473	9,475	67,471	241	76,946	87.68
1965	468	9,360	60,127	334	69,487	86.52
1966	481	9,428	47,211	(Jan-May) 60 (June-Dec) 219	56,639	83.29
Import Volume						
Dependence Rate = $\frac{\text{Import Volume}}{\text{Domestic output} + \text{Import Volume}} \times 100$						

While the current shortage of copper and the high level of prices prevailing till recently in the world markets have given a powerful stimulus to step up production in major producing countries, it is disquieting to note that we have lagged far behind in the race due to our lackadaisical policies adopted so far. There are a number of large expansion projects expected to come into production during 1966-71 as, for instance, of the American Smelting and Refining Company and Anaconda Company in the US, Bethlehem Copper Corporation in Canada, pany in the US, Bethlehem Copper Corporation in Canada, Andes Mining Company in Chile, Anglo-American Company in South Africa. The installed capacity is likely to rise to two million tonnes per year by 1971. The world output thus excluding the Soviet bloc countries is scheduled to top seven million-ton mark by the turn of this decade. As against this let us have a look at our copper industry. We produce about 9,500 tons per annum which hardly meets 10 per cent of the domestic requirements and import well over 83 per cent of our needs from abroad. The past three years had been very critical for us in respect of copper because more and more quantities of this key metal were needed for defence and other key industries. As a result of the suspension of the US aid in the wake of Indo-Pak conflict in 1965, under which we procured most of the copper products, many processing industries either had to work below capacity or were compelled to close down. An up and coming economy such as ours can ill-afford to keep the industrial capacity idle; it will be at our own peril.

Copper is mined at present exclusively from three mines in this country—Mosabani, Surda and Patharghara in the Singhbhum district of Bihar by the Indian Copper Corporation (ICC), the sole producer of copper in India. In 1966, the ICC produced 481,000 tonnes of copper ores and smelted 9,500 tonnes of refined copper. The metal content averaged two per cent refined copper. While the bulk of our requirements is for electrolytic copper, we produce fire refined variety and tically refined copper, we produce fire refined variety and meet the other specialised needs from overseas. Our imports consist of electrolytic wire bars and rods, unwrought ingots and billets, bars, steel plates, strips and pipes and tubes, etc. Despite large scale imports the total availability of this key metal was 69,487 tonnes while consumer demand was reported at 140,000 tonnes in 1965 thereby leaving a yawning gulf to be bridged. In 1966, we imported 47,211 tonnes of copper metal from as many as 25 countries; the most im-

portant of them region-wise being North America (27.6 per cent), the ECM countries (21.7 per cent), the UK (5.1 per cent) and the east European countries (1.7 per cent). A welcoming feature in that year had been the increased purchases from COMECON countries. As the payment involved in commercial transactions with these countries is in rupees, our purchases of copper from them should be augmented. Country-wise imports of copper for the past two years are given in Table III below.

There can be no two opinions about the urgent need for rapid development and exploration of copper wealth in the country on a top-priority basis. Undeveloped copper resources or for that matter mineral wealth as a whole, unlike money in bank, earn no interest. An accurate and up-to-date inventory of copper potential in the country is a prerequisite for sound industrial development plans. Yet, even now our wide range of copper occurrences all over the country is far from fully exploited and has by no means been fully surveyed. The demand for copper in our country continues to rise, substitution by aluminium and other metals notwithstanding, so steeply that availability of the metal is not able to catch up with it. It has been forecast that by 1970-71, we will be requiring 250,000 tonnes of copper and by 1975-76 the figure is likely to shoot up to 300,000 tonnes while all our plans—licensed or proposed—may at best come near about 80,400 tonnes by the end of this quinquennium. The gap will have to be filled even then from overseas supplies. This state of affairs calls for a crash programme of copper development in the country.

Wishful Thinking

A word as a foot-note must be added here. That our long-term planning in respect of many a mineral development programme has too often been based on wishful thinking and pious hopes rather than on earth-bound assessments of internal resources is as plain as pikestaff. Projections of and targets for production of copper ran too high whereas the achievements had been demonstratively disappointing. Besides, our mining industry in general is hamstrung with many problems such as the existence of a large number of small-scale mining operations; shortage of qualified mining engineers and geologists in a large number of mines; inadequacy of equipment, etc. With an eye to develop copper industry on a rapid pace, the Central Government has recently taken many measures: Much, however, yet remains to be done.

To recapitulate, plans are in progress to erect a flash type smelter at Ghatsila with a special feature incorporated for the recovery of sulphuric acid as a by-product. About 35,000 tonnes of sulphuric acid and 260 tonnes of nickel sulphate are expected to be recovered, when completed, along with 18,400 tonnes of copper—partly fire-refined and the rest electrolytic.

The work relating to copper development in our country, save that of the ICC, has been the sole concern of the National Mineral Development Corporation (NMDC). As the NMDC has to lay more emphasis on the development of iron ore

TABLE III
INDIA'S IMPORTS OF COPPER

Country	(Quantity in tonnes)	
	1965	1966*
Belgium	1,012	4,427
Germany, West	1,278	5,311
Kenya	537	...
Rhodesia	1,151	12
UK	3,632	2,403
USA	49,049	12,977
Others	3,468	22,081
Total	60,127	47,211

* Provisional.

which incidentally is the principal foreign exchange earner among the mineral items, a new company, the Hindustan Copper Ltd., has been set up by the Central Government with a view to exclusively concentrating on and developing of copper deposits in the public sector at Khetri in Rajasthan, Rakha in Bihar and Agnigundla in Andhra Pradesh. The estimated cost of the exploratory work is placed at Rs. 480 million. Also, the company will make available its consultancy services to the state geological departments which come up for the exploration of copper deposits in their respective regions.

Current plans for increased copper production in the country include the French assisted Khetri project based on the Kolihan deposits. The project is expected to be completed by 1969. The estimated annual capacity is placed at 31,000 tonnes costing Rs. 700 million. In response to the favourable report submitted by the Soviet consultants on the Rakha Copper Project, it is proposed to set up a smelter to refine 31,000 tonnes of copper near Rakha mines in the Singbhum district of Bihar. Work has also been commenced on the extraction of copper ore in Sikkim, the production of which on completion is likely to be 2,000 tonnes per annum. The concentrates will be sent to Mosabani for refining. By 1970-71, our licensed or proposed capacity in copper will be somewhat as given below.

Name of the Licensee	Licensed or proposed (capacity)
	(tonnes)
1. Indian Copper Corporation :	
(a) Fire Refined	10,000
(b) Electrolytic	8,400
2. Hindustan Copper Ltd. (proposed):	
(a) Khetri Copper Project	31,000
(b) Rakha Copper Project	31,000
Total	80,400

The fundamental constraint to greater industrial production in the country is the shortage of foreign exchange to finance the purchase of essential raw materials. In view of the limited natural endowments of copper and heavy import bill to the tune of Rs. 250 million causing severe strain on our slender foreign exchange resources, the Government has taken a series of policy decisions to step up copper production. It has decided to do away with monopoly in mining and treatment of minerals and throw open to private parties such areas as can be developed by them with ease. Big exploration programmes are launched. The Geological Survey of India (GSI) has undertaken a large multiphased mineral exploration programme popularly known as 'Operation Hardrock' in collaboration with Ralph M. Parson, an engineering and constructing company of Los Angeles, USA. The project is being financed by a \$3.5-million US aid loan with a matching Rs. 26.5 million fund provided by the Central Government. To begin with, investigations will be carried on in the selected precambrian hardrocks, which gave the project its name. The GSI has selected after intensive studies and regional mapping the Ranchi area, the Bihar mica belt, the Eastern Cuddapah Basin, the Bharatpur Zone, the Ajmer-Banswara Zone and the Bhadasar Zone for detailed investigations. It is stated that the most modern and efficient geological techniques such as air borne geophysical surveying will be employed.

It is not enough if we mine copper ores. The ores have got to be concentrated, smelted and refined. For this, we must establish as many copper smelters as possible. The establishment of smelting and refining capacity indeed represents a stage on the road to full conversion of the mineral into metal. Feasibility studies are in hand for establishing copper smelters based on imported ores and concentrates. The projects need to be implemented quickly.

All this is easier said than done. We must first be assured of regular concentrate supplies from abroad. Otherwise it would be a risky venture to undertake. We should explore the

possibilities of procuring copper concentrates from such major exporters as Chile, Zambia, the USSR, etc. Contracts must be entered into in advance with the supplying countries on a long-term basis in order to avoid price and market vicissitudes and other untoward incidents. Simultaneously, the need for feeding the smelters from domestic ores must be emphasized with an ultimate aim of gradually replacing the imported concentrates with indigenous ones. There is an element of anomalous tax structure prevailing which needs to be corrected to attract foreign concentrates. A case in point is that while the imported finished products are duty free, certain levies are imposed on imports of raw materials.

An advantageous feature of our copper is that domestic production hardly requires any imported material. The only chemicals that are currently imported are potassium ethylsulfate and pine-oil. It is expected that the latter's demand will be met soon from within the country. Hence, no time should be lost in developing the industry on a war footing basis. But a spoke in the wheel, however, would be the paucity of cheap power which is the prerequisite for this industry. This impediment must be got over sooner than later. As a result of its durability, large volume of copper scrap or reclaimed copper becomes available each year from obsolete or discarded machinery and equipment which at present is mostly going waste. This material can be converted into usable metal by its addition to smelter feed or by re-smelting and refining in secondary plants.

Use of Substitutes

As copper is in short supply, its non-basic consumption must be completely done away with. Efforts should, therefore, be intensified by saving copper in cables, winding wires, building hardware and utensil industries. The expected savings, if implemented well, would be about 34,000 tonnes by 1970-71. The use of aluminium and stainless steel in place of copper in switchgear has made some progress. Yet considerable research needs to be conducted before copper can be substituted with aluminium in the automobile industry. Here is a field which throws a great challenge for our young and talented scientists and technologists to show their skills and acumen. We should also try to adopt new scientific techniques, though expensive, such as 'pressure hydro metallurgy' developed for the treatment and processing of low grade ores.

The UN Trade and Development Conference, it is understood, is going to hold an international conference on copper in the USSR. The proposed parley will throw light on copper development, among others, in the developing countries. We should take this opportunity to draw the attention of the major exporting countries to form a sort of loose federation of copper exporting nations in order to exercise a greater control over prices, marketing and production. Besides, the USSR has reaffirmed its offer to arrange a study team of technical personnel to scrutinise modern drilling methods and techniques which we should take advantage of.

In order to augment production, two important lines of approach are indicated. In the first place, a favourable climate for private investment must be created. Secondly, a fair and equitable mining code is called for which will enable outside capital to operate within the framework of this favourable climate. The forces of market must wherever possible be permitted to operate within the general rules set down by and under the overall control of the Union Government. Duty free imports of necessary equipment, materials and supplies for production need to be considered. Also, a tax-free period during exploration, development and start-up must be given thought to. Along with these measures, our importation methods must be rationalised. In sum, we should endeavour to eliminate imports of finished and semi-finished products of copper which can be produced internally. The accent, therefore, should be on self-reliance in copper as far as possible and the implementation of the action programme with vigour and a sense of dedication.

FROM THE PRESS GALLERY

Foreign Policy Under Fire

Our Parliamentary Correspondent

NEW DELHI : Monday.

THE FOREIGN policy of the Government came in for scathing criticism in the Rajya Sabha this week. Coming close on the heels of the recent deterioration in our relations with Peking, the successful test explosion of a hydrogen bomb by China and the Israeli-Arab conflict in West Asia, the discussion was expected to be dominated by these events. It, indeed, turned out to be so. Members from both the opposition and the treasury benches expressed grave concern over the threat to our security from China and Pakistan. The Government's stand on the West Asian conflict was assailed by many.

Repeated demands were made from all the sections of the House for a tough policy against China. Several members demanded that diplomatic relations with Peking should be severed forthwith and we should take all necessary steps, including the manufacture of the atom bomb, to counteract the growing menace of China. Some members criticised the Government's handling of the Tibet issue. The Government's advocacy of China's membership of the United Nations was also objected to.

In regard to the West Asian crisis, several members suggested that the Government's anti-Israeli stand was not necessary to show support for the Arab cause. The spokesman of the Swatantra Party, Mr Dahyabhai Patel, expressed the view that the Government's non-alignment policy was nothing but the policy of aligning with the communists. He pleaded for the establishment of diplomatic relations with South Korea and Taiwan so that the country could have partners for fight- ing the Chinese. The establishment of these relations, he added, was needed also for the development of our trade.

Hostile Neighbours

The demand for the severance of diplomatic ties with China, however, was turned down by the Defence Minister, Mr Swaran Singh, who in the absence of the Minister for External Affairs, Mr M. C. Chagla, replied to the debate. Such a step, Mr Swaran Singh argued, would not be in the country's overall interests. He, of course, admitted that China was arrogant, aggressive and chauvinistic. The inciting of lawless, hostile elements in our country by China, he felt, was a gross interference in our affairs and thus despicable. About Tibet, the Defence Minister reiterated that the Government's policy was correct. In a brief reference to Pakistan, he said that this neighbour of ours was not interested in resolving its disputes with us in accordance with the letter and the spirit of the Tashkent Declaration; it wanted to keep alive a passion against our country in order to give a sense of national urgency and to foster internal solidarity.

In respect of the West Asian issue, Mr Swaran Singh stated that the suggestions contained in Mr Chagla's speech in the UN General Assembly session were the only way out of the impasse. He appealed to the opposition members not to speak with discordant voices on this issue lest Pakistan and China should exploit our differences. The Defence Minister also dwelt at length at the loss suffered by our contingent in the UNEF. The causes of this loss, he said, were being looked into and the results of this investigation would be placed before the House. There was a good deal of difference of opinion on this matter in the House. Several opposition members had pointed out that the loss of our soldiers was not only due to straffing by Israelis but also due to laying of mines by the

United Arab Republic in close proximity to the place where our contingent was stationed.

Mr Swaran Singh, however, did not dwell upon the demand for the manufacture of the atom bomb in this debate as he had already spoken at length on this question earlier in the two Houses while replying to calling attention notices. He had rejected at that time the plea that we should go in for the manufacture of nuclear bombs to counteract the Chinese threat. He had also expressed the view that we should not seek protection of a nuclear umbrella from any big power. The problem of ensuring the security of non-aligned and non-nuclear countries against nuclear attacks, Mr Swaran Singh pointed out, had acquired a great urgency in international affairs as a result of China's test explosions and the question was being considered by the 18-nation Disarmament Committee at Geneva. He, of course, admitted that the progress at these talks was poor. These statements of Mr Swaran Singh apparently did not satisfy the members. So the demand for a full discussion on the subject grew. Whether this discussion will be held or not, only time will show.

First Priority

Before taking up foreign policy for discussion, the Rajya Sabha concluded its deliberations on the Union Budget. Replying to this debate, the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, assured the House that the defence of the country would continue to get the first priority at his hands. The cut in defence expenditure in the current year's budget, he said, had been effected at the suggestion of the Defence Ministry and not arbitrarily by the Ministry of Finance, as had been erroneously construed by the critics. As a result of this economy, the efficiency of our defence forces, Mr Desai stressed, would not be affected.

Referring to the demand by some members for nationalisation of banks, the Finance Minister pointed out that there was no unanimity on the issue as some others had spoken the very opposite. The Government, he said, was examining how best banks could encourage savings and advance credit, especially to small-scale industries and agriculture. As soon as this examination was over, the Government would come before Parliament with its proposals. Mr Desai ruled out resort to demonetisation in the near future. He disclosed that in the interest of eliminating the evil of unaccounted wealth, he had thought over this step for several years, but unfortunately there was far too much talk by members about it. The more the talk, the less effective demonetisation could be, he opined. About foreign aid, the Finance Minister said that in accepting it the Government was not compromising the country's independence, self-respect and dignity.

Mr Desai assured the House that the Government was treating all the state governments on an equal footing, irrespective of their complexion. He repudiated strongly the allegation that he was discriminating against certain non-Congress governments. On the subject of revision of his tax proposals,

**GROW MORE
SAVE MORE
WORK MORE**

Mr Desai repeated what he had earlier stated in the Lok Sabha in reply to the general debate on the budget in that House.

The Finance Minister also dwelt at some length on the criticism about the delay in setting up of the Bokaro Steel Plant and a small tractor factory. A sum of Rs. 38 crores, he said, had already been spent on the acquisition of land for the Bokaro project. If there was some delay in the completion of this plant, it, he felt, was because the Government was anxious that the project should be implemented economically and not extravagantly. With this end in view, there might be need for reconciling the thinking between the Government of India and the foreign collaborator—the Soviet Union—he said. In regard to the small tractor factory, Mr Desai revealed that the Government was examining whether the existing units could produce the small tractors more economically. A significant observation made by Mr Desai was that he had not given up the idea of effectively introducing gold control. He reiterated that agriculture would continue to receive top priority in the economic development of the country.

The Lok Sabha passed the Railway Budget this week. Although the debate during the second round continued to be acrimonious, no new points of criticism were thrown up. The ground covered was practically the same as during the general discussion in the first round. The reply of the Railway Minister, Mr C. M. Poonacha, however, contained two new observations. The first was that the implementation of the Gajendragadkar Award would entail on the railways an extra burden of Rs. 20 crores, as against Rs. 13 crores anticipated earlier. The gap between the receipts and expenditure of railways would, therefore, widen unless there was an improvement in the national economy as a whole. The second observation was that with a view to maintaining their share in the goods traffic of the country, the railways were considering the extension of the container-transport and door-to-door services currently being operated on certain lines on an experimental basis. The former service, at present operated between Bombay and Ahmedabad, Mr Poonacha disclosed, would soon be introduced between Bombay and Delhi as well.

Demand Rejected

Mr Poonacha rejected the demand for the scrapping of the Railway Board. This Board, he said, was performing the very useful service of supervising the huge undertaking of railways which was one-third as big as the entire administration of the Central Government. He, however, agreed that the efficiency of the Board had to be improved considerably. The Railway Minister further stated that as the proposed increase in passenger fares and freight rates would not be enough to wipe out the deficit of the railways, he had issued instructions to the Railway Board to effect all-round economy.

The Anti-corruption Laws (Amendment) Bill, which sought to facilitate fresh trial of certain cases pending before courts and to make possession of pecuniary resources of property disproportionate to one's own sources of income a substantive offence, was passed by the Rajya Sabha this week. The Lok Sabha adopted the Passport Bill which sought to prohibit departure from the country of any Indian national without a passport and laid down the conditions for the issue of passports.

The Minister for Home Affairs, Mr Y. B. Chavan, justified in the two Houses this week the decision of the Government to continue the "state of emergency" till the end of the year. The trouble in Nagaland, Mizo Hills and some other parts of the eastern region, he argued, had assumed a sinister character with Pakistan and China, separately or jointly, taking an interest in subversive activities within the Indian territory. The threat from China and Pakistan to our security also continued. The "state of emergency", therefore, could not be lifted. Mr Chavan, however, agreed to consider a sug-

gestion made by Mr Frank Anthony (Ind.) that under Article 359 of the Constitution, the President could limit the suspension of fundamental rights to some particular sensitive areas only.

Question Hour

Suez Canal: The Minister for Industrial Development, Mr Fakhruddin Ali Ahmed, told the Lok Sabha on June 23 that if the Suez Canal remained closed for some time, some industries might not get their raw materials and components. Their production, therefore, would suffer. Till now, no industry, he said, had, however, been affected in respect of orders placed by it before the closure of the canal.

Joint Ventures: The Minister for Commerce, Mr Dinesh Singh, informed the Lok Sabha on June 23 that within the limits of its resources, India was assisting in the industrial development of African countries. This assistance was mainly in the form of machinery and technical know-how. As many as 43 joint industrial ventures, the Minister added, had been floated with our co-operation in the developing countries. Twenty-two of these were in Africa. The Government of India, Mr Dinesh Singh further said, insisted that in these joint ventures we should have only a minority participation.

Loans to Jute Mills: Mr Dinesh Singh also told the Lok Sabha on June 23 that the Union Government had extended long-term loans totalling six crores of rupees to various jute mills for modernisation and rehabilitation. The loans had been given through the National Industrial Development Corporation.

Fertilizers: The Minister for Petroleum and Chemicals, Mr Asoka Mehta, informed the Lok Sabha on June 22 that at least one fertilizer project would be undertaken in the co-operative sector. Discussions in respect of this project were held recently in New Delhi with the representatives of the US co-operatives. It was expected that these representatives would visit this country again with concrete proposals in the near future.

Liquid Ammonia: Mr Asoka Mehta declined to give an assurance in the Lok Sabha on June 22 that imports of liquid ammonia as feed-stock for fertilizer manufacture would not be allowed. The Government, he said, was studying the matter as a result of the proposal from a Bombay firm which wanted to import liquid ammonia along with sulphur for the production of nitrogenous fertilizers. A significant remark that Mr Mehta made while replying to supplementaries in this connection, was that indigenous naphtha would be in short supply after two or three years. This will necessitate imports. It was not desirable, he opined, to set up more refineries to manufacture naphtha alone.

Foreign Banks: The Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, told the Rajya Sabha on June 21 that the profits before taxes of foreign banks operating in India were Rs. 627.7 lakhs in 1964 and Rs. 585.3 lakhs in 1965. The profits of non-Indian insurers during 1965 for business done in India were estimated at Rs. 112 lakhs. The deposits of foreign banks operating in India amounted to Rs. 40.43 crores in 1965-66 and Rs. 25.42 crores in 1966-67. The gross premium collected by non-Indian insurers directly in this country aggregated Rs. 17.58 crores in 1965.

Cotton Cultivation: The Minister for Food and Agriculture, Mr A. P. Shinde, assured the Lok Sabha on June 20 that there would be no diversion of land from under cotton to other crops as the textiles industry was a major national enterprise. He, however, admitted that the United States had pressed the Government of India to divert land at present cultivated with cotton to food crops.

WINDOW ON THE WORLD

Boom and Recession in the Industrialised Countries

JOSSELYN HENNESSY

LONDON:

THE LATEST annual report of the Bank for International Settlements (7 Centralbahostr., Basle, Switzerland), provides welcome relief from the obscure economic double-speak on which most officials fall back in order to soften the impact of their recommendations on sensitive national feelings. The BIS report, written in straightforward English, faces awkward questions honestly, even with a touch of humour.

But, first, what is the BIS? Founded in 1930 to promote co-operation among the central banks of the following 26 countries: Albania, Austria, Belgium, Bulgaria, Czechoslovakia, Denmark, Finland, France, German Federal Republic, Greece, Hungary, Iceland, Irish Republic, Italy, the Netherlands, Norway, Poland, Rumania, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States and Yugoslavia, the BIS holds part of the gold and foreign exchange reserves of its members, to whose monetary policies its operations naturally conform. It acts as an agent for international settlements. Between the wars it acted for the Young and Dawes loans, and the Austrian loan of 1930. Since the war it has acted for the European Payments Union, European Monetary Agreement and the High Authority of the European Coal and Steel Community. Finally, the BIS is a centre for research on monetary and economic problems for the benefit of the central banks.

The BIS report gives a bird's-eye view of the marked change that overtook the economic scene in many of the principal industrial countries in 1966. In almost all of them, excess demand was boosting prices and wages in the early months of 1966. By the beginning of this year, restrictive policies had curbed the boom and produced situations ranging from marked slow-down to mild recession.

Because of their size, and because the changes in their demand soon spilled across their frontiers, the USA, West Germany and the UK, were the dominating influences in the world economy. Italy and Japan stood out as exceptions to the general trend because, as they had launched stabilisation programmes in 1963-64, their economies were in a balanced phase of expansion at the beginning of 1966, and have continued to run reasonably smoothly ever since.

Balance of payments situations changed substantially in 1966-67. France's large surplus turned to deficit and Italy's fell sharply. The UK's deficit shifted into mild, and West Germany's into substantial, surplus. In the USA, although tight money produced exceptional shifts in capital flows, the underlying payments position deteriorated in 1966-67. While swings in external balances are better than prolonged surpluses and deficits, the goal of international equilibrium remains a will-o-the-wisp, with but a few countries achieving near-balanced positions.

THE U.S.A. IN 1965 AND 1966

Since the US economy is the biggest single influence in international exchanges, I devote most of my space to it.

To tax or not to tax. That was the question. And the Hamlet-like indecision of the authorities explains what happened to the US economy in the past 18 months. On the one hand, President L. B. J. Hamlet allowed excess demand to gather momentum. On the other, he weakly left the task of restraint to monetary policy.

The question posed itself after the President's announce-

ment on July 28, 1965, that he was going to substantially increase military forces in Vietnam and to step up the draft. This clearly foreshadowed a sharp rise in defence spending with multiplied repercussions on major categories of private spending, especially as demand was already expanding strongly. By the end of 1965 a boom was on.

The fever chart of the US economy shows gross national expenditure rising at an average rate of \$12,900 million in the last six months of 1965. At this rate the economy was continuing the balanced expansion established in the previous years, with reasonably stable prices and justifiable wage increases. Then the rate of rise jumped to \$17,400 million in the first six months of 1966. Defence spending increased rapidly and orders were also placed which would obviously lead to still larger increases later on. The quarterly increase in business plant and equipment outlays soared from \$1,800 million to \$3,400 million and consumer expenditure rose from \$8,100 million to \$10,300 million. In the six months after September, 1965, production in equipment and defence goods industries rose at an annual rate of 23 per cent. Unemployment fell steeply. Throughout 1966, the Government shrank from imposing strong tax increases to curb private demand and contented itself with minor measures and exhortations.

Tight Money Policy

The Federal Reserve authorities sized the situation up more clearly and, despite criticisms, began to tighten money, raising the discount rate from four to 4½ and to 5½ per cent. Real stringency set in in mid-1966 and interest rates rose to historic heights.

While monetary measures were being intensified, business demand for bank loans remained high, partly anticipating future needs. Monetary policy did nevertheless succeed in damping total demand as 1966 wore on. As mortgage funds became more expensive and harder to get, building contracted, motor sales fell and the rise in investment slowed. These developments give a behind-the-scenes glimpse of the way in which room was made in the economy for growing defence expenditure with a lessening of inflationary pressures. In fact, by late 1966 the easing of demand led to substantial involuntary inventory accumulation.

Excess demand naturally led to rising prices which (although the BIS does not elaborate the point) are the unavoidable alternative to higher taxes. If governments wish to divert to themselves a bigger share of current production, they can do so either by reducing the spending power of the people through higher taxes or they can ration consumers by inflation which puts prices up against them. The higher tax method has the advantage of presenting the facts of the situation to the electorate. Inflation, on the other hand, spreads havoc by distorting relations between supply and demand and, not least, by concealing the economic facts of the situation, bewilders public opinion and creates social injustices and resentments. The Gross National Product (GNP) of the US rose by 8.6 per cent in 1966 compared with 5.4 per cent at constant prices. Naturally the steady justifiable rise in wages that had continued for several years previously yielded to inflationary rises in excess of productivity.

All this hit the US balance of payments. Military expenditure overseas rose by an annual rate of about \$1,000 million in 1965-66. In addition the spurt in demand spilled over into imports, which rose by 19 per cent in 1966. Even though ex-

ports were doing well, the trade surplus fell to \$730 million—down \$1,300 million on 1965. As demand slackened at the end of 1966, the growth of imports slowed and since exports continued strongly, the trade balance improved. The worsening trade position and overseas military expenditure were also partly offset by an improvement in the capital account in 1966, mainly due to the high US interest rates and to voluntary restraint on exports of capital. The US firms financed a larger proportion of their foreign investments by new issues in Europe. (In this connection, see the comment in the final paragraph of my report "How To Improve Capital Markets", page 919, May 12, 1967.)

As a result of these and other factors the US balance of payments deficit increased from \$1,300 million in 1965 to \$1,400 million in 1966, but this superficially mild deterioration would have been sharper had there not been a shift from liquid to non-liquid investments by foreign institutions, as well as net military prepayments by West Germany and debt prepayments from France, Italy and West Germany.

Domestic inflation abated by the end of 1966. The Federal Reserve relieved stringency in December by large open-market operations and reduced the discount rate to four per cent in April 1967. Lower interest rates led, however, to renewed efforts to curb capital outflows.

II

U.S. PROSPECTS 1967-68

The situation in the USA thus echoes a familiar refrain: the boom has ended but the wage-push lingers on. (So does the external deficit!) Since the BIS wrote its report, the pundits have even begun to ask themselves whether the USA is due for a recession in 1967. Stockpiles of goods had become ominously high by the end of 1966. Some students of the business cycle

have been worrying for the past six years lest the Kennedy-Johnson expansionism should cause distortions that would end in an economic down-turn. For a long time their fears were premature, but Prof. Paul A. Samuelson, of the Massachusetts Institute of Technology, recently pointed out that in the last two years the addition of Vietnam spending to the stimulative forces have led to: (1) a rise in wage costs per unit of output; (2) a slowdown in the growth of productivity; (3) a weakening of profit margins; (4) the upward creep of inventory sales ratio; and (5) some signs of excess capacity, now that the harvest of past buoyant capital formation has become available just when real output is no longer growing. Against this, the Federal Reserve is determined to keep monetary and credit policy adjusted to the needs of steady expansion. The "Fed" hopes to bring housing above last year's depressed level. Not least, the Government, which at the end of 1966 had caught up with the need for tax increases that it ought to have imposed two years earlier, tumbled to the fact that monetary and credit restrictions had (crudely) done the job for it and, heaving a huge sigh of relief, shelved its proposals for a six per cent surcharge on personal and corporate incomes, and hastily recommended restoration of the investment tax credit to encourage plant and equipment investment. Then, again all the chances are that expenditure on Vietnam will escalate. So my guess is that the US economy will start accelerating at any moment.

Here we come full circle to the point at which we come in on this survey. By the fourth quarter of 1967, the US money GNP is expected to be soaring at over seven per cent, which must renew inflationary pressures on wages and prices—unless Congress acts to increase taxes. Budget deficits are traditionally suspect in the USA, and as this year will see a record-breaking deficit, Congress may be scared into raising taxes in next January's budget.

While excess demand emerged suddenly in the USA with

the intensification of the Vietnam war, in West Germany it built up more slowly over many months. But in both countries rising public sector expenditure was the major force towards boom conditions. In neither country was fiscal restraint adequate to curb inflationary pressures. In both, the containment of excess demand was thrown at the central bank. To counteract the stimulus from the budget deficit, severe monetary restriction had to be imposed in both countries, which sent interest rates well above previous post-war levels. In the end, the central banks succeeded in subduing inflation but the process was slower and caused sectoral difficulties that could have been avoided if fiscal and monetary policies had been combined.

A Glance at UK—

In the UK large negotiated wage increases had added to the strong impulse from public expenditure to excess demand early in 1964. Elected on the slogan "Let's go with Labour", the Wilson Government failed to curb demand in any effective or convincing way. Hence the flight from sterling, which compelled drastic restrictive measures in July, 1966. The long postponed freeze on wages and prices and the new tax increases slowed inflation and improved the balance of payments. Today the UK economy is marking time. Since, however, (i) the easing of the demand did not reflect an autonomous business cycle (such as might come from an over expansion of productive capacity) but was induced by anti-inflation policy, and (ii) wage demands are piling up, I do not foresee protracted stagnation now that inflation has subsided.

—And at France

Recovery in France began in 1965, although slacking of demand in West Germany and the UK slowed the pace of advance in 1966. With the economy in fair equilibrium today, the authorities have moved towards greater economic freedom. All exchange control was abolished this year and full convertibility of the franc and complete freedom of transfers into and out of France for all payments, securities and gold was inaugurated. A flexible system of reserve requirements has displaced former internal banking restrictions. The aim of these new freedoms, internal and external, is to give wider scope to private enterprise for initiative. This, of course, has repercussions on official policy. The monetary authorities now have to take account of the increased influence of interest rate levels abroad. Open market operations have had to be broadened and the authorities have intervened for the first time as a seller on the market to maintain internal rates at levels necessary to avoid large outflows of funds. Not least, the new policy of liberalisation will reinforce the need to maintain

sound budgetary policies to avoid significant inflation in prices and wages. This is all to the good.

III

THE OVERALL PICTURE

Monetary policy has been relaxed in all the industrialised countries and positive steps to stimulate activity have been taken in West Germany and several other countries. In both the USA and the UK, the budget deficits are very large and, if financed through monetary expansion, the danger of excess liquidity is just as real as that of stagnant demand—particularly in view of the external payments problems of both countries. If, as it should, official policy guards against reactivation of excess demand, expansion is likely to be renewed at a more moderate pace than in the 1962-65 period.

Restrictive measures in the industrialised countries eventually attained their objective; but one gets the impression that everywhere the authorities were groping in the dark towards stabilisation even though the remedies were staring them in the face. The difficulties that arose were due to the failure to act promptly and effectively. Fiscal policy was too inflexible so that monetary restrictions had to be pushed close to the limit. As this process came near to producing a monetary crisis and, indeed, contributed to the intense strains in the foreign exchange market, one can only hope that the governments concerned have digested the lesson.

It remains true, however, that governments and parliaments cannot by themselves solve the problem of achieving more effective use of the whole range of policy instruments. They need the support of an enlightened public opinion. Astronomers have been much more successful than economists in propagating elementary truths. Anyone who asserts that the world is flat is laughed out of court. Would that there was equal scorn for the many who assert that "a little inflation is a good thing". Voters everywhere welcome tax cuts and resist tax increases and think "full employment" more important than a stable currency. It is significant that several governments fell last year in the process of seeking budgetary restraint. Politicians, economists and publicists should combine to educate public opinion. Control of the "opinion cycle" is every bit as important as control of the "business cycle".

I have drawn largely on the BIS Report for this survey, but I need hardly say that the shock of my comments and interpretations of the facts may well cause the hairs of the BIS authorities to turn prematurely grey.

End of a Round?

E. B. BROOK

GENEVA: June 23.

WITHIN A week from today the final agreement on the Kennedy Round must be signed. June 30 is an irrevocable deadline; on that date the US President's authority to make a broad international trade agreement runs out under the terms of the US Trade Expansion Act of 1962. Although drafting the agreement is a race against the clock there is none of the crisis atmosphere here that was so obvious during the first five months of this year when bargaining for trade concessions was at its most intense, and was made the more critical by the Common Market's habit of putting off decisions. But there are still quite a number of pieces left that must be fitted into the final pattern of the interconnected tariff cuts, some still requiring additional offers and counter-offers.

Some of the last minute perplexities arise from the hectic character of last month's final bargaining. When notes on the final exchanges were examined in greater calm some negotiating partners found they would get less out of the dealing than

they had expected. One of these disappointed bargainers was the Common Market itself. Instead of winning about 200 million dollars extra trade with the USA as it had expected the final benefit to the Market proved to be no more than about 50 million dollars. Similarly, the USA found to its chagrin that some Market concessions would expire after three years instead of being permanent.

A few major issues will have to be resolved either today or early next week, especially Japan's reservations about joining an international aid programme to provide 4,500,000 tons of wheat annually to distressed areas. Although Japan was to have underwritten 5 per cent of the cost of this programme, it reserved its position on domestic constitutional grounds. Japan is also still objecting to high tariffs on cars and there are lingering difficulties between the Market and meat exporters.

These last minute snags are probably the almost inevitable accompaniment of a great international trade agreement.

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R. B. SHAH

GENERAL MANAGER

Not only is the Kennedy Round Pact a set of agreements by 53 nations for a 35 per cent cut in import duties on manufactured goods; it is, especially in the deals between the Common Market and the USA, an agreement on an almost continental basis. From this viewpoint it provides the possibility of negotiations on a wide basis on other mutual problems, especially those of aid to developing countries, further trade liberalization and monetary reform.

Regarding aid, however, the remarks made by Mr Averell Harriman early this month in Brussels at celebrations of the 20th anniversary of the Marshall Plan which revived post-war Europe are very much to the point. He regretted that the least progress in the Kennedy Round had been made in reducing protection for cotton textiles; some import controls on textiles, including those of the USA, Mr Harriman described as vicious and dictated by selfish interests. Despite the Round and its pact there are plenty of selfish interests left very active.

These interests remain probably the biggest and most deeply entrenched barriers to free international trade. There are, however, plenty of other barriers left over. Tariffs are, in fact, now so reduced as to be the least of the obstacles. Selfish interests apart, one of the greatest barriers is particularism.

A few examples will illustrate how great a barrier this particularism—or, to give it a more homely name, deliberate

Sweet Water from Sea Water

R. DAFNI

AT THE beginning of the October Revolution, Lenin once remarked: "Socialism plus electricity equals Communism". Many things have changed since then, but electricity still remains one of the most important factors in modern living.

In trying to keep pace with the rising demand for power the Israel Electric Corporation (IEC) has done considerable research in its development for both domestic and industrial uses in Israel's urban areas. The IEC has, during the past few years, fulfilled an important function—the desalination of water. In this connection there are two tales to tell, both concerning large programmes, one of which succeeded while the other did not. Let us take the latter first.

There is hardly a citizen of Israel who has not experienced a blackout caused by power failure. But now power failures will be almost a thing of the past, thanks to the tremendous efforts of the IEC. About to be put into operation is a control station which, in an instant, will show technicians where a blackout has occurred in the network. A similar control station is in operation near Haifa, Israel's northern sea port; this station too can detect faults or cable breakages in any part of the country. These stations are fully automatic and according to Mr Israel Tabor, the IEC's chief of research and development, even in the United States no fully automatic electricity network exists. Neither does there seem to be any trend in that direction.

The Research and Development Department consists of scores of engineers and technicians. One of the results of their research is felt in almost every Israeli household—the constant glow of electricity even on the rainiest day when electric wires and cables are most likely to be damaged. Mr Tabor also ventures to prophesy that the day is not far off when the giant high-tension pylons straddling Israel across desert and mountains, will disappear, which will be in keeping with the general world trend to bury electric cables underground.

It is a safe guess that few electric companies in the world deal both with electricity and water. Yet that is just what the IEC has been doing for the past few years. The famous water desalination and electric power station at Eilat on the Red Sea where salt water is turned into sweet water is owned jointly by the IEC and the Mekorot Water Company (MWC). The IEC is in complete charge of the plant's running and mainten-

ance. Most notorious of all is the American Selling Price, under which certain chemicals are evaluated at the price of the equivalent US product even if no equivalent product is made there. If, for example, an Indian chemical firm offered a product for sale in the USA at a dollar an ounce but the price of the same product manufactured in the USA was four dollars, the tariff would be calculated on the US product's price. The American Selling Price is a US law supported by a wealthy chemical manufacturers' lobby very influential in the US Congress: its repeal is therefore extremely improbable.

Other examples of particularism are US and French requirements regarding markings on silverware, extremely strict US requirements on motor car safety standards, bans in some places on liquor advertisements—not to discourage drinking but to decrease publicity and therefore sales of imported liquors—and requirements in various places regarding labelling of merchandise. Some countries require all labelling on imported products to be done in two or three languages.

Underlying many of these practices is a scarcely disguised protectionism and a growing tendency to raise national income by indirect taxation. This last is the most insidious of all; for not only does it raise unjustified barriers against imported products but enables governments to derive money from their citizens with no justification at all except that running a modern state demands an ever-increasing revenue.

ance. About 17 million Israeli pounds (Rs. 42.5 million) were invested in this project; its success amply justifies this expenditure.

The plant recently completed its running-in period and is now settling down to routine work. A full year's trials have shown that the plant's output, which uses the evaporation method, is greater than that of all other similar plants in the world. On the basis of this success, a second similar plant will shortly be constructed.

The combined electric power house and water sweetening plant at Eilat, consists of two steam boilers and a turbine. Its output is equivalent to 6,700 kilowatts. The desalination plant can produce 3,800 cubic metres of refined water per day, using 30 evaporation cells. With stepped-up production, the plant can refine up to 4,200 cubic metres per day.

A second plant is also in operation in Eilat. This is the Zarchin plant (named after its inventor) which uses the freezing method and which produces 1,000 cubic metres of water daily. Plans are now afoot for the construction of another desalination plant at Eilat based on either the evaporation or the freezing method.

The plant run by the IEC and the MWC works on the evaporation method. In this method sea water is boiled and the steam is then turned back into water. In the evaporation process the water loses its salinity and becomes sweet. Plants of this type are in operation in only 15 countries, including Curacao and Kuwait. Though Israel was not the first country to start this type of project, the plant at Eilat has reached the highest output ever recorded in any other similar plant.

Yet another project is in an advanced stage of discussion. This is the dual-purpose water desalination atomic reactor, which will be a joint American-Israeli venture. It will be set up at Ashdod on the Mediterranean coast, some 30 miles south of Tel Aviv and will be about 100 times larger than the Eilat complex. No other plant of this type exists anywhere else in the world and its cost is expected to reach 800 million Israeli pounds (Rs. 1,500 million). It is not surprising that the experts of the IEC in Israel have been asked to advise in this tremendous venture. It is an open secret that this dual purpose plant has been a subject of heated discussion among the Israeli scientists.

The moving finger writes

JUGAL KISHORE Birla, who passed away in New Delhi in the early hours of Saturday, June 24, was that rarest of human beings—a good man. Although he had retired from active business some years ago, he was until his death the active friend, philosopher and guide of the great business house of which he was a leading architect, both in its formative years and later. It was however more as a humanitarian and philanthropist rather than as a merchant prince or a pioneering industrialist that J. K. Birla will be remembered. This is for the reason that while business was only his occupation, the good life was his commitment and true being. He was a saintly person whose association with the Hindu Maha Sabha perhaps had its real significance in its deeply spiritual and cultural content. He was an orthodox Hindu, but his Hinduism was more a religion than a ritual, more a philosophy than a religion and more a faith than a philosophy. Above all, and in its essence, it was his way of life.

J. K. Birla was a zealous builder of temples of which the most widely known is the Lakshmi Narain Temple in New Delhi. But he built less for the glorification of the gods than for the ennoblement of those who would worship them. These temples were to him places where people could make living contacts with the philosophy, religion or culture of their race in the simplest and most direct manner. Hence it was that he laid it down as the law that the temples he built were to have their gates wide open to all those who were of the Hindu faith so that they might go and offer worship freely, unostentatiously and after the fashion of their beliefs and ideals. This is why the temples with which J. K. Birla's name is and will be associated are so completely free of the oppressive odour of merely ritualistic sanctity and this is why, again, before their altars, such large numbers of simple folk, to whom God is more than an idol or even an Idea, so easily find a sense of fulfilment. In a family distinguished by the strength of its feelings of kinship, J. K. Birla enjoyed the affection of his people to the greatest extent—and this was as much because of his supremely lovable nature as because of his seniority as the eldest of four brothers.

* *

Even ordinarily I am no great lover of ceremonial visits by our VIPs to foreign countries and I am definitely of the opinion that, in the present circumstances, economic or other, of our country, these visits should be kept to the minimum. If, nevertheless, I am wholly happy that President Zakir Husain has gone on a state visit to Canada which is now celebrating its hundredth anniversary, it is because Canada, in my estimation, is one of the most civilised and agreeable members of the international community of peoples or nations. Canada may not be one of the big powers, but it certainly is a remarkable country which has risen above its historical and geographical limitations and established firmly its own philosophy of life and art of government so that it is now an equal partner with the United Kingdom in the Commonwealth and an equal partner with the United States on the North American continent. Our country has good reason to extend the greatest goodwill to Canada because the people and the Government of Canada have always befriended us and been good to us. To the cause of our economic development Canada has been giving spontaneously, substantially and silently. Aid has come from Ottawa on the most generous terms and with a minimum of diplomatic drum-beating or bureaucratic bargaining. Canada is among the countries of the world—and their number, unfortunately, is not large—with whom our Government has been able to maintain relations singularly free from strains and

stresses and invariably informed by mutual trust and understanding.

* *

It is rather surprising that Mr. Morarji Desai should have put personal vanity before public interest. It is perhaps natural that he should be touchy about the policy of gold control which was sharply criticized when he initiated it and which has undergone many vicissitudes subsequently. But when he let himself be needled in Parliament into reiterating his faith in gold control and declaring that he was planning to make it more effective, it should have occurred to him, surely, that the market reaction to his announcement was likely to be such as to defeat his purpose. Predictably, the price of gold has gone up and while Mr. Morarji Desai, who certainly cannot be expected to have sympathy for those who are buying or who would want to buy gold, might say that it serves them right, he should also realise that there is no greater encouragement to the smuggling of gold than an increase in the price it fetches. It follows that by making an observation which has had the effect of encouraging higher prices for gold, he has only ill-served the Government's gold policy. I am certainly not against Mr Desai trying to improve the efficiency of gold control. In fact, it is his responsibility as well as his right to do so. What I am objecting to is his talking about it in this manner. Word is often the enemy of deed.

* *

It is a frightening feature of the functioning of governments today that so much of what they do is so completely divorced from human realities. This is particularly true of tax policies which are coming to be regarded by politicians and bureaucrats more and more as mere political or arithmetical exercises than as issues bearing heavily on human welfare or even human existence. Take, for instance, the new and yet newer taxes which are being freely imposed by governments, Central or state, on articles of daily consumption. Is any thought really being given to the effects of such taxation on people's lives or their livelihood? There was a report in the local papers the other day of a woman killing her children and committing suicide because her husband, a tea vendor, was not making enough money to keep the family kettle boiling. I would certainly suggest that the present budget levy on tea cannot make life any easier for families such as this. This, however, is a point which must necessarily escape the Finance Ministry whose concern is only with "those damned dots".

* *

Considered against the background of the tea vendor's family tragedy, the following account of light-hearted bantering in which Mr. Desai and Mr. Bhupesh Gupta engaged themselves last week strikes a macabre rather than an amusing note:

"New Delhi, June 22 (PTI)—Finance Minister Morarji Desai today admitted in the Rajya Sabha that he was a 'pick-pocket'.

When Mr Desai, defending the duty on tea and coffee, was explaining how even before the budget the price of a cup of tea had been increased, Mr Bhupesh Gupta remarked: "This is pick-pocket mentality."

Mr Desai: I do not deny. I do pick the pocket.

Mr Gupta: I am glad you have admitted that you are a pick-pocket.

Mr Desai: It is legally done with consent. If I am a pick-pocket, I may call you a dacoit.

Mr Gupta: A dacoit is a far more honourable man than a pick-pocket.

Mr Desai: I concede that honour to you."

V.B.

Trade Winds

U.K. LOAN

AN AGREEMENT was signed in New Delhi on June 19 between Britain and India for a loan of £7 million (Rs. 14.7 crores), representing the first instalment of Britain's aid pledge for the current year. This is the first loan to be signed by the Union Government for the current year's aid. The loan has been made available in non-project form to finance imports of British goods and services by Indian industry, including the requirements of British-orientated firms which have in the past benefited from "Kipping loans". As with other British loans to India in recent years, the loan will be for 25 years, free of interest, with repayments beginning after the seventh year. This is the thirty-ninth loan agreement which has been signed with the UK during the past nine years and they all amount to more than £300 million. Last year, new commitments of loan aid from Britain to India totalled £32,000,000 and actual disbursements reached over £43,000,000. Mr John Freeman, British High Commissioner in India, felt proud that the UK had been the first donor country to sign an agreement in an aid year, and he was personally happy that this was again true this year. This loan, he hoped, would play its part in helping Indian industry to achieve maximum capacity working.

LONG-TERM LOANS TO FARMERS

Long-term agricultural loans amounting to Rs. 73 crores are expected to be advanced by co-operative land mortgage and development banks in India during the current year. Long-term loans worth Rs. 65 crores were advanced by these banks during 1966-67, as against Rs. 56 crores in the previous year. These loans were given to farmers for making capital investment in the development of land. They were mostly spent on sinking of wells, installation of pumping sets and oil engines, purchase of agricultural machinery etc. The land mortgage and development banks floated ordinary debentures worth Rs. 40 crores during 1965-66. They also floated rural debentures worth Rs. 2.40 crores. During 1966-67, the Union Government provided direct support for the debenture floatation programmes of co-operative banks to the extent of Rs. 8.55 crores. Several state governments have also contributed to the debentures. The Union Government envisaged an ordinary debenture programme of about Rs. 65 to 68 crores and rural debenture programme of Rs. 5 crores during 1967-68. Special emphasis would be placed on advancing loans to cultivators for minor irrigation, land shaping and reclamation and purchase of agricultural machinery.

MANGANESE ORE DEPOSITS

Reserves of manganese ore of the order of 183 million tonnes have been inferred in this country, of which nearly 80 million tonnes are of the higher grade, with 48 per cent manganese content in them. Manganese ore deposits are located in Madhya Pradesh, Maharashtra, Orissa, Mysore, Gujarat, Andhra Pradesh, Rajasthan, Bihar and the Union territory of Goa. According to the present indications, the demand for manganese ore will increase over the next few years. In 1963-64, internal consumption was about 500,000 tonnes, and exports, excluding black iron, nearly a million tonnes. The estimates for 1970-71 indicate that internal consumption would rise to one million tonnes and exports to 1.87 million tonnes.

A study of manganese ore transport, undertaken by the Joint Technical Group for Transport Planning in the Planning Commission, which has compiled the data, has suggested that special roads could be constructed for movement of mineral traffic, especially in the Goa region. These roads could perhaps levy tolls on the movement of ore. The south eastern railway was expected to continue to carry the bulk of the manganese ore traffic in the country till 1970-71. Despite

the long lead involved in the movement of manganese ore to ferro-manganese plants at Rayagada, Garividi, such movements might continue to take place by railways in 1970-71. Transshipment of manganese ore should continue as at present at the five junction stations, namely, Itwari, Gondia, Vijayawada, Miraj and Bangalore. According to the report, Visakhapatnam and Mormugoa ports were expected to handle nearly 45.3 per cent and 33.3 per cent of export traffic in manganese ore in 1970-71. The shares of different modes of transport for movement of manganese ore would by and large remain the same in 1970-71, though the average lead of movement by rail might register a small increase by that year. It has also been stated in the study that production of manganese ore and ferro-manganese should be stepped up considerably to ensure a satisfactory level of exports and meet increasing indigenous demand for it.

STUDY GROUP ON ASSAM COAL

The Union Government has reconstituted the study group for the examination of the commercial possibility of using Assam coals for the manufacture of metallurgical coke, with immediate effect. The seven-member Study Group is headed by Dr S. Husain Zaher, former Director-General, CSIR. The members of the Group are: the Chairman, Coal Board; the Director, Central Fuel Research Institute; a representative of H.S.L.; a representative of Bokaro Steel Plant and the Secretary, Power, Mining and Minerals Division, Government of Assam. The Chief Combustion Engineer, Coal Board, will act as Secretary. The Study Group will watch the progress of the tests on the use of Assam coals and make recommendations on: (a) the extent of the technical feasibility of making use of Assam coal in blend with Bengal/Bihar coals for the manufacture of metallurgical coke; (b) the economics of the use of Assam coal for metallurgical purposes both from the point of view of the cost of production of the coal and its transport; and (c) the need for washing Assam coals before they are used for metallurgical purposes, and if washing is considered necessary, estimate its probable cost. The Study Group is expected to submit its report by the end of July 1967.

PAR VALUE OF SINGAPORE DOLLAR

An initial par value for the Singapore dollar, at one Singapore dollar equal to 0.32 US dollar has been established by agreement between the Government of Singapore and the International Monetary Fund. Following its separation from Malaysia, Singapore decided to establish its own Currency Board to issue currency beginning June 12, 1967. The Singapore dollar will replace, at par, the Malayan dollar which had remained in official use since the separation in August 1965. The parities of the Singapore dollar in terms of gold and in terms of the US dollar of the weight and fineness in effect on July 1, 1944 are as follows: 0.290 299 gram of fine gold per Singapore dollar; 107.143 Singapore dollars per troy ounce of fine gold; 3.061 22 Singapore dollars per US dollar; 32.666 7 US cents per Singapore dollar.

The new Malaysian currency which came into circulation a few days ago has over 100 per cent backing in gold and foreign exchange. By law the minimum value of external reserves required should be 80.59 per cent.

PROCEDURE TO ASSESS FLOOD DAMAGE

Special measures to standardize assessment of damage caused by floods all over the country have been suggested by the National Council of Applied Economic Research which recently undertook a pilot survey in north Bihar. The work was entrusted to the Council by the Union Ministry of Irrigation and Power as the extent of damage and other data given by state governments were not often very reliable. Steps

suggested include delegation of requisite authority to the District Collectors to co-ordinate the reports on damage data collected by various agencies in the districts and issue necessary orders in this regard, training of village officers in the observation and preparation of reports of the damages, attaching of statistical cells in the flood control headquarters and entrusting of responsibility in the assessment of damages of agricultural nature to the Flood Control Department and non-agricultural damages to the concerned departments in the state. State governments have also been requested to entrust to the Directors of Research Stations overall supervision of collection of data and preparation of accurate flood maps. These measures are expected to be useful in working out benefit cost ratio of individual flood control schemes to enable consideration of economic justification of investment in the long-term solution of flood problems. These data will also be of use in examining to what extent crop insurance is feasible in a particular area.

TEXTILE AUXILIARY INDUSTRY

Mr. S. M. Mistry, President of the Textile Auxiliaries Manufacturers' Association, Bombay, urged the Union Government to accord a rightful place to the textile auxiliary industry and to include it on the list of priority industries for the purpose of granting liberal actual user import licences for raw materials, spares and components. Addressing the annual general meeting of the Association in Bombay on June 20, Mr. Mistry pointed out that the industry catered not only to the needs of the priority industries, like cotton and woollen textiles, but it also helped art silk and other textiles industries to earn foreign exchange. The industry supplied these industries with chemicals for resin-finishing of cloth for export.

INDIANISATION IN FOREIGN FIRMS

An analysis of the returns received from foreign owned or controlled commercial and industrial companies revealed that the rate of Indianisation of the staff of these companies drawing total monthly emolument of Rs. 1000 and more, achieved during the year ended December 1964 was, more or less, maintained during the year ended December 1965. The total number of Indians employed in superior posts increased by nearly 2,000, from 16,302 on January 1, 1965 to 18,213 on January 1, 1966. The number of non-Indians came down from 3,014 to 2,659 during the period. Consequently, the proportion of Indians in the total employment of foreign owned or controlled companies in superior posts increased from 84.4 per cent to 87.3 per cent. The following table showing the number of Indians employed by foreign owned or controlled companies on monthly salaries of Rs. 1,000 and more illustrates the year to year improvement in the relative position of Indians since the beginning of 1956.

Year (as on January 1)	Total No. of persons employed*	No. of Indians employed	%age of Indians in the total employment
1956	11,428	4,862	42.5
1957	11,931	5,906	49.5
1958	12,611	6,959	55.2
1959	13,220	7,916	59.9
1960	13,922	9,113	65.5
1961	14,593	10,229	70.1
1962	15,536	11,535	74.2
1963	16,004	12,434	77.7
1964	16,959	13,824	81.5
1965	19,316	16,302	84.4
1966	20,872	18,213	87.2

*Excluding foreign short-term technicians.

Indians manned 97.7 per cent of the total posts carrying salaries from Rs. 1,000 to Rs. 2,000 per mensem on January 1, 1966 as compared to 96.5 per cent last year. In the salary range of Rs. 2,001 to Rs. 3,000, the percentage of Indian nationals rose from 85.0 per cent on January 1, 1965 to 88.8 per cent by January 1, 1966. In the salary group of Rs. 3,001 to Rs. 5,000 the proportion of Indians recorded an improvement from 52.4 per cent on January 1, 1965 to 59.2 per cent on January 1, 1966. Unlike all other salary groups, the number of non-Indians has been increasing along with the number of Indians in the highest salary group of above Rs. 5,000.

The proportion of Indians was, as on January 1, 1966, more than the general average of 87.3 per cent in the following twelve categories of companies: (i) oil companies (96.3 per cent); (ii) public utility companies (96.2 per cent); (iii) automobile dealers and manufacturers (95.2 per cent); (iv) chemicals and allied trades (94.7 per cent); (v) leather and rubber companies (93.8 per cent); (vi) metals, including iron and steel (92.7 per cent); (vii) machinery, equipment, tools, engineering etc. (91.9 per cent); (viii) printing, publishing, stationery and allied trades (91.5 per cent); (ix) coal companies (90.7 per cent); (x) cotton mills and presses (38.3 per cent); (xi) sugar companies and breweries (88.1 per cent); and (xii) jute mills and presses (88.4 per cent). As in the past, the percentage share of Indians as on January 1, 1966 was less than the general average in older industries, such as, planting and allied companies 55.8 per cent, transit and transport companies 66.8 per cent, and banking companies 70.8 per cent. In the remaining categories of firms, the share of Indians ranged between 79.8 per cent and 85.3 per cent as on January 1, 1966, as compared to between 76.1 per cent and 82.2 per cent a year ago.

The total number of foreign short-term technicians engaged by foreign owned/controlled companies, who were exempted from the payment of income-tax on their remuneration, increased from 477 in January 1965 to 501 in January 1966.

INDIAN PAVILION IN POZNAN FAIR

The Polish Minister of Foreign Trade, Mr Trampczynski, praised the Indian pavilion in the Poznan International Trade Fair which he inaugurated on June 11, 1967. The Polish Trade Minister spent considerable time in the Indian pavilion and expressed great appreciation. Other visitors to the fair expressed similar sentiments and acclaimed the Indian pavilion as the best Indian exhibition Poland had so far seen.

NEW MEMBER OF D.V.C.

Mr B. B. Mandal, Secretary to the Government of West Bengal, Irrigation and Waterways Department, has been appointed a member of the Damodar Valley Corporation by the Ministry of Irrigation and Power in consultation with the state governments of West Bengal and Bihar. He will hold this appointment in addition to his existing assignment with the West Bengal Government and will, as such, work as part-time member of the DVC.

RUBBER GOODS EXPORTS

Mr. K. N. Mookerjee, President of the Indian Rubber Industries' Association, stated recently that devaluation of the rupee had given a boost to rubber goods exports. The liberal import policy of the Union Government would help utilise production capacities to a greater extent. He added that while the industry was happy over the liberalisation of imports, it was concerned over the tight money market. He stated that it was necessary to remedy the situation by permitting the banks to have a liberal hand in the lending policy. The 15 per cent ad valorem excise duty on rubber pipings, tubings and beltings, he feared, would push up the prices, which were already on the high side because of the high prices of raw rubber, other raw materials and high wage bill. At this junct-

ture the industry would not be able to bear the burden of additional taxation.

REVISED FOREIGN AIR PARCEL RATES

The postage rates for air parcels to the following countries will be revised with effect from July 1, 1967. The revised rates are indicated against the name of the country:

Name of the country	REVISED RATES	
	Postage	
	For the first 250 grams	For each additional 250 grams or fraction thereof
	Rs. P.	Rs. P.
Brazil		
(a) Sao Paulo, Racife (Pernambuco) et Etats de Alagoas, Cera Parahyba, Piauh, Rio Grande Del Norte	21.90	11.00
(b) Rio de Janeiro et toutes autres localities	22.25	11.35
Chile	20.55	13.35
Colombie		
(a) Bogota Barranquilla	19.35	11.50
(b) Other Localities	19.35	12.00
Cuba		
(a) Localities other than Guantanamo Bay	17.15	11.15
(b) Guantanamo Bay	14.05	9.55
Paraguay	18.60	12.60
St. Lucie	16.90	10.20
Sierr-Leone	17.50	9.10
Surinam	16.00	10.66
Uruguay	19.60	12.35

At present the rates are as follows :

Name of the country	PRESENT RATES	
	Postage	
	For the first 250 grams	For each additional 250 grams or fraction thereof
	Rs. P.	Rs. P.
Brazil		
(a) Sao Paulo, Racife (Pernambuco) et Etats de Alagoas, Cera Parahyba, Piauh, Rio Grande Del Norte	21.80	10.90
(b) Rio de Janeiro et toutes autres localities	22.15	11.25
Chile	20.80	13.55
Colombie		
(a) Bogota Barranquilla	19.80	12.00
(b) Other Localities	19.80	12.50
Cuba		
(a) Localities other than Guantanamo Bay	17.00	11.00
(b) Guantanamo Bay	14.05	9.55
Paraguay	19.10	13.10
St. Lucie	16.50	9.80
Sierr-Leone	17.35	9.00
Surinam	16.15	10.75
Uruguay	19.70	12.45

LIBERALISATION OF ABORTION LAW

Holding that the present law on abortion is too restrictive, the committee appointed by the Union Government to study this question has recommended that the law should be liberalized to allow termination of pregnancy by a qualified medical practitioner acting in good faith not only for saving the pregnant woman's life but also under certain extenuating circumstances. The 11-man committee was headed by Mr. Shantilal H. Shah, former Minister for Public Health, Law and Judiciary in Maharashtra. It was asked to examine the question of abortion in all its aspects—medical, social, legal and moral—and to make recommendations. The committee sent a questionnaire to important individuals and institutions. In addition the committee interviewed a few selected persons at Delhi, Calcutta and Bombay. In the course of its recommendations, the committee has examined the existing law on abortion, namely, Section 312 of the Indian Penal Code and concluded that it should be liberalised to allow termination of pregnancy by a qualified medical practitioner acting in good faith not only for saving the pregnant woman's life but also:

(a) when the continuance of the pregnancy would involve serious risk to the life, or grave injury to the health, whether physical or mental, of the pregnant woman, whether before, at, or after the birth; or (b) when there is a substantial risk that if the child were born, it would suffer from such physical or mental abnormalities as to be seriously handicapped in life; or (c) when the pregnancy results from rape, intercourse with an unmarried girl under the age of 16 or intercourse with a mentally defective woman.

The committee has further recommended that the Government should prescribe rules requiring the qualified medical practitioner who terminates a pregnancy to give notice of the termination, and such other information relating to the termination as may be prescribed by the regulations within such period as may be laid down; and with respect to the disposal of certificates.

The committee while making the above recommendations also strongly recommends that: (a) to prevent the danger of repeated abortions in the case of women who are not fit to bear the strain of further pregnancies, the medical practitioner should advise the women and/or her husband to undergo voluntary sterilization. (b) The idea of a small family norm achieved through control of conception, should be vigorously promoted. (c) Readily accessible services for family planning should be extended, and (d) Family life education to develop healthy and responsible attitudes towards sex, marriage and parenthood should be promoted.

Punjab & Delhi Chamber of Commerce and Industry NEW DELHI

REQUIRES A SECRETARY

The candidate should have an outstanding academic career and intimate acquaintance with economic, developmental and industrial relations matters particularly of the Northern India. The job requires ability to comprehend and analyse economic and financial subjects, flair for drafting, understanding of fiscal questions, initiative and capacity to represent entrepreneurial interests. Experience in working of commercial/industrial organisations desirable.

Remuneration will be commensurate with the qualifications and experience of the selected candidate. Apply in confidence under registered post immediately to Shri I. P. Anand, Chairman, Phelps Building, 9-A, Connaught Place, New Delhi-1.

Company Affairs

KORES (INDIA)

KORES (INDIA) Ltd. has the proud privilege and unique distinction of being the first local firm to export stencils to the highly sensitive and sophisticated market such as the United States. A leading firm in the USA has placed an order with the company for 60,000 quires of stencils. The order will be executed in a five-year period, the export in each year being 12,000 quires. A token supply has already gone by air to the United States.

A modest start in exports was made by the company in 1963. Within a short span of four years—1963-66—the company has eminently been successful in selling its products such as stencils, carbon papers, ribbons and teleprinter rolls in foreign markets and has earned for the country valuable foreign exchange worth Rs. 20 lakhs. So excellent is the quality and competitive the price, that they compare very favourably with similar products in the overseas markets. Repeated orders are being received from abroad and they simply demonstrate the consumers' confidence the products have created among the importers overseas.

The company's products have entered the Middle East, East Africa and South East Asian countries and they are being gradually extended to highly developed markets such as the USA, Hong Kong, Singapore, Australia and the Philippines. Efforts are being made not only to penetrate further into these areas but also to make a break-through into new regions. Hence an astronomical rise in exports is expected in the coming years.

The company's record during the past 35 years has been one of phenomenal growth and outstanding achievements. It is now claimed to be the biggest unit of its kind in Asia. The factory is equipped with all latest and most modern machinery and equipment and it turns out a wide range of quality products such as stencils, carbon papers, typewriter ribbons, teleprinter rolls, day by day cleaners for typewriters, stamp pads and special inks, staplers and stapling pins and a host of other products which hitherto were imported. The turnover during 1966 amounted to about Rs. three crores and it is expected to be around Rs. four crores during the current year. Exports now represent about five to six per cent of the company's production.

MADRAS ALUMINIUM

The properzi plant of Madras Aluminium Company Ltd. has been erected and it has gone into commercial production of rods from January 1967. In addition to converting part of the production into properzi rods, the company is also taking up the work of converting imported ingots of some of the company's consumers into properzi rods.

Though efforts were made by the company to expand the capacity of the plant from 10,000 tons to 12,500 tons during 1966 itself, the scheme has been delayed as the Government of India has not so far approved the company's request for importing one very essential item of machinery to reduce the foreign exchange expenditure. The matter is being pursued for getting clearance from the Government for the import of the item. Once this is achieved the directors hope to complete the expansion of 12,500 tons within a few months.

The Government has approved in principle the proposed agreement with Messrs. Montecatini Edison for technical help for the second stage of expansion from 12,500 tons to 25,000 tons. The terms of the foreign exchange credit offered by Messrs. Mediobanca to finance the foreign expenses of this expansion have been approved by the Government, subject to certain clarifications. The company hopes to conclude agree-

ments with Messrs. Montecatini Edison and Messrs. Mediobanca of Italy shortly and make the necessary start for this stage of expansion. The company has also submitted an application to the Government for expanding its capacity eventually to 50,000 tons per year.

The company has given a commitment to the Government for exporting goods worth Rs. 98.4 lakhs to discharge its foreign exchange obligation for Political Risk Insurance and interest thereon towards Mediobanca Loan credit. Since the first payment of Mediobanca credit is due this year, it is proposed to make a beginning in this field from the current year. It is proposed to export about 400 tons of aluminium ingots during the year.

Severe import restrictions and sizeable power cut in Madras State have affected adversely the operations of the plant during 1966. Apart from vital components and spares, essential raw materials such as synthetic cryolite, aluminium fluoride and cathode lining materials have still to be imported as they are not available in the country. With restricted imports and with a power cut of 10 per cent, the factory produced 9,816 tons of aluminium metal, which is considered satisfactory for a plant of 10,000 tons. With the liberalisation of import licences the company has arranged for building up sufficient stocks of imported materials including spares.

With the rising demand for the company's products, sales rose to a new peak of Rs. 4.32 crores during 1966. Although the properzi plant has been commissioned into production in early 1967, it had worked only for a few months in 1967. The full effect of the contribution from this plant to the earnings of the company will be seen in the current year. With the handsome improvement in sales, the company has earned a higher net profit of Rs. 50.37 lakhs after providing for depreciation during the year ended December 31, 1966 as against Rs. 22.59 lakhs in 1965. The appropriation to depreciation reserve during 1966 amounted to Rs. 99.61 lakhs as compared with Rs. 80.51 lakhs in the preceding year. Adding Rs. 1,128 carried forward from the previous year's accounts, there is a balance of Rs. 50.38 lakhs to the credit of profit and loss account. Out of this, a sum of Rs. 27.90 lakhs was provided for payment of arrears of preference shares till December 31, 1965. An amount of Rs. 10.75 lakhs was set aside for writing off underwriting commission while a sum of Rs. 1.06 lakhs was set apart for writing off brokerage expenses. The balance of Rs. 10.67 lakhs has been carried forward to the next year's accounts.

DEVIDAYAL CABLE

The nickel chrome wire unit of the Devidayal Cable Industries Ltd. is ready for trial production. Commercial production is, however, expected to commence by the end of the current year. The installed capacity of the unit is 100 tons per annum. The demand in the country is estimated at about the same level and the company will be the first in the field. The turnover on full production is estimated at Rs. 50 lakhs. Raw materials for the initial period have been imported.

The galvanising unit of the steel and alloy steel wire project could not be started until nearly half the year had run its course because of the imposition of Scarce Industrial Material Control Order. Besides, in the first year of production, the company had to experience teething troubles and it could use only 50 per cent of the installed capacity. A bigger contribution can, therefore, be expected from this unit in the current year.

But the demand for cables has gone down considerably owing to the power generation lagging far behind the target.

under the five-year Plans, with the result that the cable plant had to run below capacity throughout last year. In addition, there was a keen competition and selling prices were lower despite increased costs.

The wide fluctuations in the London Metal Exchange in the price of copper, the time-lag in finalising the negotiations in the rupee payment areas, and the shipment after devaluation, have pushed up the imported copper prices considerably while the prices of winding wires on account of the Government's liberalised import policy declined steeply resulting in reduction of profits.

The effect of devaluation was that the company had to pay more in respect of raw materials and capital equipment resulting in more interest having to be paid for working capital and import of capital equipment. This factor also increased the cost of production, which could not be passed on to the consumers in view of the contract commitments and consumer resistance against increase in prices. Similar situation prevailed in the cable division also.

The cumulative effect of all these adverse factors was that even though the turnover went up significantly by about 30 per cent from Rs. 2.04 crores to Rs. 2.66 crores, the gross profit was a shade lower at Rs. 21.34 lakhs as against Rs. 21.43 lakhs in 1965. The provision for depreciation was raised by Rs. 1.48 lakhs to Rs. 7.90 lakhs while the allotment to development rebate reserve amounted to Rs. 2.32 lakhs as against Rs. 3.10 lakhs in the preceding year. The appropriation to taxation reserve was enhanced by Rs. 0.23 lakh to Rs. 3.88 lakhs while the transfer to general reserve was reduced by Rs. 1.92 lakhs to Rs. 1.33 lakhs. The directors have maintained the gross dividend at Re. 1 per share. The proposed dividend will claim Rs. 6 lakhs, the same as in 1965.

BRITANNIA BISCUIT

In spite of difficult trading conditions, 1966-67 was yet another year of further success for Britannia Biscuit Company Ltd. Costs of ingredients and materials continued to rise throughout the year. In particular, the prices of flour, fats, milk products and packaging materials have substantially risen. The price of flour which was raised by the Government last year was subject to a further increase this year. Vegetable oils rose by over 40 per cent and milk products, in addition to being in short supply, reached levels equal to approximately three times the landed cost of imported milk powder. The price of tinplate continued to advance and containers generally cost about treble the price of similar products manufactured overseas. The situation was further aggravated by the devaluation of the rupee. In spite of these difficulties, the company's sales continued to rise. It exceeded the 1965-66 figure by Rs. 2.11 crores to reach Rs. 11.33 crores while the profit before tax increased by Rs. 4.16 lakhs to Rs. 146.39 lakhs. The overall profit ratio after tax, however, has declined from five per cent to 4.5 per cent.

Construction of the new factory at Madras was completed

on schedule and trial production has commenced since February 1967. Its working is, however, seriously curtailed at present owing to the shortages of sugar and flour. It is anticipated that improvements in efficiency, production and distribution, with a consequent reduction in costs, will ultimately result from the establishment of the new unit.

A loan of Rs. 50 lakhs has been raised by the issue of 7.75 per cent debenture stock 1971-80. The proceeds from this loan have been utilised to finance partially the capital expenditure which amounted to over Rs. 91 lakhs during the year.

Export sales improved by over 50 per cent over the previous year's achievement. Relentless efforts are being made to widen the existing markets besides exploring new markets.

After meeting all charges and expenses and providing for depreciation, the gross profit for the year ended March 31, 1967 amounted to Rs. 146.39 lakhs as against Rs. 142.23 lakhs in the preceding year. The appropriation to depreciation reserve was stepped up by Rs. 2.24 lakhs to Rs. 17.20 lakhs while the allocation to taxation reserve was enhanced by Rs. 2.75 lakhs to Rs. 96 lakhs. The net profit, after making these provisions, was slightly higher at Rs. 50.39 lakhs as compared with Rs. 48.98 lakhs in the previous year. After raising the allotment to development rebate reserve by Rs. 1.45 lakhs to Rs. 4.25 lakhs, the net amount available for appropriation came to Rs. 46.14 lakhs. Out of this, the directors have transferred Rs. 40.15 lakhs to general reserve as against Rs. 24.80 lakhs a year earlier while no amount was set aside to debenture redemption reserve as against Rs. 1.50 lakhs in 1965-66. The interim dividend on preference shares at 5.20 per cent claimed Rs. 803 while the interim dividend on ordinary shares at six per cent absorbed Rs. 5.98 lakhs. The final equity dividend of 14 per cent—making 20 per cent for the year—will require Rs. 13.94 lakhs for distribution. A dividend of 22 per cent was paid in 1965-66. The final dividend on preference shares has been maintained at 5.20 per cent. The final dividends will be paid out of the general reserve.

INDIAN COPPER

Drastic rise in project cost by over 50 per cent since its first approval by the Government in 1964, radical change in the pattern of production to meet the needs of the economy and the severe impact of devaluation, all combined have delayed the expansion programme of the Indian Copper Corporation Ltd. But work has progressed steadily on the ancillary crushing and concentrating plant. A start has also been made on the construction of the nickel sulphate plant, which is expected to go into production some time in June next year. Negotiations have continued with the main contractors for the flash smelter and a firm tender has been received. Revised offers have been received from ICICI and CDFC to provide loans to meet the principal foreign exchange requirements and arrangements have been made through other institutions to cover the shortfall in resources. A substantial portion of the funds will also

be raised from internal sources. The final approval of the Government to these arrangements is still awaited. Every effort is, however, being made to complete all the arrangements and to sign the contract shortly. This was disclosed by the chairman, Mr. H. W. G. Stamper, when he was addressing the annual general meeting of the company.

Reviewing the working of the company, the chairman said, that until 1965 the company relied predominantly on the rolling mill to provide its profit. But the Government in the context of the economic situation and defence requirements of the country has asked the company to rely principally on its sales of copper in the form of electrolytic wirebars and fire refined ingots. A limited quota has been fixed for the production of rolled products and import licences for zinc to match this quota are being granted. The anticipated profits from the rolling mill will not, however, compare with those earned in the past.

During 1966, the Government of India requested the company to deliver the bulk of its copper production to government or its nominees. These arrangements have been continued during the current year and prices negotiated till the end of 1967. The Government has also expressed its desire to take up the company's entire production of copper in 1968. Price negotiations will start shortly and it is expected that the Government will pay due consideration to the rising costs of production and the requirements of the expansion plan.

The company's application for renewal of the two Sidheswar leases is still pending with the Government. The matter is under negotiation. The Bihar Government has not yet given its approval to the grant of the extension to the Mosaboni lease and it is hoped that this will not be long delayed. The company's negotiations with the Bihar Government regarding the royalty payable by the company for copper ore removed since October 28, 1964, are in an advanced state and it is hoped to be concluded satisfactorily in the immediate future.

NEW ISSUE

Brake Linings Ltd. entered the capital market on June 28, 1967 with a public issue of Rs. 6 lakhs. The company has an authorised capital of Rs. 25 lakhs and an issued capital of Rs. 9 lakhs out of which, the promoters and their friends have already taken up equity shares worth Rs. 2 lakhs. The present issue is for Rs. 7 lakhs, consisting of 40,000 equity shares of Rs. 10 each and 3,000 redeemable cumulative preference shares of Rs. 100 each, carrying an interest of 9.5 per cent per annum. Out of the present issue, the Brake Linings Ltd., Buxton, UK, the technical collaborators for the project, have been allotted with 10,000 equity shares of Rs. 10 each for consideration other than payment in cash in pursuance to the collaboration agreements. The remaining 30,000 equity shares of Rs. 10 each and the entire preference capital of Rs. 3 lakhs are now being offered for public subscription for cash at par. The preference shares are redeemable after 10 years but not later than 12 years from the date of allotment. The subscription list will close on July 8, 1967. The public issue is fully underwritten.

The company has been formed with the object of manufacturing heavy-duty brake linings and other parts and accessories of automobiles, railways, trams, scooters, bicycles and other transport vehicles. The factory is situated at Faridabad in the state of Haryana.

TATA OIL

Striking improvements recorded in sales and gross profits have enabled the directors of Tata Oil Mills Co. Ltd. to recommend a higher equity dividend of Rs. 3.75 per share for the year ended March 31, 1967, as against Rs. 3.50 per share paid in the preceding year. Sales spurted by Rs. 5.84 crores to Rs. 23.12 crores while the profit before providing for taxation and depreciation went up significantly to Rs. 109.47 lakhs as against Rs. 91.25 lakhs in 1965-66. These encouraging results were

achieved on account of a substantial rise in the production of soap which went up by 25 per cent during the year as compared with the overall increase of only seven per cent for the soap industry in general.

Out of the gross profit, the directors have transferred Rs. 33.80 lakhs to depreciation reserve as against Rs. 30.20 lakhs in 1965-66 while the appropriation to taxation reserve was increased by Rs. 9.80 lakhs to Rs. 38.00 lakhs. The provision for development rebate reserve was reduced by Rs. 2.30 lakhs to Rs. 3.70 lakhs. The net profit, after making these provisions, amounted to Rs. 33.97 lakhs as compared with Rs. 26.85 lakhs in 1965-66. After adding Rs. 0.06 lakh, the amount available for appropriation came to Rs. 34.03 lakhs. Out of this, the directors have set apart a sum of Rs. 11.60 lakhs to general reserve as against Rs. 5.80 lakhs a year ago while dividend reserve was earmarked with Rs. 22.49 lakhs as compared with Rs. 21.00 lakhs a year earlier. The surplus of Rs. 0.03 lakh has been carried forward to the next year's account. The proposed equity dividend will absorb Rs. 21.03 lakhs as against Rs. 19.62 lakhs in 1965-66 while the preference dividend maintained at Rs. 4.50 per share will claim Rs. 1.34 lakhs. The dividends will be paid out of the dividend reserve.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 14 companies to raise capital amounting to more than Rs. 4.4 crores. Seven of them are to

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BIHAR RELIEF COMMITTEE

Sadaquat Ashram, PATNA-10

issue bonus shares exceeding Rs. 46 lakhs. The amount of bonus shares ranges between Rs. 50,000 and Rs. 19 lakhs.

The consents are valid for 12 months. The details are as follows:

Dunbar Mills Ltd., Calcutta, has been accorded consent to capitalise Rs. 19 lakhs out of general reserves and issue fully-paid equity shares of Rs. 10 each as bonus shares in the ratio of one for every two equity shares held.

Burhanpur Tapli Mills Ltd., Burhanpur, has been permitted to capitalise Rs. 12 lakhs out of free reserves and issue fully-paid equity shares of Rs. 100 each as bonus shares in the ratio of two for three held.

Beni Ltd., Calcutta, has been granted consent to capitalise Rs. 9,50,000 out of general reserves and issue fully-paid equity shares of Rs. 10 each as bonus shares.

Machine Age Pvt. Ltd., Ahmedabad, has been accorded permission to capitalise general reserves to the extent of Rs. 2,01,000 and issue bonus shares of Rs. 100 each in the proportion of five for each equity share held.

Ugomi Pvt. Ltd., Ahmedabad, has been given consent to capitalise general reserves to the extent of Rs. 1,86,000 and issue of bonus shares of Rs. 100 each in the proportion of five for one held.

Kanoria & Sons Pvt. Ltd., Calcutta, has been accorded consent to capitalise Rs. 1,25,500 out of general reserves and issue fully-paid equity shares of Rs. 100 each as bonus shares in the ratio of one for every two shares held.

Craft Tools (Pvt.) Ltd., Devangere, has been permitted to capitalise Rs. 50,000 out of free reserves and issue fully-paid equity shares of Rs. 100 each as bonus shares in the ratio of one for every two held.

Mysore Cements Ltd., Bangalore, has been given consent to the issue of capital of Rs. 70 lakhs in 70,000, 9.5 per cent per annum cumulative redeemable preference shares of Rs. 100 each for cash at par. The proceeds will be utilised for financing the company's expansion programme.

Bura & Co. Ltd., Calcutta, is permitted to issue debentures of a value of Rs. 1 crore as working capital. The issue carries a rate of interest of 7.75 per cent and is taxable.

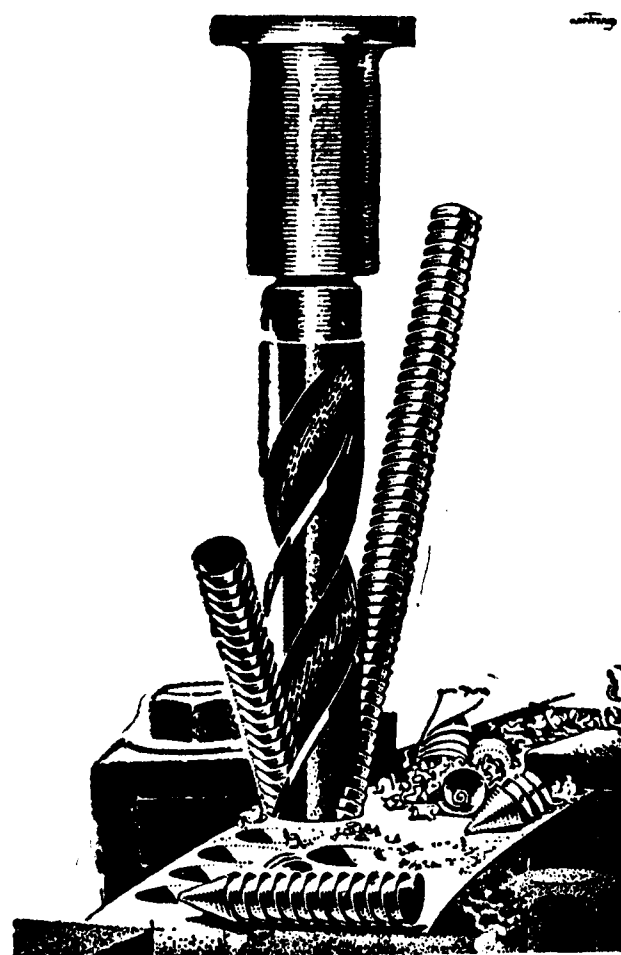
Tata Oil Mills Limited, Bombay, has been permitted to issue capital of Rs. 91 lakhs as working capital. The issue consists of 2,24,000 equity shares of Rs. 25 each and 35,000 cumulative redeemable preference shares of Rs. 100 each, carrying dividend not exceeding 9.5 per cent, free of company's tax but subject to deduction of taxes at source at prescribed rates. All the shares are for cash at par.

Indian Detonators Ltd., Hyderabad, is granted permission to issue capital of Rs. 45 lakhs in 45,000 equity shares of Rs. 100 each for cash at par to be offered to the company's foreign collaborators, Atlas Chemical Industries of USA. The proceeds will be utilised for the manufacture of high explosives.

Vitrex Ceramics Ltd., Bombay, is accorded permission to issue capital of Rs. 31.52 lakhs in equity shares of Rs. 100 each. Of this, shares worth Rs. 7.88 lakhs will be offered to the company's Italian collaborators against supply of machinery, and the rest to be issued for cash at par. The proceeds will be utilised for the manufacture of ceramic tiles.

India Forge and Drop Stampings Ltd., Madras, has been permitted to issue capital of Rs. 30 lakhs for cash at par. The issue will consist of Rs. 20 lakhs in equity shares of Rs. 10 each and Rs. 10 lakhs in 9.286 per cent cumulative redeemable preference shares of Rs. 100 each. The proceeds will be utilised to finance a part of the company's expansion programme.

Mysore Industrial and Testing Laboratory Ltd., Bangalore, has been permitted to issue capital of Rs. 27.40 lakhs in equity shares of Rs. 5 each for cash at par. Of this, shares worth Rs. 11.25 lakhs will be subscribed by the Government of Mysore and the balance, i.e., Rs. 16.15 lakhs will be offered for public subscription. The proceeds will be utilised for financing the company's expansion programme.



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COMPANY MEETINGS

THE TRAVANCORE RAYONS LTD.

Speech Delivered by Shri M. Ct. Muthiah, Chairman of the Twentyfirst Annual General Meeting held on June 21, 1967, at Rayonpuram, Kerala

Gentlemen:

I AM happy to extend a warm welcome to all of you to this the Twentyfirst Annual General Meeting of the Company. The Directors' Report and Accounts have, as usual, been circulated to you in advance and, with your permission, I shall take them as read.

Before proceeding, I am sure all of you would like to associate yourselves with me in placing on record our appreciation of the valuable services rendered by the late Shri O.Rm.M.Sp.Sv.M. Meyyappa Chettiar, Director of the Company from 1959, who passed away on March 9, 1967. He was an esteemed colleague of mine on the Board and his advice and guidance have been useful to the Company.

GENERAL ELECTIONS AND THE ECONOMY

A matter of momentous political and economic significance is the result of the last General Elections. For the first time since Independence, different political parties have gained power in different states. The election results are evidently clear indication of the distress of the people over the soaring prices and cost of living, heavy incidence of taxation, and failure on the food front.

Tightening of import controls and suspension of non-project aid caused dislocation to industrial production, leading to under-utilisation of existing capacity, rise in costs and prices, thus aggravating the strains on the economy, in a vicious circle. We know the general solutions to these problems—but we have to act, by diverting investment from slow and low-yielding projects to quick and high-yielding ones; curtailing unproductive public expenditure; offering incentives for saving and investment by, among other things, reducing personal and corporate taxation; checking population explosion; increasing exports by giving proper encouragement; cutting the sizes of our five-year Plans to be in tune with our own resources; and encouraging payment of wages by results thereby awakening productivity consciousness. It is not difficult to see that competitive ability cannot be maintained, much less increased—if higher wages are not matched by higher productivity.

If each one of us, every Indian, puts forth his best effort, and decides to work for the prosperity of the organization and the country; if each one of us works dedicatedly; and if each one of us is disciplined, disciplined in whatever we do or think, there is no doubt that we all will prosper—everyone—and the country will prosper. We do not have to go to the laws of economics to search for what ails our country. The answer lies in our rich culture—only we have to understand and act.

FOLLOW-UP OF DEVALUATION

As I had said when I addressed you last year, devaluation was another matter of great economic importance during 1966. Devaluation has not only increased the cost of imports, but, it has also influenced price increase all-round. To cite an instance, the average cost of imported Rayon grade Pulp, the main raw material for Rayon industry, rose from Rs. 1056 per

ton to above Rs. 2000. Further, exports have not gone up as anticipated. We have to ensure that the continuous and steep increase in price level is halted, and further depreciation of the intrinsic value of the Rupee is prevented. As the price of food exercises a predominant influence on the general cost of living and, therefore, on wage levels, it is important to achieve increase in agricultural production rapidly; and also take suitable steps to boost industrial production. The fiscal and monetary measures, and the tax system should be so readjusted as to provide incentives to hard work, thrift and initiative.

IMPORT POLICY

A welcome feature of the import policy for 1967-68 is the liberalisation of essential imports, especially in the case of priority industries—in which, I am glad to say, Rayon has been rightly included. I am sure this will enable full utilisation of existing industrial capacity, with its decidedly encouraging impact on the national economy.

WORKING RESULTS AND DISTRIBUTION OF PROFITS

You would have noticed from the Annual Accounts and the Directors' Report that the working of the company for the year ended 1966 has shown significant progress. The gross profit is Rs. 1,35,08,651.61, compared to Rs. 89,44,483.50 for 1965. The net profit for 1966 is Rs. 71,45,735.07, compared to Rs. 43,47,314.73 for 1965.

The amount available for distribution, including the carry over from the previous year, is Rs. 71,60,949.90, and your Directors have proposed the following appropriations:

Provision for Taxation	Rs. 52,60,000.00
Transfer to General Reserve	Rs. 19,00,949.90

Your Directors have recommended payment of Equity Dividend of 12½% and Preference Dividend of 6.5%, both taxable, for the year 1966. If this is approved by you, the dividends will be paid out of the General Reserve.

As you are aware, the Company, issued, during the year under review, Equity Bonus shares for Rs. 25 lakhs, in the ratio of one share for every four shares, by capitalising a portion of the General Reserve. The Bonus shares will also be entitled to the dividend to be declared at this meeting. The dividend has been maintained on a wider equity base, and on the equity structure prior to bonus issue it will work out to 15.6%.

PRODUCTION AND PRICES

As your Directors have explained in their Report, the manufacturing operations, during the year under review, were adversely affected by shortage of raw materials like Pulp, Sulphur and Nitro cellulose; power cuts; and by a long strike. But, the short-fall in production has been minimised due to the timely succour given us by our own pulp plant and power plant. Owing to the continuous foreign exchange scarcity, we had to cover our import requirements by purchase of certificates under the Government's National Defence Remittance Scheme.

and Export Promotion Scheme, at high premia. As a result of devaluation of our currency, our imports of raw materials and spares have cost us correspondingly more. The excise tariff value in respect of cellulose film has been steeply raised, by about 85% in the case of plain film and about 70% in the case of Moisture-proof film. All these factors have naturally increased our cost of production.

THE BUDGET

The recent Budget of the Finance Minister is noteworthy in certain respects. The Finance Minister has rightly advocated planning within our means, and eschewing of deficit financing. Direct taxes have been avoided for the first time in many years. Though the Budget has not proposed any positive measures to draw out the best from individuals and Companies, it might not worsen the economic situation and increase the inflationary pressures. It is regrettable that the Finance Minister has, once again, chosen the Man Made Fibre Industry for a heavy impost by way of excise duty. The increase in excise duty on the popular 120 denier rayon yarn is as much as about 60%, and the Government expects the manufacturers to absorb the entire increase in duty, without passing it on to the consumers. The increased duty will cost the Company close to Rs. 25 lakhs per year. The present margin of profit is small, particularly in respect of the smaller units, and, if the industry has to absorb the heavy increase in excise duty, the impact on the industry will, no doubt, be severe, especially when the cost of raw materials, spares, labour are continually on the increase, pushing the cost of production higher and higher. I would also point out if the industry has to absorb the excise duty, the lower profit consequent thereto will mean corresponding loss of income tax to the exchequer. At a time like this when imports of cotton are difficult, when we have had two successive drought periods, and when more cotton growing areas are needed badly for food production, rayon yarn offers a timely and comparatively inexpensive substitute; and blended fabrics are becoming quite popular these days. With the inclusion of Man-Made Fibre Industry in the priority list of industries for the purpose of liberalised imports, the industry is capable of better performance and expanded activities. An onerous excise duty, at this juncture, is bound to act as a damper to the expansion and growth of this industry and I trust that the Finance Minister will give suitable relief to the representations made by the industry.

EXPANSION PROGRAMMES

You will be pleased to learn that your Company is embarking on a big expansion programme. The programme consists of adding a new base-film plant, using our own technical know-how and rich experience in the field; increase in capacity of moistureproof film, besides provision for production of improved type of such film; and the doubling of the capacity of our Cotton Linter Pulp production. As a result of devaluation, the envisaged capital costs have increased. But, your Directors are programming to utilise indigenous supplies and talent to the maximum possible extent, thereby reducing the foreign exchange requirement to the minimum. Part of the finance will be met from self-generated resources. As the projects involve considerable financial outlay, your Directors are seized of the best method of arranging the balance finance.

I am glad that the Kerala Government, in their recent Industrial Policy Statement, have promised all assistance and encouragement for the growth and expansion of existing industries in the state.

BORROWINGS

Despite the increase in our foreign liabilities due to devaluation, the total borrowings have come down to Rs. 78.45

lakhs, as on 31-12-1966, and further down to Rs. 60 lakhs, as on 20-6-1967.

MANAGING AGENTS

The term of the Managing Agents, Emcete & Sons (Travancore) Private Limited, expired on 31st December, 1966. The Company is in touch with the Government of India to get renewal of the term of the Managing Agents, in pursuance of the General Body's resolution on this subject.

EMPLOYEE RELATIONS

As you would have known, the Company had to go through a long and unfortunate strike of 75 days. It is granted that, in a democratic country, labour, like other sections of the Society, have, no doubt, the right to ventilate their grievances. But, it is imperative that the methods adopted should be peaceful and legitimate. Violence, coercion—and now, gheraos—are definitely out of place and harmful to all concerned. Your Company has since concluded an agreement with the Unions lasting till 31-12-1969. The recurring financial commitment on this account is about Rs. 9.5 lakhs per year. The benefits to employees include revision of basic wages and salaries, revision of dearness allowance, and work-study benefits. It is hoped that the employees will now give their full co-operation to achieve maximum productivity.

I now propose that the Directors' Report, Balance Sheet and Profit and Loss Account for 1966 be approved and adopted.

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

RECORDS AND STATISTICS

A Quarterly Bulletin of "Eastern Economist," this publication surveys important developments in each quarter in the various fields of the national economy as well as in the world economy, organizes its material in a convenient form and illustrates it with diagrams, graphs and charts. Its special features are a business roundup, an analysis of markets and an investment supplement.

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INDIAN COPPER CORPORATION LTD.

Address delivered by Mr. H.W.G. Stamper, Chairman of Indian Copper Corporation Ltd., at the Annual General Meeting of the Company for the year ended 31st December 1966 held on the 21st June 1967.

This is the first time that I have had the pleasure of addressing you, and I take this opportunity of reviewing the affairs of your Company during the year 1966.

I propose to start by commenting on the Accounts and Directors' Report which have now been in your hands for some weeks.

ACCOUNTS

The effect of devaluation on the Company's Capital was referred to by my predecessor in his speech at the Annual General Meeting last year. He explained that the Company's Reserves and Unappropriated Profits would have to be adjusted in order to equate the Rupee value with the Sterling face value of the Share Capital: your Board, on reconsideration and after consultation with the Company's Auditors, decided that it would be advantageous to show the effect of devaluation on the Accounts separately, and to make the necessary adjustment over a period of years. In terms of the Rupee, the Company's assets remain unaffected as the assets are in India. Accordingly, out of the sum of Rs. 1,57,69,950 representing the increase in the Rupee value of the Share Capital which has to be adjusted, a sum of Rs. 31,69,950 equivalent to £150,950 has been written off in the Accounts for the year 1966.

The Accounts show that the profit, before providing for taxation, but after charging depreciation and Development Rebate Reserve, amounted to £1,468,276. The liability for taxation is, however, very large at £841,680. After adjusting the balance from the previous year of £198, writing off £150,950 to Miscellaneous Expenditure, and providing £30,714 for Reserve for Capital Development, the Directors have transferred £445,000 to General Reserve leaving an unappropriated balance of £130. Your Directors recommend that a Dividend of 7.619% be paid out of General Reserve. Although this Dividend is at the same rate as last year, the cost to the Company is greater because of the increase in the Share Capital, consequent upon the Bonus Issue in 1966.

In view of the Company's expansion plans, it is essential that adequate funds be retained in the business. This can only be done by restricting the amount distributed by way of Dividend to the Shareholders in their long term interest.

TAXATION

At the Annual General Meeting in June, 1966 Mr Gladstone referred to the disallowance of certain mining expenditure in 1965 by the Income Tax Officer. The Company's appeal on this point was heard in 1966 and was allowed, and a refund was granted: the Commissioner of Income Tax has, however, appealed to the Tribunal, and the matter cannot therefore be considered to have been satisfactorily settled. In the meantime, the Income Tax Officer continues to disallow this expenditure in subsequent assessments, and the Company is obliged to make provision accordingly.

During the year, a Committee appointed by the Mineral Advisory Board met to consider the grant of incentives to the Mining Industry. The Company represented to the Committee that mining requires a large capital investment involving unascertainable risks, and that encouragement should be offered by amending the present oppressive Income Tax Rules relating to mining expenditure. I hope that the Committee will make

suitable recommendations to Government, and that these will be accepted.

LEASES & ROYALTY

Our application for renewal of the two Sidheswar Leases formerly held by the Company is still pending with the Government of India, with whom the matter is still under negotiation.

The state of Bihar has not yet given its approval to the grant of the extension to the Mosaboni Lease, but it is hoped that this will now not be long delayed.

The Company's existing Mosaboni Lease is the subject of a Title Suit by the Company's former Landlord against the State of Bihar. There are many parties to this Suit, and the issues are highly involved. The Company therefore considers that this litigation is likely to be protracted.

The Company's negotiations with the State of Bihar regarding the Royalty payable by the Company for Copper Ore removed since 26th October, 1964 are in an advanced state and I hope will be satisfactorily concluded in the immediate future.

ROLLING MILL AND COPPER PRICES

Until 1965 our Company relied predominantly on the Rolling Mill to provide its profit, but the Government of India, in the context of the economic situation and defence requirements of the country, has now obliged the Company to rely principally on its sales of copper in the form of Electrolytic Wirebars and Fire Refined Ingots. A limited quota has been fixed for the production of rolled products, and import licences for Zinc to match this quota are being granted. The anticipated profits from the Rolling Mill will not, however, compare with those earned in the past.

During 1966 the Government of India requested the Company to deliver the bulk of its copper production to Government or its nominees, in the overall interest of the country. These arrangements have been continued during the current year, and prices negotiated until the end of 1967.

Government have informed us that they wish to take up our entire copper production in 1968, and price negotiations will start shortly, when it is expected that Government will give due consideration to the rising costs of production and the requirements of the Expansion Plan.

In the international markets, 1966 saw a remarkable change in the pattern of copper prices. In April, Wirebars reached £790 per long ton—an all time record. Very soon afterwards, however, the discontinuation of the system of Producer Prices led to a gradual decline; at present prices are fluctuating between £350 and £400 per ton, but providing peaceful conditions prevail throughout the world, a further small decline is possible. For the expansion of the country's copper production, a fair and remunerative price for copper mined in India is required, which need not necessarily be linked to world prices.

ELECTROLYTIC REFINERY

The electrolytic refinery was in production throughout 1966, and our staff are gradually mastering the techniques required to maintain large-scale production. The results have not been

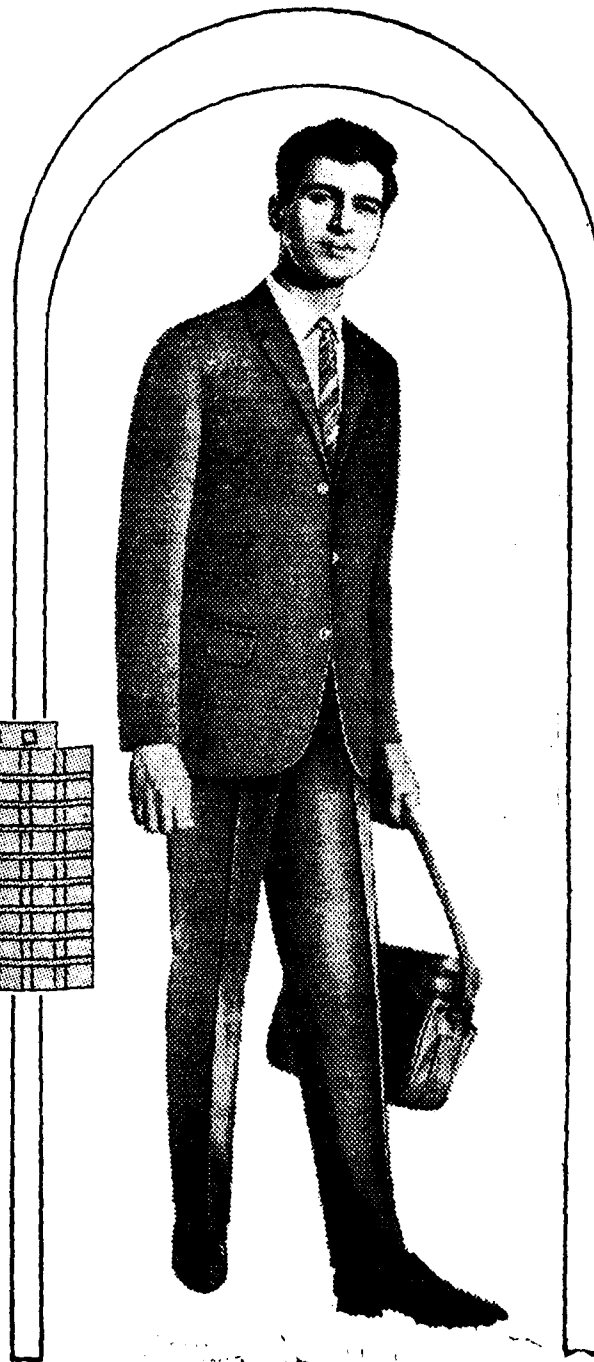
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large electro-tinning line at Rourkela will begin to become productive, at the end of 1967. From then onwards tinplate/blackplate should become freely available for the first time in 30 years.

If the tin container industry is not permitted to expand, an anomalous situation will arise where both packaging raw materials and the goods to be packed are in phase for rapid growth which will not take place for lack of capacity to convert those raw materials into containers. It is essential, therefore, that, within the limitations set by foreign exchange availability, those fabricating units which have proven capability to grow should be permitted to do so freely. The tin container industry should immediately be taken off the banned list and included amongst those engineering industries to which manufacturing licensing procedure does not apply. Only when this is done will growth of a vital range of consumer goods proceed in balance, and unfrustrated by a crippling shortage of packages.

CHANGE IN MANAGEMENT STRUCTURE

During the year under review the Company modified its organisation structure. Management is now split into three product divisions: Metal Operations covering tin box manufacture including Cans, Closures and Extruded Products; Non-Metal Operations making Flexible Packages, Plastics and Paper Products; and Engineering Operations comprising Machinery Building, Industrial Components and Defence Products. The main objective is to strengthen the general management and specialist attention available to diversifying product areas, thereby accelerating development and improving service to our customers; so that we may be poised to take full advantage of the future opportunities which will arise as raw materials become more freely available and the economy expands.

OPERATIONAL REPORTS

Metal Operations

Sales. Metal Operations' sales, representing the output of seven factories, increased by nearly 14%, a figure that would have been bettered had not tinplate supplies been restricted.

Tinplate and Blackplate. Insufficient tinplate imports were licensed to anticipate the shortage of Indian-produced tinplate which developed during the year due to inadequate and interrupted arrivals of block tin from abroad. Also due to raw materials not being made available on a scale sufficient to make existing electro-tinning capacity effective. As no impact of the Rourkela expansion programme can be expected earlier than the end of 1967, last year's problems are likely to persist unless more adequate short-term imports are planned. Such planning should obviously take into account the inevitable teething troubles that this major project is bound to experience. Almost immediately Rourkela's new mill comes on stream, increased quantities of blackplate should become available to tanners; also to fabricators anxious, now that steel has been decontrolled, to pursue the use on an increasing scale of blackplate as an invaluable long-term import substitute for tinplate for a number of end-uses. We begin this year with a greatly improved stock level because of purchases made possible, albeit at considerable premia, by the National Defence Remittance Scheme. Since these funds are no longer available, the required level of activity, as determined by our customers' needs, can be maintained only if the imports I have recommended are licensed urgently.

Cork. In the present year shortages will affect us in the production of Crown Corks and Roll Seal Closures, because of severe cuts in imports of cork granules of which there are no indigenous resources. We have been working towards the total replacement of cork by a synthetic lining compound which, though initially imported will eventually be produced in India. This compound is already being used in the regular production of our Crown Corks but, as with all new developments, a complete change-over will take time to achieve. It

is difficult to understand Government's reluctance, in the present context of more liberal licensing, to allow for this by permitting the import of cork granules which cost only a tiny fraction of the price of the bottles dependent on them for a secure seal.

Developments. The Bombay No. 2 Factory extension is on its way to completion. Congestion in the factory will thus be eased and productivity improved. The extension of the Madras Factory is now fully operational. On the West Coast, the new Cochin Factory on the outskirts of Ernakulam is nearly completed and machinery, including our existing plant at Fort Cochin, will shortly be installed there. The introduction of modern high-speed equipment is in progress at our Faridabad Factory. When completed, this will enable a large range of containers to be manufactured automatically and lead to improved quality standards. An extension has now been completed which will provide additional storage space and improve production planning and efficiency, and service to customers.

Non-Metal Operations

Sales. Non-Metal Operations ran almost to full capacity—though, on account of the difficult raw material situation, efficiency was lower than it should have been—and achieved a sales increase of nearly 17%, which is in line with the growth rate of this type of packaging the world over.

Raw Materials. Supplies of board and aluminium (including specifications used in the Metal Operations) began to deteriorate in the latter half of the year because of power cuts which may well recur. The Polyethylene supplies also declined at the end of the year because of a shortage of alcohol arising out of the poor monsoon. Permanent relief will only be forthcoming when the plant being set up to produce ethylene from naphtha comes on stream at the end of 1967. Meanwhile it seems certain that the drastic new excises on foil, and to a lesser extent on polyethylene, must inhibit the progress of the new products dependent on them that we have been developing so vigorously.

Developments. The year has been one of consolidation for our Paper Group in Bombay. The Bombay No. 3 site has been purchased at Trombay, and after it has been rehabilitated the operation will be moved there from Worli. The development of packaging systems has progressed satisfactorily; new products, introduced during the year, include a printed waxed carton for prawn exports. The extension of our Flexible Packaging Works at Calcutta No. 2, now in its final stages, will enable us to cater to the increasing demand for our products and to produce a wider variety of them, particularly laminates.

Kosmek. The entire Kosmek operation has now been transferred to the new premises at Bombay No. 3, but not without some dislocation of production. This, combined with intermittent raw material supplies and a shortage of manufacturing capacity, accounts for the loss incurred. Sales at Rs. 33.09 lakhs, whilst substantially below expectation, were none the less better than last year's. We expect the Company to make a rapid recovery in its new premises.

Engineering Operations

Sales. Although Machinery sales were consolidated and improved, a combination of factors adversely affected Industrial Components and Defence Products. We have not yet recovered from the effects of the absolute priority we have been giving to Defence orders, now greatly reduced. Because of the recession in engineering, it is taking a long time to recover or replace lost civilian business.

Raw Materials. The mild steel supply position is under control. Whilst Rourkela are over-booked and therefore erratic

with their shipments, import licences already in hand should enable us to meet our requirements for 1967/68.

Developments. At Calcutta No. 2 we are planning to build machines of increasing complexity.

Research

A major extension to the Research Department in Calcutta was completed to provide much needed additional laboratory space. With the introduction of the Paper and Board Laboratory, our Research Department's facilities now cover all aspects of the Company's business. A concentrated effort in the direction of import-substitution continues, with emphasis on developing end-uses for blackplate and manufacturing techniques for converting this material into containers.

TECHNICAL CONSULTANCY

Shareholders will be glad to know that the Technical Consultancy Agreement covering metal container and closure manufacture has been renewed. I should like to take this opportunity of expressing our appreciation of the very practical and helpful manner in which Metal Box, London, have implemented their part of this agreement. They are making an essential contribution to our adaptability to the rapidly changing technology of the world packaging scene. We are now hopeful of concluding an agreement with them covering Machinery Building. Towards the end of the year we had the pleasure of a comprehensive visit from Mr W. W. B. Dalzell, who is the Deputy Managing Director of The Metal Box Company Overseas Ltd and is in charge of their Technical Services Department. His advice contributed valuably to the solution of current problems, as did that from other Metal Box visitors.

EMPLOYEE RELATIONS

I am happy to record that, despite a sharp deterioration in labour relations in the State of West Bengal during the last months of the year, no untoward incident affected our operations. Comprehensive agreements were signed covering all employees in Bombay and the Daily Rated in Madras.

Bonus. In the last review mention was made of the dispute concerning bonus for 1964/65 which had been referred to Industrial Tribunals in Calcutta and Bombay. The former gave its award in July 1966, but the Supreme Court has admitted appeals both from the Company and the Unions. Meanwhile, a settlement on bonus for 1965/66 was arrived at with Unions throughout India on the basis of an 'on account' payment, subject to adjustment either way when the outcome of the appeal pending before the Supreme Court becomes known. An amicable settlement on bonus for 1966/67 should be possible on a similar basis.

Productivity and Safety. I am happy to report that two of our employees in Madras, Mr Thiruthuvan and Mr Syed Hameed, received the Shram Vir National Award (Class C) for their ingenious suggestions for increasing productivity and reducing accidents respectively. Our Accident Frequency Rate continues to show a downward trend. At the Calcutta No. 1 Factory a Safety Week was inaugurated by the West Bengal Labour Minister.

CONCLUSION

The year I have reported on was beset with formidable difficulties for management and I should like to thank them—and indeed all employees—for the vigorous and successful efforts they made to overcome them. The year ahead has more than ordinary challenges for the nation and for your Company. Much will depend on rainfall at the right time and places. Until he has a successful monsoon behind him, and the catchments fill and the water table rises, the Finance Minister will have little alternative but to mount a holding operation. Meanwhile, the demand for packaged consumer goods remains firm. A fair reading of present signs and portents is that, notwithstanding some raw material difficulties and possibly some changes in the pattern of consumer demand brought about principally by the drastic new excises, reasonable trading conditions for us should prevail.

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

GOVERNMENT OF INDIA

4½ PER CENT LOAN 1972 TO BE ISSUED AT RS. 100.00 PER CENT FOR AN AGGREGATE AMOUNT OF RS. 100 CRORES (NOMINAL) AND REPAYABLE AT PAR ON 15TH JULY, 1972.

5 PER CENT LOAN 1982 TO BE ISSUED AT RS. 100.00 PER CENT FOR AN AGGREGATE AMOUNT OF RS. 100 CRORES (NOMINAL) AND REPAYABLE AT PAR ON 15TH JULY, 1982.

5½ PER CENT LOAN 1992 TO BE ISSUED AT RS. 100.00 PER CENT FOR AN AGGREGATE AMOUNT OF RS. 150 CRORES (NOMINAL) AND REPAYABLE AT PAR ON 15TH JULY, 1992.

Subscriptions to the above loans will be received simultaneously and will be limited to a total of Rs. 350 crores (approximately). Subscriptions may be in the form of (i) cash/cheque or (ii) securities of the 3½ per cent National Plan Bonds—Third Series (3½ per cent 1967) or 3-3/4 per cent National Plan Bonds—Fourth Series (3½ per cent 1967) which will be accepted for conversion at par. Government reserve the right to retain subscriptions up to ten per cent in excess of the notified amounts.

If the total subscriptions received for a particular loan exceed the notified figure plus the amount of ten per cent retainable as aforesaid, partial allotment will be made in respect of the subscriptions received and the balance refunded in cash as soon as possible. A subscriber may, however, indicate his option to invest the amount, which would otherwise be due for refund, in the other loan/s in the form printed on the reverse of the application form.

Interest at the rate of 3½ per cent per annum on the National Plan Bonds—Third Series (3½ per cent 1967) and at 3-3/4 per cent on the National Plan Bonds—Fourth Series (3-3/4 per cent 1967) tendered for conversion will be paid up to and inclusive of 15th and 31st July, 1967, respectively at the time of issue of the new securities.

The new loans will bear interest from the 15th of July, 1967. Interest will be paid half-yearly on the 15th January and 15th July. Interest payable on the securities of all the three loans will be liable to tax under the Income-tax Act, 1961.

Subscription lists will open on the 15th of July, 1967 and close on 18th of July, 1967 or earlier without notice.

Applications for the new loans will be received at:—

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

(b) Branches of the subsidiary banks of the State Bank of India conducting Government treasury work; and

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

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

RECORDS AND STATISTICS

Diversion of Areas from Cotton to Foodgrains

THE STUDY Group, appointed by the Central Government to examine the feasibility of diverting areas from cotton to foodgrains in the context of the pressing need for achieving self-sufficiency in foodgrains by the end of the fourth five-year Plan, has come to the conclusion that diversion of areas from cotton to foodgrains is neither essential nor feasible for the fulfilment of the targets for production of foodgrains set under the fourth Plan. The Study Group consisted of Dr. S. R. Sen, Additional Secretary, Planning Commission, as chairman, and Dr S. M. Sikka, Agricultural Commissioner (Water Utilisation), as member and Mr Ram Saran, Additional Economic and Statistical Adviser, as member-secretary.

In its report recently submitted to the Government, the Study Group emphasised the need to step up the production of both foodgrains and cotton through adoption of intensive cultivation measures simultaneously. What was necessary was that fertilisers, improved seeds, particularly of high-yielding varieties, and other inputs could be made available to the cultivators in adequate quantities and at the appropriate time. In fact, production of both foodgrains and cotton can and should be stepped up without any rivalry whatsoever.

In making the study, the Group has taken into account a number of factors including the likely increase in total cropped area, both irrigated and unirrigated, in the fourth Plan, agronomic practices and crop rotations followed by the cultivators and the economic implications thereof. The Study Group has stated that in those areas where there is rotation between cotton and jowar, any attempt at reducing acreage under cotton would lead to monoculture of jowar which is not a sound agronomic practice. It appears that in a number of regions, cultivation of cotton has a comparative economic advantage over millets; in such regions it will be difficult to persuade the grower to transfer land from cotton to foodgrains. While it is to be expected that in certain unirrigated areas with assured rainfall, replacement of local varieties of millets by hybrids would yield greater gross income per hectare, even this will not make any material difference in the cropping pattern, as retention of cotton in the crop rotation is considered a sound agronomic practice. In some other regions, groundnut outbids not only millets but also cotton. The fact that in spite of this there has been no decrease in area under millets or cotton during recent years shows that agronomic considerations weigh heavily with the cultivator in deciding on the choice of the cropping pattern. In irrigated areas, double cropping of cotton

with foodgrains is expected to result in the increased production of both and not of one at the cost of the other. The introduction of double cropping would also lead to better and efficient utilisation of water.

In the context of the agronomic conditions which govern the cultivation of foodgrains and cotton, two possible measures that can be considered for securing a shift in area in favour of foodgrains are (i) crop regulation and (ii) provision of economic incentive. In this country, an experiment at crop regulation was made in 1944 when the then Government of Bombay passed the Growth of Food Crops Act requiring the cultivator to put a minimum prescribed proportion of the cultivated area of his holding under foodgrains and a maximum prescribed proportion of the area under cotton or tobacco. The implementation of this Act necessitated the adoption of irksome regulatory measures, which in turn led to various forms of malpractices. The scheme of crop regulation had, therefore, to be abandoned after two or three years of unsuccessful experiment. The Study Group has, therefore, stated that it would be extremely difficult to secure a compulsory reduction in area under cotton particularly in the present democratic set up of the country.

Economic Incentives

According to the Group, economic incentive would mainly provide for a shift in the relative price structure either through a considerable increase in the prices of foodgrains or a substantial reduction in the prices of cotton and groundnut. Neither of these would seem feasible in the present situation. The prices at which the Government buys foodgrains have been raised considerably and they are now substantially higher than the world parity level so far as wheat is concerned. Any increase in the prices of foodgrains would have a considerable bearing on cost of living in general. The rise in the cost of production in recent years and the need for maintaining a reasonable relationship between the prices of Indian cottons and those of foreign cottons (which have become costlier by about 20 per cent since the devaluation relatively to comparable varieties of Indian cottons) precludes the possibility of reduction in the prices of cotton within the country.

Economic incentive could also take the form of giving a subsidy to cultivators on the transfer of land from cotton to foodgrains. The implementation of such a measure will present serious administrative problems in view of the very large number of small holdings involved.

The Study Group has also expressed the view that the country would be a net loser in foreign exchange if area under cotton in different states is diverted to foodgrains. Another

YIELD PER HECTARE OF COTTON, GROUNDNUT AND FOODGRAINS—ALL INDIA

	(Kgs.)							
Year	Cotton (Lint)	Groundnut	Rice	Jowar	Bajra	Maize	Wheat	All Food-grains
1955-56	90	742	908	387	305	845	717	626
1956-57	107	778	936	451	256	983	703	650
1957-58	105	725	821	499	324	927	683	607
1958-59	104	807	966	504	339	883	789	685
1959-60	86	708	937	484	327	938	772	662
1960-61	125	745	1,013	533	286	926	851	710
1961-62	103	725	1,028	440	323	957	890	705
1962-63	122	702	914	534	360	994	793	676
1963-64	121	766	1,036	509	346	993	731	690
1964-65	123	816	1,073	543	380	1,009	913	757
1965-66	108	561	874	436	315	989	838	647

effect of such diversion would be that the capacity of the existing ginning and pressing factories would remain idle to the extent there is a shortfall in the supply of unginned cotton. This, in turn, would result in reduced employment and fall in production of cotton seed oil and cotton seed cake. Moreover, increased imports of cotton will be a retrograde step in the context of sustained efforts that have been made since Independence for augmenting the production of superior cotton required by over 600 textile mills in the country.

In its report, the Study Group has also made an analysis of the growth of land use for foodgrains and cotton in recent years. Such an analysis shows while the area under foodgrains in the country has shown some increase, that under cotton has remained more or less stationery around eight million hectares. Among foodgrains, area under rice and maize has recorded an upward trend but that under wheat, jowar and bajra has remained more or less steady. Groundnut which is also grown in most of the cotton growing tracts has registered an increase in acreage in recent years.

The above position also holds good for most of the cotton producing states. However, there has been no uniform trend for all the states. Thus, there has been an increase in area under cotton, wheat, jowar and bajra in some of the states even though for the country as a whole, there has been no increase in the total area under these crops. The increase in area under cotton or foodgrains in several states has been the direct result of extension of irrigation facilities and increase in intensity of cropping on existing irrigated lands.

Production Up

Production of almost all the important foodgrains, cotton and groundnut has gone up over the last decade. The rise in production reflects increase in area in the case of groundnut, in productivity in the case of cotton, wheat, jowar and bajra and in both area and productivity in the case of rice and maize. In the fourth Plan period (1966-67 to 1970-71) production of both foodgrains and cotton is proposed to be increased mainly through intensive methods of cultivation rather than through inter-crop shifts in area. Compared to 1964-65, total area in 1970-71 under foodgrains is expected to go up by about four million hectares while that under cotton is not likely to show any increase. The irrigated area under both foodgrains and cotton is, however, expected to show some increase, due partly to provision of additional irrigation facilities and partly to extension of multiple cropping. Considering the likely increase in total irrigated area and the rotational practices and multiple cropping systems adopted by cultivators, the Study Group considers the acreage under foodgrains and cotton envisaged for the fourth Plan to be realistic.

CHANGE IN FOREIGN EXCHANGE POSITION CONSEQUENT ON DIVERSION OF ONE HECTARE OF LAND FROM COTTON TO FOODGRAINS

(In Rs.)

State	Foreign exchange necessary for importing cotton lost by diverting one hectare of land from cotton to jowar	Foreign exchange saved by reducing import of jowar (milo) consequent on diversion of one hectare of land from cotton to jowar	Net gain (+) or loss (-) by diverting one hectare of land from cotton to jowar
Maharashtra	390	230	-160
Gujarat	825	140	-685
Punjab*	1590	875	-715
Mysore	315	225	-90
Madhya Pradesh	410	335	-75
Madras	1010	340	-670
Andhra Pradesh	350	235	-115

*For Punjab the substitute foodgrain considered is maize instead of jowar.



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