EASTERN ECONOMIST

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The Prime Minister's explanation of the food supply position satisfied the Bengal Ministers.

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EASTERN ECONOMIST

SEPTEMBER 1, 1967

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Wanted: Action, Not Rhetoric

BRUSSELS:

WITH THE United Nations Conference on Trade and Development (UNCTAD) to meet in February-March, 1968, in New Delhi, its permanent secretariat at the Palis des Nations in Geneva has completed processing the reports of expert bodies in the light of which the 55-member Trade and Development Board, now in session in Geneva, will draft the agenda for the consideration of the 131 member countries of the UNCTAD assembling in the Indian capital.

The Trade and Development Board, which has gone to work from August 15, is expected to sit till September 8 for framing the issues for the New Delhi conference. While the conference itself will be the final judge of what may go on its agenda, the main issues are clear enough, not only in their outline but also in their broad contents. Foremost among them is the problem of expanding the international trade in commodities, the earnings from the exports of which are of substantial significance to developing countries, along with the specific issue of working out international agreements for preventing violent fluctuations in the prices of these commodities and ensuring remunerative returns to producers. Although the UNCTAD had started well in this field with a Tin Agreement negotiated by the first commodity conference held after its establishment, hopes of further quick progress extending this principle of international economic co-operation to the world trade in other commodities have so far been belied despite the patient and persistent efforts at persuasion which have been going on at different levels of international consultation, not least under the auspices of the UNCTAD.

The question now is whether the evolution of an international commodity policy will receive the sustenance it so sorely needs in the form of concrete action, i.e., new international agreements on one or more commodities, put down in black and white. The answer, fortunately, could be moderately encouraging. In fact, the Secretary-General of UNCTAD, Dr Raul Prebisch, addressing the Trade and Development Board on August 16, not only emphasized the importance and urgency of early results, but also indicated that the time was ripe for the successful termination of the prolonged negotiations—and hard bargaining—that had been going on for an agreement on cocoa. Currently, the hope in Geneva is that a formal—and positive—announcement will be made at the New Delhi conference.

Prospects of a similar agreement on sugar between now and New Delhi appear rather less likely but, even here, it is claimed that considerable progress has been made in negotiations under the auspices of the UNCTAD in co-operation with the International Sugar Council since the abortive United Nations Sugar Conference held in September-October, 1965.

From the point of view of our country, these trends in the growth of an international commodity policy are chiefly of interest as indicative of the broadening of a conscious international effort at coming to grips with the initial issues of the widening gulf between the 'have' and the 'have-not' nations. To what extent they will be enabled to proceed is a matter of even more practical interest. For instance, how good are the prospects for an international agreement on tea or jute goods, the export earnings from which need to be protected both from the ravages of unhealthy competition among producers and the consequences of the increasing scope provided to importing countries to exploit this weakness?

It must be conceded, of course, that the missing quantity here is not enlightened economic wisdom on the larger international plane, but the narrower limitation of producing countries being unable or unwilling to come together in defence or promotion of their common interest. Not until Ceylon

and India are able to arrive at a common understanding, however general, on tea or India and Pakistan on jute goods will it be fair or reasonable to expect multilateral opinion or effort in favour of international agreement to be activated, but judging from the prevailing mood which the UNCTAD is attempting to encourage further in the area of international economic co-operation, there is no reason not to hope that a move on the part of the main producing countries to ensure to themselves fair prices or stable or expanding markets for tea or jute goods will meet with a constructive (but certainly not philanthropic) response from those towards whom it may be directed.

It remains to be seen whether the countries that stand to benefit from such an exercise will make good use of the opportunities that may be available at the New Delhi conference. But it is certainly clear enough that mere rhetoric about the outrage of the rich nations growing richer while the poor nations are becoming poorer is not going to help any. It is surely for the poor nations to show here and now that they care for or trust one another enough to be able to organize among themselves the minimum but basic co-operation clearly needed to set in motion and in fact compel the impulses of a wider inter-

Why Different Borrowing Rates for Gilt-edgeds?

CONTRARY TO the expectations raised by the borrowing policy of the central government for this year, the terms of the loans that will be raised by fifteen state governments, announced recently, have given rise to a feeling that the monetary authorities are trying to impose themselves on 'weak' borrowers and create a privileged status for the centre. For the first time in living memory, different approaches have been adopted for fashioning the terms of the central and state government loans. The choice between three central loans, short, medium and long-dated, on a more favourable basis for the borrower, gave rise to the impression that the Reserve Bank was trying to beat a retreat from dear money. This feeling was confirmed when subsequently the buying rates for several loans were raised and the Reserve Bank encouraged switches into the newly issued medium and long-dated loans though Mr L. K. Jha, the new Governor of the central banking institution, later stated that there was no move towards a lowering of interest rates and what was attempted was only a livening up of the gilt-edged market.

In his recent address to Bombay bankers at a dinner meeting, Mr Jha emphatically stated (see the following article: Recourse Vs Resource) that there was no intention of reducing interest rates and that such a move would be harmful to the banking system because of the likelihood of a diversion of funds to non-banking companies. He was apparently overlooking the fact, or thought the bankers were gullible, that if there was also a decline in lending rates, the non-banking companies would not continue to compete by offering high deposit rates. There is still no evidence to suggest that the upward adjustments in interest rates effected early in 1965 have been responsible for the emergence of a new trend. Indeed, for the first time since 1957, the additions to deposits in 1967 are likely to be lower than those for the previous year, even allowing for an inflation in the total of last year on account of devaluation. This is not to suggest that bank deposits do not respond to the stimulus of higher interest rates. But the growth is dependent mainly on a vigorous development of the economy and the capacity for saving. Whatever might be the controversy about the role of higher interest rates on the growth of deposits, leading bankers are seriously divided in their

Eastern Economist 20 Years Ago

AUGUST 29, 1947

Public interest in India in the terms of the interim settlement in respect of sterling balances was simply overshadowed by the fear of inconvertibility of the released sterling which would have completely nullified the agreement. It was therefore with more than ordinary relief that the assembled pressmen heard the announcement from the Finance Minister last Friday that the Dalton broadcast, temporarily suspending the right of free convertibility into dollars of sterling held by the various countries, had no application to India. That is as it should be. For, whatever justification there was for Britain to break her word with a number of countries by a sudden BBC announcement, and irrespectively of any decision to give special treatment to the countries in the sterling area there would have been no excuse for imposing non-convertibility upon the sterling released under the Indo-British agreement because on the date that it was signed, namely, August 14, the British dollar crisis was well under way and Britain was fully conscious of the magnitude of her problem. Nevertheless, the exception that has been made in respect of India has not only eased the tension which had been accumulating, but has put Indo-British relationship on a fresh friendly basis.

opinions on this subject, and the latest move of the Reserve Bank has given rise to several posers.

The net borrowing of the state governments will be the smallest in recent years. The gross amount borrowed will, of course, be fairly large at Rs 114.50 crores because eight state governments have maturing loans for over Rs 51 crores. Fifteen state governments are in the field, including Haryana, the new entrant. The loans carry interest at 5¾ per cent against 5½ per cent on the last occasion but mature, as before, after 12 years. Even with a higher rate of interest, the issue prices have been lowered in all cases, except Maharashtra and Gujarat which have an unchanged issue price of Rs 99. But no loan, as in 1966, is being offered at par. The net amount borrowed will, therefore, be only Rs 63 crores against Rs 96 crores formerly. There is obviously a fear that all the holders of the maturing loans may not take advantage of the conversion terms. If, however, the holders are institutions they are likely to take advantage of the opportunity for increasing their investment income. There may not thus be serious difficulty in making a success of the new loans especially as their sizes have been limited.

All the governments, except Gujarat and Kerala, will be raising smaller net amounts. West Bengal will be raising only a small net amount as, against its notified amount of eight crores of rupees, there is a maturing loan of Rs 7.59 crores. There are seven other governments which have maturing loans and which are necessarily obliged to raise much smaller net amounts than in 1966. Thus, Maharashtra is asking for Rs 20 crores, the largest loan among the fifteen states, but there are maturing loans for Rs 12.86 crores. Madras comes next in importance with a notified amount of Rs 17 crores. There is, however, a loan for redemption outstanding to the extent of Rs 10.47 crores. Andhra Pradesh will be raising Rs 10 crores but will also be repaying Rs 5 crores. Bihar has asked for Rs 5 crores and will have to pay out Rs 1.54 crores. Madhya Pradesh for Rs 5.50 crores against a maturing loan of Rs 1.63 crores, Mysore for Rs 6.50 crores against a maturing loan of Rs 3.55 crores, and Uttar Pradesh for Rs 12 crores against a maturing loan of Rs 8.62 crores. The remaining seven governments have no loans which are due to be redeemed. In their cases, full advantage will be derived out of the amounts raised. Assam has come on the market for mobilising Rs 2.50 crores, Gujarat Rs 10 crores, Haryana Rs 2.75 crores, Kerala Rs 4.50 crores, Orissa Rs 4 crores, Punjab Rs 3 crores and Rajasthan Rs 4 crores.

Having regard to the conditions prevailing in the money market and the relatively smaller net amount that is proposed to be raised, the borrowing programme of the state governments may prove to be a better success this year than on earlier occasions and it may not be necessary to harass individual investors in the rural areas. This will also be helpful in preventing the emergence of a big discount for the state loans immediately after the lists are closed. Forced subscriptions in the past have been responsible for the wide divergence between the issue and market prices of the loans concerned and it was not seriously realised at any stage that the creditworthiness of the states was unnecessarily lowered by this anomalous situation. Also, credit institutions particularly were none too eager to subscribe directly to the new loans. Their purchases of these loans were always directly effected from the open market, on a cheaper basis, and individual "investors" have been penalised in the process.

While a repetition of the happenings of the past few years may be avoided this year by reduced net borrowing, it is very doubtful whether individual investors will elect to place their funds in a 12-year loan even though the redemption yield is as much as six per cent in some cases. When fixed deposits for even one year are affording a return of six per cent and there are other remunerative channels of investment, the discerning investor may not elect to employ his funds in gilt-edged securities especially if he has to wait for nearly the whole of the term for avoiding a capital loss. Since it will take quite some time for individual investors to take interest in gilt-edged securities, and support for the borrowing programme of the central and state governments will continue to be mainly from the organised credit sector under compulsion, the states may well ask why the central government should be accorded a privileged status and why there should not be an agreed apportionment of the investible resources of banks, insurance companies, provident funds, trusts and other organisations. Between the scheduled banks and the Life Insurance Corporation alone about Rs 150 crores will have to be invested in government securities annually while other institutions may account for roughly Rs 75 crores. If the net

"Anything you do I can do better"

borrowing of the central and state governments, the state electricity boards and other public bodies can be confined to about Rs 225 crores annually, the liquidity of all classes of gilt-edged securities can be assured and the anomalous differences in borrowing rates eliminated. Will there be a disposition on the part of the monetary authorities to examine the whole question of public borrowing in the light of above posers for making it less difficult for the state governments and public bodies to raise their requirements on a reasonable basis?

Recourse Vs Resource

MR L. K. Jha, Governor, Reserve Bank of India, did amply repay the hospitality of Bombay bankers on their Fourteenth Anniversary Dinner. Not only did he pose the problems confronting them today but he also analysed them neatly, offered practicable solutions and put the bankers at their ease generally by assuring them that they could count on the support and co-operation of the Reserve Bank. At the same time, he reminded them that "Reserve Bank credit is in the nature of a recourse rather than a resource". Mr Jha also made it clear that banks could not lower the rates of interest on their deposits except at the risk of losing these to the non-banking sector, thereby providing them with a further justification—not that this was necessary at all—for their new agreement on service charges due to become effective shortly.

As indicative of the thinking of the new Reserve Bank Governor, what Mr Jha said on the occasion about the problems that confront us today and the manner in which he feels these could be tackled, is worth recapitulating here. His first observation was that our economy has, for quite some time, been afflicted by all manner of shortages—of food, clothing, shelter, raw materials and spares, foreign exchange, etc.—topped now by a shortage also of demand, and that all these shortages are "the manifestations of a fundamental shortage which torments all developing countries, namely the shortage of capital". What is this due to? To put the answer in Mr Jha's own words, "capital formation depends upon the level of savings in the community. In a country where the bulk of the people live below the subsistence level, the flow of savings is meagre; and since savings are essential to growth and to the attainment of higher standards of living, the developing countries of the world are caught in a vicious circle of low incomes preventing an increase in savings and low savings preventing an increase in incomes".

It is known that a low level of savings acts as a drag on development but in certain circumstances this may not be evident, as, for example, in our own case. Thanks to deficit financing and the considerable monetary expansion it has engendered, money incomes have gone on rising and so have bank deposits, but with the decision of the governments, both at the centre and in the states, to do away with deficit financing—how far they will be able to stick to their determination remains to be seen—this will not continue any more. While this is to be welcomed in one sense, i.e., as a counter-inflationary measure, it must be recognised that implementation of the decision is already proving to be something like a sweetening agent that leaves behind a bitter taste in the mouth. Certain problems of adjustment have therefore necessarily arisen, and Mr Jha did well to outline the solutions to these problems, both short-term and long-term, from a banker's angle.

Remarking that "we have to ensure that the savings of the community, small as they are, are diverted into channels where they would be most productive", the Reserve Bank Governor urged bankers to see to it that "credit flows into those sectors of the economy which will produce the goods and the services that people want most and which will provide the basis for growth and development". In other words, he wanted bankers to concentrate on the priority sectors. And, by doing this, he recognised that credit available to the other sectors would not only be less but also tight, a point on which he did not appear to have made up his mind at the time of his first confrontation with pressmen. It is heartening to know he is also aware that the resources with the bankers are not only not very large but that they are not growing fast enough. Mr Jha is conscious too of the likely rise in the demand for credit in the coming busy season, what with the expectations of a good crop and

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE

A STATISTICAL BIRD'S-EYE VIEW

This effort at the statistical presentation of India's progress since Independence in the main directions of social and economic evolution was first undertaken in April, 1963. The present publication, which is the third edition, has benefited from the experience gained of readers' reactions to the earlier editions. Although an attempt has been made naturally not only to bring the statistics up-to-date but also to revise the contents in order to make them more interesting and informative, we have found it profitable to stick to the original idea of maintaining a combination of comprehensiveness in outline and selectivity in detail. This volume is not by any means intended to be even a summary of the nation's progress in the last 20 years. Its aim simply is to indicate broad trends and developments in a statistical form.

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a higher industrial production the recent rains seem to have vouchsafed for us.

Whatever credit expansion the Reserve Bank will permit itself will be just to keep pace with this growth in production, we are told. Mr Jha was clear—and quite rightly—that credit inflation could have the same disastrous effect on the price situation as budgetary inflation. It does not seem as though he was equally clear that there would be no more budgetary inflation, to judge from the cautious proviso he deliberately employed whilst extending the Reserve Bank's help to bankers. Said Mr Jha: "If budgetary deficits are eliminated then .... the Reserve Bank can help the banking system in meeting the requirements of credit to sustain and strengthen the rising trend in production". This perhaps explains his exhortation to bankers to meet the needs of the priority sectors out of their own resources to as large an extent as possible, as also his stress on the need for the Reserve Bank to take care of not only the volume of credit but also the direction of the flow of credit. There is at once a negative and a positive aspect to this approach to credit control by the Reserve Bank, viz of "not merely preventing the misuse of credit for speculation and hoarding but of guidance to see that the priority sectors are not starved". It is not surprising, therefore, that the Reserve Bank Governor pleaded for the closest co-operation—"joint thinking"—between the Reserve Bank and the banking system in having some kind of a blueprint for the most effective use of credit for the progress of the economy. He said: "Towards this end I seek your co-operation and offer you mine." So much for the short-term.

What is Mr Jha's long-term strategy? Whilst disclosing this, it is significant, he prefaced it by drawing attention to the already slow rate of growth in deposits and the prospect of it slackening further with the discontinuance of deficit financing. A vigorous policy of opening branches in the semi-rural and rural areas, according to him, should greatly help in attracting additional deposits. In this connection, he wondered whether the view that opening branches in rural areas is not economic was really sound, especially as, unlike hitherto, opportunities for lending in rural areas have grown tremendously with the reorientation of the agricultural strategy, as also the change in banking outlook, official and non-official, towards agricultural credit. However, it is not enough if there are increased opportunities. Equally important is the availability of properly trained personnel with some knowledge of agricultural operations and, above all, abundant understanding of the way the rural folk react to given situations. Mr Jha was quite right when he said "the average farmer has as little faith in the creditworthiness of a bank as the average banker has in the creditworthiness of a farmer". The ubiquitous rural moneylender—who is banker, merchant and counsellor all rolled into one—still has an edge over the modern banker. He is not inhibited by all the rules and codes of banking. If only because of this, it is still worth drawing the village moneylender into the fold and slowly initiating him into the new way. Meanwhile, Mr Jha's advice to bankers to go slow with further establishment of branches in the larger cities and to avoid opening too many banks too close to each other in rural areas, as also to let a bank which has pioneered in a particular rural area to consolidate itself first, seems quite sensible. Here, again, there is need, as he noted, for a co-ordinated programme to be evolved by bankers.

His reference to the need for bankers to co-operate with the government in improving and stabilising the prices of state government loans so as to establish a proper inter-relationship in the quotations for various loans in the gilt-edged market and his ruling out the prospects of a lowering of interest rates were probably intended to create a feeling in the minds of the public that the Reserve Bank's recent selective cheapening of credit as, for instance, in regard to exports, is not as yet an earnest of things to come, but, to quote Mr Jha himself, "no one can be dogmatic on the subject" all the same.

Markets at Doorstep

IN A recent report to the Government of India, the High Commission of India in Colombo revealed how China had wrested from us the status of the second largest supplier of goods to Ceylon. Traditionally the United Kingdom has been the largest supplier to Ceylon and we have held the second position. Now China has relegated us to the third place. Total imports from the UK into Ceylon rose from Rs 72.3 million in the first quarter of 1966 to Rs 80.9 million in the corresponding period of 1967 while imports from China improved from Rs 43.1 million to Rs 54.1 million. Imports from this country in this period fell from Rs 36.6 million to Rs 34.6 million. Ceylon's foreign exchange difficulties are partly responsible for the set-back to our exports but our inability to offer goods at competitive prices has also been a major factor. For instance, there is now in Ceylon a large and increasing demand for machine tools such as lathes, shaping machines, planing machines and drilling machines but our prices are considered to be high. In the first quarter of 1967, Ceylon imported machine tools valued at Rs 766,149 but there was no import from this country. The import was mainly from the UK, valued at Rs 613,615, the other suppliers being Italy, the USSR, the USA and Sweden. The prices of our lathes are said to be nearly Rs 4,000 above similar products from Europe.

In many other neighbouring countries also, our goods have not made much headway due to one reason or the other. The Indian Chamber of Commerce, Calcutta, in a recent study, has shown that in the first eight months of 1966, our share was 2.1 per cent in the total imports of Malaysia, 0.5 per cent in Hongkong and 0.7 per cent in Thailand. Our share in Australia's imports was 1.2 per cent in 1965-66. In very few items this country appears as the leading supplier. For example, in the first six months of 1966, Malaysia imported 13,017 electric ceiling fans. The largest supplier was Hongkong accounting for 5,201, our share being 3,187. Thailand imported 365,761 kgs. of toilet

soap in 1965, of which the largest suppliers were the UK and the USA, accounting for 109,269 kgs and 68,939 kgs respectively. This country supplied only 7,427 kgs. In the import of cycle tyres into Thailand, our share in 1965 was negligible. The number of cycle tyres imported from our country was 50,000 compared with 885,000 from Japan and 112,000 from Taiwan.

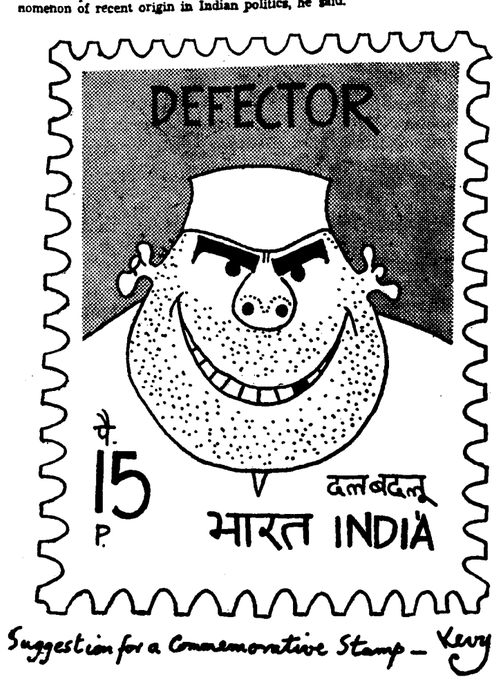
How have our goods fared in Hongkong? Our performance in this market is particularly significant in view of the acute competition that our goods have to face from all parts of the world. As the British Board of Trade Journal says, "Competition is the key word in Hongkong. The colony is a free port with virtually no customs duties, import controls or quotas. In the import market, therefore, there is no built-in preference for any favoured nation. Instead, all the goods of the world can and do compete in the Hongkong market on level terms. In Hongkong's export business also competition is allowed free rein. The colony's status as a free port means that it has no bargaining power to influence its customers to give preference to Hongkong's goods. Its products must sell purely on their own qualities and the service that backs them up."

Some of our goods such as dried salted fish, cashewnuts, cotton waste, cotton yarn and jute goods seem to be doing well in Hongkong but the performance of our non-traditional goods is not satisfactory. For instance, out of 3.2 million lbs of biscuits imported into Hongkong in the first eight months of 1966, India's share was only 7,000 lbs. The major supplier was China as its exports were as high as 2.1 million lbs. The UK, Denmark and the USA were the other main suppliers. Hongkong imported in the same period 77.7 million blades of which the shares of the UK and the USA were 57 million and 7 million, respectively. This country supplied only 850,000 blades.

Apart from uncompetitive prices, the failure to publicise our goods effectively is also responsible for our small share in the import trade of neighbouring countries. For example, our tea has not been able to capture the Australian market because of inadequate publicity. An official trade delegation which visited Australia in 1966 pointed out that "we still use some of the charts and posters prepared by the Central Tea Board 15 years ago, mostly for internal market"; and added that "the present supply of films and publicity material is also a few years old and some of them have not been accepted by the local television stations, being technically imperfect." No wonder, then, that in 1965-66, when Australia imported 67.3 million lbs of tea, the import from this country was only 10.5 million lbs while the share of Ceylon was 38.6 million lbs. Even Indonesia supplied nearly 13 million lbs. The failure to supply goods according to the requirements of the consumer is another cause of our inability to step up our exports. An official market survey recently disclosed that, in the case of cotton textiles, the length of pieces supplied by this country fell short of the requirements of the Australian market in respect of almost all types of fabrics. Moreover, the colours used by us for dyed, coloured and printed fabrics were considered unsuitable for Australian tastes.

These instances show how we have failed to avail ourselves of export opportunities in the neighbouring markets. The trade statistics of these countries show a large volume and variety of goods being imported from various parts of the world. If these statistics are properly analysed, it will be seen that there is great scope indeed for our country to step up the export of both traditional and non-traditional items. Recently, these countries have also shown considerable interest in setting up joint ventures. In Thailand, it is stated, there is scope for joint ventures in many fields such as plastics, paper board, paints, bicycles, fertilizers, sheet glass, food processing and agricultural equipment. The Indian High Commission in Kuala Lumpur has stated that Malaysia is keen to set up joint ventures for the manufacture of electrical equipment, rubber goods, bakery products, industrial chemicals, pharmaceuticals, hardware and non-metallic mineral products. There are no currency restrictions in Malaysia and the government guarantees repatriation of capital and profit. Foreign investors are also given tariff protection and income-tax relief. We therefore should give immediate attention to the development of these markets at our doorstep.

New Delhi, Aug. 24 (UNI)—Dr Ram Subhag Singh, Parliamentary Affairs Minister, today expressed himself strongly against "a legal ban" on defections. Defections were not quite unusual in a democracy, nor was this phenomenon of recent origin in Indian politics, he said.



Suggestion for a Commemorative Stamp — Kevy

Has the Tide Turned?

PAUL EINZIG

MID-AUGUST of 1967 seemed to be a lucky period for Britain. The foreign trade figures for July showed a marked improvement compared with the two previous months. The balance of payments figures for the second quarter were also better, allowing for capital items, than had been expected. The production index showed an increase of one point, while the cost of living index showed a decline of 0.7 point. The Trade Unions Congress refused to endorse wage demands by 30 unions on the ground that they run against the government's incomes policy. On the face of it things were becoming distinctly better. Following on its persistent weakness during the first half of the month, sterling became distinctly firmer.

Has the tide turned at long last? Unfortunately it would be reckless optimism to assume it. While it was gratifying that a spell of fair weather should relieve the gloom, it would be a great mistake to assume that sterling is out of the wood.

The small export surplus during July was largely due to the decline of imports as a result of delayed oil deliveries resulting from the blocking of the Suez Canal. Moreover, the figures did not of course indicate the fact that the replacement of Middle East oil by oil from other sources means that many millions of pounds which have hitherto been paid in sterling had to be paid in foreign currencies. That alone was presumably sufficient to wipe out the theoretical export surplus for July several times over. This factor will continue to operate until a settlement is reached with the Arab countries, and the outlook for such a settlement does not appear to be very good.

Seasonal Decline

The rise in the production index still leaves it below the corresponding figure for July 1967, so that evidently production is still stagnant. Nor are the chances for an increase very favourable. Trade unions refuse productivity agreement unless they first obtain unconditional wage increases. The moderate increase in unemployment has further stimulated go-slow and restrictive practices in order to safeguard the jobs.

The decline in the cost of living index is purely seasonal and is due to cheaper food prices in the summer. It seems certain that prices will rise in autumn in spite of the efforts of the Prices and Incomes Board and the government to halt their rise.

Although the refusal by the TUC to authorise wage increases to a number of industries was a noble gesture, it remains to be seen how effective it will be. The trade unions are in a position to disregard the ruling and the chances are that the majority of them will do so. If not, there will be unofficial strikes.

In spite of all this, the relief obtained from the apparent improvements was decidedly gratifying. Even if the extent of the real improvement was negligible, the fact that indices moved in the right direction, however slightly, was something to be grateful for. Had the July trade figures been as bad as those of June, we would be in the middle of another sterling crisis by now. As it was, sterling improved to above 2.78½ toward the middle of August, which was a relief because its approach to the minimum support point of 2.78 was beginning to cause concern.

What matters is that the government should not lose its head at the sight of the microscopic improvement. It is tempting to exploit the favourable change for propaganda purposes and to try to convey the impression that the tide has turned. All the more so as it is obviously to the government's interest to create a good atmosphere on the eve of the annual meeting of the International Monetary Fund at Rio de Janeiro at the end of September. If only foreign banks could be made to believe that the tide has turned, as they were made to believe it early this year, the return of foreign funds to London would produce once more a spectacular demand for sterling, and the British delegates at Rio could look their colleagues in the face. They could then negotiate out of strength and maintain that Britain is in favour of an immediate creation of additional international liquid resources, not for the sake of meeting her own difficulties, but on general ground, because of the inadequacy of the world's monetary stock of gold and of convertible currency holdings of central banks.

The other side of the picture is that official optimism would be taken at its face value by the trade unions whose wage demands would then be stepped up accordingly. As it is, the favourable trade figures of a single month are certain to induce many trade unions to adopt a more uncompromising attitude. This in spite of the possibility, indeed the probability, that the small export surplus for July was a freak result which did not indicate a change in the basic trend. After all, the reflationary measures adopted in recent months have yet to produce their effects on imports and exports.

Short-Sighted Step

It would be short-sighted in the extreme if the government encouraged unwarranted optimism about the significance of the small improvement. The result would be an increased pressure in favour of more reflation which the country's economy could not afford at present. Indeed it seems that reflation has already proceeded too far, judging by the increasingly trigger-happy attitude of trade unions and the increasing number of wildcat strikes. Even though there is a possibility of a seasonal increase in unemployment—a maximum of 750,000 is now freely forecast against the favourite forecast of a million last year—judging by the attitude of the trade unions the present extent of unemployment is still far from sufficient to bring them to their senses.

Inflationists triumphantly point out that the deflationary steps adopted by the government a year ago have failed to cure the balance of payments. They conclude that a reduction in domestic demand is no cure for trade deficit because the lower domestic demand means a smaller output and a higher cost of production per unit. In reality the proof of the pudding is usually in its eating. It would be easy to quote scores of instances in which deflation was followed by an improvement of the trade balance. The reason why this has not been so in Britain in 1967 is that there has not been sufficient deflation, and that there has been too much certainty on the part of the unions that the policy would be reversed in the very near future. The fact that British deflation concided with deflation in a number of other countries is also an explanation. Anyhow, it would be a grave mistake to write off deflation as the remedy of trade deficits.

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Foreign Aid in India's Development—II

MANUBHAI SHAH

LAST WEEK we dealt with the role that foreign assistance has played in the economic growth of developing countries with special reference to our country. The world consciousness on mutual assistance and international inter-dependence is of recent origin, barely 20 years old. In the last two decades, especially since the coming into being of the United Nations, international co-operation has been one of the main themes of the world community. During this period much thought has been given to the vital subjects of foreign assistance and international co-operation. However, a stage has now been reached when the approach to foreign assistance needs to be radically altered if foreign aid is not to make the aid-receiving countries groan under the burden of huge debts and distort their economies due to the obligation of meeting heavy repayments.

Let us therefore examine the modes of external assistance and the relative merits of the different methods and procedures of payment.

It has been found that aid tied both to the country and to the specific projects tends to push up the cost of equipment or material, in some cases up to and even more than 30 per cent. The increase in cost is partly the result of some countries being costlier than others. Also, in the absence of global competition (competition is possible only when goods are purchased on free foreign exchange or on World Bank loan or on IDA credit) the same firm which quotes a lower price in competitive bidding, pushes its prices up if the purchase is against the credit from its country. As a consequence, the true value of a bilateral loan is reduced to 70 per cent or even less. The developing country, on the other hand, is required to repay the loans and interest payments in freely convertible currency. In this context it is of interest to note that 83 per cent of the Marshall Plan aid was untied; it financed the purchase of raw materials and some finished products such as food, fertilisers and fuel. No doubt, in the natural course, 70 per cent of Marshall Plan purchases were made in the USA, on a competitive basis while the balance was purchased elsewhere against US dollars. In the case of our country, 76 per cent of foreign aid received by us was in tied loans and only 24 per cent was in the form of untied credit.

Curbs on Choice

Commenting on the effect of tied-aid, the OECD Report 'Development Assistance Efforts and Policies 1965 Review' observed that, "in many cases assistance tying reduces the freedom of recipients to choose the most appropriate quality at the lowest price; it may be harmful by causing delay in the execution of projects and by distorting the priorities of a development programme, since imports of a lower priority may have to be accepted because they can be readily supplied by the providing country; it may cause disruption and expense through the changeover to a less economic source of supply. In addition, it must be recognised that widespread assistance tying tends to distort optimum trade patterns and to influence countries in the direction of restrictive trade practices" (p. 91).

Our constant plea for greater non-project assistance has evoked some response from aid-givers. For instance, non-project aid as a proportion of total aid extended by the Aid India Consortium rose from 33 per cent at the beginning of the third Plan to about 49 per cent in 1964-65. While most of the consortium countries appreciate that our need for non-project aid has been growing, the inclusion of industrial and agricultural raw materials, compohents and sub-assemblies in non-project aid has not evoked any enthusiastic response. A logical step in this direction is to treat the entire development programme as a project and to extend assistance on this basis; this point of view has still to gain the acceptance of aid-givers. This aspect of aid received by us has to be continuously presented to the aid-givers, if the aid that we receive in future is not to be made excessively costly and burdensome.

Need for Softer Terms

During the first five-year Plan period and early years of the second Plan, assistance was given to this country largely on hard, commercial terms. After the foreign exchange crisis of 1957-58, this country has been actively seeking, with some degree of success, assistance on soft terms. Some consortium countries have liberalised the terms of their aid by lengthening the repayment period, reducing the rate of interest and/or increasing the 'grace' period. Thus, the portion of loans in our outstanding external debt with interest rates of 5 per cent or more, came down from 63 per cent as on September 30, 1960 to about 50 per cent on August 31, 1965. There is a great need for further softening the terms of aid. The growing burden of debt servicing charges has highlighted the necessity of softening the terms on which aid is given to us by the developed countries. As noted earlier, some recognition of this is already there and this country has been able to obtain loans of longer maturities and with lower interest charges. For instance, while only 5 per cent of the loans received during the second Plan were of the duration of 24 years and more, such loans amounted to 49 per cent of the loans received during the third Plan up to the end of August, 1965. The softening in the terms of assistance is attributable largely to the fact that US AID loans are of 40 years' maturity and were until recently free of interest and that IDA loans are on similar soft terms. A substantial part of Canadian assistance has been in the form of grants and more recently Canada has also announced soft loans on terms similar to those given by the IDA. Recent UK loans are of over 25 years' duration and carry seven years' waiver of interest. Repayments of principal will not begin until after the seventh year. The three latest UK loans totalling Rs 28.6 crores granted in 1965-66 were interest-free loans. Loans from the USSR though given for 12 years carry a low rate of interest of two and a half per cent and are repayable in rupees, i.e., through exports of our goods as distinguished from convertible currency.

We may now examine the composition of foreign aid received by us and the terms on which such assistance has been obtained.

EXTERNAL ASSISTANCE: COUNTRY-WISE
(as on September 30, 1965)

(Rs crores)

Name of the country/ Institution	Authorisations	Utilisations
A. Loans to be repaid in Foreign Currencies		
1. IBRD (World Bank)	465.7	369.0
2. IDA	278.5	160.0
3. US Exim Bank Loans	193.4	149.1
4. USAID	655.5	432.8
5. Other US Loans	107.1	107.1
6. USSR	484.3	265.4
7. West Germany	416.2	320.6
8. United Kingdom	335.9	262.8

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Name of the country/ Institution	Authorisations	Utilisations
9. Japan	173.5	99.3
10. Italy	81.3	11.5
11. Czechoslovakia	63.1	9.4
12. France	57.1	13.5
13. Canada	46.6	25.2
14. Poland	40.3	10.6
15. Other countries	75.3	25.7
Total	3,474.7	2,262.7
B. Loans to be repaid in rupees	292.2	271.5
Total Loans (A+B)	3,766.9	2,534.2
C. Grants		
1. TCA Grants (Dollar Grants)	146.1	142.4
2. Ford Foundation	20.1	18.0
3. Colombo Plan countries	161.0	139.3
4. Norway	4.5	4.2
5. West Germany	2.0	2.0
6. USSR	1.1	1.1
7. Sweden	1.1	...
8. UN Special Fund	8.4	1.5
Total	344.6	308.9
D. US Public Law Assistance		
i) PL 480	1,428.5	1,278.8
ii) PL 665	31.8	31.8
iii) Third Country Assistance	2.7	2.7
Total	1,463.2	1,393.5

The terms, period of repayment and interest rate pattern of the above foreign credits were as follows :

A. Maturity Pattern*

Period of debt (Years)	Percentage of Total debt
0—10 years	23.8
11—20 years	19.9
Over 20 years	56.3
Total	100.0

B. Interest Rate Pattern

	(Per cent)
1. During second Plan	4.3
2. During 1961-62	3.2
3. During 1963-64 and onwards	2.6

* Maturity denotes the period elapsing between the date of agreement and the date of completion of repayment.

An important factor responsible for pressure on our balance of payments has been the heavy debt servicing obligations incurred on account of the terms on which foreign assistance was received by us. During the five years of the third Plan, for example, interest payments and capital repayments on account of external debts have been estimated at Rs 573 crores. During the fourth Plan, these obligations are expected to rise to Rs 1,450 crores. It is estimated that after devaluation of the rupee, the total credits outstanding up to March 31, 1967, in terms of rupees will be Rs 7,100 crores and will need to be repaid in a period of 20 years.

A major contribution that can be made by aid-giving countries and institutions to help prompt utilisation of aid is through an increase in the share of non-project assistance. The importance of non-project aid in the present context of our economic development cannot be over-emphasized. Some of the industrial capacity built up over a number of years at substantial cost has been under-utilized for want of free foreign exchange to import essential raw materials, components and intermediate products. This has been, in part, responsible for the slow rate of growth in industrial production in some years of the third Plan. Even imports of fertilizers, so necessary for increasing agricultural production, had to be restricted for the same reason with adverse consequences on our agricultural performance.

When a project is proposed to be financed by pledging the entire amount of external assistance which it needs in the very beginning, there must remain a time lag between the commitment and disbursement of the assistance depending on the minimum time necessary to complete it. There is of course no compelling reason why projects must necessarily be financed by committing at the very beginning all the funds needed for their completion. Such funds which are committed but drawn over the following years as project construction progresses, should not be debited right at the beginning but only the annual estimated disbursement and withdrawal should be provided every year. This will provide a major rectification in the big lag between authorisation and utilisation. Canada has been able to finance a number of major power projects under its Colombo Plan assistance to this country by debting to each year's grant a certain proportion of the total cost of projects based, more or less, on the expected disbursements. Similarly Japan, the United Kingdom, West Germany and the World Bank have sometimes followed procedures leading to quicker disbursement.

Political Pressures

The present procedure of year to year commitment of aid makes the giving of aid particularly sensitive to political considerations. During the early sixties, it was possible to entertain the hope that aid giving would be governed essentially by economic criteria and would be divorced increasingly from considerations of political pressures. Recent events have belied this hope. Unless a new initiative is taken to make sure that economic considerations alone are kept in the forefront in the matter of assisting developing countries, there is real danger that the goodwill and progress achieved as a result of aid in the recent past will be dissipated before long. One way of keeping aid out of the cross currents of political objectives would be to channel a growing part of aid through international agencies, though even international agencies cannot be altogether free from the likes and dislikes of the major contributors of aid. Nonetheless, a greater internationalisation of aid and a definite commitment to contribute growing amounts through international agencies would mean considerable progress over the present position.

There is today no firm commitment on the part of the richer countries to give aid on a continuing basis in accordance with some objective criteria such as the relative capacity to pay or the requirements of the developing countries. Over the past three or four years, aid levels have remained more or less stationary; as a percentage of the GNP of richer countries, aid in effect has declined. This fact has been corroborated by the report of the World Bank for 1966. Indeed, the increase in debt repayment obligations has also meant a decline in net aid in absolute terms. Since commitment of aid funds depends on year to year decisions and in many cases legislatures' approvals, there is a tendency for aid to get stabilised at previous years level. Despite the growing needs of the poorer countries and the increasing capacity of the richer countries, it becomes almost

impossible to raise aid levels substantially and steadily. Unless a way is found whereby the commitment to give aid is put on a continuing basis in terms of some international convention or understanding, it will be difficult to remedy the present position.

The problem of the growing burden of debt charges on the less-developed countries was considered by the Development Assistance Committee (DAC) of the OECD at its meeting in Paris in July, 1965. The DAC members felt that "serious increases in the burden of debt charges on the less-developed countries continue in spite of the progress of some DAC members in the past year in easing the terms of public loans. It was stressed that unless this trend was reversed, it might result in diminishing the net flow of resources for the less developed countries. The meeting recommended that members who do not already provide at least 70 per cent of their official assistance in the form of grants should endeavour to provide 80 per cent or more of their total official assistance at favourable terms, i.e., either as grants or as loans with long maturities (25 years or more), at low rates of interest (3 per cent or less) and the average grace period on loans should be of 7 years". ('Development Assistance Efforts and Policies—1965 Review' p. 16).

As is now recognised, there is a strong and just case for rescheduling the repayments for the earlier hard loans as well as for fresh aid to be extended to this country and the developing countries so as to lessen the burden of repayment. One way in which this could be effected is to reschedule the repayments after an initial long period of 'grace', followed by a period with low initial repayment in annual instalments and with further larger annual instalments.

The present position where aid is tied to purchases within the aid-giving countries but repayments are not correspondingly tied to purchases in the repaying countries adds greatly to the burden of foreign debt.

Sooner or later the whole question of repayment will have to be tackled in a bold and imaginative way. Either repayments will have to be linked to purchases from the poorer countries thus giving an impetus to their exports or alternatively substantial portion of loans will have to be converted into grants once and for all.

What this country faces in terms of burden of repayments, in spite of its increasing and continuing need of foreign assistance for a decade or more, is something which is staggering. From 1969 onwards, foreign exchange equal to one-third of our export earnings may have to be earmarked for debt repayment. This is a situation which cannot be viewed with equanimity. To all in this country and our friends abroad, this would present a disturbing picture. And what is true of this country is also true of most of the other developing countries.

(Concluded)

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The Challenge of Retailing

B. S. RATHOR

Mr B. S. Rathor is a lecturer in Department of Commerce and Business Management, Punjab University, Chandigarh.

THE EFFICIENCY with which goods and services are distributed will determine in large measure the standard of living that our people will enjoy in the years ahead. Given an adequate retail market, good location and a sound organizational set-up, no small part of the ultimate success of a retail enterprise will hinge on the superior quality of its "buymanship", including foresight as to demand, keen appraisal of goods, expert pricing of merchandise offered for sale, attractive display of articles and all-round competence in handling sales.

Because of widespread acceptance of retail stores in our country, many people place the retail stores in a relatively unimportant position. That retailing is a highly specialized and complete field is generally overlooked by us. One reason for this is that although in this country the bulk of the business is transacted through the retail stores, they differ widely as to size, organisation, services rendered and degree of specialization.

In the case of majority of stores, each is owned, managed and operated entirely by one person. A large department store may employ hundreds of people, though not many such stores have been set up in our country because ours is a poor country and department stores need huge investments. A store such as A. W. Wheeler's news stall may carry an assortment of books and newspapers while the general merchandise store or the department store may carry many kinds of merchandise. In the number and degree of services offered, the retail stores vary greatly. A relatively small cloth merchant may not provide the customers with an electric fan while another store of the Mafatlal group may be airconditioned. The Usha sewing machine retail outlets may offer credit, delivery at door, special shopping services and the privilege of returning the merchandise if the customer is not satisfied. The retail stores thus may differ in many respects, although the functions they perform are more or less the same.

Retailing is one of the oldest of all business institutions. As a consequence, it has developed along with our various stages of civilization, altering its form or varying its facilities to meet the changing demands of the people it has served. Thus people have known retail stores not as sensational new developments, but rather in the form which, for a number of reasons, was presumably best adapted to their particular needs.

Revolution Under Way

The department stores never gained prominence in this country among retail distributive channels because of the poverty of the people and the rather low capacity of the retailer to invest. Today a revolution is under way; it is the establishment of the supermarket, or the "self-service" methods of retailing merchandise. Such stores are gaining in popularity; some of them have already been established in New Delhi and many more are being established in other big cities of the country. Supermarkets have proved that impulse selling, without the intervention of salesmen at all, resulted in substantially increased sales and, produced results far superior to those which the department stores had obtained through "suggestion selling" on a personal basis.

The major reason why the chain stores of big companies have not grown rapidly is the fact that the independent wholesalers and retailers have set up organizations in order to secure for themselves many of the operating advantages of their integrated competitors.

A salient feature of the supermarket is that it is likely to provide the consumers goods at comparatively cheap rates. The supermarket will become prominent in all forms of retailing. The first basic appeal of the supermarket is the cheap price; consumers are aware, that supermarkets can undersell any other retail store.

The supermarket has had a great impact on the manufactures also. In the supermarket, nobody stands between the customers and the goods. This fact also has created a revolution in selling. This situation has given the advertised brands of goods an edge over the less well-known brands. The reason for this is that the consumer is already "sold" on certain products through the influence of advertising before he reaches the store.

The supermarket has given a boost to the packaging industry as well. The customers visiting the supermarket prefer to buy articles which are nicely packed. The manufacturer who has a well-packed and well-advertised product, will find it easy to gain space on the shelves of the supermarkets. As the number of supermarkets increases, the scramble among the manufacturers to get their products on the shelves will also increase.

'Ethical' Reasons

Mail order business has not flourished in this country as a form of retailing due to "ethical" reasons. Very often, the customers have been cheated by the mail order suppliers. The stories of the camera sold without a lens and sand powder in place of tooth powder are well known. Watches sold by mail order always give the same time; this is symbolic of the people who are engaged in this business.

The co-operative store, owned and run by the consumers, has also come to occupy an important place in retailing these days. Such stores have grown in number and are offering good competition to retail trade. Thus retailing in this country has been to meet the changing needs of consumers.

The retail store can justify its existence in the community and in the general economic scheme if it—

(i) serves the community

(ii) provides the opportunity for a group of people to earn a living and

(iii) makes a profit.

The success of a retail store depends very directly on its ability to serve the needs of the community in which it is located. While many other kinds of business organisation—manufacturing plants for example—can depend for their business upon a group of customers in widely scattered localities, the retail store is almost entirely dependent upon the trade drawn from its own community and adjacent territory.

The geographical area in which a store can do flourishing business is conditioned by the closeness and relative merits of stores in other shopping centres and the convenience of transportation. One store may draw its customers from a limited number of blocks in a single community whereas a large supermarket or a department store may have customers from all over the city, residents of its suburban areas, visitors from nearby towns and those from a distance who order by mail. Irrespective of the size or nature of area from which a store draws its customers, it is essential that each store should serve a real need of the people it seeks to attract. The nature of competition today is such that a store which does not serve a definite need, will not exist for long.

The problems involved in providing satisfactory environment have been the subject of serious consideration by for-

ward looking management during recent years. The retail store, like any other business institution, has an obligation to its employees. Exactly what it is that management owes the worker has unfortunately not been agreed upon. Fundamentally it involves a basic social problem which can be solved only in terms of larger issues. Nevertheless working conditions, hours of work, wages and recreational facilities should be studied and adapted to meet changing demands. The problem of making a profit is becoming increasingly complex in retailing, just as in any other business. High taxes, keen competition from a number of different sources and other increased costs of doing business all have had unfavourable effects upon the profit possibilities of the retail store. Progressive retailers need to study constantly their various items of expenditure in an effort to locate and to eliminate any wastes that cut into their profits. In addition, careful analysis should be made of the success or failure of different merchandise offerings, in order to reduce the loss entailed by unwise merchandise investments. Reasonable profit is a major consideration in the management and operation of a store, certainly the owner is entitled to a fair return on his investment.

Favourable Factors

Since the business of retailing consists primarily of sale of goods to consumers, its principal functions are the buying and selling of merchandise. These functions, however, are not so simple as they might appear; a number of factors must be favourable if a retail store is to be profitable. They are :

a) **Physical set-up:** A store must have a well-planned location and layout and it must be properly equipped and kept up. The reactions of customers as a group to the arrangement within a store give a basis upon which the layout can develop.

b) **Customer service:** Since many stores today carry the same merchandise at the same prices, the factor which will lead a customer to patronize one store rather than another is the number and quality of the services rendered. These may include delivery and credit facilities. They will include the amount of helpfulness and interest shown by the stores' employees in dealing with their customers.

c) **Personnel:** The intelligent selection of employees is of even greater importance in retail stores than in most other types of business organisations. This is because so many retail workers have direct contact with customers, and thus have a major effect on the customers' decisions. Training of salesmen for retail stores is very important and it is with this view that the Co-operative Training Centre in Poona has been established which imparts training in "retailing".

d) **Sales promotion:** Methods of sales promotion have changed tremendously since the early days of retail stores. Today competition has made advertising and window display essential if a store is to present itself and its merchandise to the public favourably and profitably.

e) **Control:** Accurate records must be kept to aid in effective merchandising and to show the financial progress of the store. Adequate financing is a prerequisite to satisfactory store operation.

The retailers have discovered that the repeat trade of customers, favourably predisposed towards a store, is essential in keeping costs low. Repeat trade, in turn, is dependent upon goodwill. The customers may develop ill-will if the store's employees, competitors and suppliers express dissatisfaction with the store and if the services offered are not reliable. It is becoming increasingly clear that a retail store's well-being is dependent upon the goodwill of customers, employees, vendors, shareholders, the public at large and even competitors. Failure to win the approval of any one of these groups leads to friction that interferes either with achieving the sales potential or with keeping costs low.

The management of retail stores requires a thorough understanding of principles of business practice and the ability to apply them effectively. The days are gone when any one could run a retail store and when basic business and retailing principles could be ignored.

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Desai's Pilgrimage to Rio

A Correspondent

WHEN THE economic development of a country is largely sustained by external aid obtained at any cost, a stage comes when such aid ceases to be the unreserved blessing that it was initially thought to be. In the first flush of our enthusiasm for large-scale development of the country, we sought and accepted aid on whatever terms and conditions it was available. We felt confident that it would help strengthen our balance of payments position within a reasonable period of time and that there should be no difficulty in repaying debts. Unfortunately, things have not turned out that way.

In this context, the mission on which Mr Morarji Desai will set out early this month has more than ordinary significance. By themselves, the annual meetings of the World Bank and the IMF at Rio de Janeiro, which he will be attending, are important. What will be of crucial interest to this country will be the outcome of the talks that he will be having with members of the Aid India Consortium. No formal meeting of the consortium has been arranged at Rio, but the ground has been prepared for intensive discussions by the Deputy Prime Minister with the consortium members, either individually or in groups. Apart from expediting agreements with the donor countries for the disbursal of the $900 million non-project credit committed by them for the current year, the two main objectives of Mr Morarji's mission are: (a) to persuade the consortium to provide adequate project aid and (b) to secure a measure of relief from the mounting debt-servicing burden.

Of Vital Importance

Of these, the latter objective is of immediate and vital concern to the country. An assessment of the foreign exchange position will show why this is so. Exports during the current year have been placed at Rs 1,256 crores on the assumption that they will show a better performance after the stagnancy of the last two years. After allowing for export earnings to the tune of Rs 270 crores from the east European countries and the payment of about Rs 322 crores on account of debt-servicing, the free foreign exchange that will be available will be a little over Rs 660 crores. In view of the increased imports of foodgrains, fertilisers and other essential materials that will be necessary during this year, the government has estimated that there will be a gap of nearly Rs 300 crores in its foreign exchange requirements. Last year it was able to bridge the gap largely because of a substantial credit provided by the IMF. It is extremely unlikely that this accommodation will be available this year; at any rate this country cannot expect any significant assistance from the IMF until its previous loans are repaid.

The government has, therefore, to look to other ways of overcoming its difficulties. It would go a long way towards easing the present stringency if the aid-giving countries could provide some relief in regard to our debt repayment obligations. Though many of the consortium members, especially the major aid-givers, are aware of the enormity of the problem of debt-servicing that this country is now facing and have been sympathetic to the request for relief, no concerted action has been taken in this direction. A moratorium on debt repayment is one way of affording relief, but the consortium, as a whole, may find it difficult to adopt this course. The lending regulations of some of its members forbid a moratorium. That apart, a moratorium carries the odium of default, even if it be for a temporary period, and this country, which has scrupulously fulfilled its debt obligations in the past, should under no circumstances allow this creditable record to be tarnished.

The more effective and desirable way of helping this country out of its difficulties seems to be through refinancing, i.e., the provision of fresh loans on easier terms to repay the amounts that are due. In fact, the major aid-giving countries are reported to be willing to refinance debts, but what is probably holding them up from translating whole-heartedly this willingness into practice is the reluctance of the other aid-givers to fall in line. True, some concessions have been offered by Canada and the UK. The latest agreement signed at Bonn for a credit of Rs 47 crores from West Germany is an improvement so far as the terms are concerned. These are welcome gestures and it would not be too optimistic to expect that liberalisation of the terms of lending will become an important feature of the future aid programmes of these countries. What is of immediate concern to this country is that some way has to be found to lessen the burden on account of past debts. What is happening now is a reverse flow of money from developing countries to the advanced nations on account of repayment of principal and interest. The effectiveness and utility of aid has thus been whittled down. A United Nations study reveals that the proportion of export earnings which developing countries have to set apart for meeting debt service charges is now nearly 10 per cent against 3½ per cent in 1959. It would help to reduce this burden considerably if even the minimal terms suggested by the Development Assistance Committee of the OECD are accepted by all aid-giving countries—a three per cent interest rate, a 25-year maturity and a seven-year grace period.

It would be a major gain for this country if Mr Desai succeeds in securing the acceptance by all members of the consortium of a scheme of refinancing on this basis. Apart from helping to reduce the gap in foreign exchange requirements, a scheme of refinancing will, to the extent new loans are given to meet debt-servicing obligations, leave in the hands of the government free foreign exchange which it can put to better use than tied credit. In other words, it can utilise this amount for essential purchases from the best available sources. The advantage of this can be realised from the fact that this country has been paying 20 to 30 per cent more for goods because of its obligation to buy them from countries providing the credits.

Accent on Non-Project Aid

As regards project aid, no commitment was made by the consortium last year and there is no indication if it will do so this year. Whatever assistance has come for the implementation of projects since the fourth Plan began was because of the aid in the pipeline. This will soon get reduced to a trickle. In the judgment of the World Bank, which found support from other members of the consortium, what this country needed to do during the initial years of the fourth Plan was fuller utilisation of installed capacity and to get the best out of the investments already made. The accent, therefore, was on non-project aid. In the context of the recession that has overtaken the economy, project aid assumes considerable importance. Apart from the erosion of the purchasing power of the people by rising prices, which has been accentuated by drought in the last two years, an important factor that has contributed to the recession in demand for capital goods is that Plan outlays have been kept down to the minimum. Fresh investments in selected areas should help industries which are languishng for want of orders to stage a recovery. And the injection of project aid into proper channels should go a long way towards achieving this objective. This country has actually sought project aid to the extent of $600 million for the current year. It remains to be seen if Mr Desai will succeed in his efforts to secure this, over and above the assistance that is needed from the consortium to mitigate our debt-servicing burden.

Chemistry's Role in Feeding the World

CHARLES J. KRISTER

This is the text of a speech delivered by Mr Charles J. Krister, Manager, Agrichemicals Technical Development, Industrial and Biochemicals Department of E. I. du Pont de Nemours & Company, Wilmington, Delware, USA, before the Association of Food and Drug Officials of the USA at St. Paul, Minnesota, on June 19, 1967.

CHEMISTRY HAS been basic to the scientific disciplines and technologies providing the increased yields of American agriculture since World War II. It can also provide molecular keys to further improvements in crop yields. In the world's less developed countries, chemicals can help assure adequate supply of crops for the increased population of the future.

By the year 2000 world population will be approximately 6 billion. Eighty per cent of this expected total will be in countries already considered poorly fed. Starvation in large areas of India is already headlined in our daily newspapers. The recent Indian crop failures have highlighted the world's relatively static food output, lagging increasingly behind an expanding global population's needs. The 10 million tons of US foodgrains currently projected as aid for India are only a bare beginning.

Per capita world food production in 1966 decreased for the second successive year, and there are no effective surpluses of wheat, rice, feed grains, soybeans, dairy products, or any other major food commodity in the United States or elsewhere in the world.

Despite recent worldwide efforts, the people "flood" is accelerating and could flush away millions of man-years of struggle and billions of dollars of foreign aid. This "flood" is a symptom of a more basic problem of food shortages. Indeed, "the stork is outrunning the plough," as Herbert Waters, assistant administrator for the War on Hunger, noted recently.

Population increase rates (two to three per cent annually) are so recent that their long-term effect is just being evaluated. It means adding a million more people each week—mostly in less developed countries. Never before have so many people been added to world population in such a short time.

Trebling the Yield

Food and Agriculture Organization (United Nations) estimates show world food supply must be trebled over 1965 by the year 2000, if people are to have enough right kinds of food to eat. Already 10,000 children are dying every day from hunger. So we have a race between food production and population growth. Under the most favourable circumstances, the United States, the major food exporter, could provide only about a tenth of underdeveloped countries' requirements during the 1980's, and little more by the year 2000.

Rice and wheat are man's principal sources of food and energy. About half the people of the world depend mostly on rice for food. Rice yields are almost four times as great in the United States and Japan as in India. Raising rice yields would improve the food supply situation considerably.

The high productivity of American agriculture is a goal for the less developed countries. According to Edward Higbee in 'Farms and Farmers in an Urban Age' (1963), "The improved efficiency of modern American agriculture is as fabulous as the conquest of outer space, and it is far more significant for human welfare." Truly tremendous advances have been made in the efficiency and the quantity of our food production.

When World War II broke out in 1939, American farmers produced a 2.3 billion bushel corn crop on 78 million acres. In 1966, they produced 75 per cent more on 21 million less acres. The story repeats itself with virtually all major crops. The 740 million bushels of wheat produced in 1939 required 52.7 million acres. In 1966, on just under 50 million acres, the crop was 1.3 billion, or 71 per cent more than in 1939.

The same story holds for livestock gains. We have about 108 million cattle on the same pasture and range lands that in 1939 supported only 81 million head.

We produced 70 per cent more farm commodities in 1966 on 10 per cent fewer acres than we did in 1939. In 1939 there were about 6.4 million farm units. There were less than 3.3 million in 1966. By 1980, the number may dip below one million. Even today then we have 90 per cent of our people spending 80 per cent of their time doing something ether than farming.

Scientific Advance

Modern American agricultural achievements are the consequence of a complex chain of scientific discoveries and technological advances. If any link is overlooked, the crop may be a failure. The farmer in both developed and underdeveloped countries is learning this same lesson.

Festicide developments can be translated into increased crop yields everywhere. For example, chemical control of pests on the world's principal foodgrains—wheat, rice, maize, sorghums, and millets—could easily add 200 million tons or more annually to the billion tons now produced. Control of pests is one way to improve food supplies.

What then is the role of chemistry in feeding the world? It is not one but several roles. First and foremost, it is the common theoretical thread for a number of technologies employed in agriculture. Food production, food quality, food processing, food preservation, food packaging, food transportation and distribution are all profoundly influenced by effective and efficient use of chemistry.

Knowledge of growing plants and surroundings has developed through the use of chemistry. By application of plant fertilization knowledge, chemistry has pushed crop yields toward maximum genetic capacity. It has provided soil fumigants to kill nematodes and soil fungi, and sprays and other methods to control insects, mites, and fungi that can totally destroy crops. It has increased efficiency of conversion of feed grains to animal growth, and provided animal health medicines to handle livestock disease problems. And it has provided antibiotics, growth hormones, trace elements for deficiency diseases, amino acids, vitamins, and hormones for nutritional deficiencies. All have made significant contributions to the overall health and efficiency of animal and plant production.

In sum, the roles of chemistry and chemicals are diverse in providing maximum crop production. They include:

1. Starting with land preparation, fumigation of the soil can control nematodes or fungi.
2. Next comes fertilizing the soil.
3. Treating the seed with fungicide and perhaps soil in-

secticide before planting will help get the crop started.

4. Spraying with a weed killer will reduce competitive threat to the crop.
5. Chemicals may be used as selective herbicides to kill any weeds but not the crop plant.
6. To halt disease or insect attack the crops may be sprayed or dusted with insecticide or fungicide.
7. Plant growth regulators may be applied to control growth.
8. Defoliants or desiccants may be applied to remove leaves, so machines may get in to harvest the crop mechanically.
9. A rodenticide may be used to prevent rodent destruction of the crop during storage.

Weed control has rapidly developed in recent years by synthesis of molecules for specific control of major weeds in practically all food crops. Wheat, cotton, rice, sugarcane, corn, soybeans—practically all are being grown with pre- or post-emergence treatment of the soil with a chemical. In some instances, even lay-by treatment is helpful to protect the crop's growth and assure quality harvest.

Control of seedling diseases, and thereby eliminating skips, stunting and replanting, can be achieved now with one or more seed or soil fungicides.

Higher quality protein crops are in the offing. They may result from the combined attack of chemistry and genetics. Noteworthy is the contribution of three Purdue University scientists who discovered a corn with a mutant gene, Opaque-2, which shuts down production of zein, a protein of poor nutritional quality because of deficiencies of lysine and tryptophane. Such corn could supply most of the amino acid needs of a person. India, Central America and Mexico, whose populations have diets short in proteins with balanced amino acid patterns, could benefit immeasurably from this development.

Worldwide Search

This Purdue discovery has started a worldwide search for genes like Opaque-2 in other major grain crops—sorghum, millet, wheat and rice—that would fill out their amino acid complements. A new source of higher yielding tropical wheat with greater nutritional value should result from a new strain of dwarf (Super-X) wheat developed in Mexico by the International Centre for Maize and Wheat Improvement. These and crop improvements to come from such studies could help alleviate the protein deficient diets of less developed countries.

Moisture retention and controlling water evaporation is important for various crops. Use of hexadecanol for lessening evaporation from water surfaces and plastic mulches on crops have been tried and may be useful.

There is need for more precision in food processing and transportation. Tremendous waste still occurs. There is a need to maintain proper temperatures during food transit and storage by use of chemical reaction indicators, to preserve food.

During the 1964-65 crop year, 40 million tonnes of N, P, and K were used. Parker and Nelson (More Fertilizers for More Food, Proceedings of NAS, Vol. 56, No. 2, Aug. '66) drew the following conclusions from 15 years of agronomic data collection:

1 Moderate fertilization rates, 40-70 kg per hectare, usually increases crop yields by about 50 per cent.

2 Fertilizer response may be increased at least 50 per cent when used with improved varieties of crop, pesticides, and good soil and water practices.

3 High levels of fertilization, 100-300 kg per hectare, are efficient and high yields are possible only when fertilizer is used on crops bred for use at high levels of fertility and disease and insect resistance.

Aquatic farming of some plants may develop in the future as fish culture is already widely developed. People may be supplied with protein from algae forms provided ways are found to grow dense algae cultures, to control algae metabolism for optimum food value and to eliminate contamination.

New chemical control agents provide a number of interesting possibilities. Virus diseases of plants are extremely serious and there is evidence that the threat is growing. In research on chemical control of virus diseases, it has been learned that each strain or virus is a highly specific entity. It consists simply of a protein coating and RNA or DNA, the ultimate genetic bases of life. It may not be surprising that a chemical which will ward off one specific virus will not work on another. Nevertheless, chemicals are being evaluated against virus diseases of plants. It is not improbable that a generally effective protective or curative agent for virus disease control can be found. Specific ones are being field tested this year for 'Verticillium' in cotton.

Soil Fumigation

Nematodes are recognized as a universal and important pest problem. Soil fumigation does an excellent job and is useful where crop value and severity of nematode infection justifies it. Nematode damage may be much more all-pervasive than recognized. Research is being conducted in many places to find means of protecting plants against the inroads of nematodes. If the root system of the host plant can be rendered unpalatable to the nematode, its injurious effects can be reduced. Many crops, over and above those already protected by fumigation, would undoubtedly benefit by improved quality and yield.

One of the most interesting areas developing rapidly is that of plant growth regulants. Many years ago discovery of the first herbicides was foreshadowed by isolation and identification of a natural plant hormone, indoleacetic acid. Many chemicals have since been found which exert profound effects on growth of plants.

Recently, Iowa State University scientists found 2, 3, 5-triiodobenzoic acid can markedly alter the soybean plant. When sprayed with it, plants grow more compactly and do not fall over. They can be grown in rows only 20 inches apart thereby increasing yields per acre by about 20 per cent.

Another potentially important farm chemical is a curative systemic fungicide for use only when and as needed to enable the farmer to employ otherwise more desirable, or higher yielding new varieties of fruits, vegetables, and even some grains.

Research investigatons are also being conducted on nutrient utilization, molecular genetics, physiological reactions of key crops, processes involved with protecting quality of flavours, as well as many other applications.

Chemistry provides a sound basis for scientific and technological attack for a yield "take off" on crops needed in the less developed countries looking towards the 21st century. It requires the social, political, and economic climate for optimum utilization. The world need not go hungry in the next century if our scientific know-how is put to work in agricultural production. It is a big job. With the proper application of chemistry and technology it should be accomplished.

FROM THE CAPITAL'S CUPBOARD

Sword of Damocles Over General Insurance

UNLESS POLITICAL considerations prevail, the nationalisation of general insurance is unlikely. The studies made by experts of the Finance Ministry show that the case for nationalisation on the ground that it will bring in substantial funds to the government is not strong. The investible resources of the industry amount to a little over Rs 58 crores of which nearly 90 per cent are already invested in government and stock exchange securities. Therefore, these experts point out that the taking over of the business will not result in any significant addition to the resources needed for development.

The experts are not certain if the drain of foreign exchange, especially on account of aviation and marine insurance, can be eliminated or substantially reduced by nationalisation. They feel that since the aviation and marine business involve substantial foreign exchange, it would be prudent to insure these with foreign companies so that in the event of loss or damage to planes and ships compensation can be had in foreign exchange. Otherwise, the government will have to meet the losses that might occur from its own foreign exchange resources. Therefore, whether the industry continues in private hands or is transferred to the public sector, foreign exchange outgo to a certain extent is unavoidable.

The experts, however, are critical of some aspects of the conduct of the general insurance business. They seem convinced that there is a sizable loss of revenue to government because of the substantial commissions offered by certain companies to their clients. This loss is variously estimated between three and five crores of rupees annually. Here again, they are not certain if the remedy lies in nationalisation. Some of them think that the loss of revenue can be reduced by stricter control over the general insurance business. According to them this can be done by the establishment of an inspection agency with adequate legal authority and the amendment of the Insurance Act to vest the officially constituted Executive Committee, which only keeps a watch over the affairs of the industry, with powers of regulation. To the advocates of nationalisation, however, the loss to the exchequer is a sufficient ground for the government taking over the industry.

EFFICIENCY THROUGH COMPETITION

The World Bank has told the Government of India that in future loans for certain projects will be given on the condition that global tenders be invited for machinery and equipment, irrespective of the indigenous capacity available for manufacturing them. In other words, our suppliers will have to compete with foreign producers in global bids before contracts can be awarded to them. While the bank is in sympathy with our desire for rapid import substitution, it feels that the resultant gains in terms of foreign exchange will be more than offset by higher costs and poorer quality of plant and equipment, which preference to indigenous suppliers might entail. It feels that indigenous production will show better results by exposing it to competition.

The Bank's stipulation regarding global tenders is beginning to have the desired effect. A case in point is the Mormagoa Port development project. The scheme estimated to cost about Rs 27 crores provides for the handling of large vessels (between 60,000 and 100,000 DWT), the installation of a mechanical iron-ore handling plant and a mineral oil jetty at the port. The International Development Agency, an affiliate of the World Bank, has indicated its readiness to finance the project (the government's expectation is that a loan of Rs 14 crores may be available from the IDA). The government is keen to avail of this assistance and is at the same time anxious that our suppliers should get their share of the orders. It is, therefore, now working out ways of enabling these suppliers to compete successfully in global bids. An examination of the items that the Mining and Allied Machinery Corporation at Durgapur and other engineering enterprisers can supply for the project as well as their costs has been undertaken. The possibility of supplying steel at international prices to our bidders is also being studied. The Finance Ministry is considering the grant of some concessions in import duties that may have to be paid by our suppliers on some items of import.

SUBSIDY FOR CALCUTTA PORT?

The finances of the Calcutta Port are in bad shape. Its revenue reserve fund has been practically wiped out as last year's deficit of Rs 3.11 crores was met from this fund. The current year is also expected to show a deficit of over Rs 3 crores. While there has been no decline in the total traffic handled by the port, a variety of factors has brought about a rapid deterioration in its financial position. Increases in pay and dearness allowance to the staff, higher maintenance and operational costs and larger provision in respect of loan instalments and interest due to the World Bank consequent on devaluation are the major factors that have contributed to a substantial increase in expenditure.

As a sharp increase in port charges will affect the volume of trade handled by it, the port authorities have approached the government for a subsidy of Rs 4 crores to overcome the financial difficulties. The subsidy is meant to cover the cost of maintaining the 125 mile-long approach by river to the port. As the grant of subsidy to a port involves a new principle in regard to financial assistance, the government has decided to appoint a committee to go into this matter as well as the entire question of the finances of Calcutta Port.

TAKE-OVER OF SICK TEXTILE MILLS

The legislation for the taking over of closed textile mills by the government, which for reasons best known to the Commerce Ministry was not introduced during the last session of Parliament, provides for compensation to owners on the basis of the net market value of the mills' assets minus the liabilities which are not considered to be bona fide.

The Textile Corporation which will be set up to run the acquired mills and to provide financial assistance to mills which are in difficulties will have an initial capital of Rs 50 crores.

It is not the intention of the government to take over all closed mills. In fact, it has drawn up a list of 13 mills which it considers should be scrapped. Only such mills as can stand on their own legs after some initial assistance will be acquired.

Apart from the 23 mills that have closed down (this is in addition to the 13 that are likely to be scrapped), nearly a dozen are managed by authorised controllers appointed by the government. Some of the closed mills and practically all those under authorised controllers are likely to be taken over. The government feels that the present scheme of managing uneconomic and sick mills through controllers has not yielded the desired results. The controllers replace the boards of directors, but this has not always brought about an improvement in the economic position of the mills. The fresh capital that is brought in is generally utilised for meeting past liabilities or as unemployment relief to the workers or for the ultimate benefit of the owners who had mismanaged the mills. The legislation for acquiring these mills provides an effective answer to this problem, according to the government.

WINDOW ON THE WORLD

Government Spending Causes Payments Deficits

JOSSLEYN HENNESSY

I

EXPERTS REFUTE CHANCELLOR

LONDON:

FOR SEVERAL years I have been asserting in these pages that the reason for the UK's periodical balance of payments' deficits is the government's rising expenditure overseas. If you subtract government expenditure, the balance of trade in goods and services has since 1952 been in deficit only in 1955, 1960, and 1964, and when you include net interest and dividends earned by private enterprise, it has never been in deficit at all. I had never seen any reference to this statistical fact in the UK press until it was recently pitchforked into the forefront of debate by Harold Wincott (leading commentator of the "Financial Times"), A.R. Conan (formerly of the Commonwealth Economic Committee) in the "Westminster Bank Review," and Frederick Tooby (former United Nations economist) in "The Rationale of Economic Policy" (just published at 5/- by the "Aims of Industry", 5 Plough Place, London, E.C. 4.).

Since these three authorities have now come out on my side in challenging the government explanation for the UK's payments' deficits, let us first see what the government explanation is. Here are some typical statements:

"... the record of 1964 is an extraordinarily poor one. Our exports ... have in fact been drifting downwards throughout the whole of the last nine months. Our imports have been swollen by a large increase in the imports of manufactures and semi-manufactures largely of the sort which we produce and export ourselves. Unless we succeed in diverting resources on a large scale to producing more exports or replacing imports, we cannot hope to wipe out the present large deficit in the balance of payments".—Chancellor of the Exchequer, Budget, November 11, 1964.

"We have to consider what would be the position if, superimposed on these movements in home demand, there was a rising trend of exports on the scale necessary to achieve the improvement that we must have in the balance of payments. The answer is that the economy could not meet all these demands. Although there is some slack in some regions, industry generally is already working at high pressure. Unemployment is now below 1.5 per cent, and order books in many industries are long. Productive capacity will grow as new investment and new techniques bear their fruit.. But we must ensure that the extra output can go to correct the foreign balance and is not all pre-empted by expanding home demand".—Chancellor of the Exchequer, Budget, April 6, 1965.

Private Sector Contribution

Now Messrs Wincott, Conan and Tooby point out (in agreement with what has been said in this column over several years) that the facts totally contradict the Chancellor's statements. The truth is that over the fifteen years 1952-66, the private sector contributed a net aggregate surplus on balance of payments of £4,372 million, whereas government spending incurred a net aggregate deficit of £3,883 million, so that, for these fifteen years taken together, the net aggregate surplus on current balance of payments accounts was £489 million derived from the activities of private enterprise.

The government's ever rising overseas expenditure shown in the chart reveals that the public sector's drain on what the private sector earns grows ever larger. But what, as Harold Wincott said, "positively shrieks aloud" is the enormous contribution that private enterprise's earnings of net rent, interest, profits, and dividends made to the UK's position in 1952-66. Without those items, the private sector's aggregate contribution would not have been a credit of £4,372 million but a deficit of £116 million. Without those items, and adding in the government's aggregate spending deficit of £3,883 million, the UK balance of payments on current account alone would have been £4,000 million in deficit—and in such circumstances one shudders to think what would have happened on capital account.

Labour's Policies

Faced with the foregoing facts what has the Labour Government done?

Since October, 1964, it has striven—by a new tax system on corporate profits, by its discriminatory Selective Employment Tax (which hits some of our biggest export earners—service industries such as banking, finance houses, insurance and tourism), by the revision of tax treaties (which took years of patient negotiation to establish), by confiscation of 25 per cent of the dollar premium on any sale of holdings in US investments and by the so-called voluntary restraint in overseas investment—to sink the life buoy which has carried the UK economy through these fifteen difficult years!

Mr Tooby challenges the "fundamental suppositions that there is something wrong with our balance of payments and

CONTRIBUTIONS OF PRIVATE AND PUBLIC SECTORS TO U.K.'s CURRENT ACCOUNT BALANCES 1952-1966

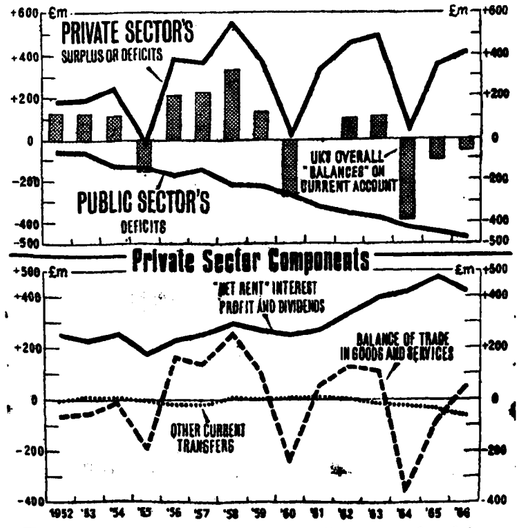

Chart based on Mr F. Tooby's calculations, reproduced by courtesy of the "Financial Times" of London.

that the cause of the trouble is that demand is too high... The root cause of our continuing deficits on current accounts is that, in the economy as a whole, total expenditures have persistently exceeded total incomes". The private sector's expenditure cannot exceed its income over the medium term because its total financial resources are limited to the current market value of its total domestic production, plus current transfers from overseas. By contrast, the public sector's expenditures can, and do, exceed its income because the government can, and does, create all the money needed to finance its excess expenditures. The continuing deficits on current accounts are due to the public sector's persistent excesses of expenditure over income in the total economy. The government's constantly reiterated accusation that the private sector's "failure" is the cause of the UK's deficit fits neither the statistics nor the facts.

Harold Wincott points out that in the twelve years 1955-66, in only one year (1962) has government spending and lending been covered by government receipts, and that the percentage of government expenditure and lending covered by receipts has fallen from its peak of 101 per cent (1962) to 94.5 per cent in 1965.

Over the six years 1961-66, the government's expenditure, other than on long term loans, left a surplus of income of £3,813 million. But the long term loans totalled £5,653 million, resulting in an overall deficit of £1,840 million. Included in the long term loans were £4.051 million to nationalised enterprises and £1,086 millions to local authorities. Is it not crazy that two-thirds of the long term capital for these purposes should be raised by penal taxation on private enterprise and that the remaining one-third should be raised by what is euphemistically called "borrowing", but which is, in fact, the inflation which is stifling the UK economy? If these capital requirements were raised on the stock market, not only would the projects be vetted by dispassionate market experts, not only would the money be therefore raised at realistic rates of interest varying with the assessment of individual prospects but it would be possible to reduce taxes and to spend more on education and public health.

II

U.K. PRIVATE SECTOR BEATS PREWAR RECORD

Mr A. R. Conan challenges the orthodox view that inflation has priced UK exports out of world markets and has been the cause of our balance of payments' crises. Exports, instead of falling, have steadily risen since the war and are now at record levels. They are not merely greater but enormously greater than ever before. Instead of being priced out of world markets, exports are competitive enough to be highly successful in EEC countries despite severe tariff discrimination; while other countries, such as the USA and Canada, have taken special measures in addition to tariffs to exclude them.

Mr Conan sees no influx of imports that imply inflationary pressures. In this respect the UK is at a disadvantage since it must import about one-half of its food supplies and nearly all its raw materials; heavy imports could thus be expected during a period of full employment plus a large-scale expansion of exports (with a high import content). The trade balance has not, however, reacted according to the text book because the theory implies that the economy concerned is an island of inflation in a non-inflationary world, whereas inflation at varying rates has, in fact, been universal. Mr Conan shows that the UK's trading balance is far better than prewar. Imports in 1966 were six times their prewar value and exports were ten times greater.

The improvement is far greater than the table alongside suggests because the 1938 import surplus adjusted for current prices would be about £1,000 million. The table destroys the frequently heard official view that our balance of payment's problems arise from a reduction in overseas receipts. The £885 million of investment income is the beneficial result of exports of capital since 1947. Like Mr Tooby, Mr Conan also points to the huge jump in government expenditure overseas.

Neither Deflation Nor Devaluation

The postwar balance of payments problem derives, in Mr Conan's view, from structural changes, rather than from the classical combination of inflationary pressures within an established framework. This leads Mr Conan to the striking conclusion that conventional policy controls need to be revised. Deflation, for example, whatever its effect on the trade balance, cannot reduce the (much bigger) debit on government account; devaluation would actually increase it as well as the debit on investment account. (Here Mr Conan and Mr Tooby are completely in line).

Devaluation would also increase the cost of the growing debit on government account. During the years 1960-66 the government debit reached £2,700 million, of which aid accounted for nearly £1,000 million. This record government spending should be compared with the cumulative deficit of "perhaps £500 million", in the overall current balance of which it is part. The government debit rose from an annual average of £150 million in the 1950s to over £400 million in the 1960s. It is, therefore, not the private sector but the government which has (in the contemporary catch phrase) "failed the nation".

Mr Conan next warns against regarding the current balance as a reliable guide to the strength of sterling. There is, he observes, little correlation between (a) current surpluses and deficits and (b) movements in the reserves. Although, for example, the cumulative current surplus in the 1950s was as much as £1,000 million, the increase in the reserves was under £400 million. After analysing the pattern of capital movements, Mr Conan submits that the real story of the UK's postwar record has been the transition from debtor to creditor status. Within less than twenty years the UK had become a creditor with a net surplus of assets which at the end of 1964 exceeded £2,300 million.

The recovery of creditor status is of fundamental significance. First, the process exposes the fallacy of treating a basic deficit as equivalent to a loss of assets; in this case the deficit is not only consistent with the recovery of creditor status but was also responsible for it. Moreover, the allegation that the UK has been dependent on borrowing from the rest of the world is untenable: the rest of the world has been borrowing from the UK. Finally, the statistics contradict the allegation that the UK has been unable to pay its way: only a country paying its way with a good margin to spare could eliminate debt and accumulate assets.

Mr Conan urges that it cannot be said that the UK has a

UNITED KINGDOM CURRENT BALANCE

	1938	1962-66
	£ million	
Trade Balance	—302	—227
Investment Income	205	885
Payments	—30	—482
Services (Private) ...	73	173
Government Account ...	—16	—420
Total	**—70**	**—71**

NOTE: By 1938, recovery after the slump of the early 1930s was well advanced. The average for 1962-66 good and bad years alike.

deficit "as normally understood": a deficit country dissipates assets, it does not accumulate them. Next, he rejects the view that inflation (whatever other problems it may have caused) has caused the balance of payments problem because, he points out, the trade balance is demonstrably stronger than it used to be. Occasional deficits do not testify to inefficiency in the economy because such deficits (on an even larger scale) are found in other countries.

Mr Conan concludes that the UK (like the USA) has been faced with problems arising out of special conditions in the postwar world and taking shape as structural changes in the balance of payments. Each country has for years run a basic deficit (the USA a much bigger one than the US). In each case there is little evidence to show that the deficit denotes lack of competitiveness, but much to suggest that it is due to heavy overseas government expenditures and large-scale exports of capital. A balance of payments problem created in this way differs essentially from the textbook norms of disequilibrium due to domestic inflation.

A further conclusion from the postwar record is the lack of any direct connection between a (temporary) deficit in the current balance and a drain on the reserves which occasions crisis. Nearly always the immediate cause of crisis is an outflow of short-term capital following a failure of confidence. Faulty diagnosis is mainly responsible: the belief that the balance of payments is exceptionally weak, or that the country is unable to pay its way, or that it has incurred further indebtedness while still burdened with war debts. The problem of diagnosis therefore is (1) a factor in maintaining confidence and avoiding crisis and (2) a prerequisite for the formulation of a rational policy.

There may at first sight appear to be contradictions in the views of Mr Tooby and Mr Conan but they differ more in definitions than in conclusions. Both agree that the villain of the piece is the UK government with its excessive spending overseas. Both exonerate private enterprise from all responsibility. Some may object to the complete exoneration of private enterprise and stress the all too innumerable authenticated examples of inefficiency and lack of export aggressiveness. To this I reply that the existence of excessive demand, sloppy central finance, distrust of "excessive" profits, insistence on "reasonable" profits, and the discouraging conformity of the egalitarian ideal, blur the competitive conditions essential for any all-out success on the part of the private sector. If, despite the government's discouraging policies, private enterprise has managed up to now to carry the heat and burden of the day sufficiently to earn enough to cover the government's extravagant spending, how much finer a job could it have done if the government had maintained a stable currency (or, in deference to Mr Conan's views, had inflated more slowly than it did) and enforced truly competitive conditions? Had UK governments enforced the degree of competition found in West Germany, the postwar record of the UK's entrepreneurs suggests that they would have not the least difficulty in rivalling the West Germans in creating export surpluses.

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Growing Success of US Capital in Common Market

E. B. BROOK

VIENNA:

DEVELOPMENT OF a major item in east-west trading has been temporarily adversely affected by the US Senate's decision to refuse the Export-Import Bank permission to finance the supply of US tools for a Russian motor car plant to be built in the USSR by Fiat of Italy.

The project has had a fairly long history of negotiation and, since it formed part of President Johnson's programme of building trade bridges to communist Europe, had the advantage of administration pressure behind it. The US administration has, in fact, done much this year to encourage, almost to bully, American business into trading with east Europe. US participants in the fortnight's trade fair in Moscow last March described themselves as having been gently blackjacked by the State Department into participating.

US big business unwillingness to "go east" has not been a sufficient obstacle to progress in the administration's effort to use east European trading to help redress the US balance of trade and to keep a substantial foot in the increasingly open and valuable east European market. Last year US trade with east Europe increased by 40 per cent over the 1965 figure to 376.7 million dollars. Still, this section of US trading is only 0.7 per cent of its total world trade. The administration feels there is ample room for growth without affecting security.

But the proposal to finance the supply of motor vehicle tools and jigs to the Soviet Union or any other country supporting Vietnam as long as the war in that area continues was too much for Congress. Such tools, once made available, could easily be used to help manufacture vehicles and other equipment to be used in warfare against US troops.

Understandable Logic

The human logic of this is understandable, especially as US irritation at the length and cost of the war is rising. But the Congress refusal, in the form of an amendment to the bill extending and increasing the Export-Import Bank's lending authority, does not strangle the US administration's ability to finance the tool project for the USSR car plant—it could still be financed from the USA by a private bank or other financial source.

While the US Congress properly maintains a watchful eye on any move, even a profitable one, that could jeopardize Americans, Washington cannot ignore the fact that west Europe, even West Germany, has yielded up almost all its reservations on eastern trading and, even with revolutionary China, is accepting what trade openings it can get.

The latest move, on the part of West Germany, is to cancel a provision in inter-zonal trade with East Germany which has made delivery of important West German products dependent on smooth traffic to and from Berlin across East Germany. The effectiveness of this provision against East German interference with Berlin traffic has been doubted for a long time, though it has been in operation for 16 years. By itself, it is, perhaps, no great matter, but anything that facilitates trade between the two most bitterly opposed parts of west and east Europe is significant both as indicating a desire to trade and a slight relaxation of ever-tense relations.

But figures themselves are sufficient to indicate clearly where US interest in Europe lies wholeheartedly and vigorously. So great is US commercial influence at its point of greatest ingress—Belgium—that Brussels is changing its largely mediaeval face to become a modern American city.

One of the smaller capitals of Europe—its population is only about a million—Brussels is now the overseas base for hundreds of US corporations and is one of Europe's principal office centres. Its recent growth has brought about the biggest construction boom in any capital in Europe. Last year 54 buildings with a total of nearly 3½ million sq. ft. of floor space were completed in the city. In the previous two years 55 other new buildings had gone up with a floor space of 2.8 million sq. ft.—or a growth of 6.3 million sq. ft. business floor space in three years. The boom has principally benefited Belgian building enterprise and its financiers—Belgian insurance companies and pension funds.

American-Style Skyscrapers

To protect its skyline and prevent overshadowing of its magnificent mediaeval buildings—worth many million francs in tourist money every year—Brussels prohibits erections more than seven storeys high in the centre of the city. But farther away American-style skyscrapers are going up to 38 storeys, including one not far from the city centre at the Gare du Midi, the railway station. Most of the new office space has been rented by US companies on leases of from three to nine years.

Thirteen more office buildings are being planned or have been started, including a 42-storey block with a projected one million feet of office space. Appropriately, another large office and residential development on a 130-acre tract is being styled the "Manhattan Project". It includes what will be Europe's largest hotel with 1,200 rooms and 530 suites.

Since the spring of 1965 the number of American business concerns with headquarters in Belgium has increased from 530 to 670, of which at least 500 are in Brussels. The total value of US investments in Belgium is now over 850 million dollars, well ahead of the second biggest foreign investor, West Germany, which has about 120 million dollars invested in Belgium.

Belgium, especially its capital Brussels, enjoys the lion's share of imported foreign prosperity in Europe for two reasons —it is the headquarters of the Common Market and its government has offered considerable facilities and tax relaxations to encourage the influx. The two factors taken together make Brussels Europe's boom capital.

Many of the US enterprises in Brussels, Paris, Frankfurt and Madrid are new to Europe; some have operated in Europe for generations but have taken real interest in this area only in the last ten years, spurred by the formation and success of the Common Market. As internal tariffs are dismantled within the six member states—France, West Germany, Italy, Belgium, Holland and Luxembourg—American industry feared it would lose markets if it did not quickly establish plants inside one of the Six, which represents a market of 165 million people.

As a result, Americans now dominate the computer industry in Europe, control a large part of the motor car industry, run some of Europe's biggest hotels and manage many of the advertising agencies as well as attract to the USA many of Europe's best business and technical brains. Some big US

(Continued on p. 404)

THIS ANNOUNCEMENT IS NOT A PROSPECTUS. PERSONS INTERESTED IN FULL DETAILS ARE REQUESTED TO OBTAIN COPIES OF THE PROSPECTUS WHICH WILL BE AVAILABLE FROM THE REGISTERED OFFICE OF THE COMPANY AND THE UNDERWRITERS, BROKERS AND BANKERS TO THIS ISSUE HEREUNDER MENTIONED:

Announcement regarding the issue of 75,000—9.3% redeemable cumulative second preference shares of Rs. 100/- each.

THE BIRLA JUTE MANUFACTURING COMPANY, LIMITED

Incorporated as a Public Limited Company on 25th August, 1919.
REGISTERED OFFICE: 15, INDIA EXCHANGE PLACE, CALCUTTA 1.

EXISTING AND PROPOSED ACTIVITIES

Brief particulars of the main existing activities of the Company are as follows:

Name of the Division	Location of Factory	Activities
1) Jute Mills & Carpet Backing Divisions.	Birlapur, 24-Parganas, W. Bengal	Manufacture of Jute Hessian, Sacking, Carpets, Twine Webbing. Narrow & Wide Carpet backing cloth and other jute goods.
2) Calcium Carbide Division.	—do—	Manufacture of Calcium Carbide Liquid & Gaseous Oxygen and Dissolved Acetylene Gas.
3) Staple Fibre Division	—do—	Manufacture of Staple Fibre and Synthetic Yarns.
4) Cement Division—		
i) Satna Cement Works	Satna, M.P.	Manufacture of Portland Cement.
ii) Birla Cement Works	Chittor (Rajasthan)	Manufacture of Portland Cement.

PROPOSED EXPANSION

It is proposed to raise the capacity of the company's Cement Plant at Chittor, (Rajasthan) from 600 tonnes to 1200 tonnes of Portland Cement per day.

BOARD OF DIRECTORS:

Name and Description	Address
1. Shri Madhav Prasad Birla (Ex-officio) (Son of Shri Rameshwardas Birla) Merchant & Industrialist	"Madhukunj", 17B, Gurusaday Road, Calcutta 19.
2. Shri Hira Lall Somany, (Son of Late Murlidhar Somany) Merchant	13, Gurusaday Road, Calcutta 19.
3. Shri Girdhardas Kothari (Son of Late Narsinghdas Kothari) Merchant	"Kothari Niwas", Penn Road, Alipore, Calcutta 27.
4. Shri Jugmohan Prasad Goenka, (Son of Late Murlidhar Goenka) Merchant	11, Ashoka Road, Calcutta 27.
5. Shri Prabhu Dayal Himatsingka, (Son of Late Ramrikhdas Himatsingka) Solicitor	11, Queens Park, Calcutta 19.
6. Shri Rasiklal Maneklal Dalal, (Son of Shri Maneklal Jethabhai Dalal) Share and Stock Broker.	"Vasant Vilas", Babulnath Road, Bombay 7.
7. Shri Brijratan S. Mohatta, (Son of Shri Seth Shivratan Mohatta) Merchant	"Ratnakar", 4th floor, Narayan Dadholkar Road, Malabar Hill, Bombay 6.
8. Shri Nawal Kishore Kejriwal (Son of Shri Ram Kumar Kejriwal) Merchant	12/1, Alipore Park Road, Calcutta 17.

MANAGING AGENTS:

Birla Brothers Private Ltd., 15, India Exchange Place, Calcutta 1.

SHARE CAPITAL

AUTHORISED—			
40,00,000	Ordinary Shares of Rs. 10 each	Rs. 4,00,00,000	
25,000	7½% (Subject to Income-tax) Cumulative Preference Shares of Rs. 100 each.	Rs. 25,00,000	
1,75,000	Second Preference Shares of Rs. 100 each	Rs. 1,75,00,000	Rs. 6,00,00,000
ISSUED—			
20,02,596	Ordinary Shares of Rs. 10 each	Rs. 2,00,25,960	
25,000	7½% (subject to Income-tax) Cumulative Preference Shares of Rs. 100 each	Rs. 25,00,000	
1,00,000	7.86% Redeemable Cumulative Second Preference Shares of Rs. 100 each.	Rs. 1,00,00,000	Rs. 3,25,25,960
SUBSCRIBED AND PAID UP—			
6,98,231	Ordinary Shares of Rs. 10 each fully paid up in cash	Rs. 69,82,310	
12,95,971	Ordinary Shares of Rs. 10 each allotted as fully paid up Bonus Shares by Capitalisation of Revenue Reserve	Rs. 1,29,59,710	
23,642	7½% (subject to Income-tax) Cumulative Preference Shares of Rs. 100 each fully paid up in cash	Rs. 23,64,200	
* 1,00,000	7.86% Redeemable Cumulative Second Preference Shares of Rs. 100 each fully paid up in cash	Rs. 1,00,00,000	Rs. 3,23,06,220
Add: Forfeited Shares (amount originally paid-up)			1,03,850
325	Ordinary Shares of Rs. 10 each, issued as fully paid-up Bonus Shares (to be allotted on receipt of a Court Order in a law suit)		3,250
			Rs. 3,24,13,320

*Note: The Company's 7.86% Redeemable Cumulative Second Preference Shares are redeemable at par on the expiry of 12 years from the date of issue, or earlier, as may be decided by the Directors on giving six calendar months' notice. The Directors have decided in this regard to redeem them on 30th September, 1967.

PRESENT ISSUE:

75,000	Redeemable Cumulative new Second Preference Shares of Rs. 100/- each carrying dividend @ 9.3% per annum free of Company's tax but subject to deduction of tax at source at the prescribed rates (hereinafter referred to "the new Second Preference Shares"). Out of the present issue, 4237 New Second Preference Shares have been subscribed by and allotted to the existing shareholders of the Company pursuant to Section 81 of the Companies Act 1956 and as per resolution passed by the Company at its Extra-Ordinary General Meeting held on 28th March, 1967.	Rs. 75,00,000
		Rs. 4,23,700
NOW OFFERED TO PUBLIC FOR CASH AT PAR 70763 NEW SECOND PREFERENCE SHARES OF Rs. 100/- EACH		Rs. 70,76,300
		Rs. 75,00,000

AMOUNT PAYABLE ON APPLICATION:

The entire amount of Rs. 100/- per share is payable in cash along with the application.

(b) The holders of existing 7.86% Redeemable Cumulative Second Preference shares of Rs. 100/- each may, if they choose, while applying, send relative share certificates of corresponding nominal value duly discharged in lieu of payment of the money payable on application. Such applications may only be lodged at the Registered Office of the Company or at the Office of United Commercial Bank Ltd., at 159, Churchgate Reclamation Bombay-1.

The new shares will rank for dividend from 1st October, 1967.

AUDITORS
H. P. Khandelwal & Co.,
Chartered Accountants,
1/B, Old Post Office Street,
CALCUTTA 1.

SOLICITORS TO THE ISSUE
Khaitan & Co.,
1B, Old Post Office Street,
CALCUTTA 1.

SECRETARY
Shivanath Prasad
6/C, Short Street,
Calcutta 16.

BANKERS TO THE ISSUE:
The United Commercial Bank Ltd., 10, Brabourne Road, Calcutta 1.
The Bank of India Ltd., 23A-B, Netaji Subhas Road, Calcutta 1.
(Including Main Offices of the above Banks at Ahmedabad, Bangalore City, Bombay, Calcutta, Delhi, Hyderabad, Indore, Madras, New Delhi and Poona.)

UNDERWRITERS

Name and Address	Amount Underwritten Rs.
1. Life Insurance Corporation of India, "YOGAKSHEMA", Foreshore Road, Bombay 1.	37,50,000
2. Unit Trust of India, Bombay Life Building, 45, Veer Nariman Road, P.O. Box No. 2000, Bombay 1.	15,00,000
3. Rasiklal Maneklal & Co., Stock Exchange, Old Building, Dalal Street, Fort, Bombay.	6,00,000
4. Chimanlal J. Dalal & Co., 107, Stock Exchange New Building, Dalal Street, Fort, Bombay 1.	4,75,500
5. Harkisondass Lukhmidass, Stock Exchange Building, 5th Floor, Apollo Street, Fort, Bombay 1.	2,75,500
6. Navalchand T. Shah & Co., Union Bank Building, Dalal Street, P.O. Box No. 88A, Bombay 1.	2,75,300
7. Dhirajlal Maganlal Purshotamdas, Stock Exchange Building, Apollo Street, Fort, Bombay 1.	2,00,000
	70,76,300

BROKERS

Bombay

1. Navalchand T. Shah & Co., Union Bank Building, Dalal Street, P.O. Box No. 88A, Bombay 1.
2. Rasiklal Maneklal & Co., Stock Exchange Old Building, Dalal Street, Fort, Bombay.
3. Chimanlal J. Dalal & Co., 107, Stock Exchange New Building, Dalal Street, Fort, Bombay 1.
4. Harkisondass Lukhmidass, Stock Exchange Building, 5th floor, Apollo Street, Fort, Bombay 1.
5. Dhirajlal Maganlal Purshotamdas, Stock Exchange Building, Apollo Street, Fort, Bombay 1.
6. S. A. Deshpande & Co., Stock Exchange Old Building, Dalal Street, Fort, Bombay 1 BR.
7. Kantilal Purtapshi, 95, Stock Exchange Building, Apollo Street, Fort, Bombay 1.

Calcutta

8. G. M. Pyne, Allahabad Bank Building, 14, India Exchange Place, Calcutta 1.

New Delhi

9. Harbans Singh Mehta & Co., 33, Regal Building, Parliament Street, NEW DELHI 1.

Madras

10. Kothari & Sons, Oriental Building, Armenian Street, Madras 1.

OPENING & CLOSING OF THE SUBSCRIPTION LIST:

THE SUBSCRIPTION LIST WILL OPEN AT THE COMMENCEMENT OF THE BANKING HOURS ON FRIDAY, THE 8th SEPTEMBER, 1967 AND WILL CLOSE AT THE CLOSE OF THE BANKING HOURS ON MONDAY, THE 18TH SEPTEMBER, 1967 OR EARLIER AT THE DISCRETION OF THE DIRECTORS BUT NOT BEFORE THE CLOSE OF THE BANKING HOURS ON MONDAY, THE 11TH SEPTEMBER, 1967.

PRESSMAN

(Continued from p. 401)

businesses now earn half or nearly half their profits in Europe. There are many Europeans besides President de Gaulle who are not amused. Belgium's foreign investment success story makes other European achievements in attracting outside investment look small, but some are, in themselves, not insignificant.

Spain is attracting considerable US and West German investment. The USA has this year been Spain's principal trading partner, accounting for 16.8 per cent of Spain's imports, and sees great opportunity in the liberalization of the economy which is opening Spain up to an increasing flow of foreign investment capital.

Krupps are putting up, with the help of a West German government credit of some Rs 550 million, a steel plant at Gijon, in north Spain, which will operate under Krupps' auspices to provide 2.5 million tons of steel yearly from 1972.

With the aid of US oil companies, and possibly a Japanese shipbuilding concern, Spain is proposing to build a crude petroleum terminal of unprecendented size and a major ship repair yard. Spain is farsightedly taking advantage of its strategic location on world maritime routes to prepare for offering ship repair services for the fleets of super-size tankers that will be operating within a few years. Esso International is already building five mammoth tankers (240,000 tons) in Dutch and West German shipyards; the Spaniards are planning to offer facilities for servicing million-ton tankers. Up to the present the biggest tankers so far (300,000 tons) go to Bantry in the Irish Republic, but Vigo, on the north Spanish coast, with a natural harbour depth of 158 feet, offers facilities unparalleled in Europe and as good as the best harbourage obtainable in the Persian Gulf. Spain sees Vigo as the future great oil terminal and exchange in Europe with smaller tankers of 150,000 tons relaying the crude to major European refining centres. In this development American oil industry capital will be prominent.

Similarly, Portugal has already just opened the largest dry dock in Europe at Linsnave on the Tagus to handle tankers up to 300,000 tons. In this venture there is no American capital; the enterprise is jointly financed by Portuguese, Dutch and Swedish shipyards.

Indians in America and Americans in India

CHESTER BOWLES

WHILE I was in the United States last month, I met with an Indian doctor who is serving on the staff of one of our hospitals in Connecticut. Although he was looking forward to his return to India, he was enthusiastic about the mutual benefits which result from Indians working and studying in America and Americans studying and working in India.

When life was lived in isolated communities and subsistence agriculture was man's only form of economic activity, fear and suspicion of outsiders was understandable. But today we live in an era of rapid communications, of disappearing frontiers and of growing dependence on each other. In such a world, we have all become neighbours and we must learn to work together and to understand each other. Yet there are some Americans who still feel that the presence of large numbers of foreigners somehow endangers our way of life. And in India you occasionally hear people say, "Americans are everywhere. Sooner or later we will all become Americanized." These reactions are equally absurd and equally dangerous.

Let us look at the facts.

Indians in America

There are now some 50,000 Indian men, women and children permanently residing, studying and working in the United States. Many of these Indians either are American citizens or intend to become American citizens. They include thousands of doctors, scientists and engineers, a sizable farming community of Sikhs in California and several thousand scholars on the faculties of American universities. Among the Indian citizens temporarily residing in the United States are an additional 7,518 students largely doing postgraduate work. After Canada, India has the largest number of foreign students in America.

In India there are over 8,000 American men, women and children. They include 1,879 employees of the United States government and their dependents; over 1,200 Peace Corps volunteers; roughly 3,000 businessmen with their wives and children who reside here more or less permanently; 192 scholars in Indian universities, and 42 students. Besides, there are some 2,600 Christian missionaries and their families, many of whom are now hard at work in the drought-affected areas of north India. Those who say that these Americans are subverting and undermining the national integrity of India are talking in terms of the nineteenth century. They make no more sense than do those Americans who believe that the presence of foreigners in America is somehow harmful.

The Peace Carps

Let us consider what the Americans in India are doing. One of the largest groups is the Peace Corps. These boys and girls live in villages and small towns where they work on everything from poultry farming to well-digging. Most of them stay here for two years. When they return to the United States they carry with them an abiding affection for the people whose lives they have shared, and a sympathetic understanding for the problems of developing nations everywhere. Except for the small group of foreign service officers who are directly concerned with maintaining relations with the Government of India, by far the largest number of American government employees work on economic development and technical assistance programmes which directly benefit the people of India.

American businessmen and technicians in India, as elsewhere, are primarily in search of ways of investing their capital and of finding challenging outlets for their skills. Most of them stay for many years and are able to contribute significantly to India's economic development and to the strength of India's economy. And when they go home they leave their investments behind.

American scholars and students who live and work with their Indian colleagues, like their Indian counterparts in the United States, return home enriched by their contact with another civilization, eager to pass on their knowledge to thousands of their countrymen.

Although we will occasionally have our differences, all of us—Indians, Russians, Americans, Japanese and Brazilians—are committed by geography, technology and destiny to work, each in his own way, for what Wendell Wilkie once described as "one world." Let there be more exchanges among the nations of the world. In the age of space there can be no arbitrary walls.

Electronic Speeds

W. T. RUNGE

IN INTERVALS of a nanosecond electronically controlled machines can process signals. And technicians are already thinking of measuring much shorter times, even a billionth of a second—called a picosecond. In view of such high speeds in electronics the question arises: to what purpose such high switching speeds are required.

Electrons can move extremely quick under the influence of electronical fields in a vacuum, in which there are no impediments. This phenomenon is exploited in electronic tubes. An electron, which is attracted by a potential difference of 1 V only, reaches a speed of 600 km (375 miles) per second. But once the electron has reached the anode it travels forward in the line quite slowly at fractions of millimetres per second.

The term "electronic speed" has nothing to do with propagation speed, such as the propagation of electro-magnetic waves, because this electro-magnetic procedure is not dependent on material or electrons. Like light, electro-magnetic waves penetrate the vacuum in which no electrons are present. And when voice signals are transmitted in cables—covering thousands of kilometres like lightning—a pushing electron presses on the next one which passes on the pressure. Not the electrons themselves but their pressure is propagated so quickly.

Remarkable Factor

Fast may mean two things. The term "electronic speed" refers to events happening in very short times. The remarkable factor is not the high propagation speed but the high reaction speed, the possibility of accelerating very rapidly or decelerating the electrons. Amplifying tube and transistor render possible the very rapid connection or disconnection of an electron current with very little energy, or the adjustment to an arbitrary intermediate value. This takes place so fast that the electron current can follow accurately and almost without delay the several thousand oscillations of a voice signal or even the millions of oscillations of a radio frequency in a second. This rapid control capability may be expressed in two ways. Either the highest frequency is stated for one second of a controlling AC voltage, which the controlled current can still follow. Then the datum is stated in Mc/s, millions of oscillations per second. Or the shortest time is quoted in which the current can be switched on and off. The datum is then stated in thousandths (milli), millionths (micro) or billionths (nano) seconds.

The possibility of transmitting signals, faster than our senses can perceive, which has been developed for broadcasting, television and radar, and on to computers and data processing systems, allows modern engineers to think in terms of billionths of a second, and even to find the speed of light almost slow.

Engineers have learnt to work with switching pulses shorter than a millionth of a second, and to make adjustments accurate to fractions of such a microsecond. In the Telefunken Research Institute we work nowadays with high-speed pulse generators and pulse counters which react to the next pulse one nanosecond after the arrival of the first pulse. In the laboratory we count with picoseconds, thousandths of a nanosecond.

But with switching speeds of nanoseconds we have still not arrived at the limit of the principal capabilities. In the near future it will definitely be possible to produce pulses of a tenth nanosecond duration and to process them despite such short time intervals. However, to this end the circuit size must be constantly reduced. On the other hand, each pulse must have a certain minimum energy in order to rise above noise.

This minimum energy is converted into heat in the resistors incorporated in the circuit. But more and more heat, in spaces constantly growing smaller, could give rise to serious difficulties in coding. The switching speeds of computers will therefore not continue to increase indefinitely. The efficiency of computers will be enhanced by equipping them with more and more assemblies of even smaller design and by arranging them so that they perform simultaneously many partial operations required for a result.

That we can process large quantities of information in a very short time by connecting many "slow" communications channels in parallel, and that an enormous number of "components" can be accommodated in a very small space, can be demonstrated on the example of the human eye which transmits to the brain for processing the impressions gained by 10 million cells via about a million separate nerve fibres in some hundredths of a second. But nature is satisfied with milliseconds. Why do we engineers want to constantly increase the speed? Why are we attempting to reach picoseconds and frequencies up to a hundred billion oscillations per second?

The economy of systems grows with the mastery of higher communication speeds. If we can double the performance of a telephone cable or a computer without doubling the costs, the single telephone call or the computer result will be cheaper. But apart from more economical running there are problems which can be solved only by mastery of the high electronic speeds.

In order to transmit only the modest picture section for television at a quality bearable for the eye, we need several million picture elements per second. Very often the study of nuclear physics events necessitates the coverage of very short time intervals. The life of antiprotons produced at DESY in Hamburg some time ago amounts to approximately one nanosecond. At present we are able to measure such short times. New knowledge and discoveries may be expected once we are

able to measure a thousandth of a nanosecond, a picosecond, and then find out what the antiproton "experiences" during its life.

Munich's first central-heating power station has been in operation for more than 10 years without even one of the neighbours having had any cause for complaint about dirt and noxious odours. This example clearly shows the efficiency of the electric filters, the equipment of which was made by AEG, Frankfurt/Berlin, West Germany. Without these filters, several tons of dust would escape into the atmosphere and be deposited in the neighbourhood every day. As industrialisation progresses, so the waste products increase with it, polluting water and air. It is therefore urgent and legislation has been passed to this end to arrest these waste products.

Many experiments were carried out to prevent the escape of dust from chimneys. Of all the types of filters developed for this purpose, the electro-filter attained the highest degree of purification for all granulations, 97 per cent to 99 per cent on an average. Electro-filters have proved their efficiency even under the most arduous operating conditions, whether for flue-gas dedusting in thermal power stations, or for exhaust-gas purification in cement works, for dedusting of blast furnace gases or freeing exhaust gases arising in other industrial processes from dirt particles which pollute the air.

Cedi's Devaluation and After

MADAN M. SAULDIE

WHILE WE are still debating the wisdom of devaluation as a corrective measure against the country's economic ills, some of the African countries appear to have picked up a cue from us. It was perhaps our example that urged such countries as the Congo, Mali and Ghana to devalue their currencies. But success there seems as doubtful as it was in our case. Let us study why Ghana went in for it.

It was amidst optimistic postures of economic recovery and successful negotiations on rescheduling of repayment of Ghana's foreign debts that Ghanaians suddenly stood dumb-founded on July 8 when they listened to the Commissioner for Finance, Brig. A. A. Afrifa, announce on the radio that "to reactivate the economy, increase production and employment and set the stage for more accelerated development in the future", the cedi instead of 10 shillings would be worth 7 shillings.

The most important section of Ghanaians who felt immediately perturbed were the traders. Importers who had purchased goods on 180-days credit and had already sold out their goods, received almost a ruinous blow. They are now to pay 43 per cent more to their creditors abroad. Those who had still to dispose of their goods had at least one satisfaction, though much abated, that they would compensate themselves by charging enhanced prices from the prospective customers.

While the traders were still counting their profits and losses as a result of devaluation, the common man was called upon to pay inflated prices, particularly of essential goods. He, therefore, looked more anxiously at what was to follow this drastic step.

Some Relief

There was some relief therefore when the government announced a five per cent increase in all government salaries. Simultaneously sales tax and import duties on basic foods such as milk, flour, sugar, rice, fish, meat and tinned fish, were either abolished or considerably reduced. But the government's failure to give any relief in respect of textiles, footwear, toilet products, etc, has eroded a part of the increase in salaries.

The two main objectives behind devaluation of the cedi were: stimulation of industrial and agricultural production (implying increase in employment) and increasing exports. The government's efforts to liberalise imports of industrial machinery and agricultural equipment and other requirements such as chemicals, fertilisers and insecticides and at the same time restrict the imports of consumer goods except basic foods, do make sense. It is likely to encourage import substitution in Ghana. The new factories for the manufacture of sugar, glass and matches are likely to benefit a great deal, but their contribution to exports will nevertheless be marginal if not negligible. Ghana's haphazard industrialisation, mostly the misdoing of Kwame Nkrumah, prevents that country, at least in the short-term period, to provide any industrial exports. Moreover, manufactured goods cannot compete particularly in industries which have to employ foreign personnel—now a costly affair—and import raw materials and considerable quantities of spares and equipment.

Cocoa is the major foreign exchange earner for Ghana. The average exports during 1959-65 were NC (new cedi) 100 million a year, i.e., 60 per cent of total exports. Timber logs and processed woods exports worth NC 35 million came next, contributing about 20 per cent of the total export bill. The rest of the exports are covered by manganese, gold and diamonds, kola, coffee and palm kernels.

Stimulant to Production

Cocoa exports are unlikely to increase at least in the short-term period because of the declining output in recent years. Moreover, world price of cocoa is governed by the interplay of supply and demand and is quoted in dollars and sterling pounds; devaluation therefore does not affect this price. But the government through devaluation, coupled with the 30 per cent increase in the cocoa producer price granted by it, can stimulate production to a considerable extent which however will take its own time to go up. Ghana might in due course be able to sell additional quantities in the world market. And even if this brings down the international price through increased supplies, the overall earnings in terms of cedis will certainly go up.

To achieve this objective, the government must check smuggling of cocoa across the borders into Ivory Coast and Togo where the producers obtain higher prices. It is estimated that 25,000 to 40,000 tons of cocoa were smuggled out of Ghana last year and sold at NC 205 per ton against NC 186 per ton in Ghana. The devaluation and the incentives such as 30 per cent producer price increase might make it a less lucrative proposition now, although smuggling, for which there are established channels, will take long before it could be completely controlled. Moreover, addicted as Ghanaians are to imported goods, smuggling might still provide them the only means of getting requirements cheaply.

Devaluation, however, will benefit the government revenue by an increase in the cocoa duty. For in terms of cedis the price of cocoa will go up significantly. If, because of the nature of the world price Ghana's cocoa is made neither more nor less competitive as a result of devaluation, what about other exports? Timber, manganese, gold, diamonds and palm kernels are likely to benefit but increasing costs of mining due to costly expatriate labour make this benefit appear only marginal. Devaluation will in any case make Ghana more attractive to foreign investors particularly in view of the liberalisation of remission of profits and reduction in taxation on imports.

It appears that devaluation cannot serve as a panacea for Ghana's economic ills and by itself will solve very little. Much will depend on the government's efforts in making full use of the new set of circumstances devaluation has generated. As in our country, prompt follow-up action is needed in Ghana also.

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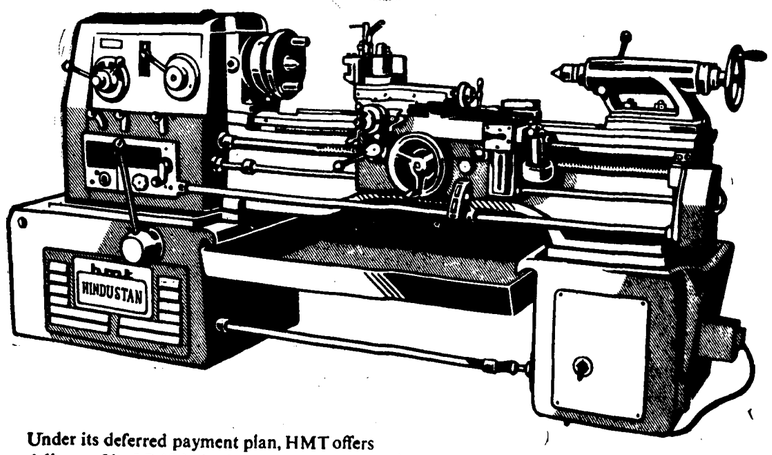

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Trade Winds

NON-BANKING COMPANY DEPOSITS

THE RESERVE Bank of India, while concluding that no basic changes in the framework of its control exercised over the working of the non-banking companies is either necessary or desirable, has decided to make certain modifications in its two directives to obviate hardships, particularly to industrial undertakings, in complying with the provisions of the directives within the specified time-limit in view of the current recession. The changes are outlined below.

In the case of all non-banking companies, financial or non-financial, the bank has now decided that any amount held in the statutory development rebate reserve, created under section 34(3) of the Income-tax Act, 1961, may (notwithstanding the fact that the period of eight years specified in that section might not have been completed in respect of all the assets), be counted as a free reserve. The necessary amendments for this purpose are being made in the directives issued by the bank in the case of both financial and non-financial companies. In the case of industrial concerns, as defined in the directives, which (a) have paid dividends on their equity shares at six per cent or more per annum in the five years or in five out of six or seven years immediately preceding January 1, 1967, or (b) had unencumbered fixed assets as on January 1, 1967, of a book value in excess of twice the amount of the deposits and unsecured loans outstanding on that date, the time-limit of two years, for the adjustment of the deposits already received in excess of twenty-five per cent of the paid-up capital and free reserves including the development rebate reserve, will be increased to five years, that is to say, up to the end of December 1971. However, a company, which has already received deposits in excess of this limit, will not be permitted to receive any additional deposits. In regard to the payment of interest by non-banking companies in respect of deposits which are prematurely withdrawn before the maturity dates, it has been decided that the two orders issued in April 1967 should be liberalised, by permitting in the case of premature withdrawals before the expiry of six months or one year, as the case may be, the effective rates, which banks themselves are now offering for similar periods and in the case of withdrawals thereafter, the contracted rates less one per cent as in the case of banks.

LIBERAL FINANCE BY I.D.B.I.

The Industrial Development Bank of India has announced the liberalization of its scheme for refinancing medium-term export credits and rediscounting of bills and promissory notes with a view to stimulating the flow of credit to priority sectors, agriculture and small industries and, in the context of the current recessionary trends, to domestic engineering industries. A press note issued by the bank on August 22 says: "The maximum period of export credit available for financing medium-term exports, which was for not more than five years under the scheme, will be extended in respect of capital goods to seven years in deserving cases, and up to 10 years in exceptionally deserving cases, where a period less than 10 years will not meet the needs of the situation. In the case of producer goods as well, the period will be extended beyond five years in worthy cases, e.g., where the supply of such equipment forms a part of a contract for execution of a large and complete project. The loans eligible for refinance should, of course, be covered by appropriate policies of the Export Credit and Guarantee Corporation. The necessary exemption under Rule 6 of Foreign Exchange Regulation Rules, 1952, will also have to be obtained from the Reserve Bank. The facility which is at present normally extended in the case of exports of capital or engineering goods has been extended to cover finance for the overall cost of construction projects executed by Indian concerns abroad where the bulk of the construction contracts constitute equipment, material, services, etc., of Indian origin. The credit facilities will now be provided at a uniform rate of 4½ per cent per annum and the financing institutions would be required not to charge the exporters more than six per cent per annum. With a view to widening the range of assistance for financing capital equipment in agricultural and small industries as well as meeting capital needs where requirements of capital goods can be obtained from indigenous sources, the minimum amount of transaction covering a set of bills/promissory notes representing the deferred payment sale of machinery eligible for rediscounting facilities, has been abolished in the case of agricultural implements and reduced from Rs 50,000 to Rs 10,000 in the case of other machinery; further, the maximum limit of Rs 25 lakhs prescribed under the scheme in respect of rediscounting of bills relating to any single purchaser, over a year, has been raised to Rs 50.00 lakhs. With a view to removing genuine difficulties of machinery manufacturers, the maximum period of deferred payment will be extended up to seven years in deserving cases in respect of deferred payment sales of plant and machinery for textile, jute, sugar, cement and paper industries, costly machine tools and agricultural and allied equipment of a capital goods nature. The rate of rediscount of five per cent per annum will be charged for bills/promissory notes having an unexpired usance of more than 60 months so as to ensure that the cost of finance to the discounting institution will be of the same order as at present. The rediscounting facilities to the eligible financing institutions will, however, be extended only where they do not charge more than two per cent above the respective rediscounting rates for discounting the bills/promissory notes of their customers. In view of the special problems of the transport industry and having regard to the traditional hire-purchase financing prevalent in it, introduction of a separate scheme for financing these hire-purchase transactions by extending rediscounting facilities to the transport industry is under IDBI's active consideration. A separate press note in this regard will be issued soon.

WORLD BANK LOANS

The World Bank announced last week that it made loans of $877 million in the year 1966-67 and increased its capital by more than $423 million. A financial statement for the year ended June 30 said loans were made to 35 developing countries, including five separate loans to Brazil. The bank's total reserves rose to $1,183 million during the year while its outstanding funded debt stood at $3,075.20 million last June 30. During the year Singapore and Guyana became members of the bank and Indonesia, which had left the organisation in 1965, rejoined—bringing the number of member-states to 106. The statement said that on June 30, the bank's subscribed capital amounted to $22,849.80 million compared with $22,426.40 million a year earlier. Its income during the year was $170 million, the statement said. During the year, nine countries received two separate bank loans—Colombia, Honduras, Jamaica, Malaysia, Pakistan, Philippines, Singapore, Thailand and Trinidad and Tobago. Eight countries increased their subscriptions to the bank's capital—Syria, Morocco, Venezuela, Iraq, Canada, Nicaragua, Greece and Liberia. The bank's executive directors have decided to recommend to the board of governors, for action at their September meeting in Rio de Janeiro, that the balance of the year's net income, which amounted to $10 million be transferred to the bank's affiliate, the International Development Association.

SABARIGIRI POWER PROJECT

The 300,000-kilowatt Sabarigiri hydro-electric project in Kerala—one of the India's largest—was inaugurated on August 28 by the Vice-President, Mr V. V. Giri. The project has been almost entirely financed by US government loans: $20.2 million (Rs 15.15 crores) in foreign exchange, plus Rs 21.06 crores in Indian currency derived from the sale of PL 480 agricultural commodities. The mammoth project, which harnesses the power

potential of the Pamba and Kakki rivers has been designed and constructed entirely by Indian engineers. It includes the construction of a dam across the Pamba and two dams across the Kakki. Four of the project's six 50,000-kilowatt generators are already in operation. The other two will be commissioned by the end of this year. The industrial and agricultural economy of Kerala has already felt the impact of Sabarigiri power. The chronic power famine, which plagued the state for the past several years, has now ended. New enterprises which have been commissioned in recent months or are scheduled to go into production in the coming year include factories producing chemicals, textiles, tyres, cement, rayon, nylon, cycles, firebricks, glassware, vanaspati, soap, paper and plywood. Plans are under way to expand the existing fertilizer, aluminium and several other industries. Agriculture is benefiting from Sabarigiri through a large-scale expansion of lift irrigation. Electrically operated pumpsets are helping farmers to bring more land under the rice crop. Another sifgnificant use of electricity is the pumping out of salt water from low-lying areas back to the sea.

WEST GERMAN AID

An agreement for DM 250 million (Rs 47 crores) was signed in Bonn on August 25 between India and the Federal Republic of Germany as part of West Germany's contribution for 1967-68 within the framework of the Aid India Consortium. A substantial part of the commodity credits under the agreement are untied loans enabling India to finance imports of any item from any hard currency country of its choice. Of the commodity credits, Rs 7.5 crores have been set aside for the import of fertilizers.

MANDI AGRICULTURAL PROJECT

The Government of West Germany has decided to make available a further sum of Rs 1.78 crores for the Indo-German agricultural programme in Himachal Pradesh. The amount already spent on this project comes to Rs 1.75 crores. The additional grant will make possible the extension of the projects in Mandi and Kangra to the neighbouring Sirmur District, the supply of new agricultural implements and other means of production and the expansion of the services of the German agricultural experts. Apart from an increase in the scope and intensity of the work this also entails a prolongation of the whole programme by four years, which, in the opinion of the experts, will help greatly to secure the gains achieved so far. The Mandi project was launched on May 14, 1962. The remarkable achievements since then—among them a doubling of the yield of some important staple crops—have motivated the West German government's decision to match this success by doubling its contribution to it. The new funds do not include the additional grants allocated for the Nilgiris project, where another Indo-German agricultural development scheme has been started recently.

INDO-AFGHANISTAN TRADE

Import of fruits (both dry and fresh), asafoetida, cuminseeds and medicinal herbs from Afghanistan will be allowed during the period of validity of the trade arrangement for 1967-68, i.e., from August 1, 1967 to July 31, 1968, in pursuance of the trade agreement between the Government of India and the Royal Afghan Government. Customs clearance permits for import of goods from Afghanistan will be issued to approved importers, namely, those who participated in the Indo-Afghan trade in those commodities during the four years ended June 30, 1956, and were already registered. The Afghan government's nominee firms registered as approved importers are also eligible to get these permits. The commodities, mentioned in schedule B to the 1967-68 trade agreement, which could be exported to Afghanistan include cotton and woollen piece-goods, dhotis, saris and knitted garments, silk, art silk and rayon fabrics, handloom fabrics, jute manufactures, confectionery, tea, coffee, spices, fish, hydrogenated oils, vegetable oils and oilseeds, essential oils, tobacco (raw and manufactured), chemicals, pharmaceuticals, engineering goods, electrical goods, household and building requirements, steel furniture, surgical and medical instruments, rubber manufactures, leather manufactures, handicrafts and cottage industry products, coir and coir products, sports goods and cigarettes.

STUDY GROUP ON L.I.C.

The Administrative Reforms Commission has appointed a working group on life insurance administration to examine the organization and working of the Life Insurance Corporation of India. The terms of reference of the group are to see that the business of the LIC is developed to the best advantage of the community and is conducted on business principles. The group will also make recommendations for the improvement of the business of the corporation and the service provided by it to policy-holders. The group will suggest in-built agency or agencies for securing corrective action as well as furthering the growth of business. The group is headed by Mr T. Viswanathan, MP. The other members are: Mr B. V. Narayana Reddy, Retd General Manager, Bank of Mysore; Mr Randhir Singh Choudhari, MP and Mr B. K. Shah, Managing Director, New India Assurance Company Ltd.

L.I.C. BUSINESS

The total new business of the Life Insurance Corporation of India in July 1967 amounted to Rs 53.84 crores involving 93,849 policies. The amount includes foreign business of Rs 67 lakhs. During the month, the southern zone of the corporation completed the highest amount of new business worth Rs 15.57 crores followed by the western zone with Rs 13.85 crores and the eastern zone with Rs 10.04 crores. The northern and the central zones did business worth Rs 8.14 crores and Rs 5.57 crores, respectively. The total business completed by the corporation, including foreign business, during the first four months of the current financial year (April to July 1967) was worth Rs 141.26 crores. The period showed an improvement in foreign business which stood at Rs 2.34 crores compared to Rs 2.02 crores during the corresponding period of last year.

REPAYMENT OF YEN CREDIT

Japan has reduced the rate of interest for new yen credits to India slightly and increased repayment period by three years. The interest is being lowered by 0.25 per cent—from 5.75 to 5.50 per cent. Repayment period for non-project credits is proposed to be raised to 18 years and that for refinancing credit to 15 years. Rate of interest on $45 million credit this year, pledged in last April for non-project items, will be 5.50 per cent. Rate of interest on $45 million non-project credit for last year will remain at 5.75 per cent. This year's $45 million aid includes $6.10 million for refinancing of charges on past Japanese loans. While the rate of interest for this credit will be 5.50 per cent, its repayment period will be 15 years against ten years set last year, when refinancing credit of $2.50 million was included in that year's total credit amounting to $45 million. Debt charges increased this year and non-project aid correspondingly decreased. Actual non-project aid this year is just under $39 million, as $6.10 million will go to refinance past debts. Japan was asked to give all her annual $60 millions in this form, but after a hard bargaining last year, she decided to commit only up to $45 million, which again included refinancing credit.

INDUSTRIALISTS' MISSION TO JAPAN

A delegation consisting of 10 industrialists will leave this country on September 11 for a 10-day visit of Japan to have talks with Japanese industrialists and officials on the expansion and diversification of Indo-Japanese trade. It will also discuss the possibilities of more Indo-Japanese joint industrial ventures and investment of private Japanese capital in India. Mr L. N. Birla, President of the Federation of Indian Chambers of Commerce and Industry, will lead the delegation. Other members of the delegation are: Mr Shriyans Prasad Jain, Mr S. L. Kirloskar, Mr Pravinchandra V. Gandhi, Mr K. N. Mookerjee, Mr G. K. Devarjulu, Mr Charat Ram, Mr K. R. Srivastava, Mr K. K. Jajodia and Dr Ram Gopal Agarwal.

NATIONAL DEFENCE FUND

Contributions to the National Defence Fund up to the end of July, 1967, amounted to Rs 80.41 crores. Of this, Rs 19.78 crores were contributed from September 1, 1965, and Rs 1.16 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 July, 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.

EXPORTS FROM KANDLA

The exporters in the Kandla Free Trade Zone will be treated on par with registered exporters in the rest of India for the purpose of grant of import licence. The decision has been taken by the Ministry of Commerce after considering the question of extending the provisions of the import policy for registered exporters to the exports made from Kandla Free Trade Zone to other countries. Only manufacturer-exporters from Kandla Free Trade Zone, holding valid registration certificates, issued to them by the Administrator, Kandla Free Trade Zone, will be eligible to the benefit of the import policy for registered exporters. They will not be required to get themselves registered for different export products with the concerned export promotion councils or commodity boards. Requests for grant of import licences for import of raw materials, components and spares required for the first six months of export production will be considered on merits. Applications for import licences should be made on a quarterly basis in the prescribed form so as to reach the Assistant Controller of Imports and Exports during the month succeeding the quarter of export. These provisions will apply to exports made with effect from July 1, 1967, in respect of all export products mentioned in Index to Section III, Part B of the current Import Trade Control Policy Book, except gem, jewellery, cinematographic film (exposed) and handicrafts.

FORWARD TRADING IN JUTE

The East India Jute and Hessian Exchange Ltd, Calcutta, the only association which deals in forward trading in jute goods, has been asked by the government, under a notification issued on August 24, to suspend entering into forward contracts other than (i) transferable specific delivery contracts and (ii) non-transferable specific delivery contracts in jute goods for a further period of seven days with effect from August 25. The earlier order issued on August 17, expired on August 24.

LEVY ON MAN-MADE FIBRE

Indigenous producers of man-made fibre and yarn have been asked to absorb fully the increased duty on their products and to ensure that there is no increase in the prices charged at the consumers' point over the average pre-budget prices. This is stated in a press note issued by the Government of India last week. In the case of Terene, however, it is expected that the absorption, both by the fibre producers and the spinners, of the cumulative increased duty on fibre and yarn would be about 50 per cent of which the absorption by the fibre producers is limited to Rs 4.50 per kg. It will be remembered that while certain reliefs were given in the level of excise duties proosed earlier on man-made fibre/yarn by the Finance Minister in the central budget, no reduction in the rate of excise duty was made in the case of Terene on the plea that it is largely used to produce fabrics which are consumed by the relatively well-to-do sections of the population. Similarly, no reduction was given in the excise duty on staple fibre. With the cuts in excise duty announced by the Finance Minister, the net increase in the level of excise duties over the pre-budget levels is only nominal.

INTERNATIONAL COFFEE MEET

An Indian delegation headed by the Union Deputy Minister of Commerce, Mr Shafi Qureshi, is participating in the 10th session of the International Coffee Council which started its deliberations in London from August 21. The meeting is important in the sense that it will fix the basic quotas for the next five years. The membership of the council is such that 39 coffee exporting countries and 25 coffee importing countries, accounting in all for 99 per cent of the world export of coffee and 96 per cent of world import of coffee are represented on it. Our country has at present a quota of 360,000 bags of coffee, fixed in 1962, which is about 21,600 tonnes (one bag is equal to 60 kg). India this year had a bumper crop of coffee, estimated at about 78,000 tonnes. The internal consumption of coffee accounts for 37,000 tonnes a year leaving an exportable surplus of 41,000 tonnes. Apart from the export of 21,600 tonnes to the 'quota countries', India also had exported 8,000 tonnes to non-quota countries, chief among whom was the USSR.

"BON" INSTANT COFFEE

The Brooke Bond India Private Limited—leaders in tea and coffee distribution in our country—have placed for sale on the market a new instant coffee with the brand name of "Bon". The hundred per cent pure coffee, with its "roasty, roasty flavour" is manufactured in the world's most modern plant at Ghatkesar, 18 miles from Hyderabad. India's largest, the plant was fabricated by the famous Danish firm, Niro Atomizer Limited, and was erected mostly by Indian engineers. An interesting feature of the manufacture is the precision-controlled, fully automatic process of separating the water soluble part from the coffee beans. The coffee granules thus formed retain the original flavour of real coffee beans and burst into life the moment hot water is added in the cup. The introduction of the new product is a logical extension of the activities of Brooke Bond, which currently meet over 30 per cent of total tea and 14 per cent of coffee requirements of our country. But, as Mr T. S. Nagarajan, Chief Executive (Sales) of the company pointed out at a function held in New Delhi, "Bon" was the result of the most meticulous planning and product development ever carried out by a marketer of beverages in our country. A mass-scale consumer and trade survey to cover the entire Indian market was carried out to ascertain people's coffee drinking habits. According to this survey, while the consumption of coffee had steadily gone up over the years in India as a whole, it had done so more rapidly in north India. To meet this increasing demand, Brooke Bond have plans to put up another and a bigger instant coffee manufacturing plant. Instant coffee has a great export potential and Brooke Bond's contacts in tea markets the world over (they earn annually over Rs 14 crores in foreign exchange) should be of great help.

Our New Telephone Numbers

EDITOR	383425
EDITORIAL DEPARTMENT	381899
MANAGERIAL DEPARTMENT	384856

(Effective from September 2, 1967)

Company Affairs

BIRLA JUTE ISSUE

THE BIRLA Jute Manufacturing Co. Ltd will enter the capital market on September 8, 1967, with an issue of 75,000 redeemable cumulative second preference shares (9.3 per cent) of Rs 100 each. The issue will close on September 18 or earlier at the discretion of the directors but not before September 11, 1967. The main existing activities of the company are the manufacture of jute hessian, sacking, carpets, twine webbing, narrow and wide carpet backing cloth and other jute goods at its factory at Birlapur in West Bengal. The company also manufactures calcium carbide liquid and gaseous oxygen and dissolved acetylene gas in its calcium carbide division and staple fibre and synthetic yarns in its staple fibre division at Birlapur in West Bengal. The cement division of the company has two cement works, one at Satna in Madhya Pradesh and the other at Chittor in Rajasthan. The company proposes to raise this amount to increase the capacity of its cement plant at Chittor (Rajasthan) from 600 tonnes to 1,200 tonnes of portland cement per day. Out of the present issue, 4,237 new second preference shares have been allotted to the existing shareholders of the company and the remaining shares (70,763) are offered to public for cash at par. The new shares will rank for dividend from October 1, 1967. The entire public issue has been underwritten by Life Insurance Corporation of India (Rs 37.50 lakhs), Unit Trust of India (Rs 15 lakhs), M/s Rasiklal Maneklal & Co. (Rs 6 lakhs), M/s Chimanlal J. Dalal & Co. (Rs 4.76 lakhs), M/s Harkisondass Lukhmidass (Rs 2.76 lakhs), M/s Navalchand T. Shah & Co. (Rs 2.75 lakhs), and M/s Dhirajlal Maganlal Purshotamdas (Rs 2 lakhs). The present authorised capital of the company is Rs 6 crores and issued capital is Rs 3.26 crores. The directors of the company have decided to redeem the 7.86 per cent redeemable cumulative second preference shares which are redeemable at par on September 30, 1967. The holders of these shares, if they choose, can send their share certificates of corresponding nominal value duly discharged in lieu of payment for the new shares.

INDIAN IRON

Mr Biren Mookerjee, Chairman of the Indian Iron and Steel Company Ltd stated at the annual general meeting held recently that the expansion project was in fact a measure of balancing the plant, which was expected to increase its steel production by 300,000 tonnes every year. Another major project in hand at the moment was the development of the company's collieries. The proposed expansion, he added, was a necessity as it was only by increasing its total output by rigid adherence to quality production and a wide range of products that the company could hope to reduce its cost of production. He pointed out that the existing major units of production at the Works such as the coke oven batteries and blast furnaces, with progressively improved raw materials already possess installed capacity to produce the additional iron required for the increased production envisaged by the project. Certain items of balancing plant were, however, necessary to utilise this capacity to its fullest extent. Naturally with increased production there should be a decline in overheads making its products more competitive. The collieries development project has been proceeding according to its revised schedule although problems of non-technical nature had caused some concern.

The Chairman pointed out that the Kulti foundries of the company exceeded 200,000 tonnes production during 1960-61 and after that the level of production has been maintained well above this figure. The output during 1966-67 was around 197,000 tonnes. This decline was partly because of the fact that certain orders by intending purchasers were suspended due to lack of finance. Realising the impact of the impending recession, efforts were made by the company to rationalise production in line with the changing pattern of demand. He also stated that to relieve the financial pressure caused by the accumulation of stocks of semi-finished and finished materials the company had embarked on a major export drive. It had secured export orders for spot lots of pig iron and had concluded negotiations for the export of pig iron to Japan.

SOUTH MADRAS ELECTRIC SUPPLY

Mr K. A. P. Visvanatham, Chairman, the South Madras Electric Supply Corporation Ltd revealed at the annual general meeting held recently that the gross realisation during the year under review by way of sales increased by Rs 10 lakhs over the previous year. The directors, he added, recommended an equity dividend of 12½ per cent inclusive of the interim dividend already paid. He indicated that the company obtained a loan of Rs 29.25 lakhs from the government for fulfilling the agricultural crash programme in the district of Tanjore. The company succeeded in connecting more than 800 pumpsets in the district and spent about Rs 28 lakhs. The Chairman added that in some cases the company was ready to supply power but the agriculturalists were yet not prepared to receive it. The crash programme has been implemented by the company since November 1965. Mr Viswanatham pointed out that the company was assured a 10 per cent return on the investment and the government had offered to subsidise any shortfall on this account. The company has now ascertained the shortfall which amounts to nearly Rs 4.50 lakhs. The Chairman stated that the company will be shortly filing the claim before the government and he hoped that it would be settled at an early date. This crash programme is likely to yield fairly good results and its extension to Trichy district was likely to prove a step forward towards the improvement of our agriculture. However, in view of the huge loss sustained by the company in implementing this programme in the Tanjore district, the Chairman stated that the government had been approached to assure that the company would not be called upon to bear any loss in fulfilling such programmes.

Mr Visvanatham also stated that the Government of Madras announced its intention to acquire the electricity undertakings now operating in the district of Tanjore amongst which was included the Mayavaram-Mannargudi-Tiruvarur licence of the company. As soon as a decision was taken on this account, an extraordinary general meeting of the company was proposed to be held to elect a representative to look after the claims for compensation. The Chairman also stated that the Board of Directors might take this opportunity to recommend to the shareholders the best possible method of deploying the amount received by way of compensation.

FERTILISERS AND CHEMICALS

Fertilisers and Chemicals Travancore Ltd has shown recovery after four years of losses and has earned a net profit of Rs 43.46 lakhs after providing a little over Rs 1 crore for depreciation. The directors have, however, decided to skip the dividend on ordinary shares in view of accumulated loss. A major factor for the poor record in the past has been the power shortage. In some years, the cut clamped down upon industry went up to as high as 75 per cent. Neither could such power as was made available be fully relied upon, because there were frequent voltage drops and miscellaneous minor power failures. In 1965-66, production worth at least Rs 2.68 crores was lost on account of the power cut. Even during the early months of 1966-67, power restrictions of some kind were in force, and only after June 1966, the company could get its full requirements of power. Since then the company has resumed normal operations. Another factor which restricted production was the shortage experienced in imported raw materials like rock phosphate and sulphur. As against 60,000 tonnes of sulphur required during the year to achieve rated capacity production, the company received only 33,528 tonnes due to a world shortage of this material.

MYSORE ELECTRICAL

Despite a rise in sales to Rs 233.57 lakhs from Rs 226.73 lakhs during the year ended March 31, 1967, the Mysore Electrical Industries Ltd has earned a slightly lower gross profit of Rs 30.64 lakhs than last year's figure of Rs 35.66 lakhs. Allocations include: depreciation Rs 6.26 lakhs, development rebate reserve Rs 79,635 and taxation Rs 13 lakhs. The net profit is around Rs 10.58 lakhs. General reserve gets Rs 10.55 lakhs, from which equity dividend at 10 per cent will be paid. The dividends will absorb Rs 6.19 lakhs as the rights shares issued in December 1965 will rank for full dividend as also the bonus shares issued during the year. The current year's working is expected to be maintained. The company has obtained a medium-term loan of Rs 20 lakhs. Arrangements are being made to import the necessary capital equipment. The expansion plan is expected to be completed in the next 12 to 18 months.

TELCO

The operations of the Tata Engineering and Locomotive Co. Ltd, have suffered a setback during the past few months. The company's sales for the first four months of its current year have been slightly lower at Rs 25.89 crores compared with Rs 26.64 crores for the corresponding period of 1966-67. The number of vehicles sold in this period has dropped to 5,459 from 5,740 in the corresponding period last year. Revealing this at the company's annual meeting in Bombay recently Mr J. R. D. Tata, chairman, stated that although it was in a position to manufacture 2,000 vehicles a month from October 1966, it could not achieve that level of output primarily because of labour unrest. Although the management had raised wages to the tune of Rs 1 crore and spent Rs 14 crores more on equipment, it was not getting a commensurate production. Considering the existing conditions, Mr Tata indicated that the company had decided not to undertake any expansion of its production capacity. It had also decided to effect future expansion, whenever necessary, at Poona rather than at Jamshedpur. The management had no interest in the small car project as it felt that it was impossible to make a really good small and low-priced car within the present target of production. Actually, Mr Tata felt, there was room for a quality car for which people were ready to pay more considering its longer and better service. He said that the company was considering an issue of convertible debentures.

BAJAJ AUTO

The directors of Bajaj Auto Ltd propose to pay a higher equity dividend of 10 per cent for the year ended March 31, 1967 as against 8 per cent paid for the previous year. The proposed dividend is payable on a higher capital as raised by the rights issue during the year. The rights shares rank for a pro-rata dividend which works out to one rupee a share. The higher dividend follows a marked rise in profits and sales. The company has earned a gross profit of Rs 52.49 lakhs against Rs 40.27 lakhs, a rise of 30 per cent . The company's sales have increased by 80 per cent to Rs 414.46 lakhs from Rs 230.74 lakhs in the previous year.

The company's net profit amounts to Rs 10.96 lakhs against

5¾ PER CENT ANDHRA PRADESH STATE DEVELOPMENT LOAN, 1979

Issue Price Rs. 97.00 per cent

Open on the 1st September 1967

The Loan will be closed without notice as soon as the subscriptions amount to Rs. 10.00 Crores approximately and in any case not later than the close of the business on the 9th September 1967.

Applications will be received at (a) the offices of the Reserve Bank of India, Bangalore, Bombay (Fort and Byculla), Calcutta, Kanpur, Madras, Nagpur and New Delhi, (b) the branch of the State Bank of India at Patna, (c) the branches of the State Bank of Hyderabad and the State Bank of Mysore conducting Government treasury work in the State of Andhra Pradesh, (d) the branches of the State Bank of India in the State of Andhra Pradesh at places not covered by item (c), and (3) the Government treasuries and sub-treasuries in the State of Andhra Pradesh at places not covered by items (c) and (d).

FULL PARTICULARS CAN BE OBTAINED at any of the offices or Branches mentioned above or at any Treasury or Sub-Treasury in the State of Andhra Pradesh.

Rs 3.91 lakhs after providing Rs 25.22 lakhs for depreciation, Rs 2.30 lakhs for development rebate reserve and Rs 14 lakhs for taxation. The entire net profit has been transferred to the general reserve out of which the proposed equity dividend amounting to Rs 7.12 lakhs will be paid.

PAPER PRODUCTS

The Paper Products Ltd has shown good progress during the year ended July 31, 1967. The conversion plant at Thana has registered a marked improvement in performance by completing a turnover of Rs 2.78 crores (subject to audit) against Rs 2.22 crores in the previous year. The paper mills at Roha faced a strike of 65 days, but sales were maintained around Rs 77.93 lakhs against Rs 79.34 lakhs in the previous year. Sales of the conversion operations at Faridabad rose from Rs 5.52 lakhs to Rs 10.55 lakhs despite frequent power failure in the plant. The conversion unit at Madras is expected to go into production this year.

CAPITAL AND BONUS ISSUES

Consent has been accorded to six companies to raise capital amounting to more than Rs 1.35 crores. Five of them are to issue bonus shares exceeding Rs 35 lakhs. The amount of bonus shares ranges between Rs 16 lakhs and Rs 62,000. The consents are valid for 12 months.

Carona Sahu Co. Ltd, Bombay, has been accorded consent to capitalise Rs 16 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two bonus shares for every share held.

Samuel Osborn (India) Ltd, Calcutta, is permitted to capitalise Rs 14 lakhs from general reserve and issue bonus shares in the ratio of 14 new equity shares for every equity share held.

Homco Engineering Works Private Ltd, Calcutta, has been granted consent to capitalise Rs 3,88,200 from general reserve and issue bonus shares in the ratio of six for five held.

Sigil (India) Services (Private) Ltd, Bombay, has been given consent to capitalise Rs 1 lakh out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for five shares held.

Rational Art & Press (Private) Ltd, Bombay, is permitted to capitalise Rs 62,000 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two held.

Organon (India) Ltd, Calcutta (under formation), is also permitted to issue capital of Rs 1 crore in equity shares of Rs 100 each for cash at par, 49 per cent of which will be subscribed by the Dutch collaborators and the balance by private subscription.

LICENCES AND LETTERS OF INTENT

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

During the Week ended June 24, 1967

LICENCES ISSUED

Synthetic Resins & Plastics

M/s. The Ahmedabad Manufacturing & Calico Printing Co. Ltd, Calico Chemicals and Plastics Division, Anikchembur, Bombay-74, AS. (Anikchembur, Bombay, Maharashtra): Poly Vinyl Chloride (PVC) and its Copolymers—20,000 tonnes after expansion. (S.E.).

Drugs and Pharmaceuticals

M/s. Crookes Interfran Ltd, 254-D, Dr. Annie Besant Road, Worli, Bombay-18. (Bombay, Maharashtra): Paracetamol—10 tonnes; Aluminium Glycinate—5 tonnes; 8-Hydroxyquinoline—10 tonnes. (N.A.); M/s. Sarabhai Chemicals, Wadi ° Wadi. Baroda. (Baroda, Gujarat): Rechlor Capsules—35 lakhs capsules; Kenaderma Ointment—5 lakhs Tubes; Kenaderma Cream —2,50,000 Tubes; Nyzet Tablets—400 lakhs Tablets. (N.A.).

Sugar

The Chief Promoter, Kalambar Vibhag Sahakari Sakhar Karchana Ltd, C/o. Nanded Distt. Central Co-operative Bank Ltd., Nanded Distt. Nanded, Maharashtra State. (Bhopalwadi Kalambar Village, Taluk Kandhar, Dist. Nanded, Maharashtra State): Installed crushing capacity of Sugar Cane—1250 tonnes per day. (N.U.); M/s. Sri Vijayarama Gajapati Co-operative Agricultural and Industrial Society Ltd, Bhimasingi, Co-operative Central Bank Buildings, Vizianagram, Andhra Pradesh. (Bhimasingi, District Visakhapatnam, Andhra Pradesh): Installed crushing capacity of sugar cane—1250 tonnes per day. (N.U.).

LETTERS OF INTENT

Metallurgical Industries

Shri Prabhu Dayal Agarwal, 32, Southern Avenue, Calcutta-29. (Bihar): Colled Rolled Strips and Box Strappings—10,000 tonnes. (N.U.); M/s. Modi Industries Ltd, Modinagar. (Modinagar, Uttar Pradesh): Colled Rolled Steel Strips—10,000 tonnes. (N.U.).

Rubber Goods

M/s. Indian Rubber Regenerating Co. Ltd., Kamani Chambers, Nicol Road, Ballard Estate, Bombay-1. (Thana, Maharashtra): Reclaimed Rubber—7,000 tons. (S.E.).

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

From Government Porcelain Factory, Bangalore to Messrs. Mysore Porcelains Limited, Bangalore.

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

M/s. Annamalair Mills (P) Ltd, Dindigul—Cotton Cloth.

During the Week ended July 1, 1967

LICENCES ISSUED

M/s Bayer (India) Ltd, 82, Veer Nariman Road, Bombay-1 (BR). (Kolshet Road, Balkum Village, Thana Taluka, Maharashtra State): Folidol E 605 (litres)—650,000; Folidol M 50 (litres)—200,000; Folidol Dust 2 per cent (tonnes)—4,500; Metacid Combi Liquid (litres)—200,000; Metacid Combi Dust (Tonnes)—400; Dalf 20 per cent, Baytex 20 per cent and 50 per cent Lebaycid 50 per cent (litres)—90,000; Diptrex S.P. 80 (tonnes)—60; Dipterex Dust 5 per cent (tonnes)—200; Dipterex Granules 5 per cent (tonnes)—600; Tugon/Bayon Bait (tonnes)—160; Baygon E.C. 20 per cent (litres)—10,000; Ceresan Slaked Lime 0.3 per cent HG (tonnes)—300; Ceresan Dry 1 per cent (tonnes)—300; Ceresan Wet 2.5 per cent, Agallol 3 per cent, and Agallol 6 per cent (tonnes)—300; Metasystox R (litres) —450,000; Lonacol WP 65 per cent/75 per cent (tonnes)—1000; Pomarsol Forte 80 per cent (tonnes)—30; TMTD 50 per cent (tonnes)—138; Seed Dressing Agent (tonnes)—100; Seed Dressing Agent (tonnes)—100—(SE).

Drugs and Pharmaceuticals

M/s British Drug Houses (India) Pvt. Ltd, 8-Graham Road, Ballard Estate, Bombay-1. (Bombay, Maharashtra)—Secrodyl Injection—300 litres—(N.A.).

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

From M/s Dyer Meakin Breweries Ltd, Solan Brewery to M/s Mohan Meakin Breweries Ltd, Solan Brewery.

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

M/s Textile Machinery Corporation, New Delhi—Iron and Steel Pipes and Tubes of Welded Type.

During the Week ended July 8, 1967

LICENCES ISSUED

Chemical Machinery

M/s Indian Oxygen Ltd, 17, Parliament Street, New Delhi-1. (Calcutta, West Bengal): Air Separation Plants and associated Cryogenic Equipment as under: (a) Convertional Oxygen/Nitrogen Plants (excluding Special purpose Machinery) of various capacities up to 400 M3/hour Phase I (1966-67) Rs 142.83 lakhs; (b) Tonnage Oxygen/Nitrogen Plants (excluding special purpose machinery) of various capacities up to 400 tonnes/day Phase II (1971-1976)- Rs 253.18 lakhs—(N.U.).

Synthetic Resins and Plastics

M/s Indoplast Ltd, Kesturi Buildings, Jamshedji Tata Road, Bombay-1. (Trans-Thana Creek Area, Thana Distt., Maharashtra State): Expandable Polystyrene—2,400 tons per annum after expansion.—(S.E.).

Insecticides and Fungicides

Capt. Nagin S. Shah, C/o M/s Consolidated Crop Protection Pvt. Ltd., B.I.—Tara Baug Estate, Charni Road, Bombay-4. (Bombay, Maharashtra): Aluminium Phosphide—300 tonnes per annum—(N.U.); M/s CIBA of India Ltd, Royal Insurance Building, 14, J-Tata Road, Bombay-1. (Bombay-Agra Road, Bhandup Bombay-78, Maharashtra): 1. Phosphamidon—636 tonnes; 2. D.D.V.P.—276 tonnes; 3. Zinc Dimethyl Dithio Carbamate—384 tonnes.—(S.E.). Formulation based on: 1. Phosphamidon—1248 tonnes; 2. D.D.V.P.—348 tonnes; 3. Zinc Dimethyl Dithio Carbamate—300 tonnes.

Drugs and Pharmaceuticals

M/s Rallis India Ltd, Ralli House, 21, Ravelin St., Bombay-1. (Bombay, Maharashtra): 1. Norethyndrel (Enavid)—60 Kgs; 2. Spironolactone (Aldactone)—28 Kgs; 3. Propantheline Bromate (Pro-Banthine)—120 Kgs; 4. Dimenhydrinate (Dramamine)—190 Kgs; 5. Enthynlestradiol—3 Kgs; 6. Ethisterone—30 Kgs; 7. Methyltestosterone—15 Kgs; 8. Testosterone—50 Kgs; 9. Androstanolone—10 Kgs; 10. Methylandrostandone—3 Kgs; 11. Progesterone—20 Kgs; 12. Glycine—2,000 Kgs; 13. Betaine Hydrochloride—3,000 Kgs; 14. Menaphthona—300 Kgs; 15. Aldactone—11,20,000 tablets; 16. Dramamine—37,50,000 tablets; 17. Enavid 5 mg.—120,00,000 tablets; 18. Pro-Banthine—60,00,000 tablets; 19. Pro-Banthine with Phenobaroitone—10,00,000 tablets; 20. Didoquin—10,00,000 tablets; 21. Pro-Banthine with Dartalan—10,00,000 tablets; 22. Floraquin—5,00,000 tablets; 23. Dartalan 5 mg.—5,00,000 tablets; 24. Dartalan 10 mg.—4,00,000 tablets; 25. Mornidine—10,00,000 tablets; 26. Serenace—4,00,000 tablets; 27. Serenace ampoules—50,000 ampoules; 28. Ethynodiol Diacetate (Ovulen)—50 Kgs.—(N.U.).

During the Week ended July 15, 1967

LICENCES ISSUED

Drugs and Pharmaceuticals

M/s. Unichem Laboratories Ltd, S. V. Road, Jogeshwari, Bombay-66 NB (Bombay, Maharashtra): 1. Bacitracin: (a) Ophthalmic Ointment—600 Kgs; (b) Ointment for external use —1500 Kgs; (c) Powder—3000 Kgs; 2. Polymixin: (a) Opthalmic Ointment—600 Kgs; (b) Ointment for external use—1500 Kgs; 3. Tetracline Hel: (a) Opthalmic Ointment—600 Kgs; (b) Pediatric drops oral—3000 Litres; 4. Serum Conadotrophin hormone injections—50 Litres—(N.A.). M/s. Pfizer Ltd, 163-Backbay Reclamation, Bombay-1 (BR) (Chandigarh): Present Capacity (Kgs.) (a) Oxytetracycline—5,000 (b) Tetracycline—3,000. Capacity after expansion (Kgs.) (a) 9,000, (b) 5,000 —S.E.).

Sugar

M/s. Shree Una Taluka Sahekari Khand Udyog Mandli Ltd, Una, Distt. Junagarh (Gujarat State) (Dadkivav near Una, District Junagarh, Gujarat State): Installed crushing capacity of sugar cane—1250 tonnes per day.—(N.U.).

LETTERS OF INTENT

Metallurgical Industries: Ferrous

M/s Gedore Tools (India) Pvt. Ltd, 151, Golf Links, Post Box No. 2027, New Delhi-3. (Haryana): Alloy and Special Steels of categories other than stainless steels and High Speed Tool and Die Steel—30,000 tonnes—(N.U.).

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

From Shri N. A. Ramchandra, Rajapalaiyam to M/s. Strip Rolling Mills Ltd, Rajapalaiyam.

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

M/s Westerwork Engineers Pvt. Ltd, Bombay—E.O.T. Cranes. M/s. Vegetable Products Ltd, Calcutta—Oxygen Gas. M/s Sardesai & Co., Bombay—Cotton Textiles. M/s Manjushri Textiles, Ahmedabad—Cotton yarn. M/s Maganlal (Pvt.) Ltd, Bombay—Cotton yarn and cloth. M/s. New Swadeshi Mills of Ahmedabad Ltd, Ahmedabad—Cotton Waste Blankets. M/s Bharat Commerce and Industries Ltd, New Delhi—H.T. & L.T. Insulators.

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Send immediately : 1) Money, clothes, foodgrains.
2) Doctors for medical relief.
3) Volunteers for minor irrigation projects.

Adopt : a child, a family, a village

BIHAR RELIEF COMMITTEE

Sadaquat Ashram, PATNA - 10

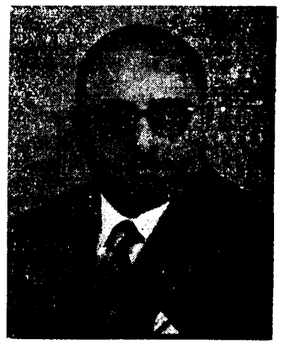
COMPANY MEETING

ZENITH STEEL PIPES LIMITED BOMBAY

Speech of the Chairman, SHRI DHIRAJLAL MAGANLAL

AT THE

SEVENTH ANNUAL GENERAL MEETING, ON 23rd AUGUST, 1967



Shri Dhirajlal Maganlal

Friends,

Due to unavoidable absence of the Chairman Shri B. K. Birla, I have been called upon to preside over this 7th Annual General Meeting of the Shareholders of the Company. I consider it a proud privilege and I welcome you all on behalf of the Board of Directors.

Though the Company is now about seven years old, the first two years were taken in its formation and establishment of the factory. During the last five years the Company has made a steady progress, as is well known and amply made out in the Annual reports and accounts circulated to you. I hope you will agree that the performance of the Company is extremely laudable, and the results have given satisfaction to shareholders, workers and members of the staff.

I am closely connected with the Shareholders as well as the Corporate sector in the country through my associations with the Bombay Stock Exchange and the Bombay Shareholders' Association for several years now, and what I wish to tell you presently stems out of my personal and practical experience and I thought I should permit myself a little loud thinking on the subject.

Now, many of you must have read from the papers certain observations on profits and companies making profits, as though the concept of profits is something abominable and to make profits is a serious crime for a Company. I wonder whether those who make these ill-informed remarks on the question of profits have cared to follow what is happening in the haven of socialism, the USSR and elsewhere as, for instance, in Yugoslavia. Making profits is today acknowledged even in these socialist countries as an economic desirability. Indeed, it is regarded as an index of true efficiency.

This apart, it is for all reasonable people, especially shareholders, most of whom are drawn from the middle income group or those that depend primarily, if not solely, on dividends to supplement their income or for a living in some cases, to pay some attention to the question. Take, for example, our own Company. There are more than 4000 shareholders out of whom nearly 75 per cent are those holding shares less than Rs. 1,000 each. All these I dare say naturally look out for efficient companies to make their investments. Now what is an efficient company? Ordinary common sense suggests that such a company is one that contributes to national output—production—that sells what it produces at a price the consumer is willing to pay, that pays adequate wages and provides ample amenities to its workers, meets its tax obligations to the Exchequer and is also able to distribute a dividend on a par with the prevailing pattern of interest rates or more. If any Company conforms to this simple definition, I feel it deserves to be not only emulated but complimented by its countrymen, not merely by its shareholders. Unfortunately this is not what we are finding today. There are some people who revel in criticising a Company whether it makes no profit, an average profit or a handsome profit, and it is difficult to appreciate the precise logic or reasoning that prompts them to determine efficiency. I am sure all of you and of course I too, would be very glad to know what constitutes efficiency according to such critics.

One word more while I am on this subject. To me profits and production are almost synonymous. No production that does not offer a modicum of profit, which is but a reasonable return on outlay, can be of any consequence to a country. And I need not stress how important production is to all of us in the present context. Production and more of it is the crying need of the hour and I make bold to say that if we want production, we must have profits. After all in a market economy, profits are one form of incentives and I simply shudder to visualise a situation in which incentives have no play or place.

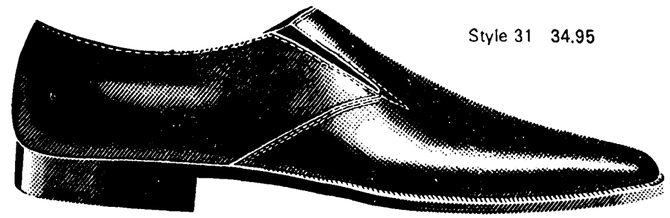
Friends, I hope you will bear with me for making these observations. I feel so strongly about this subject that I deem it my duty to ventilate these views on behalf of a very large body of members of the Corporate sector.

Naturally, you would be interested to know more about your Company. The report of the Directors mentions all the important and relevant matters. You know the country is passing through a period of recession, particularly in the Engineering Industry, the causes of which have been by now very well known. Failure of monsoons and realisation by the government to remain within its means has naturally seriously affected the purchasing power of the masses and of the government. With good monsoon and good management of the financial affairs of the country, which can surely be expected from our able Finance Minister, we hope to turn the corner.

Your Company has also been affected by the lack of indigenous purchasing power. Therefore, the management has done its best to maintain as high a production as possible by putting extra effort in export which became far too difficult due

What's at the bottom of this new

Bata DIP Walkmaster



Style 31 34.95

DIP Sole and Heel

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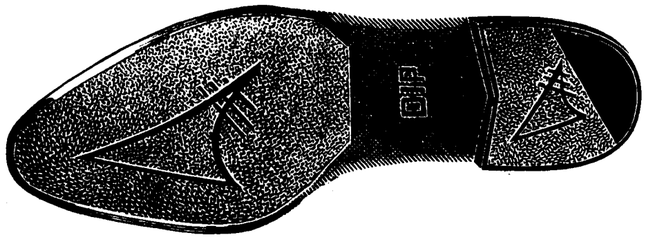
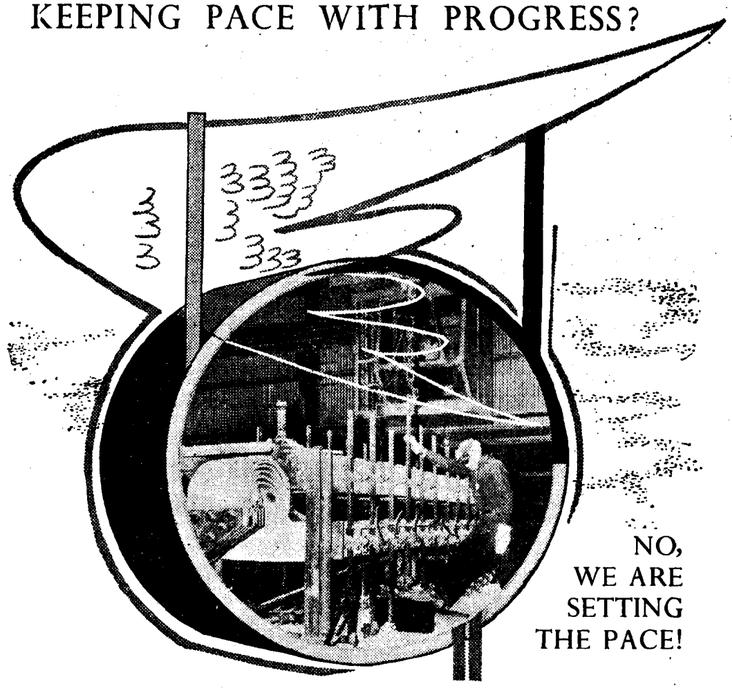


Direct Injection Process locks the upper to the sole for the life of the shoe. No nails. No stitching. There's nothing to come loose and give way with D.I.P. soling. Is waterproof. Is lightweight and flexible despite its strength. Is guaranteed for 6 months.

This remarkable new sole and heel material is now available on a handsome Walkmaster Casual, patterned after a style that's a current favourite in Europe. Among other features: rich supple leather: easy on and off · all-occasion wearability. It's a real value. Come in today and try a pair.

KEEPING PACE WITH PROGRESS?



NO,
WE ARE
SETTING
THE PACE!

Hindustan Aluminium's smelter at Renukoot in U. P. was commissioned in May 1962. Today it is the biggest in India ■ In 1966, it produced 40,566 tonnes of aluminium or about 48.5% of the all-India output of 83,627 tonnes. ■ The sales turnover in 1966 totalled about Rs. 18.60 crores, including supplies of fabricated and unfabricated aluminium for electrical, utensils and consumer durables, packaging, transportation, building and construction, coinage, machinery and equipment, defence and other applications. ■ At the end of 1966, Hindalco's total assets were about Rs. 49.40 crores ■ Hindalco's rated primary capacity has recently increased by 50% to 60,000 tonnes per year and fabrication facilities are being raised to 37,000 tonnes. ■ A further colossal expansion of primary capacity to 120,000 tonnes is expected in a few years from now.

HINDALCO

HINDUSTAN ALUMINIUM CORPORATION LTD.

WORKS: P.O. RENUKOOT, DIST. MIRZAPUR, U.P SALES OFFICES AT CALCUTTA, BOMBAY, DELHI, MADRAS.

PPS/HAC-6/67.

to scrapping of export incentive scheme upon devaluation. Costs are going up all around.

Imported zinc is much more expensive than what it used to be. Steel prices have also been increased by the producers progressively. All this has left production costs uncomparable with those prevailing in the world market, where your Company has to compete to sell part of its products.

Production levels at Zenith in the current year will entirely depend upon the conditions in coming months but being optimistic, I do hope that the upsets of last few months will settle down. Depending upon local sales and exports, we hope to manufacture 27000 to 28000 tonnes this year.

You would also like to know about the state of affairs in the Tube Industry. As has been the case with other industries, where the production capacities have been planned and established according to expert Government calculations, the tube industry is also facing over capacity. I do not want to blame the planners for it. They did so in good faith and on certain assumptions about increase in demand. It is, however, unfortunate that in more than one industry the capacities that have been established are now proving much in excess of the demand. This naturally compels the established capacities to remain idle. In a country like ours where every single rupee invested in Capital goods counts, it is unfortunate that very large investments have to remain unproductive. Fortunately, for your Company, this situation has not aggravated. However, unless the home demand improves and exports are remuneratively accessible, I am sorry to state that production in the tube industry would be lower. Here again it will entirely depend on the economic trends in the coming months. Let us all pray that the financial ship of the country will be ably and safely steered in the present turbulent ocean of most unfortunate happenings. The need of the day is to have sound judgement, bold decision and competent execution.

Report on the new projects of this Company is given in the Directors' Report already in your hand. In the month and a half that has elapsed since the Directors' Report, progress on the new projects has been slow.

The progress of the country depends upon more and more production, which in turn depends upon proper management not only by the managers of the Corporation but also by every official in the long hierarchy of the Government. A single mistake may lead to serious repercussions, and we, the investors, have got to be vocal to express out feelings that our industries must be managed most efficiently and economically at all the levels. We want in this country thousands of successful concerns in production and making profits. Therein lies salvation of the country and let us not feel shy of making profits. These profits strengthen the Exchequer and small investor alike.

I thank you,

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

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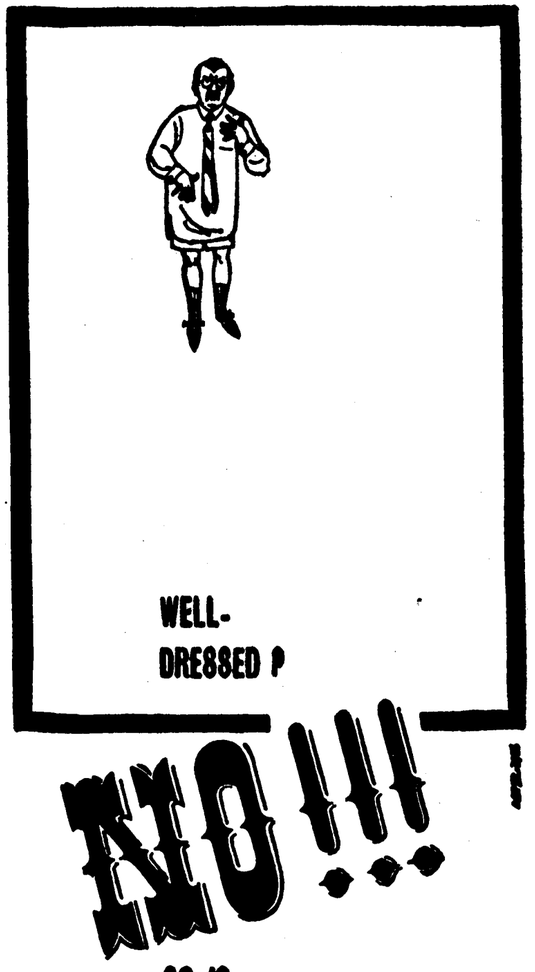

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COMPANY MEETING

THE SOUTH MADRAS ELECTRIC SUPPLY CORPORATION LIMITED

Chairman's Speech

Delivered on the occasion of the 27th Annual General Meeting of the Company on August 14, 1967, by Thiru K.A.P. Visvanatham, Chairman of the Company.

I have great pleasure in welcoming you to this 27th General Meeting of the Company.

As you will see from the Accounts as well as the Directors' Report to the Shareholders that have been in your hands for the past nearly one month, the affairs of the Company as well as its trading activities have been very satisfactory this year also and except for touching on some important highlights of the year, I will not take much of your time.

I am sure you will have observed from the Directors' Report that we obtained a total loan of Rs. 29.25 lakhs from the Government for fulfilling the Agricultural Crash Programme in the District of Tanjore only. Except for Rs. 1 lakh and odd, we have expended the loan amount in connecting more than 800 pumpsets in the District. In fact, in a few cases, while the Corporation was ready to give power supply, the agriculturists concerned were not yet ready to receive it.

The above Crash Programme has been implemented by us during the period commencing from November 1965 up-to-date. The relevant G.O., under which the loan was sanctioned and your Corporation was required to fulfil the Crash Programme, ensures a 10% return on the investment to the Corporation and if there is any shortfall in the said return, the Government will subsidise the shortfall.

We are now in a position to ascertain the shortfall and I regret to state it is considerable. It amounts to nearly Rs. 4.50 lakhs. We will be shortly filing the claim before the Government and we hope that the Government will settle the same at an early date.

In view of the huge loss sustained by the Corporation in implementing the above Programme, we have made representations to the Government that while we recognise our duty and obligation to assist the Government in implementing similar Programmes in Trichy District, we should be at least assured that we will not be called upon to bear any loss in fulfilling such Programmes.

The next important item I would like to advert to is the announcement of the Government of Madras in the Legislative Assembly of their intention to acquire the Electricity Undertakings that are now operating in the District of Tanjore, amongst which is included the Mayavaram-Mannargudi-Tiruvarur licence of our Corporation.

It is expected that the Government will shortly publish the relevant Notification as required under the Madras Electricity Supply Acquisition Act, 1954. We will advise the shareholders by a Special Circular as soon the notification is issued by the Government.

After such Notification is published, as you know, the Corporation will be convening an Extra-ordinary General Meeting of the shareholders to elect an Accredited Representative under the Act to represent our Undertaking in the discussions with the Government and in particular to establish our claim for compensation etc. At the said meeting the member will be invited to decide the basis of compensation that the Corporation would choose among the three methods envisaged in the Acquisition Act.

Your Board of Directors hope to avail the opportunity at that meeting to recommend to the Shareholders how best the compensation amount could be deployed and utilised for yielding a good return to the Shareholders.

We have, of course, conveyed to the Government our readiness to offer our full co-operation in the matter of acquisition of the Mayavaram-Mannargudi-Tiruvarur Licence.

I may add that acquisition of the Mayavaram-Mannargudi-Tiruvarur licence may not adversely affect the rate of profitability of your Corporation.

Now coming to the Balance Sheet and Accounts for the year under review, I am glad to state that the the financial results of the Corporation have been gratifyingly good. The gross realisation in the year under review by way of energy sales was higher by Rs. 10 lakhs over the previous year. The Corporation had to absorb certain extraneous expenditure peculiar to the year under review by way of expenses on the Silver Jubilee Celebrations, additional wages to labour and staff on account of triennial labour agreements and the absorption of revenue expenditure over and above earnings on the Agricultural Crash Programme Works in the Tanjore District. However, you will be glad to note that it has been possible for your Directors to recommend for distribution after meeting the preference dividends, an equity dividend of 12½% inclusive of the interim dividend already paid.

I desire to take this opportunity to express my profound thanks to my colleagues on the Board and appreciation of the Managing Agents for the services rendered by them well and efficiently during the year.

Our thanks are also due to the Government of Madras for their continuous assistance, financial and otherwise and to the Madras State Electricity Board for their help and guidance at all times.

Our thanks are also due to our Bankers who have extended to us unfailing assistance at all times of need.

To the consumers our grateful thanks are due for their sustained goodwill and general support to this Corporation.

The Corporation is very grateful to all its shareholders who have had nothing but words of praise for efficient working of this Corporation. They have been helping the financial resources of the Corporation by placing large Fixed Deposits with the Corporation and further in getting their friends to place similar deposits with us.

Finally I desire to convey on my behalf and on behalf of the Board of Directors our sincere thanks to all ranks of staff and labour for their enthusiastic, loyal and sustained cooperation and service to the Corporation throughout the year.

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

RECORDS AND STATISTICS

Trade Among Nations With Different Economic Systems

AT THE fifth session of the Trade and Development Board of the UNCTAD held on August 15, 1967, at Geneva, a paper was presented by the secretariat, which reviewed trade relations among countries having different economic and social systems. The summary of this paper is reproduced below. It discusses the economic growth and foreign trade of the socialist countries, trade relations between the socialist and the developing countries and trade between the socialist and the developed market economy countries.

The recent years may be regarded as a landmark in the economic policies of the socialist countries. During the post-war period these countries substantially increased their industrial production, enlarged their markets for imported goods and increased their export capability. They now account for about 30 per cent of the world's industrial production and this rapid industrialization has brought about marked changes in the whole economic framework of the socialist countries. The engineering industry of the countries represented in the Council for Mutual Economic Assistance (CMEA) was the most dynamic sector and placed them among the important world producers of a wide range of machinery and equipment. The growth rates of agriculture lagged behind those of industry; but there is still considerable room for increasing agricultural output and for reducing the area's dependence on food imports.

An important feature of past economic growth in the area was that the countries with lower per capita incomes raised their output faster than those with higher ones with the result that the economic disparities among the countries of the area narrowed. This was achieved by vigorous national investment efforts combined with a policy of mutual assistance, which included massive credits and technical co-operation from the more advanced countries of the area. These policies may have some relevance beyond the CMEA area since they point to the feasibility of narrowing disparities through a joint regional effort. Nevertheless, within the area, a number of major development problems still remain to be solved, and this will require considerable financial resources.

Widening Scope

Finally, the regional co-operation policies have widened the scope and range of the foreign trade of individual countries, which has tended to expand at a rate equal to or exceeding that of national output.

During the early sixties there was a deceleration in the average growth rates. This slow-down was most marked in the industrially most advanced countries. This was not only the result of variations in an investment cycle; but also of declining efficiency in the use of natural resources and fixed capital, rising costs and diminishing returns. The CMEA countries are now taking steps to cope with these problems. A return to the former more rapid growth rate has been a feature of the last three years; and current policies aim at a more radical improvement in the economic structure. These policies are increasingly outward-looking since foreign trade holds promise of providing an additional source of more immediate growth with relatively minor expenditures and adjustments.

Generalizations and over-emphasis on statistical averages would be highly misleading in considering countries which differ greatly in their size, level of development and natural resource endowments, and an analysis of economic conditions and policies in each of the socialist countries is therefore necessary, because of disparities in the level of economic development, the variety of national economic objectives, differences in the level and composition of demand, differences in import priorities and inequality in financial resources.

Trade Among Socialist Countries

In socialist countries economic growth was closely interrelated with the volume of their mutual trade. Trade within the area reached $ 27 billion in 1965 when it accounted for 8 per cent of the world trade as compared with $ 19 billion in 1960. During the 1960-65 period intra-CMEA trade increased by 55 per cent, largely compensating for the fall in trade of the group with China (mainland). Trade between the Asian socialist countries increased even more rapidly, i.e., by 150 per cent. The importance of intra-CMEA trade for the individual countries ranges from 58 per cent for the USSR to 74 per cent for Bulgaria.

Recently, this trade has shown signs of greater flexibility and a more balanced commodity pattern. Flexibility in trading arrangements has led to exchanges of goods in addition to the range and quantities stipulated in long-term agreements as well as by the recent improvement of the payment mechanism through multilateral settlement of accounts. However, while abandoning the requirement of strict bilateral balancing, most of the countries have attempted to achieve a balance of trade for such broad commodity groups as primary commodities, machinery and consumer goods.

According to the new long-term trade agreements between the CMEA countries covering the period 1966-70, the volume of intra-CMEA trade is to reach 140 billion roubles as compared with 99 billion roubles in 1961-65. While still centring on raw materials, food, machinery and equipment, the increasing volume of trade is to include a greater proportion of consumer goods.

The Council for Mutual Economic Assistance has provided a forum for the co-ordination on a multilateral basis of long-term economic plans (1966-1970) which has been followed by bilateral dovetailing of the plans concerned. There seems to be a wish to make CMEA co-operation more effective by supplementing the broad agreements and recommendations by legally binding instruments.

Multilateral co-operation under the auspices of CMEA, as in the building of the joint power grid or in the establishment of the common railway wagon pool, is being supplemented by joint ventures of several interested member countries which are more loosely tied to CMEA activities. Some of these aim only at the co-ordination of production, research and trade; others are investment projects to open up new sources of raw materials involving considerable loans by prospective importing countries.

Implications of Long-term Plans

During the current five-year planning period, in spite of the greater recognition of consumer needs, an approximately equal share of national income, as in the previous period, will continue to be channelled into investment. The allocation of investment resources is to give priority to measures which render the economy more efficient and more consumer and export-oriented. The main challenge of the period seems to be a search for appropriate structural changes which would assure the required growth rates. Given the limitations of available material and human resources qualitative improvements are to contribute greatly to the implementation of policy objectives. Changes in established economic patterns are postulated in

order to meet more satisfactorily both domestic demand and foreign trade targets. A massive introduction of modern technology is to reverse the recent worsening of the investment-output ratio. Foreign trade is considered capable of improving economic efficiency at the cost of relatively small adaptations. Consequently, benefits from a more intensive pursuit of international division of labour moved vigorously into the planning considerations. Manufacturing industries are to specialize so as to profit from economies of scale and to improve their competitive position in foreign markets. The emphasis on increasing efficiency, reducing costs and greater response to consumers' priorities stimulates demand for imports by all sectors of the economy.

The planned growth of industrial production and individual consumption augurs well for the main export categories of the developing countries. For raw materials, especially fuel, nonferrous metals and some chemicals, increasing demand could outstrip the expansion of domestic output, import saving measures, rationalization of production and the greater use of synthetics. Simultaneously, import demand is likely to grow for processed raw materials and intermediate products. While largely meeting the demand for wheat from resources within the region, the CMEA countries are likely to continue to import large quantities of various kinds of fodder. Coffee, cocoa, tea and tropical fruits will progressively claim a greater part of consumers' budgets and larger foreign exchange allocations. Industrial consumer goods tend to be the most dynamic element in trade between the two groups and comprise both traditional cotton yarn, textiles and footwear and a range of new products such as simple tools, instruments, household appliances, etc. Such trade may be furthered by new forms of co-operation between manufacturing industries of the two groups.

On the export side, the socialist countries could offer a widening range and higher volume of goods, especially of machinery, equipment and instruments. Since, however, the export performance is not likely to be equally responsive to the measures presently taken, some order of import priorities will have to be maintained by the socialist countries. The growing import demand of these countries could ease the payment position of the developing countries and enlarge their import capacity for development essentials. However, the large share of machinery in the socialist countries' exports to the developing countries requires increasing credit facilities which tend to immobilize an increasing proportion of export earnings. In such circumstances, some socialist countries may soon have to deal with problems of structural imbalance in their overall balance of payments.

Economic Reforms

A process of economic reforms is under way in the socialist countries. They seek forms of economic management commensurate with the increasing complexity of their economies, which will cope with day-to-day operations with maximum efficiency and the minimum of central regulations and, at the same time, will facilitate long-term decisions in accordance with the criteria of economic rationality. The recasting of price structures and policies, decentralization of decision-making, profit orientation, improvement in planning and animation of supply-demand relationships are the key facets of current measures. They combine and vary in individual countries according to the differences in their economic structures, stages of development and urgency of particular issues. The scope of decision-making and material involvement of enterprises is being enlarged. Consequently, profitability and response to the market are to weigh more heavily in their considerations than heretofore. More efficiency in the use of capital is to be achieved by selective investment policies; banks in some countries have obtained considerable latitude for giving priority to innovation, rationalization and export promotion projects.

The emphasis on efficiency, profitability, innovations and market orientations should create a favourable climate for relying more on foreign trade, promoting international specialization and stimulating suitable structural adjustments. In the long term, the transformation of price structures will no doubt entail significant changes in the structure and direction of socialist countries' foreign trade. A growing number of measures deal specifically with foreign trade. Industry is to engage more actively in foreign trade deals—both in their preparatory

GOVERNMENT OF UTTAR PRADESH

5 3/4 PER CENT STATE DEVELOPMENT LOAN 1979

NOMINAL VALUE RS. 12 CRORES.

Opening on 1st September, 1967 and closing on 9th September, 1967, or earlier without notice if fully subscribed.

Issue Price Rs. 98 for Rs. 100 (Nominal).

Subscriptions to the loan may be in the form of cash, cheque or securities of 4% U.P. State Development Loan, 1967 which will be accepted for conversion at par.

Applications for the loan will be received at (1) all branches of the State Bank of India located in Uttar Pradesh except at Kanpur, (2) Government Treasuries and Sub-treasuries in Uttar Pradesh at places where there is no branch of the State Bank of India, (3) the offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Kanpur, Madras, Nagpur and New Delhi, (4) the branch of the State Bank of India at Patna and (5) the branch of the State Bank of Hyderabad at Hyderabad.

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

stage and in their execution—and the profits of enterprises are to be linked to the returns from their transactions. In a number of socialist countries some large industrial or commercial enterprises, especially in technically more complex sectors, have been authorised to deal directly in foreign markets on the assumption that their flexibility and responsiveness to changing market conditions will improve.

Direct access to final users, enterprises or retail trade organisations has been authorised in many CMEA countries and should facilitate export promotion at levels where production decisions are initiated and plans originate. Publicity media in the socialist countries have been made largely available to foreign firms. In some countries, imports are also considered an appropriate means of providing the degree of competition in domestic markets that is needed in order to stimulate the attention of enterprises to quality and to keep in check the pricing latitude sometimes given to them.

Foreign trade plans are becoming more flexible. Some countries now confine themselves to setting global export and import targets for broad commodity categories, leaving it to the initiative of enterprises to make such choices in detailed export and import composition as will improve the profitability of their operations.

Banks in several CMEA countries are experimenting with various forms of rational distribution of foreign currencies. The reforms do not go further than postulating the need for a realistic relationship between domestic and world price patterns. Nevertheless, at later stages, the reforms cannot fail to have a profound impact on monetary and payment policies both in individual countries and in the CMEA area as a whole.

Increased Credits

The credits granted by the socialist countries mainly through the conclusion of economic co-operation agreements with the developing countries have increased steadily since 1954; by 1965, total credits amounted to $ 7.7 billion of which $1,308 and $901 million were granted in 1964 and 1965, respectively. During this period, there was an increase in the number of countries—particularly in Africa—to which such credits were given. While in 1954-60 the major part of the credits—up to 65 per cent—went to Asia and about 16 per cent to Africa, the corresponding distribution in 1961-65 was 41 and 46 per cent, respectively, with 13 per cent going to Latin America.

The period of repayment for government credits under economic co-operation agreements is 10 to 12 years and the rate of interest does not exceed 2.5 per cent. The period is usually 3 to 8 years for commercial credits, for which the interest rate is somewhat higher, though usually not exceeding 4 per cent per year. The repayment of credits through exports of goods from the debtor countries, or in their national currencies, has been receiving increasing attention in recent years. In the case of government credits, this has become the main form of debt settlement; but it is also being used for the repayment of commercial credits.

In recent years, particularly in 1965 and 1966, a new form of credit, which may be defined as "government commercial credit", has begun to be used. Although these credits are granted under government-to-government agreements, they are not tied to specific projects; their use depends on contracts between individual firms and organizations. This particular form of credit may be considered to some extent a departure from "project-tied" financing.

Among other important developments in this field, the extension of credits for the financing of local expenditures may be noted. These credits are provided to cover the local expenses incurred in the execution of projects financed by the socialist countries' credits.

On the basis of statements by four socialist countries (Czechoslovakia, Hungary, Poland and the USSR) at the 1964 conference, and of indications for other countries, it is estimated that their trade with the developing countries may be expected to increase at the rate of 10 to 12 per cent per year, or by 60 to 75 per cent in the period 1965 to 1970. In that case, the total trade may well reach $9 to $10 billion by 1970.

Trade agreements recently concluded between several socialist and developing countries as well as the new economic reforms giving increased emphasis to foreign trade in the development plans of the socialist countries furnish some broad indications of the growth of exports of major commodity groups from the developing to the socialist countries. The exports of manufactures may well approximate $1 billion by 1970; those of food, beverages and tobacco some $1.6 billion; and those of crude materials and fuel about $1.1-$1.2 billion by 1970.

Broad Idea

These estimates provide only a broad idea of the expansion of this trade. The actual course of the trade flows will no doubt depend upon a number of positive measures to be taken by the trading partners. The widening of the geographical and commodity base would be dependent upon progress towards the establishment of stable trade relations between the socialist and a large number of developing countries. Concerted action would be necessary to ensure that the agreements already concluded are implemented to the fullest possible extent and without undue fluctuations. Moreover, as trade flows and the volume of credits granted increase, the problems of settlement of trade balances and repayment of credits will become increasingly complex. Special efforts will be needed for their solution; in particular, considerable significance would be attached to establishing new production capacities in the developing countries, accommodating their exports in the rising import demand of the socialist countries, expanding the imports of the developing countries from the socialist countries, and devising methods of settlement specifically suited to this trade flow.

It may be considered appropriate to explore the following points concerning trade between socialist and developing countries: (a) the possibility of supplying to the developing countries first-hand information concerning new foreign trade conditions arising from the recent economic reforms in the socialist countries;

(b) the possibility of organizing a round of mutual trade consultations under the auspices of UNCTAD, especially for countries which, until, now have not had adequate means of establishing trade contacts;

(c) the possibility of forming a panel of experts to discuss the problems of multilateral settlements with the participation of the CMEA, the IBEC as well as representatives of regional economic commissions;

(d) promotion measures for an expansion of direct trade relations between exporters in developing countries and their importers abroad, with a view to dispensing, where possible, with the services of intermediaries.

Trade Among Socialist & Developed Nations

Between 1960 and 1966 trade between the developed market economy countries and the socialist countries almost doubled from $5.4 billion to $10.2 billion and reached 5 per cent of total world trade. It expanded, during the period, at an average annual rate of 11.3 per cent, that is faster than both the total trade of the two groups of countries and world trade as a whole. The expansion was particularly marked in 1966 (17 per cent). The bulk of this trade, namely 68 per cent in 1966, is between eastern and western Europe, but other trade flows, in particular the trade of Canada and Japan with both eastern

Europe and China (mainland), considerably increased their relative shares of the total east-west trade.

For the developed market economy countries this trade represented, during the period, barely four per cent of their total trade. However, its share was considerably higher for individual countries and in 1966 it amounted to 12 per cent of the trade of Austria and Greece, 13 per cent of that of Turkey and 19 per cent of that of Finland. The socialist countries also play a special role as markets for certain industries of individual countries, e.g., the Austrian, British, Italian and Japanese chemical industries, the Austrian and Finnish engineering industries, Finnish and Japanese ship-building and Australian and Canadian wheat growing.

The trade of the socialist countries as a whole with the developed market economy countries increased its share from 18 per cent of their total trade in 1960 to 23 per cent in 1966. For China (mainland) alone, its share rose from 18 per cent to 40 per cent. Socialist countries rely heavily on western markets for exports of food, raw materials and fuels, and for imports of cereals, chemicals, machinery and equipment.

The commodity structure of east-west trade is characterized by high shares of manufactures and semi-manufactures (68 per cent in 1965) in western exports and of food, raw materials and fuels (64 per cent in 1965) in exports of the socialist countries. There is a tendency towards an increase of the shares of more advanced goods, including consumer goods, in exports in both directions, particularly in trade between the developed market economy countries and the socialist countries of eastern Europe. However, exports of manufactures from the socialist countries to the developed market economy countries are still well below their proportion in the total exports of the socialist countries.

Increased Opportunities

Despite the rapid development of east-west trade during recent years, and its expansion in volume, commodity composition and coverage of new trade partners, it is generally recognized that this trade is still far below its potential. Two main forces appear to be behind the strong expansion of this trade and the shaping of its commodity structure—complementarities in resource endowment and industrialization. Complementarities are particularly pronounced in trade between the Soviet Union (but also other socialist countries) and western Europe and Japan, especially in the socialist countries' exports of mineral fuels, forest and agricultural products.

The process of industrialization of both the socialist and the developed market economy countries affects both sides of their mutual trade. On the one hand, the socialist countries have an increasing import demand for advanced investment goods to satisfy the needs of their large-scale industrialization programmes, and for consumer goods to meet the domestic demand resulting from rising incomes and diversification of tastes. On the other hand, the socialist countries offer a growing range of both investment and consumer goods, particularly in engineering and fields where their research is now bearing fruit. Finally, the high level of industrialization of both groups of countries offers interesting possibilities of co-operation and specialization.

Future trade opportunities appear to exist, provided certain conditions can be fulfilled, for exports from the socialist countries of petroleum and petroleum products, wood and wood products, engineering equipment, consumer goods and technical know-how. Dynamic export prospects from the West exist for equipment for industries with a particularly high investment demand in the socialist countries, such as the chemical, textile, plastic, synthetic rubber, office equipment, food processing and packaging, and automobile industries, but also for a variety of consumer goods. Relevant trends are already reflected to some extent in the changes in the trade structure.

The attitudes of governments, producers and traders have become increasingly favourable towards east-west trade during recent years. There is a greater awareness of the gains to be derived from this trade and a growing body of positive experience is overcoming earlier apprehensions.

The members of the Economic Commission for Europe, at the commemorative meeting at the ministerial level in April 1967, adopted a declaration on the further development of trade, economic, scientific and technical co-operation, the removal of obstacles to the development of trade and on the strengthening of economic relations with countries in other regions. The commission also decided to convene a meeting of government experts to draw up practical proposals including possible draft recommendations for the removal of obstacles to the development of trade.

A number of other national and international, governmental and non-governmental organizations have expressed themselves in favour of measures for improving conditions for east-west trade and government declarations on the subject have added to the confidence which is needed for the building up of permanent economic relations.

Improving Mutual Knowledge

More attention is also being paid to improving mutual knowledge of trading possibilities and of economic trends and institutional arrangements in the two economic systems, e.g., through conferences, seminars, exchange of missions, creation of joint bodies, various other contacts, provision of information for studies and, of course, through the continuing contacts in the bodies of the Economic Commission for Europe and of UNCTAD.

In actual trade policy discussions and measures the emphasis has shifted from differences in concept, which may continue to exist, particularly with regard to the granting of unconditional most-favoured-nation treatment, to means to achieve practical results, in the volume and composition of trade. Furthermore, it is now recognized that access to markets, the crucial point in negotiating the balance of mutual advantage between trading countries, may be provided not only through the elimination of obstacles to imports but also through positive measures that create demand and marketing possibilities for imported goods. Therefore there is a trend to ascertain reciprocity not in legalistic balancing of mutual concessions and obligations but in evaluating it on the basis of comparable results in trade. The practical counterpart to this approach is found in the liberalization measures of a number of developed market economy countries, the pragmatic dealing with price policy issues, trade targeting and the establishment of consultation and reviewing procedures.

The arrangements under which east-west trade is conducted are characterized by endeavours to provide conditions of both greater flexibility and stability. Bilateral arrangements are increasingly supplemented by multilateral elements and state trading agencies enjoy increased freedom of choice, based on commercial considerations, within the global limits of the plan and global foreign exchange allocations. Also, trade agreements provide rather a general framework for trade, while quotas tend to become estimative or readily adaptable to trade possibilities. As trade expands there is also less preoccupation with accurate and prompt balancing of trade flows. On the other hand, stability is increased by a shift from short-to-long-term trade agreements which express mutual intentions, inform traders of trade possibilities, offer a basic legal background for exchanges and provide mechanisms for dealing with problems that may arise.

In the field of practical action, besides trade policy proper, there are three areas where both governments and business enterprises have recently been particularly imaginative and enterprising and where they have developed numerous new approaches in order to solve existing problems or to show that alleged problems are actually irrelevant to the development of trade. These areas are industrial co-operation, the financing of trade and trade promotion in the widest sense.

Co-operation between industries of the socialist and the developed market economy countries takes place in three basic forms, often combined or modified. Co-operation in research and exchange of information has only secondary effects on actual trade. Co-operation in development projects in the socialist countries involves the supply of equipment and know-how by western firms, normally on credit, which may be paid with products originating from the development project (e.g., natural gas, petroleum, steel). The third form, co-operation in immediate production and marketing includes various forms of sub-contracting, licensing and know-how arrangements, joint marketing and servicing and specialization in production and sales efforts. It offers both the possibility to acquire the latest technical and managerial know-how and increase productivity and competitiveness, and to expand trade where it would otherwise be hampered by scarcity of foreign exchange. In some cases governments promote industrial co-operation by providing a suitable institutional framework in the form of general provisions for co-operation in trade agreements or by concluding special co-operation agreements.

Three Factors

The financing of east-west trade appears to be conditioned by three factors—differences in the commodity structure of trade flows; disparities and time lags in the growth of the import demand and export performance of the socialist countries, connected with their problems as late-comers in developed markets; and structural changes in some of the socialist countries. Financing of trade is now facilitated by a more liberal credit policy on the part of developed market economy countries, a trend from bilateral to multilateral payments and increasing financial contacts.

In both groups of countries there is increasing awareness of the need for trade promotion. The activities of trade missions range from establishing first contacts to market research and analysis of economic plans. International fairs, specialized exhibitions by industrial sectors or individual firms, national exhibitions, permanent sales shows and technical symposia and seminars acquaint potential trade partners, and particularly ultimate users, with trade opportunities. Western firms now have a wide range of advertising media at their disposal in the socialist countries. The use of public tenders for imports into socialist countries adds to better knowledge of the existing demand. Free ports at or near the borders of the socialist countries facilitate market access. Finally, exporters from both groups of countries pay increasing attention to after-sales service.

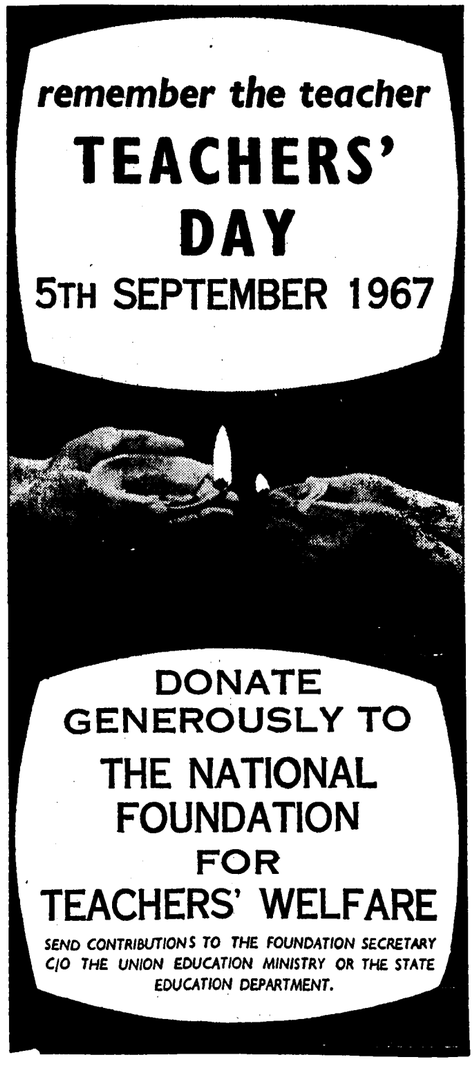
In order to facilitate contacts and trade promotion ventures, several socialist and developed market economy countries

EXPORTS OF SOCIALIST COUNTRIES TO DEVELOPING COUNTRIES: 1961-65

(Million dollars)

Item	1961			1965		
	SC of Eastern Europe	SC of Asia	Total	SC of Eastern Europe	SC of Asia	Total
Food, beverage, tobacco	130	130	260	224	340	564
Crude materials (excl. fuels)	120	35	155	265	44	309
Mineral fuels, etc.	125	3	128	238	4	242
Chemicals	86	15	101	156	27	183
Machinery and equipment	540	25	565	1,039	25	1,064
Other manufactured goods	345	235	580	652	400	1,052
TOTAL	1,534*	445	1,979*	2,460	840	3,300

* Exports to Yugoslavia, amounting to $174 million in 1961 are included in the total, but not distributed by commodity groups.



have set up mutual country sections in their chambers of commerce or have established joint chambers of commerce. Mixed trading companies with the participation of socialist countries have been established in developed market economy countries. Governments of developed market economy countries promote the establishment of associations in their countries to facilitate the exchange of information and co-ordination of activities between enterprises interested in East-West trade. In the socialist countries a more flexible attitude towards the establishment of representations of foreign partners may be observed. In some cases Western firms may also use official trade agencies, with particular employees assigned to their exclusive service.

SOCIALIST COUNTRIES' CREDITS TO DEVELOPING COUNTRIES

(Million dollars)

	Total 1954-60							Total 1961-65		Total
	Amount	Per cent	1961	1962	1963	1964	1965	Amount	Per cent	1954-65
A. Distribution by creditor countries										
Total	3471	100	1256	316	350	1246	1125	4293	100	7764
Bulgaria	—	—	23	2	6	—	43*	74	2	74
China	189	5	165	11	88	305	77	646	15	835
Czechoslovakia	309	9	198	1	20	118	53	390	9	699
Eastern Germany	39	1	79	—	—	71	132	282	7	321
Hungary	32	1	134	—	23	10	52	219	5	251
Poland	137	4	119	88	8	54	22	291	7	428
Romania	11	—	116	—	—	70	100	286	7	297
USSR	2754	79	422	214	205	618	646	2105	49	4859
B. Distribution by debtor countries										
Africa	509	16.2	740	83	242	822	205	2092	46.2	2601
Algeria	2	—	—	—	156	143	—	299	6.6	301
Ethiopia	—	—	114	—	—	3	5	122	2.7	122
Ghana	40	1.3	82	—	—	22	20	124	2.7	164
Guinea	85	2.7	21	13	—	—	—	34	0.8	119
Kenya	—	—	—	—	—	55	—	55	1.2	55
Mali	—	—	75	10	—	27	—	112	2.5	112
Morocco	—	—	5	12	—	—	—	17	0.4	17
Senegal	—	—	—	—	—	—	—	7	0.2	7
Somalia	—	—	74	—	22	—	—	96	2.1	96
Sudan	—	—	22	—	—	—	—	22	0.5	22
Tunisia	10	0.3	38	—	—	—	10	48	1.1	58
Uganda	—	—	—	—	—	15	15	30	0.7	30
UAR	372	11.8	309	48	64	517	126	1064	23.5	1436
Congo (Brazzaville)	—	—	—	—	—	33	29	62	3	62
Asia	2056	65.4	457	294	99	486	519	1855	41.0	3911
Iran	6	0.2	—	—	59	25	154	238	5.3	244
Iraq	207	6.6	10	33	—	—	18	61	1.3	268
Syria	195	6.2	—	15	16	117	—	148	3.3	343
Yemen	42	1.3	10	—	—	67	—	77	1.7	119
Afghanistan	132	4.2	—	200	—	27	39	266	5.9	398
Burma	10	0.3	78	—	4	—	—	82	1.8	92
Cambodia	29	0.9	5	—	12	—	5	22	0.5	51
Ceylon	61	1.9	—	11	8	—	42	61	1.3	122
India	778	24.8	142	34	—	84	233	493	10.9	1271
Indonesia	553	17.6	174	1	—	65	—	240	5.3	793
Nepal	43	1.4	8	—	—	—	—	8	0.2	51
Pakistan	—	—	30	—	—	101	28	159	3.5	159
Latin America	296	9.4	402	—	—	—	167	569	12.6	865
Argentina	109	3.5	—	—	—	—	—	—	—	109
Brazil	—	—	272	—	—	—	90	362	8.0	362
Cuba	187	6.0	130	—	—	—	77	207	4.6	394
Yugoslavia	281	8.9	—	—	—	—	10	10	0.2	—
Total developing countries	3142	—	1599	377	341	1308	901	4526	—	7668

* Total for 1964 and 1965.

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Will the 'Haves' Play?

STOCKHOLM:

THE UNITED Nations Conference on Trade and Development (UNCTAD) has necessarily been more a creation of faith than hope and at its birth those who came to scoff were more than those who remained to pay. I could recall for instance the patronising commentary of 'The Economist' (London) on the first United Nations Conference on Trade and Development held in Geneva in 1964 when that journal, in effect, chose to wonder how beggars could afford to be choosers.

Much water has flowed down the Rhone since those days, but even then, while both faith and hope have grown, faith still remains the major ingredient of the mixture. It is therefore only to be expected that the Secretary-General of the UNCTAD, who is the head of its permanent secretariat, should be a good optimist, in addition to being a good economist or social scientist. Dr Raul Prebisch, however, is more than a professional believer in the mission of the UNCTAD. Speaking to me on the eve of the opening of the session of the Trade and Development Board (it ends on September 8 at Geneva), Dr Prebisch explained why he was personally convinced that, despite the disappointments so far of the "Development Decade" proclaimed by the United Nations, the industrialised nations had drawn close to a practical appreciation of the need for some big, bold moves, here and now, in the direction of narrowing the gap between their growth rates and those of the developing nations. It was in this sense that, addressing the Trade and Development Board later, he used the cautious, diplomatic expression that certain commercial or financial issues, relating to the promotion of the trade and development of the developing countries, had "become ripe for eventual concrete negotiations" at the forthcoming New Delhi conference.

Among these issues are the preferential treatment by the industrialised countries of the manufactured and semi-processed exports of developing countries and, secondly, the softening of aid terms. These are also among the problems which the Trade and Development Board is currently considering at the level of the officials of the governments of the member-countries, in the light of the reports or studies prepared by the permanent secretariat or its expert bodies. The board is of course not empowered to take decisions which only the governments concerned can and the board's present labours, in fact, are intended for preparing the draft agenda for the New Delhi conference. This apart, there is to be a conference, at the ministerial level at Algiers early in October, when the developing countries of Asia and Africa are expected to deliberate upon and define their attitudes towards the issues, including trade and aid, which will come up at the New Delhi conference. It is possible that the industrialised countries, which are members of the OECD, will also meet before the New Delhi conference and after the Algiers conference has taken place, to formulate their own views on the agenda for New Delhi.

While there are guarded, but still hopeful, expectations in Geneva about these forthcoming developments, it is realised that there are still very considerable differences to be settled between the viewpoints, broadly, of the developed and the developing countries. Thus, it is undoubtedly true that, at the highest levels of government in the developed countries, there is acceptance, in principle, of the need for a general, non-discriminatory, non-reciprocal system of preferences to be granted by developed countries in favour of exports of manufactures and semi-manufactures from all developing countries; but this does not mean that a charter of duty-free entrance for the industrial products of developing countries into the markets of developed countries is merely waiting to be announced at the New Delhi conference. On the contrary, much would depend on the degree of constructive responsiveness which the Algiers meet,

for instance, may succeed in displaying. For one thing, developed countries are increasingly inclined to demand that the developing countries should exhibit more interest, enterprise and energy in promoting economic integration and the expansion of trade among themselves. It is appreciated that, in some areas of the developing world, the prerequisites of political harmony or mutual trust do not obtain, but it is argued that, even after allowances are made for such limitations, there does exist scope in several parts of the developing world for regional, sub-regional or inter-regional arrangements which is not being sufficiently investigated. There is in fact a strong feeling that the time is ripe for initiatives to be taken in the organisation of sub-regional co-operation among some countries in north Africa. Here, again, the proceedings of the Algiers conference may be expected to be of wide interest.

The issue of the softening of the terms of development aid, again, is one where developing countries may expect a higher degree of co-operation from developed countries on the basis of what may perhaps be termed "reciprocity in the matter of attitudes". Unfortunately, political and economic conditions in the western world just now are not too favourable for the stepping up of the scale of development assistance. For this very reason those industrialised countries which are in what is sometimes described as "this aid business" may well be disposed to contemplate softer terms for such aid as they may be prepared to continue to offer. It is of course generally recognised that the assisted countries or at least some of them need immediate relief in the matter of repayment of development loans or credits. The greater anxiety however is that, in the light of this experience, care should be taken to avoid the recurrence of similar situations in the future resulting in the development process being interrupted by the diversion of resources to the repayment of aid previously received.

Simultaneously, there has been some further discussion of the question of "supplementary financing" since this matter was examined and reported upon some time ago by the World Bank at the instance of the UNCTAD. While the utility of this scheme as a means of helping developing countries out of temporary disturbances in their export earnings due to reasons beyond their control is conceded by developing countries, there is perhaps a mild resentment among them at suggestions, mooted by the World Bank and favoured by the assisting countries, that the facilities of this "supplementary financing" should be part of a "package deal" in terms of which the economic policies in general and the development policies in particular of a country seeking assistance may become a fit subject for consultations and agreed recommendations as between the country concerned and the international agency operating the supplementary financing scheme. At this stage, it is difficult to imagine the developing countries accepting any proposition which would require them to submit themselves for purposes of securing supplementary financing to any special scrutiny or supervision of their economic affairs in addition to the type of consultations which have come to be regarded as normal and legitimate in negotiations for basic development assistance. It follows that the assisting countries will have to adopt a more flexible attitude if the project is to make headway. Once this happens, however, the developing countries not only will be happy to work the scheme but may also ask for its logical extension from the coverage of temporary shortfalls in export earnings to supporting the balance of payments in the event of its being upset by sharp increases in the prices of essential developmental imports.

—THE EDITOR

Joint Action in Tea

MR DUDLEY Senanayake, the Prime Minister of Ceylon, is reported to have remarked recently that if India and Ceylon, who produced about 82 per cent of the world's tea, got together "none in the world can exploit us". It is, of course, true that by joint efforts, Ceylon and our country can do a great deal to strengthen our tea industry. To both countries tea is of considerable importance as an earner of foreign exchange, accounting for about 62 per cent of the total exports in Ceylon and over 15 per cent of our exports. But how exactly are the two countries to co-operate? Mr A. E. J. Emmet, a member of the British Tea Council, has suggested that this country should allow Ceylon to share its internal market to meet the huge potential demand and to relieve pressure on the world market. He argues that the one sure way of increasing the sale price of tea not only for Ceylon but for this country and other tea producing countries is to step up consumption; and he thinks this is possible only in our market where consumption has gone up from 227 million lbs per annum in 1956-58 to 310 million lbs in 1962-64. According to Mr Emmet, this represented only 10½ oz. per head per annum and an increase of 100 million lbs of tea per annum would increase this by a further 3½ oz. per head. He therefore has proposed that our country should permit Ceylon teas to be imported followed by an intensive campaign to increase consumption.

Mr Emmet's suggestion is interesting but is unlikely to find favour either with the Government of India or the tea industry. Our domestic market for tea is, of course, vast and is expanding steadily but is not our tea industry quite capable of producing all the tea required by us? Between 1956 and 1966, tea production in this country increased from 308 million kgs to 375 million kgs, the latter being an all-time record. Our average production of tea is 1,068 kgs per hectare against 949 kgs in Ceylon and 865 kgs in East Africa. Another significant development in this country is the adoption of year-round plucking. This practice, introduced by a well-known tea company in north India, has opened up possibilities of a very substantial increase in output.

In any case, the Government of India is firmly committed to a policy of curbing consumption at home. It does not, however, mean that there is no scope for co-operation between the two countries. There are several countries such as Algeria, Libya, Japan, Malaysia, Thailand. Russia and the European Common Market where tea consumption is negligible. It is clearly in the interest of both the countries to do intensive publicity in these countries so that tea consumption may become increasingly popular. Even in countries where tea consumption is relatively high, joint action will help to mitigate competition from rival beverages.

What our tea industry needs urgently are facilities to operate profitably so that it can continue to play its role as a major earner of foreign exchange. In his presidential address at the eleventh annual general meeting of the Indian Tea Association held in Calcutta on August 29, Mr P. K. Kanoria revealed that from 1960 to 1967, the burden of taxation (including excise duty, export duty, tea cess, West Bengal entry tax and Assam road tax) on tea exports rose by 92 per cent but the unit value of tea exported increased by only about 20 per cent in this period. Mr Kanoria refuted the charge often made against the tea industry that it was frittering away its resources by quoting the view of the Tea Wage Board that as much as 77 per cent of the funds employed by tea plantations came from internal sources, mostly from free reserves and depreciation reserves.

Mr Kanoria also made several suggestions to improve the financial position of the tea industry. Though these have been made before, their reiteration was necessary in view of the unhelpful attitude of the Government of India, which is reflected in the fact that of the numerous recommendations made by the Tea Finance Committee in 1964, only one, relating to the development allowance for replantation and extension, has been implemented. Mr Kanoria said that though the development allowance for replantation and extension was beneficial to the industry, it could be claimed only after incurring the expenditure. Many tea companies do not have enough funds for this purpose; they are not keen to take loans from the Tea Board because of the difficulty of repaying them. In Ceylon tea producers get a straight subsidy, free of tax, of Rs 3,750 per acre for approved schemes of new plantation, and this is said to be a more substantial assistance than development allowance. Mr Kanoria's suggestions included depreciation on tea plantations calculated on production, tax credit on exports, lower excise duty on increased output and refund of excise on exports. In order to minimise the administrative difficulties in refund, Mr Kanoria proposed that tea could be despatched from the gardens to a bonded warehouse. If, after sale, tea is released for internal consumption, the excise duty could be realised from the buyer; but if exported, no excise would be payable. The merit of this scheme is that it avoids the cumbrous procedure involved in first collecting the duty and then refunding it on exports.

Devaluation of the rupee, it is now clear, has failed to give an impetus to tea exports. The Government of India therefore should not hesitate to consider favourably the industry's request for the introduction of incentives to increase its competitive capacity. The official tea delegation, which visited the Middle East and North Africa early this year, has specifically recommended that in order to reduce the price of our tea and increase exports, the export duty on tea should be abolished. The four-member delegation was led by Mr P. C. Borooah who is also the chairman of the committee appointed by the government to undertake a comprehensive review of the tea industry's problems. The committee also is likely to reiterate the demand for the abolition of the export duty. But will the Finance Ministry agree?

Hartal and Hunger

LACK OF experience has been given as one of the reasons for the failure of the food procurement policy by the West Bengal ministers. This explanation in hardly convincing. It is true that the ministers are new to their task, having been in office only since March. The experience of most of them has been mainly in the sphere of agitation and disruption; they put it to good use by staging a wholly futile 24-hour hartal throughout the state on August 24. In any case, the actual procurement is done not by ministers but the administrative machinery and it cannot be argued that it has no experience in this line. Last year the Congress government procured nearly 600,000 tonnes of rice. The present government had fixed a target of procuring 200,000 tonnes but the actual quantity procured till the middle of August was only about 105,000 tonnes. The late start in procurement may partly explain the poor progress, but the absence of energetic efforts by the government is mainly responsible for this result. Dr P. C. Ghosh, the Food Minister, said on August 23, that he would be happy if the government could procure 10,000 tonnes of "aus" paddy out of 120,000 tonnes produced in the Nadia district. He felt diffident about this achievement because the government did not have the requisite machinery. Procurement would also be difficult, he said, because of the rains and the lack of storing facilities. The Food Minister added that even if the estimated quantity was procured, about a quarter would be wasted because of insufficient number of government godowns.

It would thus seem wrong to put the blame for the present food crisis in West Bengal entirely, or even mainly, on the central government. If Mr Ajoy Mukherjee and his cabinet colleagues really enjoy the tremendous popular support they claim, we wonder why it was necessary at all for them to stage a hartal "to strengthen the campaign against hoarders and black marketeers", as stated by a spokesman of the United Front. The fact is that Dr Ghosh is unable to enlist the enthusiastic co-operation of his ministerial colleagues in the implementation of the food policy. Nor, unfortunately, is Mr Ajoy Mukherjee able to assert himself as the Chief Minister and enforce a reasonable amount of discipline and team-work among the ministers. It is hardly surprising then that the food policy of the government has failed to make an impact and a situation was created when the Calcutta rationing system was almost on the verge of breakdown. The position on August 24 was that the Food Department of the government had on that day stock of rice only for 3½ days and of wheat for 5½ days, to serve the statutory rationing area. The Food Corporation had a stock of rice sufficient just for four days.

The state government clearly cannot continue its present policy of drift. The Prime Minister, Mrs Indira Gandhi,

has assured West Bengal that the centre's supply of foodgrains to the state in August would be about 105,000 tonnes of wheat, barley and milo and that New Delhi would continue to make efforts to arrange for similar overall availability during September and October as well. This assurance may not fully satisfy West Bengal but considering the country's overall shortage of foodgrains, especially rice, it will be unfair to expect the centre to be generous only to one state. It is a pity that Mrs Gandhi's plea to the West Bengal ministers not to dislocate food movement by organising a hartal went unheeded. She had explained that the hartal would affect the supply of 4,000 tonnes of foodgrains to West Bengal in one day, besides delaying the supplies to Assam and other areas. The fact that this appeal had no effect showed that the ministers of West Bengal were anxious not so much to solve the food problem but to embarrass and discredit the centre.

But the time has come for the centre and the state to tackle the food problem in West Bengal with urgency and seriousness. The centre should not only supply its promised quota of foodgrains but should try to increase it if possible. The state government should stop playing politics with food and should try to procure as much as possible. It should also make energetic efforts to step up the production of food which has remained more or less stagnant at around 5 million tonnes during the last few years, as shown in the official statistics given alongside.

It is not generally known that West Bengal's contribution to this country's rice production is much greater than that of other states. In 1964-65 West Bengal contributed 14.1 per cent to the country's total rice production compared to 12.8 per cent by Bihar, 11.4 per cent by Andhra Pradesh, 11.3 per cent each by Orissa and Madras, 9.5 per cent by Uttar Pradesh, 8.8 per cent by Madhya Pradesh, 4.9 per cent by Assam, 4.0 per cent by Mysore and 3.9 per cent by Maharashtra. These states together produce over 90 per cent of the country's rice; and in every one of these states, including West Bengal, there is considerable scope for improving the yield per acre.

While efforts must be made to achieve self-sufficiency, it is necessary to prevent scarcities in deficit areas such as West Bengal by facilitating the free movement of foodgrains. It is unfortunate that Orissa has turned down the centre's proposal to have free trade in rice with West Bengal even for a temporary period of two months. Unless the centre is able, by pressure and persuasion, to make the states follow a truly national policy in regard to food, the country is bound to face scarcities accompanied by rising prices.

PRODUCTION OF FOODGRAINS IN WEST BENGAL

(In '000 tonnes)

	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67*
Rice	4,800	4,410	5,331	5,761	4,893	3,800
Jowar	1	1	1	1	1	N.A.
Maize	29	36	36	39	43	,,
Ragi	3	3	3	3	4	,,
Small millets	3	3	3	4	5	,,
Wheat	34	31	31	28	34	,,
Barley	42	29	28	18	30	,,
Total cereals	4,912	4,513	5,433	5,854	5,010	3,800
Gram	79	90	89	80	107	...
Tur	23	27	27	31	31	...
Other pulses	238	240	260	295	302	...
Total Foodgrains	5,252	4,870	5,809	6,260	5,450	3,800

* Provisional.

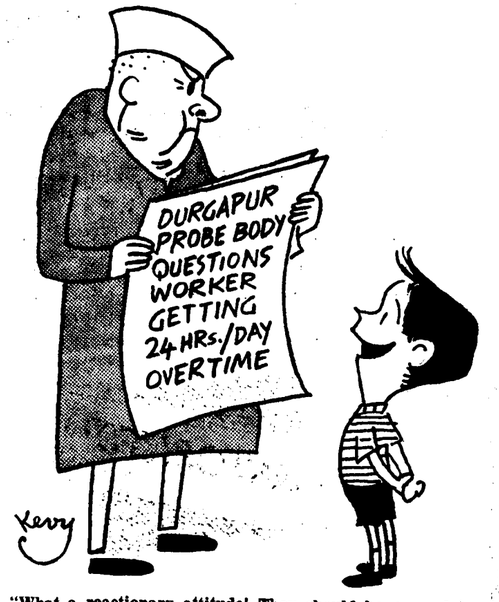
The Truth About Rubber Prices

THE CONTROVERSY over the fixation of fair selling prices for natural rubber has been ended with the announcement by the government that this plantation industry would be allowed to sell its output around Rs 4,150 per tonne. For a time, there was a suggestion that differential prices should be paid to the small and big growers and encouragement provided to the former for increasing their viability but it was soon realised that the scheme would be unworkable as there was bound to be a large leakage of rubber from the bigger to the smaller estates and the consumers would be penalised besides the government losing considerable revenue. The plantation owners, however, are not satisfied with the recommendation of the Tariff Commission and the decision of the government. It is felt that efficiency has been unnecessarily penalised and the computations regarding the cost of production have been based on a sample which is unrepresentative of the industry and which has a distorting effect. The main consumers of rubber, particularly the tyre producers, were very much worried about the sharp increases in prices of natural rubber in the past two years and have been demanding that the selling price should be reasonable and should be fixed after a careful enquiry into the plantation industry's cost of production. This insistence would appear to have irked the estate-owners as they have a feeling that the prices for other plantation crops have increased at a faster rate and it would not be possible to ensure a sustained improvement in rubber output if the required incentives were not given.

It cannot, however, be denied that the small growers of rubber having less than five hectares were asking for unreasonable prices and the Government of Kerala too has been anxious to "exploit" the shortfall in supply over consumption to its advantage. The central government has to adopt a policy which will reward liberally the small growers but which will not result in undue encouragement to inefficiency. The bigger growers, who own only 30 per cent of the area under rubber, account for as much as 60 per cent of the total production as a result of near-doubling of the yield per acre to 600 kg. in a 15-year period. The replantation programme is being vigorously carried out by the bigger estates while more scientific methods are being adopted for tapping the trees. Better attention to manuring and to the health of the trees by administering pesticides and the like have been responsible for a significant increase in yield and it is felt that the upward trend in output can be maintained if the industry is allowed to earn a reasonable profit margin. It will be necessary to increase the output of rubber continuously for a long time; against the estimated consumption of 120,000 tonnes of rubber of different kinds in 1967-68, indigenous production of natural rubber is not expected to be more than 60,000 tonnes. The gap of 60,000 tonnes will be filled to a great extent by the manufacture of synthetic rubber and reclaimed rubber. But there will still be need to import nearly 30,000 tonnes of rubber. The gap would be less but for the fact that serious problems are being encountered by the only unit at Bareily in Uttar Pradesh in securing its requirements of industrial alcohol. As it is expected that by 1970-71, consumption may increase to nearly 200,000 tonnes the gap may even widen which will have to be met by imports. The availability of synthetic rubber and reclaimed rubber from indigenous sources cannot be increased significantly for several years as it will take some time for a new synthetic rubber plant to be established. The output of natural rubber may not increase to more than 100,000 tonnes in the next four years. From the point of view of increasing the employment potential and taking advantage of the facilities available for growing natural rubber in Kerala and the neighbouring states, it will be advisable to lay the maximum emphasis on extending the area under crop and encouraging replantation. If immediate steps were taken towards this end in a seven-year period it will be possible to increase natural rubber output in a spectacular manner and it will suffice if only one more synthetic rubber plant in a petro-chemical complex was started.

The prices now available in the open market will be considered satisfactory if a new policy can be formulated for providing the necessary protection to small growers. The bigger estates will also need to be rewarded. There will be no conflict of interests, as with a careful import policy there will be no problems of absorption. It is contended by the bigger estates that the cost of production is not very much lower in their case if it is borne in mind that a large amount has to be paid by way of agricultural income-tax while bonus payments also have to be made to workers. There is, therefore, a case for extending a larger replantation subsidy for smaller growers. But the feeling should not be allowed to gain ground that it is advantageous to remain small producers and not quite remunerative to improve efficiency. The objective of encouraging small growers and improving their competitive ability will be achieved if, along with larger replantation subsidies, those having two to four hectares were compelled to increase the area under rubber wherever possible so that their share in total production can be raised significantly over a period. Under this scheme, it will be necessary to give greater attention to the extension of acreage while attempting limited replantation. The bigger estates for their part should be rewarded with a bonus payment for increases in output in excess of a stipulated growth rate. Unless some imaginative scheme is evolved, it may become necessary to construct many large-sized synthetic rubber plants which will be capital-intensive and which will deny employment to workers, who would otherwise be employed if natural rubber output was continuously raised.

The plantation owners, however, cannot complain about the unprofitability of current rubber production because the devaluation of the rupee has been a blessing to them. As a result of a higher landed cost of imported rubber and the levy of an ad valorem duty of 27½ per cent, the purchaser of rubber from outside sources has to pay now around Rs 3800 per tonne. If, therefore, the government can pursue a careful policy in regard to the licensing of imports, it will not be difficult to dispose of indigenous production at around the fair selling prices now announced by the government. It is really surprising that the plantation industry is vocal at a time when conditions have distinctly improved. Between 1955 and 1963, there was practically no change in the statutory selling prices for rubber and the whole output had to be marketed by the honest producers at less than Rs 200 per 100 kg. Even after decontrol, there was not any big improvement in the open market quotations. Only in 1965, on account of the Indo-Pakistan conflict, the delay in licensing of imports and the serious accident at the synthetic rubber plant at Bareily, there was a skyrocketting of prices. These declined to less abnormal levels only after imports started arriving and the main consumers in this country could keep out of internal market for some time. Now that it has been decided to permit imports of rubber only to the desired extent and indigenous production of natural rubber will have an assured market at reasonable prices, the main task relates to the speedy implementation of the replantation programme along with an extension of the area under the crop. The government should not hesitate to provide the maximum incentive for this purpose to all growers of rubber, big and small.



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Urgent Need for a New Foreign Aid Policy

MANUBHAI SHAH

WE HAVE examined in some depth the problem of repayment of the heavy foreign debts which the developing countries have incurred (see 'Eastern Economist' dated August 25 and September 1). It is clear that the stage has now been reached when the aid-giving and the aid-receiving countries should sit together to review the entire situation. In spite of the tremendous efforts that the developing countries are making to be self-reliant, it will be quite some time when foreign aid will cease to be a vital ingredient in the process of their growth.

What our country faces in terms of the burden of repayments, in spite of our increasing and continuing need of foreign assistance for a decade or more, is something which is staggering. From 1970 onwards, foreign exchange equal to one-third of our export earnings (about Rs 400 crores per year) may have to be earmarked for debt repayment. This is a situation which cannot be viewed with equanimity. To all in this country and our friends abroad, this would present a disturbing picture. And what is true of our country is also true of most of the other developing countries. We will therefore have to consider some basic and revolutionary changes in the quantum, structure and terms of external assistance.

Structural Changes

This country wants to repay every paisa that it has borrowed. We have never defaulted and never will. However, sooner than later the whole question of repayment will have to be tackled in a bold and imaginative way. Repayments will have to be linked by the lending countries to purchases from the poor countries thus giving an impetus to their exports. Major structural changes will have to be made in foreign assistance. This will be possible only when a new policy for foreign aid is evolved.

Instead of extending small quantities of assistance over a long period, the developed countries should cut short the period of assistance through increase in its volume. I would therefore urge that in the first instance the industrialised countries of the world should invariably extend for the next decade overall total foreign assistance which should constitute at least two per cent of their gross national income as adumberated in the resolutions of the UN General Assembly, the UNCTAD, the ECOSOC and various other international forums. The present contribution towards external assistance by different countries is shown in the graph alongside. France has almost reached the desired two per cent; USA, the UK and West Germany are contributing one per cent while the rest are nowhere near one per cent.

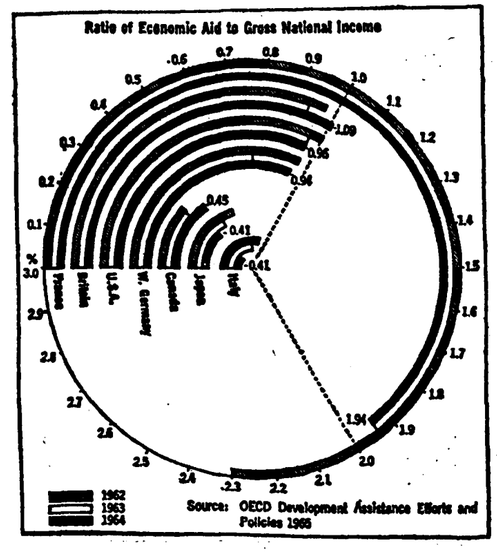
It is imperative that the rich countries (excluding France) should double their external assistance so that over a comparatively short period, the economic growth of the underdeveloped countries may be accelerated. The opinion of economists of repute expressed in the slogan "more aid to end aid" has much validity. Of course while extending additional aid, the donor countries should make it selective so that the developing countries utilise it in those industries which will tend to make their economies self-reliant.

We may recall here that the industrialised countries took more than 50 to 100 years for reaching their present state of development. Therefore, if the developing countries could reach the present stage of the developed countries within the next two decades by accelerated assistance from the industrialised economies, it would shorten the period of their economic growth by more than half. This can happen, as stated above, if increased foreign assistance on new terms flows from the industrialised countries to the developing countries over a decade and more.

The second important change has to be in the structure of aid. The Marshall Plan had the chief merit that it contained a major element of grant which was 90 per cent of the total aid given to the west European countries. The European countries which were recipient of this aid got over the period of reconstruction without any heavy burden of repayment as they had to repay only 10 per cent of the foreign aid. As against this, the grant element in total foreign aid received by our country (excluding PL 480 and 665 assistance) was only eight per cent. Thus 92 per cent of external assistance received by us was in the form of loans which have to be repaid in free foreign exchange.

As a major change in the terms of foreign aid, I would suggest that all the old outstanding loans and the new foreign credits should be based on the concept of matching grants and loans. Unless the grant portion is increased to 50 per cent of the total of external assistance, which rich countries may extend on a bilateral basis or multilateral basis, it will be impossible for the aid receiving countries to repay their external debts without causing serious damage to their economies. This concept of 50 per cent grant portion should be applied not only to the new credits but even to the old credits. Old loans should be reduced to half of their total . It is imperative that all foreign assistance in future should have a minimum of fifty per cent of grant element. This will improve the balance of payments position of the receiving countries by reducing the heavy burden of repayment.

Regarding the structure of loans, it is very necessary that a substantial portion of them should be untied either with projects or with currencies of the aid-giving countries. As we have examined in the earlier articles, the project-tied or currency-tied credits inflate the prices of machinery and equip-



ment by about 30 to 40 per cent. Thus, what is given by the right hand is taken away by the left hand. It is conceded that the aid-giving countries should have the advantage of exporting their machinery and equipment and surplus goods in the form of aid, but it may be argued that two per cent of their gross national product is not such a big amount as cannot be granted by them out of their free convertible currency. Obviously the aid-receiving countries will have a sense of obligation to utilise a portion of the aid by buying goods from the aid-giving countries on a competitive price basis. It is already a happy feature of the new world understanding that more and more aid-giving countries are trying to free their loans from both the projects and the currencies. Also the tied project and currency loans have to be repaid in free convertible currencies by the repaying countries. The tied loans are, thus, doubly unfair to the aid-receiving countries.

'Aid with Trade'

Also the new approach will have to take into account the international concept of "Aid with Trade". The one outstanding merit of the rupee currency agreements which this country has with the east European countries is that credits from these countries leave no residue of free currency debts as these countries buy exportable goods from us in repayment of their loans. While it is true that this procedure cannot be adopted in the market economies of the west European countries, it is high time that an international working group of experienced economists and administrators gets together to devise ways and means to enlarge and work out "the assured off-take" concept propounded by the French economists. Unless the aid-receiving countries are assured of a certain portion of their goods being bought by the aid-giving countries, exports of the developing countries will never get a real impetus. Therefore, the principle of "aid with trade" has to be not only enlarged but implemented in a concrete manner. It should not be beyond the liberal thinking of the administrators of foreign assistance in the developed countries to organise a global system of 'commodity and product purchase' in lieu of the whole or part of repayment of the assistance extended by them to the respective developing countries. The goods, both primary and manufactured, which are available in the developing countries of the world have a ready market in the industrialised countries and thus a 'link agreement' for repayment in kind is obviously practicable.

Lastly, the usual period of a loan and the rate of interest thereon needs to be considered. Most of the developing countries are utilizing foreign loans for building infrastructure and basic industries. The period of grace has, therefore, to be substantially long to offset the long gestation time of these projects. A 10-year period of grace should be considered a normal feature with 40 to 50 years as total period of repayment. If self-financing has to be made an integral part of investment in terms of exportability of the aid-receiving countries, both interest and financing charges have to be nominal and should not be, by any stretch of imagination, anything more than half to one per cent. Of course in these categories of long-term foreign assistance, we cannot include the suppliers' credit or credits from private institutions, banks, consortia and finance and credit agencies of the industrialised countries which extend such credits purely from a commercial angle. However, even for such organisations when loans are backed by government guarantees, the above terms should apply.

Time has therefore come to seriously reconsider both the ethics and the economics of foreign assistance which is in the nature of transfer of assets from that portion of mankind which today is at the apex of affluence and civilisation to the other part of the same human family which has to be brought up as a part of global and international justice. For history has no periods when the ups and downs and the crests and troughs of civilisation have not been exchanged between different parts of the world. This does not involve any concept of charity because human family is one and prosperity has to be shared if it is to be enduring. Poverty anywhere is a menace to world peace and progress. Through co-operation and understanding, this vital question has to be considered by the human family irrespective of differences in political systems. Developed countries have to share a small portion of their national cakes for international development if peace and progress of mankind are to be maintained and strengthened.

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The Profit Motive

R. V. MURTHY

DECRYING OF profits is no new pastime, nor is it peculiar to this country. It has been there almost everywhere, especially since Marxist socialism began its fantastic labour theory, according to which the value of any product is created only by the amount of human labour going into its manufacture. But both this labour theory and the concept of profit have undergone sea-changes, although the degree or depth of such changes varies, understandably, from country to country and has also varied from decade to decade. Broadly, the transformation so far has been from the Marxist theory of "production for use, not profit" to "production for use **and** profit", from "no profits, no problems" to "avoidance of loss" first and more positively to "desirability of making profits" subsequently. Economic experience of the eastern bloc countries and Britain's experience of nationalised industries since 1945 particularly have turned out to be a proper lesson in the true role of profits in the industrial system. Today, for instance, the various roles that profit plays in an industry are quite readily conceded. Nearly 12 years ago in an article entitled "A Fresh Look at the Profit Motive", in the 'New York Times' Magazine, it was stated: "It (the role of profit) covers managerial costs. It includes the costs of depreciation and the cost of raising new capital. In a dynamic economy, it has to cover the costs of research and the more impredictable costs of changes in taste, in materials, in industrial techniques. Above all, the role of profit is to show that the consumer is ready to buy the article offered at a price that covers all the expenses of producing it".

Social & Economic Realities

We were reminded of this article in the 'New York Times' Magazine when we read what Mr Dhirajlal Maganlal had to say on profits whilst presiding over the last annual general meeting of the Zenith Steel Pipes, Ltd, Bombay, the other day. He was, of course, prompted to do this "loud-thinking on the subject", as he called it, by certain observations on profits and companies making profits, made recently in Parliament and elsewhere, "as though the concept of profits is something abominable and to make profits is a serious crime for a company". It is high time that somebody did this. In fact, many more company chairmen should address themselves to doing so. They should make the public and the powers-that-be to look at the social and economic realities of modern industrialism with a fresh and undogmatic eye. It is still in doubt, whether those who make ill-informed remarks on the question of profits have cared to follow what is happening in the USSR, Yugoslavia, West Germany, France, Spain, Japan and the USA, i.e., in the communist and the non-communist countries alike. No wonder that economic commentators in the west speak of the revolution of the twentieth century economic practice which has hardly begun to operate at all in Asia!

Those who object to companies making profits are obviously oblivious of the profound changes that have taken place in recent years. Companies today are no longer dominated by a single entrepreneur or even by private families. The centrepiece of modern capitalism and corporate business is the shareholder and the small shareholder at that. In the Zenith Steel, for example, nearly 75 per cent of the shareholders are those having shares worth less than Rs 1,000 each, according to Mr Dhirajlal. And both when managing agents were the accepted vogue and after, companies have been financed invariably from business reserves, although, latterly, government's crushing taxation has tended to render this well-nigh impossible, even as it has made reliance on public institutional finance inevitable, thereby making public control of private enterprise a greater reality. Similarly, the process of reconciling private profit with the satisfaction of the mass market, regarded in the US as the most hopeful of this century's changes in economic thought and practice, seems to have had a short shrift, what with such slogans as concentration of economic power and ceilings for a company's total capital beyond which it would be branded and blamed as a monopoly. Even genuine attempts at increasing productivity are suspect in certain quarters in this country. There is no effort to appreciate that the rationale of increased productivity is not so much profits as the reward for social benefits that such increased productivity brings in its wake as higher wages, cheaper prices and more goods for the consumer. It is significant that managements of profitable companies do not even mention profits when they talk of productivity; even if no immediate increase in profits is visualised, many of them stress the duty of their business to increase productivity. This doubtless explains why both American businessmen and American workers do not resist, but believe in and accept, technological changes. To all of them, unlike in our country yet, increased productivity is a social, if not a moral responsibility.

Mr Dhirajlal, who made the thought-provoking observations referred to, we may add for the information of those who may not know it, is closely associated with shareholders' associations and the corporate sector, besides being a well-known stock-market man, and these observations are undoubtedly the outcome of his personal and practical experience. It is to be hoped, therefore, that they will reach a much wider audience than the necessarily limited one he addressed.

Eastern Economist 20 Years Ago

SEPTEMBER 5, 1947

INDIA, undivided, has for some years past been precariously poised in regard to its food supply. Nearly a third of the people scarcely had a square meal a day. This was in respect of quantity. From the point of view of quality, conditions were much worse; the majority of the people could not procure balanced diet. Indeed the preponderance of cereals in our farm economy effectively precluded that possibility. The reason for this state of affairs was largely to be sought in the fact that our population had outstripped our food resources by a large margin. Thus, while the population increased, during the period between the two wars, by 27 per cent the acreage under food crops showed a meagre rise of about two per cent. Due to the impact of depression, with its concomitant of falling or low prices, the acreage under cultivation showed a decline of some four millions in 1939-40 as compared with acreage in 1936-37. This precarious food economy received a jolt during the war years from which it has scarcely yet recovered. Food imports which played an important part in maintaining a by no means strong food position, were cut off or seriously curtailed while the pressure of army demand coupled with some other adverse internal factors pushed India into the vortex of a famine which claimed two to three millions as its victims. We have since been subsisting on a level of semi-starvation, by passing famine only with a severe tightening of the belt. It is in this setting that the country came to be partitioned, making two of our most important surplus provinces parts of a separate sovereign state.

The Land—Concept and Realities

R. O. WHYTE

THE WAYS in which land in Monsoon Asia has come to be used, have been evolved haphazardly with the passing of time, influenced by a sequence of factors that would probably have little relevance in modern studies of optimal land use. The best methods of using land for maximum production have become one of the outstanding economic problems of the region, as indeed of most tropical countries: upon these, all other economic development and the continued existence of the human and livestock population depend. It is important first to consider how specialists in different economic and technical disciplines or land sciences look upon "land" in its various pragmatic, philosophical or metaphysical aspects, and in its role as the rural counterpart and basis for "the emergence of an increasingly affluent modern-type urbanised society."

First should be considered the land historians, the archaeologists, ethnobotanists and zoologists, who are trained never to accept the present condition of landscape or its plant and animal communities at their face value, who collect and interpret information from the past, like writing a detective novel, in order to recreate the original environment, and who decide whether it is the activities of man or climatic change which have reduced land to its present degraded condition. Related to this group would be the philosophers, who consider not so much the effects of man on land as of land on man; how the varied and ever-changing habitats have influenced ways of life to produce the sedentary agriculturist or the free-living, freedom-loving nomadic animal husbandman, how social and religious customs and taboos have evolved under the influence of environmental factors, even to the extent of the widely accepted view that "the cow is the basis of Indian agriculture, of the Indian way of life, of Indian philosophy".

Balance of Nature on Land

The ecologist, on his part, is interested in the present balance of nature on land, i.e., the total complex of human beings, domestic livestock, wild animals, wild and cultivated plants, and pests and diseases of man, animals and plants. He talks about loss and recovery of ecological equilibrium between various components and land or the total environment. Associated with the ecologists are the conservationists, who would protect vegetation, soil, water resources and wild life from the unplanned and therefore unscientific depredations of economic man, whom they tend to regard as a somewhat major form of destructive parasite which claims a divine right to destroy.

So we come to those who would use the land correctly according to the principles laid down by ecologists and conservationists. Political economists trained according to "western" principles, where man is still reasonably in control of his environment, try to apply the same criteria of optimism in Monsoon Asia. Interest on investment, cost/benefit ratios, inputs and outputs, are all standards that may not apply, as they did not to the engineer who when asked, when Israel was young, whether pumping that water up the mountainside to irrigate the lucerne of a border kibbutz was an economic proposition, said: "But sir, this is Israel, a new country, conservative economics does not apply here." This is Asia, an ancient continent, and land has become a declining resource; it is therefore this, the total environment, that governs whether the well-made plans for rural and urban social development shall or shall not be applicable and successful.

Associated with the political economists must be the demographers, who face ever-increasing difficulties in equating the rate of human procreation with the resources that the land may produce if managed to maximum efficiency; and the specialists in animal populations, who are generally overloaded with excessive numbers of very poor animals of low productivity and of the wrong type, and who cannot find where to break through the vicious circle.

Another associated discipline (and there are probably many more) is that of the agrarian or land planner, who would allocate land for optimal use for forestry, grazing or the cultivation of annual or perennial crops, and who would then define the techniques of management and production that should be used in each type of production. When dealing, as he generally does in Monsoon Asia, with land that is already occupied and used or misused up to a limited potential, he would call upon the political economist to institute measures of agrarian reform to create incentives for greater efforts by the cultivator before deciding on the methods of production that should be recommended.

Classification by Integrated Survey

The Australian government through its Division of Land Research in the Commonwealth Scientific and Industrial Research Organization (CSIRO), has for years been making studies of the land potential in the less occupied northern parts of the country and in the territory of Papua and New Guinea. These so-called integrated surveys, which are based on the following concepts, are in a state of constant evolution and adaptation, with the accumulation of more experience in the field and in the post-survey stages of interpretation and collation of data.

According to the Australians, to be strictly practical, a land classification study can be regarded as a subdivision of a discrete part of the earth's surface usually for the benefit of some authority or person contemplating the use of that land for either agriculture, forestry or grazing, or merely for conservation to control water flows in catchment areas or to reduce desiccation in semi-arid environments. Most of the land classification studies made in earlier days were primarily based upon soil surveys which may have made some incidental mention of the vegetation and other factors of the environment.

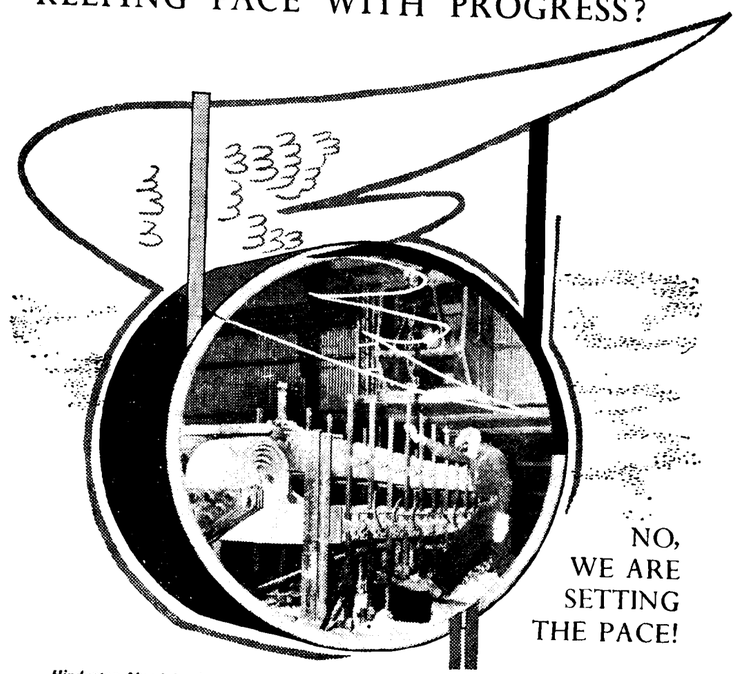
The use of land necessarily centres in the growth of plants, either as forest trees, pasture plants, or annual or perennial cultivated crops. Therefore a classification of land should consider all the factors which affect the growth of plants. These may be grouped into three more or less independent variables: **Climate**, **Geology** and **Geomorphology** and two dependent variables which change in relation to each other and the three independent variables: **Soil** and **Vegetation.**

With a comprehensive knowledge of these five main variables and their interrelations, it should be possible for a land use planner to be able to determine the best use of land in relation to prevailing economic conditions.

But what is the land use planner going to do if he is presented with a series of miscellaneous reports and maps on all these individual aspects? He will not thereby be given a picture of the land as such. Land is not a soil, nor a vegetative community, nor a climatic zone, but for the purposes of land classification it is a complex of all factors on, above and below the earth's surface which affect man's agricultural, pastoral and forestry activities. It is therefore much more desirable to present to the land use planner an integrated map and a report in which the data from these individual studies, which have broken down the land into its different components, are brought together again. Such a report would present a picture not of the soils or of the vegetation, but of that dynamic complex which is the land itself.

When an attempt is made to synthesize the data obtained from surveys of the five variables, it will be found that there are numerous basic land units, each of which has its own

KEEPING PACE WITH PROGRESS?



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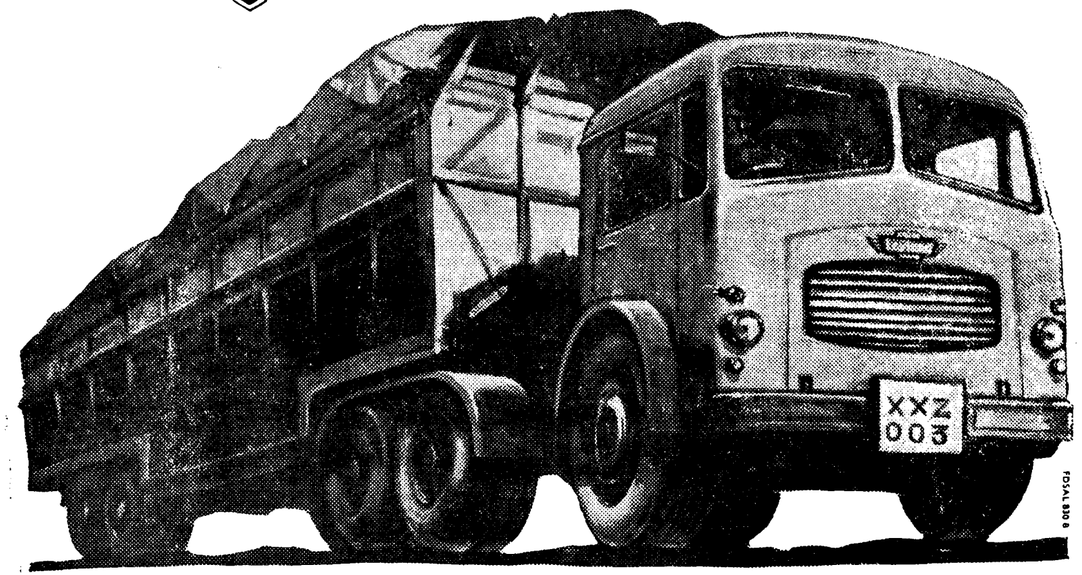

particular combination and permutation of the five variables. These land units are found to be so small and distributed in so complex a manner that usually they can be mapped only on the most detailed scale. It will, however, be found that these land units are not distributed at random but occur in a regular pattern in relation to each other, and that this pattern is repeated time and again. The pattern can be called a land type and can be mapped over a wide range of scales and described in a tabular form.

The Australian approach is in fact indicated by (A), (B) and (C) on the diagram below. The stages below (C) are carried out by other divisions of the CSIRO, e.g., Division of Tropical Pastures, Division of Soils, and by state departments.

HORIZONTAL AND VERTICAL APPROACHES TO INTEGRATED SURVEY, INVESTIGATION AND PLANNED DEVELOPMENT.

(A) Climate	Geology	Geomorphology	Soil	Water Vegetation
(B)	Synthesis into land units, types and systems			
(C)	Breakdown into major land-use classes			
	Forest land	Grazing land	Cultivated land	
			Rain-fed	Irrigated
(D)	Specialist studies related to land-use classes			
	Forest ecology, survey, inventory	Grassland surveys, ecology, succession, mapping	Intensive soil survey, crop ecology agronomy	
		Ecology, adaptability, tolerance of domestic animals		
(E)	Forest management, preparation of Working Plans	Management trials with different types of livestock	Crop adaptability trials, formulation of farming systems, crop rotations, integration of crop and animal husbandry	
	Measurement of run-off and soil loss under different plant covers and with different systems of management			
(F)	Evolution of integrated land-use patterns			

The Delft Seminars

Based upon the conclusions of conferences in Lagos and particularly in Toulouse (1964), the UNESCO decided to promote the establishment of the Centre for Integrated Surveys and, on the proposal of the Netherlands government, to appoint the International Training Centre for Aerial Survey (ITC) at Delft as the executive agency. The main purpose was defined as the organization of a programme of training in the planning and conduct of integrated surveys of natural resources, with emphasis on the developing countries.

The Netherlands government invites other member states of the UNESCO to become "members" of the institute by concluding a mutually acceptable agreement with them. Co-operation by member states may involve the offering of fellowships, sending visiting professors, contributing to the cost of field work, or donating equipment. The governing board of the institute has representatives of the Netherlands government, the UNESCO, the ITC, member states, other UN agencies and experts on integrated survey from countries in all parts of the world.

The papers presented to the first International Seminar on Integrated Surveys of the Natural Environment, 1966, were as follows (Proceedings of this and the 1967 Seminar available from ITC/UNESCO Centre, 3, Kanaalweg, Delft, Netherlands, price H. fl 50 per annum; a prospectus for training course on integrated surveys is also available from the same address).

M. Batisse (UNESCO): Integrated surveys of the natural environment.

I. S. Zonneveld (Netherlands): Plant ecology in integrated surveys.

R. Oluwole Coker (Nigeria): Photogrammetric and geodetic surveys as a basis for land development.

C. Troll (W. Germany): Landscape ecology.

J. C. J. Mohrmann (Netherlands): Operational planning of integrated surveys.

E. W. Russell (Great Britain): Soil survey as a part of pre-investment survey.

I. Szabolcs (Hungary): Soil technology in land development.

V. Kovda (USSR): Soil surveys in land development.

M. M. El Gabaly (UAR): Resources surveys for land reclamation.

V. Ignatieff: Resources surveys for the development of agriculture.

P. C. Raheja (India): Arid lands of India.

A. P. A. Vink (Netherlands): Integrated surveys and land classification.

J. A. Tosi (Costa Rica): Economic surveys and the natural environment.

D. B. W. M. van Dusseldorp (Netherlands): Social surveys and the natural environment.

The programme of the 1967 seminar (17 to 22 April) in ITC, Delft, was restricted to the use of integrated surveys on natural grazing areas:

H. Walter (W. Germany): The pampa problem and its solution

B. Vinogradov (USSR): Landscape conception and its use in the study of grassland territories.

R. A. Peterson (FAO): Grassland surveys and grassland production problems.

J. H. Jager Gerlings (Netherlands): Problems of nomadism.

G. Montsma (Netherlands): Problems of cattle in grazing areas.

R. A. Perry (Australia): Integrated surveys of pastoral areas.

Leslie Brown (Kenya): Problems of wildlife in the grazing areas of Africa.

M. L. Bourguet (France): Amenagement hydraulique du Sud-Est Mauritanie.

H. Ackermann (EEC). Les problemes techniques et economiques de puits et forages en Afrique.

M. Lacrouts (France): La commerce du betail en Afrique.

W. C. Verboom (Zambia): Application of aerial photography to the survey of grazing areas.

R. O. Whyte (Hongkong): The ecology and planned development of monsoonal grazing lands.

Y. Satyanarayan (FAO): Integrated surveys of arid and semi-arid grazing areas in Asia and Africa.

C. P. Bhimaya (India): Studies on detailed survey methods for management of rangelands in northwestern arid zone of India.

It is proposed that this region may be regarded as an ecological and developmental unit, which comprises all the countries from West Pakistan to Japan, in which the climate for all or part of the year is of a predominantly monsoonal nature. The general climatic pattern may be affected by associated factors of severe aridity in West Pakistan and parts of India, and by low winter temperatures in Mainland China and

Japan. In the island countries of east Asia, the marked distinction between seasons which characterizes a true monsoonal climate may be reduced by associated maritime influences, while in Indonesia there is a mixture of monsoonal and equatorial climates.

Because of the enormous demographic problems of this region which are threatening to swamp all well-conceived plans for development, it is surely unrealistic to expect the governments obsessed with the need to produce more foodgrains to show much interest in integrated surveys of grazing lands. There are certainly numerous areas as yet relatively undeveloped where an integrated survey is necessary to show whether food production for direct human consumption may be combined with a certain amount of animal husbandry in intensive systems of exploitation, bearing in mind at the same time that a certain proportion of land may best be left relatively "undeveloped" for the sake of conservation. But it is in the evolution of new land use patterns for the production of animal protein, especially milk, eggs or pigs in already cultivated areas around major centres of population that the integrated approach to survey and subsequent action is needed the most.

Escape From Reality

It may seem strange that a people with such a down-to-earth, practical approach as the Australians should be encouraging the escape from reality by the intellectuals of the Central Arid Zone Research Institute, Jodhpur, that is represented by the work of some dozen specialists in the useless bit of Rajasthan known as the Central Luni River Basin. And this when what India really needs are well-conducted integrated surveys of milk procurement areas, comprising everything from village roads, electrification and water resources down to the udders of cows or buffaloes and the nodules on the roots of the legumes. These are needed urgently for milk conservation schemes around 100 or more Indian cities and towns, and for many other places in the region, or for new irrigation schemes, or for sheep development—all urgent needs right down at the production level, at the lower stages of the diagram.

The Australian Division of Land Research has provided excellent patterns for all to follow in the survey of relatively undeveloped areas, in the reports for the comparable monsoonal environments of parts of northern Australia and of the Territory of Papua and New Guinea. These surveys have either been done in considerable detail or are of a broad type, assessing the potential use in general terms, e.g., land with (a) high or moderately high potential, (b) moderate use capabilities, (c) low use capabilities, or (d) very low or no use capabilities.

This technique should be applied in the countries of Asia initially on an experimental and demonstrational basis with Australian help through the Colombo Plan.

We may consider, for example, representative areas showing:

(a) intensive paddy and upland cultivation,

(b) paddy cultivation in extensive plains and misuse of hill slopes, and

(c) areas with scattered or no human population, cut-over lands, savannahs.

These various types of land use may be found in several parts of Asia, in Honshu and Hokkaido in Japan, Mindanao in the Philippines, Cambodia, Laos, Sumatra and other less developed islands in Indonesia, and the Ghats in south India.

But it is in the cultivated areas that the agricultural revolution that is to save the Asian situation will have to take place. The Australians could make a much greater contribution to Asian development if they were to induce the universities of Melbourne, Adelaide, Brisbane or Western Australia (Perth) to conduct integrated surveys of the rural areas within 50 or 100 miles from these cities to evolve new and specialized techniques of survey, to advise what changes in land use should for economic reasons be made now and in 15 and 30 years' time, and above all, how they would propose to introduce or enforce those changes into an existing and long-established land use pattern and rural economy. These techniques we could then adopt for the rural supply areas around Delhi, Hyderabad, Bangalore, Rangoon, Manila, Sapporo and all other urban centres of the region.

It is the last stage, the enforcement of change and improved practices, that is always the most difficult in a democratic community. Speakers at Delft from different parts of Africa were asked whether and how they could enforce correct stocking rates on surveyed grazing land in or around new water points. Dr Vinogradov could not tell the audience whether the results of these theoretically well-conceived integrated surveys of the USSR had ever been applied for practical development. Certainly the speakers from Rajasthan knew that none of their recommendations arising from integrated surveys are likely to be accepted by the people in a state where there are already ten times too many bovines on the land (let alone sheep, goats and camels).

So the technical officer achieves his usual end point, his own particular brick wall. He has to admit that he knows or has proved what should be done, but he cannot apply the necessary measures because of social, economic or political factors beyond his control. So it is over to the sociologists, the rural economists and the politicians to educate or by some means seduce a conservative and stubborn public opinion to modernize their practices along lines that will lead to a revolution in land use. Only then in Asia can the time, effort and money spent on integrated surveys at whatever level be justified. At the moment we are prodding the elephant with a pair of chopsticks.

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INDIA'S PROGRESS SINCE INDEPENDENCE

A STATISTICAL BIRD'S-EYE VIEW

This effort at the statistical presentation of India's progress since Independence in the main directions of social and economic evolution was first undertaken in April, 1963. The present publication, which is the third edition, has benefited from the experience gained of readers' reactions to the earlier editions. Although an attempt has been made naturally not only to bring the statistics up-to-date but also to revise the contents in order to make them more interesting and informative, we have found it profitable to stick to the original idea of maintaining a combination of comprehensiveness in outline and selectivity in detail. This volume is not by any means intended to be even a summary of the nation's progress in the last 20 years. Its aim simply is to indicate broad trends and developments in a statistical form.

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Managerial Audits

SRIPATI RANGANADHA

AN AUDIT is mainly concerned with the verification of accounts; it seeks to establish whether or not the accounts have been kept in accordance with established accounting practices. It is further expected to ensure the trial balances (arithmetical accuracy of the ledger) to be correct.

Such an audit, generally, is taken to mean a financial audit which acts as a barometer indicating the financial stresses and strains that the establishment has become subject to. It deals primarily with past data and endeavours to point out the current state of affairs of an undertaking. The time lag between the recording of accounts and the external auditing being short, there is not much scope for investigation and rectification of failings.

To circumvent this shortcoming, the preliminary internal audit is usually undertaken. We can audit even a part of a transaction taken at random to determine the way the establishment has been operating. Such an operation usually goes by the name of "Test Audit", "Percentage Audit" or "Sample Audit". It is not uncommon among big firms to have a comprehensive internal check-up before submitting the accounts to an external audit agency for the year-end audit.

This article is not concerned with the customary financial audit; it seeks to spell out the different kinds of managerial audits which can help in devising means to improve the efficiency of an establishment, to step up its production and to enhance profitability. As against the popular techniques of audit such as "Marketing Audit", "Attitude Audit", "Communications Audit', "Shop Audit" etc., we confine ourselves to "Management Audit", "Cost Audit", "Personnel Audit", "Inventory Audit" and "Labour Audit".

Constant checking and periodical probing are the prime requisites for efficient management of any concern. Defects are exposed in time and suggestive lines of action recommended promptly. Vigilance is the sine qua non for a successful entrepreneur. The institution of audit "exerts control for it puts people on guard against mistakes and helps to safeguard the company and its owners against crimes that might be committed against them". A review similar to auditing emphasises the qualitative aspect more than any other.

Conventional Functions

The statutory audit confines itself to such conventional functions as the examination of expenditure and income and the preparation of balance sheet and the profit and loss statement. It is intended to verify the written records. This audit is a routine check-up of the accounts which usually satisfies the shareholders and the government. While taking the above functions for granted management audit endeavours to forecast future trends with the aid of past and present data. If professional audit were a mechanical tool, then management audit could call itself a creative technique. It was J. O. Mckinsey who probably first felt the need of periodical management audit, which is "an appraisal of the entire enterprise in all its aspects in the light of its present and forecast environment".

Management audit is an independent fact-finding and problem-seeking function within an organization for evaluating and controlling the operations of management; it takes into account the company's assets, standards, objectives, plans, policies, rules and so forth and highlights the necessary line of action for improvement. It is hard to assess the efficacy of management in concrete terms since there is no established criterion or standard to determine it. It is, so to speak, employed as a guide and not as a statistical measure. Management audit makes a periodical review of the current methods and procedures and thus helps in removing the defects, if any. In a general way, it seeks "to discover and correct errors of management". Suggestive solutions and innovations are set forth to ensure the efficiency, economy and earnings of an enterprise. Moreover, it ascertains whether or not the responsibility and authority have been effectively delegated to operational personnel. Management audit also lends itself to "responsibility audit" and operational-cum-organisational audit, whose usefulness is felt in such functions as financial control, material control, labour control, service cost control and control of sale and distribution.

Operational audit seeks to review the physical operations of a firm in terms of utilisation of men, materials, machines, methods, money and markets and thus makes it possible to regulate productivity, quality, output, innovations in products or techniques, costs and sales. It is felt that many organisational morbidities, by and large, are attributable to administrative lapses rather than external economic forces. As such organisational audit sets out to scrutinise the forms and procedures and methods and performances of various departments of an establishment and endeavours to straighten them out. There is a vast scope for organisational audit in toning up a failing institution.

Periodic Checks

Management seeks to accomplish its objectives through various quantities and combinations of primary elements of men, materials, machines, methods, money and markets. In fact, it is expected of the employees to utilise the above essentials with proper care. Sometimes, the employees tend to abuse the given privileges and thereby not only incur financial losses but also wreck the morale of the entire organisation. It is up to the management to have a periodical check-up of the institutional personnel so as to bring to light their negligence and irresponsibilities and suggest proper precautions and course of action according to the propriety of the situation.

Cost audit is one of the significant techniques of modern business management. It aims at better management particularly in terms of determination of price, decision to produce or purchase, development of business and short and long term policies. Also it govern cost control, productivity, profits and level of business. Further, it is concerned with not only the investigation of past records but also the formulation of a better scheme or system for the future. It is thus able to determine the profitability of the concern in time and devise means to improve it.

Personnel audit is the appraisal and analysis of personnel policies, programmes and practices of a firm in terms of its priorities. Its central aim is to assess the actual accomplishment taking into consideration the specific objectives formulated. It seeks causes for failure and suggests remedial measures. It compares attainments and results with intentions and targets.

It is true that the ability of personnel management can hardly be seen in tangible results. So long as there is no visible unrest or demonstrative discontent or threatening strikes among the man-power, it is taken for granted that all is well with management. Yet there could be a fall in standards and morale, sloppy slide-down efficiency, deep seated discontentment and palpable disregard of the noble ideals set forth by

the establishment, adversely affecting and defeating the very purpose for which the organisation had been set up. Now how is one to distinguish the good from the indifferent? Personnel audit alone may provide the answer.

Reduction in cost has come to be regarded as one of the aims of an enterprise these days. It is held that about 60 per cent of the cost of production in our industries is attributable to cost of ingredients of the product. The cost reduction in production is dependent on effective maintenance and ordering of the product (ready made or made to order; ancillary, raw or finished material etc.).

The purchases related to production involve a number of time-consuming processes such as requisitioning, calling quotations, processing tenders, getting the samples, placing orders, scrutinising the items, paying the supplier etc. The time lag between the placing of an order and its execution leads to needless loss of time and avoidable expenditure.

The level of inventory rests on the number of times the orders are placed. If orders are placed too often, there is usually more re-stocking cost and less carrying cost. Fewer orders involve less ordering cost and more holding cost. The issue is as to how best the ordering and carrying costs could be balanced against each other. The point at which this is achieved is referred to as "economic lot size." Many a formula has been made use of in arriving at the economic order quantity. None of them can be claimed to be an ideal one. In the present-day conditions in our country it is certain that none would suit even after modification.

Against this background, the utility and purpose of inventory audit can be appreciated. The objective of inventory audit is to support and stabilize production, prevent stock-outs, restore lost sales, establish an effective "economic lot size" and speed up the service cycle which minimizes replacements, despatch time and safety allowance. Like inventory control, the audit also helps to continue production by maintaining ready reserve stocks, economizing inventory by not ordering over and beyond current requirements, sustain safety stocks•while the order is in transit and eventually provide the customer with the minimum cost by keeping the minimum quantity of inventory.

Employment-Oriented Industries

Economic growth to a large extent depends upon employment oriented industrial expansion which in its turn raises living standards of the people. To attain this, skilled personnel, intensive capital resources, technological know-how and overseas markets are indeed essential. Thanks to foreign collaboration as a token of goodwill, we are able to secure in an appreciable measure the last three factors. Labour as such, in our country, though abundant, is not productive enough to meet our requirements. Most of our Plan projects are capital-intensive and offer little scope for harnessing the available manpower. The training of the unproductive manpower of our rural areas in urban areas is easier said than done. Nevertheless, the utilisation of labour audit may find a solution to ease the glut of the existing idle manpower in over-crowded factories.

If the enterprises remain static defying the social, political and technical changes, they may sooner or later lose their markets. No wonder, managers who are enlightened and forward looking adopt "enterprise self-audit" to review the position of their company periodically and, if necessary, introduce revised plans to attain their objectives.

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Standardisation in Cotton Textile Industry

S. K. SUCHDEV

THE PRESENT attitude of our cotton textile industry towards standardization has not been very helpful. The standards formulated by the Indian Standards Institution (ISI) regarding raw materials and machinery components are being adopted to some extent but the progress is slow in regard to the adoption of standards for finished products. This is obvious from the poor response of the industry towards ISI Certification Marking, which is a third party guarantee; it keeps the consumer's confidence high as the manufacturer is required to exercise strict quality control. Though during the first few months quality control may reduce the margin of profit, in reality it results in increased profitability due to increased sales after the consumer's confidence has been won over. To be able to appreciate the benefits flowing from standardization, it is of utmost importance to study the policies pursued by the textile industry of such countries as the USSR, Czechoslovakia, the USA and Japan.

In the USSR, the textile industry is owned by the government and is controlled by the Ministry of Light Industries through the State Planning Committee and Regional Economic Councils. A good deal of attention is paid, while planning at the national, regional and factory levels, to the plans formulated both on annual and long-term basis. The purchase of raw materials and distribution of finished goods are done through the state-controlled central organization. Implementation of standards formulated by the national standards body of the USSR (Gosudarstvennyj Komitet standartov, Mer i Izmerited'nyh Priborov SSSR) is obligatory by law. Each factory has a standards manual, prepared and supplied by the Central Planning Committee. These standards deal with various technical matters such as cotton mixing; cotton, yarn and fabric specifications; test methods and material handling. At the time of modernization which is a regular feature, indigenous machinery is given preference. Other important features are the basic education and exhaustive training of workers and emphasis on the welfare of labour and labour's participation in management. Inspection of grey and finished goods is obligatory and every metre of cloth produced is examined for quality. The standards laid are the same both for export and home markets. For the purpose of price fixation, cloth is divided into four grades, and the cloth of a particular grade is available at the same price all over the country—an ideal condition for consumer satisfaction. The dictum followed by the USSR on the price structure is: "Large profits in the light industries and nominal profit in the machine building and heavy industries."

Central Management

In Czechoslovakia also the mills are owned by the state, and the management of the industry is vested in the central organization for cotton industry under the control of the Ministry of Light Industries. This organization is made of 13 national enterprises, and each of these consists of a group of spinning, weaving, knitting and processing mills, mainly on geographical basis. The national enterprises exercise an extensive and detailed control over individual mills, including the sales policy, perhaps due to greater degree of specialisation. The central organization has highly qualified technical and management staff which deals with overall planning of production; modernization; purchase of raw materials; allocation of production pattern and targets to various enterprises; co-ordination between enterprises in relation to production, quality and cost and laying of standards for testing and inspection. There is both regionwise and industrywise decentralization for the purpose of planning, co-ordination and control. The central organization, in co-operation with the central Planning Commission, assures long-term requirements of textiles in the country as well as for exports, and five-year plans (based on one-year plans) are formulated in consultation with enterprises.

The textile industry in Japan is controlled by ten large companies which have linked-up interests with trade associations and banks, and follow a uniform code of policy. The industry receives co-operation of various industrial units distributed throughout Japan, in the fields of evaluation and designs of products, and for research, testing and manufacture of machinery. These ten companies which control the textile industry are conscious of standardization and thus every manufacturer has to comply with the specifications laid down by Japanese Industrial Standards Committee (JISC). Knowing the importance of properly trained workers for achieving reduction in waste, improvement in methods of manufacture and quality control of products and cost reduction, the government, associations of industries and institutions co-operate in the task of training the workers. The government helps each organization financially for carrying out the apprentice training programme. After the successful completion of training, each worker is adjudged according to the standards of apprentice training for the job laid down by Labour Standards Department of Ministry of Labour, and a certificate is issued to him. In small-scale industries joint training programmes are organized. This type of training not only ensures a minimum standard of skill but also a uniform standard of training throughout the country, and the instructors for the purposes of training the apprentices possess certain basic qualifications before they are approved by the Ministry of Labour.

In the USA, where the industry is in the private sector, the consumer interest is primarily looked after by various con-

"You engineers can't strike, WE engineer strikes."

sumers' associations, consumer bodies and consumer co-operatives such as the Consumer Union of US, Inc, Mount Vernon, N.Y.; Consumers' Research Inc., Washington, New Jersey; and Consumer Advisory Council to the President, USA, Washington DC. These associations have well-equipped laboratories and trained staff; they keep the consumers acquainted with the quality of goods in respect of prices and also exert pressure on manufacturers to produce goods of desirable quality. These associations educate the people in wise and useful shopping; they have such a strong hold over the consumers that the departmental stores are compelled to exhibit and stock goods complying with national standards. There are five recognised postulates in the American trade policy, the first and foremost of which is the responsibility towards the consumer. The American management is conscious of the value of standards; it sets the standards at company level in consultation with industrial engineers and production managers keeping in view the national standards formulated by the American Standards Association (ASA) and the USA Standards Institute. The USA Standards Institute which has been set up recently has created a separate council to represent the consumer and protect his interest in the national standardization programme to keep him informed of the function of standards and standardization. The workers are also kept well informed about the respective output standards prepared at company level and they are always in a position to evaluate how good or bad a job they are doing.

Progress Towards Simplification

In the USA and Japan, a programme of standardization for progress towards simplification of processes, better control over quality, and higher machine and labour productivity has been adopted. The production programmes are devised on the basis of plant facilities and a limited variety of fabrics is produced. In fact some of the varieties which form the bulk of production have been standardized and are designated by the standard numbers in many mills; they are inspected on the basis of specified standards. Such standardization has helped in developing a proper understanding and appreciation of the fabric quality offered to the trade.

To bring our textile industry in line with the textile industry of other advanced countries and to protect the consumers' interest in relation to standard quality of textile products at reasonable prices, either a strong consumer opinion should develop or consumer interest should be looked after through legislation. It is essential for our textile industry to have (i) compulsory adherence to Indian Standards with obligatory ISI Certification Mark on bazar qualities of textile products; (ii) Use of indigenous and standard raw materials and stores, preferably those with ISI Mark; (iii) standardization at all levels with special emphasis on company standardization; (iv) modernization, preferably with indigenous machinery and maintenance of machinery through a centralized department; (v) reduction and stability in production pattern based on plant facilities; (vi) basic education and comprehensive training of workers under the training programme organized by the industrial units and according to strict supervision by the government; (vii) Strict inspection testing and statistical quality control at all stages of processing; (viii) amenities to the worker with provision for effective participation in management; (ix) establishment of central organization for supply of standard machinery and raw materials including all types of fibres; (x) formulation and compulsory adoption of Indian standard procedures for blending and mixing of fibres for standard varieties of cloths; (xi) evolution of a centralized scheme for fixing uniform prices of standard varieties of cloth all over the country, consumer opinion must be sought at all levels; (xii) to increase the machine and labour productivity by all available methods; and (xiii) formulation of practicable five-year plans based on annual plans.

FROM THE CAPITAL'S CUPBOARD

Tax Concessions for Jute Industry

SOME RELIEF to the jute industry, which is presently saddled with surplus stocks, is in the offing. The relief, however, will not be in the form in which the industry wants it, namely, the closure of mills for a day every week for three months so as to stagger production. The government has set its face firmly against any such move as it feels that this does not offer an effective solution to the industry's immediate problem. On the other hand, it is seriously thinking of helping the industry to stimulate exports through tax concessions. A further reduction in the export duty on sacking is quite on the cards. The duty was reduced from Rs 600 to Rs 450 per tonne last May but it is felt that this reduction is not enough to help the industry face competition from Pakistan. It is not certain if similar tax reductions will be made in the case of other jute goods, especially carpet backing and hessians.

The fourth Plan target for jute exports has been fixed at 1.1 million tonnes out of an estimated production of 1.7 million tonnes. But, with increasing competition from Pakistan and the emergence of substitutes, it is realised that this target cannot be attained unless newer uses for jute are found. Accordingly, the industry has engaged a well-known US consulting firm, Fabric Research Laboratories, to conduct research in this field. This firm has invented a process for bleaching hessian for use in the decorative fabric business and the jute industry is taking steps to explore it for commercial purposes.

S.T.C. TO IMPORT SULPHUR

Mr Asoka Mehta's case for the import of liquid ammonia from Kuwait for setting up a fertiliser factory near Bombay might have been accepted had not the Commerce Minister, Mr Dinesh Singh, been brought into the special cabinet committee (he was not a member of the committee initially) that was constituted to examine this proposal and make its recommendations. Mr Mehta's argument was that since the proposal for importing liquid ammonia was linked with the import of sulphur, the country would be assured of adequate and regular supplies of the latter which was an essential raw material for the manufacture of compound fertilisers. In view of the shortage of sulphur and its high price in the world market, he vehemently pleaded for acceptance of the deal with Kuwait, which provided for the import of 200,000 tonnes of sulphur annually at a fixed price for 10 years.

Since his case was primarily based on the difficulties encountered in obtaining adequate supplies of sulphur, Mr Dinesh Singh promptly undertook to solve these for him. He said since some imports of sulphur were already being canalised through the State Trading Corporation (STC), it should not be difficult for it to enlarge the scope of its operations in regard to the purchase of this commodity. The Commerce Minister is reported to have assured that if the Petroleum and Chemicals Ministry gave an estimate of its sulphur requirements for the next three or five years, the STC would enter into long-term arrangements with foreign suppliers and ensure that the contracts were fulfilled. He also stressed that the main advantage of canalising larger imports of sulphur through the STC was that it would be bought at favourable prices because of the corporation's bargaining powers. The Transport Minister, Dr V. K. R. V. Rao, also made his contribution towards demolishing Mr Mehta's case. Quoting from a British commodity journal, he seems to have convincingly argued that Mr Mehta's apprehension about continuing world shortage of sulphur and an abnormal rise in its price was unfounded.

This apart, what seems to have deterred the cabinet from approving the deal with Kuwait was the heavy foreign exchange outgo that it involved. Not only the import of liquid ammonia and sulphur, but the import of rock phosphate also formed a part of the deal. All this would have cost the government nearly Rs 26 crores, in terms of foreign exchange, annually. Perhaps, the cabinet thought that this was too heavy a price to pay for ensuring adequate supplies of sulphur.

PUNISHMENT FOR PROFITEERS

It is now known that during the prolonged consideration by the cabinet committee on prices, production and exports of the ordinance to provide for deterrent punishment for hoarders, speculators and profiteers, there were differences of opinion among its members as to whether producers should be covered by it.

One view was that exclusion of producers will whittle down the effectiveness of the measure as it is known that many producers are in the habit of hoarding stocks. There were others—the Food and Agriculture Minister was prominent among them—who held that producers should be kept out of the purview of the ordinance since Parliament, while passing the original measure (The Essential Commodities Bill), had excluded them. Therefore the promulgation of an ordinance covering producers as well would be tantamount to disrespect to Parliament. They also felt that at a time when producers should be encouraged to do their best, stringent punishment may have a deleterious effect on production.

The ordinance provides for a variety of punishment for hoarding and profiteering: imprisonment for five years as against three years as at present and confiscation of property. The proposal that habitual offenders should be totally debarred from conducting any business has been given up as that conflicts with the fundamental right of a citizen to engage in and practise any trade or vocation. However, the ordinance will forbid them from dealing with commodities in respect of which they have been consistently indulging in malpractices.

SUEZ CANAL CLOSURE

Although nearly three-fourths of this country's exports used to pass through the Suez Canal, its closure which entails a longer haul via the Cape of Good Hope has not so far pushed up the cost of our exports. The increase in the freight bill on exports because of diversion of route is estimated to be around a million dollars per month. Since most of the exports to the UK, the USA, and the continent are on f.o.b. basis, the extra freight burden will be borne by the importers during the currency of the existing contracts. However, a prolonged closure of the Suez Canal will have a serious impact on our exports as the foreign buyers will insist on passing on a part of the burden to our exporters when fresh trade contracts are figured.

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WINDOW ON THE WORLD

USA and Europe in Payments Balance?

JOSSLEYN HENNESSY

I
CONFLICTING NATIONAL POLICIES

LONDON:

I LEAVE it to my colleague, Paul Einzig, who is one of the leading authorities on monetary problems, to discuss the agreement between the Group of Ten on the new special drawing rights for the creation of additional international monetary reserves to be submitted to the International Monetary Fund.

The subject is closely linked to the balance of payments relations between Europe and the USA, surveyed in the latest annual report of the Netherlands Central Bank, which offers a common-sensed "non-aligned" European round-up on the background to the whole problem. My report this week may therefore be regarded as complementary to that of Paul Einzig.

The Netherlands Central Bank's annual report is one of the documents to which I look forward with impatience every year because it manages to interweave its collection of hard facts and dry statistics with shrewd theoretical interpretation. If I were a university professor of economics, I should make my third year students read it as an essential contribution to the annual advancement of knowledge.

The bank asserts bluntly that most of the western industrial countries face a difficult problem: how to extricate themselves from a process of demand and income inflation, which has been going on for years, without falling into the danger of demand deflation. During 1966, the total wage per person employed in manufacturing industry rose on average in the countries of the European Economic Community by eight per cent, in the USA by four per cent and in the UK by six per cent. In all these countries the rise was greater than the increase of industrial productivity per head, and it exceeded even more the rise of productivity in the economy as a whole. Such a trend means an increase in costs which makes price inflation inevitable. This, in turn, calls for the creation of a large degree of liquidity—i.e., of inflationary financing—if the increase in costs is to be continued. If the monetary authorities allow this liquidity creation, there follow continuing inflation, increasingly unfavourable ratios between equity capital and borrowed funds (both in the banks and in the rest of the business sector) and a final blow-up in a balance of payments crisis (I summarise and paraphrase the Bank's rather more stately language). If, on the other hand, monetary policy ignores the growing call for liquidity, the danger is that demand may shrink severely, ending in a shortage of liquidity crisis.

Unacceptable Alternatives

In the bank's view neither of these alternatives is acceptable. If transition from the period of demand and income inflation to that of restored equilibrium is to be effected in the western industrial countries with the least disturbance, then policy not only in the monetary but also in the other fields—including, in particular, those of wages and the budget—must seek to deflect the trend of wages so that it no longer makes price inflation inevitable, and must seek to influence the level of expenditure in such a way that over-spending is ended but an over-abrupt fall in spending is avoided.

International payments during 1966 reflected conflicting domestic policies in the various countries. Some national policies reduced the international disequilibria existing, others increased them. In Europe, where during 1965 there had been fairly large surpluses and deficits in the basic balances of the principal countries (i.e., on current account plus long-term capital transactions), there was a movement towards better balance in 1966. In West Germany, the deficit was eliminated. In the UK, it was reduced by half. In Italy, the surplus was halved. In France, the surplus disappeared. As a result of these movements, the surplus on the combined basic balance of all the EEC countries declined by nearly one-half, falling to $900 million. Developments in the USA were less favourable: the deficit in the basic balance increased to $2,000 million as a result of a marked deterioration in the current account—due to stimulation of imports by domestic pressures and to rising expenditure on the war in Vietnam—coupled with an improvement in the capital account, due mainly (and in my view unfortunately—although the bank is too conscious of its international public relations to say so) to US restrictions on export of capital. Very large short-term transactions by commercial banks, however, caused the USA's net official reserves to achieve a small surplus.

II
CENTRAL BANKS DO THEIR BEST

An important contribution towards ensuring a smooth flow of payments was again made by co-operation between central banks—aimed, as always, at preventing interruptions of continuity. The many personal contacts arising from the monthly meeting of the Board of Directors of the Bank for International Settlements (B.I.S) at Basle (see this column June 30, 1967) greatly helped this co-operation. When a crisis of confidence overtook sterling in the summer of 1966, co-operation among central banks made it easier to arrange effective support for the Bank of England. The continuance and extension of the network of swap arrangements between the Federal Reserve Bank of New York, eleven central banks, and the BIS made it possible to clear temporary surpluses and deficits "without recourse to other means of settlement" (by which, I assume, the Netherlands Central Bank means without devaluing sterling). Finally, the successful control of the London gold market by the central banks co-operating to do so ensured that, although during 1966, the supply of gold fell short of demand, the price on the free market did not fluctuate strongly.

An interesting part of the support arrangement for the Bank of England concluded in June, 1966, (and prolonged in March, 1967, for one year) was that a number of central banks made funds available for the sole purpose of meeting any withdrawal of sterling balances from the London money market. The Netherlands Central Bank makes the significant comment that this support was thus confined to helping the UK to perform its function as an international banker; it was not given to finance deficits in the UK balance of payments. If this constructive initiative of the central banks could lead to a lasting arrangement for the sterling balances, it would be a tremendous contribution towards ensuring the stability of the entire system of international payments.

The whole question of what is the best basis for the international monetary system and the best way to meet the need for reserve media is on the boil again, simply because in 1966 no new gold became available for monetary use. As long as this can happen, any country that wants to increase its reserves can only do so by means of a deficit in another, just as any deficit caused by a country's own policy must lead to a surplus elsewhere.

This interdependence, together with the surplus/deficit relationship, which still exists between the balance of payments of the combined EEC countries and the USA, prompts one to ask whether the USA's deficit can be eliminated by American policy without endangering the growth of world economic activity. It is argued that if Europe wants to increase its reserves, and pursues policies to do so, loss of reserves by the USA, must follow as night follows day. The European surplus, coupled with the non-availability of new gold for monetary use, would make everyone sit up and see just how topical the question of the possible creation of a new reserve medium is.

The Netherlands Bank hopes (again I paraphrase) that General de Gaulle, the President of the USA, and all the other parties interested, will urgently call in their back room boys to carry out a fresh study of the causes of surpluses and deficits shown in balances of payments and tell them not to emerge until they have found means whereby the respective policy aims and policy measures of the internationally trading countries can be reconciled. The meeting of the Group of Ten in London in the weekend of August 28 fulfils some part of the bank's hope, and it is good to know that a preliminary agreement was reached to be submitted to the Board of the International Monetary Fund, which will put forward a resolution at the Fund's annual meeting in Rio de Janeiro this month. In the event that the pundits at Rio de Janeiro fail to reach agreement, I modestly draw their attention to my own solution of this problem outlined here in two articles "Deficits, Dollars, Sterling and Gold" (May 26), and "Golden Myths" (June 9).

There need not be the least surprise that the already long-standing disequilibrium in the balance of payments relations between Europe and the USA has not disappeared because neither in Europe nor in the USA have the most important instruments of official financial and economic policy (i.e., monetary and budgetary policy) been primarily aimed at the surplus or the deficit.

III
INTERNATIONAL REPERCUSSIONS

In the USA, policy has largely concentrated on achieving maximum growth with the least price inflation. The best means available to monetary authorities to counteract a balance of payments deficit, i.e., restricting the creation of domestic liquidity so that the loss of liquidity due to the payments deficit is not (or at least not fully) offset, has been rarely used for fear of its repercussions on the domestic economy—and this, of course, is more a political than an economic fear. In general, the creation of liquidity has been large enough not only to finance real growth but also the price rise, which was not intended but nevertheless occurred, and in addition the deficit in the balance of payments.

It is more difficult to generalise about Europe because there are so many differing circumstances in so many countries pursuing conflicting policies, but the primary aims of policy have been the same as those in the USA—keep the domestic ball rolling and never mind about tiresome foreigners and international economic good health. The primary aim was not to restore external equilibrium (i.e., to eliminate the European balance of payments surplus), but to achieve faster and faster growth and to counter the consequent demand, wage and price inflations. With this aim in view, many countries have at various times sought to moderate cyclical tensions by restrictive monetary and budgetary policies. This has sometimes led to an increase in existing balance of payments surpluses and must—after the initial period of necessary rebuilding of reserves—not be regarded as the aim of such national policies but as their unavoidable consequence. No European country has ever deliberately adopted a deflationary policy aimed at making liquidity creation lag behind real growth.

Fundamental Competitive Changes

The policy followed has not prevented the combined effect of monetary impulses of domestic and external origin from causing a high degree of cost inflation and price increases, which have gradually changed the fundamental competitive positions between Europe and the USA. Since 1958, the implicit price index for the gross national product has risen in the combined EEC countries by no less than 33 per cent compared with 14 per cent in the USA. (My guess is that had it not been for expenditure on the Vietnam war, and the large diversion of US resources to war aims, the rise in the US price index would have been substantially lower. Would, then, the dollar shortage still have been with us?) The differences in the movements of European and US costs were even greater than in the GNP price indices. Labour costs per unit of industrial production in the EEC countries rose by as much as 35 per cent, whereas in the USA, (thanks, largely, to automation) they actually fell by two per cent. The Netherlands Central Bank wonders whether these diverging cost movements have now ended the fundamental imbalance which existed between Europe and the USA in the past. The bank thinks that there are indications that equilibrium may have been restored. In particular, it considers that the surplus deficit positions in 1966 were due to purely cyclical factors, and to "special temporary circumstances such as the effects of the conflict in Vietnam", to a larger extent than they were a few years ago. This is the first and only reference to the Vietnam war as a "special temporary circumstance" that I have yet come across. Perhaps the bank has retained the services of a Hindu astrologer. Let us hope that he has read the stars aright.

Whose Responsibility?

The interdependence of the occurring surplus/deficit positions, of course, always exists. Indeed, it is precisely the task of economic and monetary analysts to investigate the extent to which policy on one side or the other is responsible for originating or continuing such disturbances.

If the surpluses and deficits are found to be due to underspending in the surplus countries and to over-spending in the deficit countries—as clearly happened in 1966 in some European countries and in the USA—then the responsibility for restoring equilibrium lies with the country which has allowed these conditions to occur.

If, however, the surpluses and deficits arise from circumstances which cannot be attributed to the relative levels of national expenditure, nor to the monetary and budgetary policies enforced but arise from relative competitive positions, to changes in international habits or patterns of spending (for example, the growth of tourism, or the decline in the use of some internationally traded commodity because of technological innovation—like the displacement of sailing vessels by steam ships in the 19th century) or to shifts in structural capital movements, like those which followed the inauguration of the EEC, then the problem of adjustment naturally becomes much more difficult. This kind of more fundamental imbalance which in the postwar years existed between Europe and the

USA, and which cannot be removed by budgetary or monetary action without disturbing internal equilibrium, can only be resolved slowly if both sides wish to maintain their exchange parities. (This, of course, is a big "If" and raises a whole series of other technical problems which would need an article to themselves). During the gradual process of adjustment that then takes place it is inevitable that a balance of payments deficit will occur on one side while monetary reserves accumulate on the other.

What all this leads up to is that if the foregoing is an accurate assessment of the relationship that has existed in past years between Europe and the USA, then, in the bank's view, there is no reason to interpret the increase in monetary reserves, which in the given circumstances Europe has accumulated, as proof of a need for reserves that could be extrapolated into the future and could be used as a basis for the creation of additional reserve media (if the IMF and the Group of Ten decide that some additional reserve medium is wanted). I agree with the bank that to interpret Europe's accumulating reserves as proof of a need for more would risk the excessive creation of reserves, generating new impulses which would perpetuate the income and price inflation from which the countries of Europe have suffered since the war. The hope that this inflation might end, as more balanced relationships with the rest of the world were restored, would be shattered.

Desalination of Water

EXPERIMENTS IN Australia have gone a long way towards making water desalination a commercial proposition. Big improvements made by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in the design of solar stills have shown some remarkable results, and when new stills just installed have been operating long enough for comparisons to be drawn, it is expected that better results will be seen.

Since 1963, the CSIRO has been successfully operating a pilot still with a summer output of 350 gallons of pure water a day at Muresk Agricultural College at Northam, western Australia. Cost figures for the full three years that the Northam still has been operating are expected to be bettered by 30 per cent by improved stills which have recently been built. The CSIRO believes that only gigantic nuclear power plants can, on present indications, produce desalinated water more cheaply —30 cents per thousand gallons ex-plant as against $A3 to $A4 per thousand gallons from solar stills.

The principle of solar distillation is simple, but it has not been easy to discover an economical and practical method of carrying it out. A better understanding of the thermo-dynamics involved was most helpful in evolving a trouble-free continuous process by the CSIRO. The problem of salt crystallisation was overcome by regulating the flow of saline water to twice the maximum daily output of fresh water. Other items contributing to the development were simplification of design, prefabrication of components and the use of better materials, such as black plastic sheeting for lining the saline water troughs.

Dwarf Glasshouses

The Northam installation consists of 10 units, rather like dwarf glasshouses, side by side on a gentle slope. Saline water flows over black plastic sheeting beneath the glass, the sun's heat causes evaporation and the water vapour condenses on the under side of the glass, running down into troughs on either side, where it is collected. Excess saline water is allowed to run away.

Apart from Northam, the CSIRO has in operation more efficient stills at Coober Pedy, in south Australia, and at Hamelin Pool and Caiguna, in western Australia. The Coober Pedy still will produce 3,400 gallons of domestic fresh water a day for the opal mining township, while the Hamelin Pool and Caiguna installations each have about the same capacity as Northam.

The Northam experiment has shown that while water for irrigation is still out of the question because of the cost, there are many areas where small solar stills could provide water economically for livestock. The Northam still draws saline water from a river at no cost, and the expenses involved in running and maintaining it are very small. Taking into account that it will probably have to be partly rebuilt in 10 years and totally rebuilt in 20 years, the CSIRO estimates that it can water 350 Australian Merino sheep a day and show a net profit of 18 per cent on capital outlay, including the cost of the sheep. The number of sheep watered can be increased to 490 by diluting the pure distilled water with saline water to the point where sheep do not need to drink more because of salt-induced thirst.

The Northam still was built for $A2,250 and costs $A288 a year to run and maintain. Calculated on 350 sheep, this means a capital outlay on the first year of $A6.43 per sheep and an annual cost thereafter of 82 cents per sheep. If 490 sheep are watered, the figures drop to $A4.59 and 59 cents. By comparison, the average Australian sheep station invests $A2.54 per sheep in capital outlay for conventional watering methods, and the cost of supplying is calculated by the Bureau of Agricultural Economics to be in the region of $A3.33 per sheep per year.

The Northam still has 4,500 square feet under glass and produces 73,000 gallons at $A3.90 per thousand gallons. The output varies from 350 gallons a day in summer to 100 gallons a day in winter (one gallon per day average from each 22 square feet at 30 degrees south latitude).

Paying Proposition

The cost of solar distillation does not vary greatly with the size of the unit, as in some other methods of desalination, so the CSIRO believes it would be a paying proposition to install small units scattered over areas where livestock could not make use of existing pastures because of a lack of drinking water. A limiting factor would be the cost of getting saline water into the still, and the economics of the proposition depend largely on saline water being available cheaply or at no cost.

In the long term, the CSIRO believes that an entirely different process of desalination, reverse osmosis, might also become a practical and economical method for watering livestock in Australia's arid areas, but as research into this method is comparatively new, it may be some years before the process is developed.

Another method which seems likely to become a reliable source of water for isolated homesteads or small communities is vapour compression, also under investigation by the CSIRO. One small unit to provide 50 to 100 gallons of water a day has already been developed to operate off normal electricity supplies or a diesel motor supplying electricity for a homestead. The unit, which is still under investigation, costs about $A1,000 to build and produces water at $A10 to $A15 per thousand gallons, including the cost of depreciation and interest. This would be too expensive for watering livestock and the method seems at present likely to be limited to domestic use.

Get Your Facts Straight—1.

RAAS/IBA/1/A

THE MAGIC OF SOCIAL CONTROL

banks are blamed for failures elsewhere

CLEVER AND MISLEADING PROPAGANDA

Question of more social control over banks has been agitating the public in recent months. Clever propaganda against banks is being carried on through all available media. Some of the charges are misleading. Others are simply false. These statements are reiterated in the hope that they will be believed as truths if they are repeated often enough.

CHARGES MISPLACED & UNJUSTIFIED

Banks are adversely criticised. There are subtle hints that banks promote monopolies or concentration of economic power. There are suggestions that they encourage anti-social activities. Banks are wrongly charged for favouring directors and their concerns. There is a mistaken impression that banks prefer big business and industrial houses, ignore small borrowers and remain indifferent to agriculture. These charges are entirely false. *This series of advertisements will show that both in facts and logic, the blame on banks is misplaced and unjustified.*

WHAT ARE THE FACTS?

1. Banks Promote National Interest

Banks don't have power or scope to create monopolies or encourage concentration of economic power. They work within the framework of national policies. Industrial investment and credit pattern is determined and prescribed by planners and authorities. Banks do no more than follow national priorities and guidelines. In a planned economy they have no other choice, even if they themselves had no place in plans.

2. Advances to Directors Are So Little and No Favours for them

Advances to bank directors or to concerns where they are interested in management are only 3.4 per cent of total. A further 6.7 per cent are given to concerns in which bank directors have only a nominal interest. In the rest of the advances, bank directors have no interest—personal, direct or nominal. What is more, directors get no favours or preferences in rates, margins or securities, and loans given to directors have never failed to be realised.

3. Small Borrowers Are Overwhelming

89 per cent of total borrowers of banks are small, each having a limit of less than Rs. 50,000. Small industries of yesterday have become large ones today with the help of bank finance, their liberal terms and guidance. Banks have done much, they propose to do even more.

4. Capable To Face Challenge of Agriculture

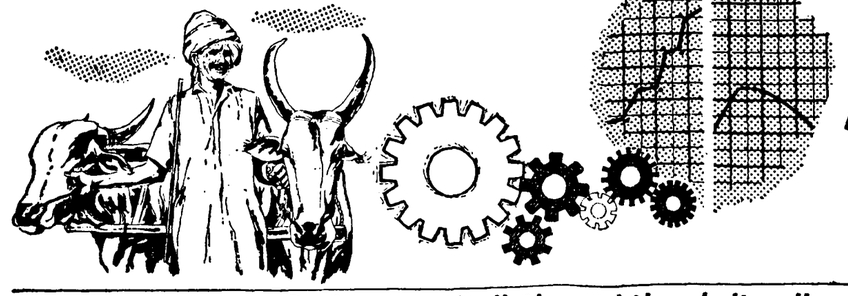
So far banks were never required or expected to finance agriculture. Responsibility was never placed on them. Yet they did assist agriculture indirectly and modestly. They will do more now with a new Agricultural Finance Corporation. Banks will not allow agriculture to suffer for lack of funds.

5. Banks Do Not Encourage Anti-Social Activities

On the other hand they promote savings, finance production, facilitate investment in public and private sectors. Moreover, Reserve Bank's powers and influence are so comprehensive and extensive that there is no scope, chance or possibility for banks to evade or avoid social control.

BANKS HAVE PROMOTED NATIONAL POLICIES

Banks have served public interest. They have served the country well and will continue to do so. They wish to further improve their services. What is more, they are willing to change with changing priorities. □□ But politicians wish to rule banks through directives. They want magic wand of social control so that they have more power without much responsibility. *Banks are trustees of more than Rs. 3600 crores of deposits from 1.25 crores of depositors mostly representing hard earned savings of small people of moderate means.* If savings of depositors are exposed to reckless risks which banks do not and cannot take in any sector of economy, there may be financial panic, a crisis of confidence. If political or legislative pressures precipitate issues and force hasty or unjustified changes upon banks, our economic future may be jeopardised.



Banks serve the Nation and they do it well

ISSUED BY INDIAN BANKS' ASSOCIATION TO PROMOTE FREE AND FRANK THINKING

Company Notices

JARDINE HENDERSON, LIMITED

Notice of Annual General Meeting

NOTICE IS hereby given that the twentyfirst annual meeting of the members of the abovenamed company will be held at the registered office of the Company, No. 4, Clive Row, Calcutta, on Friday, the 29th day of September, 1967, at 11-00 a.m. for the following purposes:—

1. To receive and consider the Audited Accounts for the year ended 31st March, 1967, the Balance Sheet as at that date and the Reports of the Board of Directors and Auditors thereon.
2. To confirm the dividends already paid on the Preference Shares and to declare a dividend on the Ordinary Shares of the Company.
3. (a) To appoint a Director in place of Mr P. P. Ginwala who retires at the forthcoming annual general meeting.
   (b) To appoint a Director in place of Mr H. L. Barham who retires at the forthcoming annual general meeting.
4. To appoint Auditors and to fix their remuneration.
5. (As an ordinary resolution). To consider and, if thought fit, to pass with or without modification the following resolution:—
   "That approval be and is hereby accorded to the reappointment of Mr D. Fordwood as a Managing Director of the Company with effect from 1st April, 1967, for a period of five years on the terms and remuneration embodied in the draft agreement submitted to the meeting and initialled by the Chairman hereof for the purpose of identification and that the Board of Directors be and is hereby authorised to execute the agreement on behalf of the Company."
6. (As an ordinary resolution). To consider and, if thought fit, to pass with or without modification the following resolution:—
   "That approval be and is hereby accorded to the reappointment of Mr Girdharilal Mehta as a Managing Director of the Company with effect from 1st April, 1967, for a period of five years on the terms and remuneration embodied in the draft agreement submitted to the meeting and initialled by the Chairman hereof for the purpose of identification and that the Board of Directors be and is hereby authorised to execute the agreement on behalf of the Company."
7. (As an ordinary resolution). To consider and, if thought fit, to pass with or without modification the following resolution:—
   "That approval be and is hereby accorded to the appointment of Mr H. L. Barham as a Managing Director of the Company with effect from 10th July, 1967 up to 31st March, 1972 on the terms and remuneration embodied in the draft agreement submitted to the meeting and initialled by the Chairman hereof for the purpose of identification and that the Board of Directors be and is hereby authorised to execute the agreement on behalf of the Company."
8. (As an ordinary resolution). To consider and, if thought fit, to pass with or without modification the following resolution:—
   "That pursuant to the provisions of section 294 of the Companies Act, 1956, this meeting approves the appointment of A.V. Thomas & Co. (India) Ltd., Madras, as the Company's sole selling agent for the 'TURBLO' Sprayers-cum-Dusters and spare parts thereof in the States of Madras, Mysore and Kerala for a period of five years with effect from 1st April, 1967 on the terms and conditions embodied in the draft agreement submitted to this meeting and initialled by the Chairman hereof for the purpose of identification and that the Board of Directors be and is hereby authorised to execute the agreement on behalf of the Company."
9. (As an ordinary resolution). To consider and, if thought fit, to pass with or without modification the following resolution:—

"That pursuant to the provisions of section 294 of the Companies Act, 1956, this meeting approves the appointment of Ganga Trades & Industries Private Ltd, Sambalpur, Orissa, as the Company's sole selling agent for the 'TURBLO' Sprayers-cum-Dusters and other sprayers, dusters and agricultural implements and spare parts thereof in the State of Orissa, for a period of five years with effect from 1st April, 1967 on the terms and conditions embodied in the draft agreement submitted to this meeting and initialled by the Chairman hereof for the purpose of identification and that the Board of Directors be and is hereby authorised to execute the agreement on behalf of the Company."

Notice is also given that the Register of Members relating to Ordinary Shares of the Company will be closed from 19th September to 29th September, 1967, both days inclusive.

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

By Order of the Board,
JARDINE HENDERSON, LIMITED
A. C. Deaves
Secretary

4, Clive Row, Calcutta-1
17th August, 1967

Note: The dividend if approved will be payable on and after 2nd November, 1967 to those members whose names are registered in the books of the Company on 29th September, 1967.

(The Explanatory Statement required to be annexed to the notice convening the Annual General Meeting pursuant to the provisions of section 173 of the Companies Act, 1956 is being forwarded to the members.)

THE GWALIOR RAYON SILK MFG. (WVG.) CO. LTD.

Regd. Office: Birlagram, Nagda

NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the shareholders of the Company will be held at the GRASIM CLUB, Birlagram, Nagda, on Wednesday, the 27th September, 1967 at 4-45 P.M. to transact the ordinary business mentioned in the Notice which is being posted to the Shareholders of the Company alongwith the Balance Sheet, Profit & Loss Account and the Directors' Report for the year ended 31-3-1967 and to consider the following special business:

SPECIAL BUSINESS

(1) To consider and, if thought fit, to pass, with or without modifications, the following resolution as an Ordinary Resolution :
"RESOLVED that as authorised by Section 258 of the Companies Act, 1956, the number of Directors of the Company be increased from nine to ten."

(2) To appoint a Director in place of Shri A. K. Roy, who was appointed as an Additional Director by the Board of Directors and who holds the office only upto the date of the ensuing Annual General Meeting under Section 260 of the Companies Act, 1956, but offers himself for appointment and in respect of whom the Company has received a notice in writing from some members signifying their intention to propose him as a candidate for the office of Director.

By Order of the Board.
B. N. PURANMALKA
Secretary

Birlagram, Nagda.
31st August, 1967.

Notes: (a) A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a member. (b) The relevant Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 has been separately forwarded to the Members of the Company alongwith the Notice of the aforesaid Meeting. (c) The Dividend will be paid on or after the 23rd October, 1967 to those shareholders whose names appear on the Company's Register of Members on the 27th September, 1967.

Trade Winds

WORLD MONETARY REFORM

THE MINISTERS and central bank governors of the "Group of Ten", which met in London last month, reached an agreement on a contingency plan for establishing special drawing rights with the International Monetary Fund, and they will support it when it will be discussed at the forthcoming annual meeting of the Governors of the IMF to be held in Rio de Janeiro. The ministers and governors concentrated their discussions at this meeting on a number of key features of the plan on which differences had not been resolved at the previous meeting held in July last. In particular, they agreed on the following points: decisions on the basic period for, timing of, and rate of allocation of new drawing rights should be taken by the Board of Governors of the IMF by a majority of 85 per cent of the total voting power. Members which use their new drawing rights would incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and duration of the use. For drawings made in the first basic period of five years, the principal rule of reconstitution should be that over any period of five years a member's net average use of the new facility should not exceed 70 per cent of its allocation. Participants should also pay due regard to the desirability of pursuing over a time a balanced relationship between their holdings of special drawing rights and other results. Reconstitution rules would be revised before the end of this first period. The meeting also considered ways of bringing rapidly to a conclusion studies to be made in parallel with a view to making such changes and improvements in the present rules and practices of the IMF as would appear appropriate in the light of experience. The ministers and governors agreed to meet again at the occasion of the annual meeting of the IMF in Rio de Janeiro. The countries comprising the "Ten" are Belgium, Britain, Canada, France, Federal Germany, Italy, Japan, the Netherlands, Sweden, and the United States. Switzerland, although not a member of the IMF, is closely associated with the work of the Group of Ten.

I.D.A. AND I.F.C. CREDITS

Two credits totalling $215 million were made to India by the International Development Association (IDA) in the fiscal year ended June 30, 1967, to provide import capital to Indian manufacturers, according to a USIS press release. The loans brought the total amount credited by IDA to India to $389 million. This sum was credited in 21 transactions over the past seven years and makes India the largest recipient, by far, of IDA credits. As with most IDA credits, the two extended to India in the past fiscal year are to be repaid over 50 years with no interest and three-quarters of one per cent annual service charge to cover IDA's administrative costs. Another World Bank affiliate, the International Finance Corporation, made more than $12.6 million worth of investments and loans in India during the last fiscal year. The World Bank itself loaned $30 million to India during the last fiscal year.

D.A. TO CENTRAL EMPLOYEES

The Government of India has decided to pay to central government employees in full the increase in dearness allowance from September 1, 1967, for the salary slabs between Rs 70 and Rs 449. This was announced last week by the Finance Minister, Mr Morarji Desai. It has further accepted in principle to pay in lump sum the arrears on DA—due from February 1 to August 31, 1967—after the current financial year, provided the employees desisted from withdrawing from that amount if the government's financial position remained weak. Under the Gajendragadkar Commission's recommendations, for the 20-point rise in the average of the index already reached, the employees in various pay slabs will get additional DA as follows: slab Rs 70-109: Rs 12; Rs 110-149: Rs 14; Rs 150-209: Rs 16; Rs 210-399: Rs 18; and Rs 400-499: Rs 20. For these five slabs, the neutralisation amount for every ten-point rise is Rs 6, 7, 8, 9 and 10 respectively. If the index which is at present 195 points reached 205, this quantum will be added to each of the five slabs. Additionally, the pay slab Rs 450-499, which has not been covered for the 20-point rise, will also be included for additional DA when the index reaches 205 and each employee in that slab would get Rs 33.

KUWAIT FERTILIZER DEAL OFF

The union cabinet, which met on August 31, decided against the proposed collaboration between Messrs Dharmsey Morarji and Kuwait Chemicals and Fertilizers for the establishment of a fertilizer factory in Bombay. The decision has been taken keeping in view the government's declared policy to have fertilizer plants based only on indigenously available naphtha. Under the terms of the proposed agreement, the foreign collaborators, while stipulating that the fertilizer factory should use liquid ammonia as feedstock, were agreeable to the supply of 200,000 tonnes of sulphur annually at competitive prices over a period of 10 years. The Ministry of Petroleum and Chemicals considered the deal advantageous inasmuch as it ensured the supplies of sulphur to the fertilizer plant from Kuwait. Incidentally our requirements of sulphur are at present met solely by imports from the USA. In the opinion of the union cabinet, however, while the shortage of sulphur was not so acute as to justify a departure from the government's declared policy, one major drawback of the deal was that the price of liquid ammonia had been fixed for the next 10 years which would not have allowed us to take advantage of any future fall in the world prices of petroleum products, which trend is currently significantly portentious.

CUT IN VANASPATI PRICES

A substantial reduction in vanaspati prices was announced on August 31. A Food and Agriculture Ministry press note said that from September 1, vanaspati prices would be lower by 66 paise in the north zone, 64 paise in the east zone, and 59 paise in the south zone. The press note said the reduction in prices was due to fall in oil prices towards the end of July and early August. It added that this fourth successive reduction in vanaspati prices since June brought the total fall in prices since that month to between Rs 1.03 and Rs 1.19 per kilo in different zones. The maximum retail prices of vanaspati in different pack-sizes, and when sold loose, exclusive of local taxes, will be as under:

(Rupees)

	16.5 kg	4.0 kg	2.0 kg	Loose per kg.
North Zone ...	70.17	18.65	9.75	4.25
South Zone ...	69.14	18.40	9.63	4.29
East Zone ...	70.57	18.74	9.80	4.28
West Zone ...	70.02	18.61	9.74	4.24

DISPOSAL OF PRIMARY GOLD

The time limit for the disposal of primary gold (viz. gold of more than nine carat purity in unfinished or semi-finished form such as bars, billets, slabs, pellets, rods, wires, etc., but not gold coins such as sovereign, guineas and ashrafis) in legal possession of private persons expired on August 31. According to a government press note, such persons were required, under the Defence of India (Fourth Amendment) Rules, 1966, to dispose of by that date all primary gold either by

outright sale to licensed dealers or refiners or by delivery to licensed dealers or certified goldsmiths for conversion into ornaments. A further period of six months has been allowed for the actual manufacture of such gold into ornaments and return of the ornaments by the licensed dealers or certified goldsmiths, as the case may be The note further said that "any primary gold found in private possession after August 31, 1967, is liable to be confiscated for contravention of Gold Control Rules and the holder of such primary gold is liable to penal action."

UTILISATION OF EXTERNAL AID

The following is the break-up of the amounts for which agreements have been signed, value of overseas orders placed and amounts disbursed against foreign loans and credits at the end of March this year. The figures are at post-devaluation rates.

(In crores of rupees)

Name of the lending country/institution	Amount for which agreements have been signed up to March 31, 1967	Value of equipment/ stores ordered up to March 31, 1967	Loan amount disbursed up to March 31, 1967.
Austria	16.88	12.85	11.12
Belgium	17.99	13.20	7.72
Canada	114.87	73.26	54.82
Czechoslovakia	99.38	57.47	32.96
Denmark	7.06	5.93	3.72
West Germany	749.80	673.37	606.85
France	102.75	77.48	35.03
Hungary	25.00	—	—
Italy	153.01	67.01	18.53
Japan	307.09*	268.37	207.94
Netherlands	41.29	36.15	21.56
Poland	65.05	23.77	18.84
Sweden	6.96	3.33	1.45
Switzerland	36.02	24.58	17.14
United Kingdom	648.90	622.90	551.04
US (other than PL 480)	2,279.68@	2,072.51	1,876.32
USSR	1,021.13	699.20	480.35
Yugoslavia	93.75	28.15	20.87
IBRD	750.82	645.29	624.24
IDA	667.01	530.05	450.62
Total	**7,204.44**	**5,934.88**	**5,041.12**

* Includes Japanese ad hoc credit of 1959 amounting to Rs 13.61 crores (post-devaluation) which is fully disbursed.

@ Excludes an amount of Rs 31.01 crores (post-devaluation) made available from PL 665 counterpart funds in the three Development Assistance loans.

The above statement excludes (i) commodity assistance under PL 480 and PL 665; (ii) drawings from IMF; (iii) Kuwait loan of Rs 53.85 crores and Baharin loan of Rs 12.36 crores (post-devaluation) on account of repatriation of special Indian notes which were in circulation as legal tender in the respective countries and (iv) grant assistance.

ADVERTISEMENTS ON A.I.R.

Commercial broadcasts will be introduced on All India Radio from November 1, it was disclosed by Mr K. K. Shah, Minister for Information and Broadcasting, in Bombay last week. The project would at first be for three months and would be broadcast from Bombay, Poona and Nagpur. Ten per cent of the time of the Vividh Bharati programme—about 75 minutes—would be alloted to it. Expenditure would not be more than 12 per cent of the earnings. The language would be left to the choice of the advertiser. Advertising broadcasts would be mainly through advertising agencies, which would receive 15 per cent commission.

DUTY-FREE SHOP AT PALAM

The first duty-free shop of the India Tourism Development Corporation started functioning at Palam airport on September 1. Selected imported goods and choice Indian handicrafts are available at the shop at competitive rates. Similar shops will be opened shortly at Calcutta, Bombay and Madras airports. Sales at these shops will be against foreign exchange only. This is to prevent any misuse of the facility, meant for transit passengers. The passport number and name of the traveller will be entered in the sales voucher.

TEXTILE MILLS: NO CLOSURE

The extra holiday, observed by cotton and staple fibre textile mills every alternate week has been dispensed with from September 1. The step has been taken by the Government of India in consonance with the recommendations of the Standing Committee of the Cotton Advisory Board. With effect from the same date, it has also abolished the system of movement permits for the movement of cotton from the marketing centres to consuming mills. On the question of the stocks to be held by the mills, it has been decided that mills holding cotton in their own premises or with merchants or muccadams including purchases for delivery not exceeding one month should not exceed a quantity equal to two-and-a-half months consumption for mills situated in Bombay and Ahmedabad and three-and-a-half months consumption for mills situated elsewhere. In the case of mills situated in distant places like Assam or mills which export 20 per cent or more of their production or are required to execute orders for defence services, these stock limits may be extended up to four months' consumption on an application being made to the Textile Commissioner. Mills and other cotton licence holders will be required to declare their cotton stocks to the Textile Commissioner each month in a prescribed form. All purchases and sales of cotton will be registered with the Indian Cotton Mills Federation who will submit a consolidated report to the Textile Commissioner regularly. The government has also decided that no specific delivery contract shall be entered into for a period longer than one month.

RAW MATERIAL IMPORTS

Actual users, engaged in priority industries are required to furnish information regarding production, stocks, etc. in the prescribed proformae, with their applications for import of raw materials, components and spares. According to a public notice issued by the Chief Controller of Imports and Exports, this information is required to enable the sponsoring

uthority to assess the requirements of the applicant-units and ıake necessary recommendations for licences.

OTTON SUPPORT PRICES

The government announced on August 31 minimum support prices for various varieties of cotton for the cotton year 967-68, effective from September 1. The minimum support rice for the standard variety of cotton will be five per cent bove the present level, and the prices of other important arieties range between five and 10 per cent above the corresonding floor prices according to quality. At these prices, ıe government would be prepared to buy whatever quantiies are offered for sale. The statutory controls, which have een in operation for the last 24 years, on the floor and ceilıg prices of cotton have also been discontinued. The note, owever, said the prices were subject to the "on" and "off" llowances provided for class and staple other than basic class nd staple, and subject also to the cotton offered for sale to ıe government being free from "mixing". The Textile Comıissioner may set up suitable machinery to deal with any ispute that may arise whether about quality or support rice. The decision of this body would be final. Following re the prices announced:

escription of cotton in the 1967-68 eason (Riller ginned)	Basic staple length (in inches) and basic class	Support price (in Rs per quintal)
.P. Virnar	27/32 Fine	279
oglai Jarilla	25/32 Fine	256
handesh Virnar	28/32 Fine	298
igvijay 'A'	28/32 Superfine	339
igvijay 'B'	27/32 Fine	309
ınjab American 320 F	27/32 Fine	289
ınjab American H 14	28/32 Fine	320
esterns	26/32 Fine	271
arunganni	29/32 Fine	315
holleras	24/32 Fine	253
ınjay	26/32 Fine	274
engal Deshi	Fine	210
omras	20/32 Fine	227
athia & Mungari	Fine	223
uri American	29/32 Fine	318
147	30/32 Fine	334
aorani 22 & 46	28/32 Fine	307
K 235 & 277	28/32 Fine	307
alyan	25/32 Fine	265
ıyadhar	28/32 Fine	310
axmi	29/32 Fine	332
ambodia 'A'	1-1/32 Fine	417
ambodia 'B'	1 Fine	356
ambodia 'C'	30/32 Fine	333
ujarat 67 (ISC-67)	1-1/8 Fine	481
ea Island (Andrews)	1-3/16 Fine	553

UALITY CONTROL OF EXPORTS

Footwear and paints and allied chemicals have come nder compulsory quality control and preshipment inspection ith effect from September 1, and no consignment of these ommodities can now be exported unless it is accompanied by certificate of quality issued by one of the export inspection agencies, established by the Government of India, under Section 7 of the Export (Quality Control Inspection) Act, 1963. Exporters of footwear will have to give notice to the nearest export inspection agency which will arrange for the inspection of the consignments meant for export within the stipulated period and issue certificates of exportworthiness, if the consignment of footwear is in accordance with the sample or specification contracted for. In the case of paints and allied chemicals, the certificate of exportworthiness would be issued if the product has been manufactured in accordance with the levels of quality control prescribed by the Government of India. In case of these products, there will be no consignment inspection. The inspectors of the export inspection agency will, however, make frequent checks in the manufacturing units to ensure that the manufacturer-exporters of paints continue to exercise the prescribed level of in-process quality control. The merchant-exporters will be allowed to export only the products from those factories exercising adequate quality control. Besides the already existing offices in Calcutta, Bombay, Madras and Cochin, offices of the export inspection agencies have recently been set up in Agra, Delhi, Kanpur and Digha (Bihar) to exercise quality control on footwear and paints. India exports about Rs 7 crores worth of footwear per annum and over one crore worth of paints, PVC leather cloth and linoleum. About 85 per cent of Indian exports are now covered under one form or other of compulsory quality control.

LOK SABHA SESSION

The Third Session of the Fourth Lok Sabha will begin on Monday, November 13, 1967. This was announced in New Delhi last week.

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, organises 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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The Eastern Economist Ltd.,
Post Box No. 34,
New Delhi-.1

Company Affairs

OIL INDIA

OIL INDIA Ltd, in which the Government of India and the Burmah Oil Company are equal partners, has announced a final dividend of Rs 127.22 per share for 1966. The company declared and paid an interim dividend of Rs 60 per share in December 1966. The net return on equity in 1966 works out at 9.57 per cent, after deduction of dividend tax, as compared with the net dividend of 9 per cent paid in the preceding three years. Under the second supplemental agreement signed in 1961 between the Government of India and the Burmah Oil Company Ltd, it was decided to restrict the profit to be earned by Oil India Ltd, on the equity capital to a maximum of 13 per cent after payment of all taxes and to pay a guaranteed minimum dividend of 13 per cent, after payment of all taxes. The share capital of the company was then raised from Rs 24 crores to Rs 28 crores and the equity shareholding of the Government of India was increased from one-third to one-half of the total capital. In addition, the Burmah Oil Company agreed to sell to the Government of India equity shares at the par value of Rs 2 crores and accept payment in four equal instalments of Rs 50 lakhs each.

Production of the company has touched the rate of 3.00 million tonnes per annum and maintenance of production at this rate, particularly during this year, will be dependent on the offtake of the Barauni refinery. The cumulative oil production since the company started operations, is about 9 million tonnes. On a very rough estimate this is worth about Rs 80 to 85 crores in terms of the value of crude oil alone and to this extent it is a saving in foreign exchange brought about by the company. The exploration programme is being implemented under a long-term perspective with the object of finding additional resources of oil, but financial matters such as arranging rupee finance and foreign exchange made it necessary for the company to phase it out over short periods. In the four years 1966-69, the company will be spending about Rs 417 lakhs on exploration alone. Similarly for developmental drilling, the company has a five-year plan and the number of wells drilled each year under this plan are so adjusted as to meet the oil demand in full.

BIRLA COTTON

The Birla Cotton Spinning and Weaving Mills Limited has made a net profit of only Rs 76,000 for the year ended March 31, 1967, against Rs 5.48 lakhs in the preceding year. The profit figures are arrived at after providing Rs 30 lakhs for depreciation, Rs 3.80 lakhs for development rebate reserve and Rs 2.00 lakhs for taxation and taking into account the balance brought forward from the previous year. The directors have proposed a dividend on one rupee per ordinary share on the capital increased by the issue of bonus shares in the ratio of one-for-one. In the previous year, a dividend of Rs 2 a share was paid on the old capital. In terms of the old capital, the present distribution is maintained.

DALMIA CEMENT

Dalmia Cement (Bharat) Ltd, has almost maintained its progress during the half-year ended June 30, 1967. Sales of all products amounted to Rs 452 lakhs as compared to Rs 451 lakhs in the first half-year ended June 30, 1966. Production of cement amounted to 252,000 tonnes and sales to 245,000 tonnes. Production of iron ore was 194,000 tonnes and sales were 175,000 tonnes. The reduction in sales has been attributed to the shortage of wagons. The company is giving the stoneware pipes and RCC pipe sections to Dalmia Cement Ltd (wholly owned subsidiary) on lease from September 1, 1967. The potteries section is being closed down because of continuous loss in working.

JAY ENGINEERING

The directors of the Jay Engineering Works Limited have announced that, in order to conserve the resources of the company, they have not recommended the dividend on the ordinary shares for the year ended March 31, 1967. The company has been paying regular dividends at the rate of eight per cent for the last three years and at the rate of 10 per cent for 1962-63. The dividend on the preference shares is, however, recommended.

SUTLEJ COTTON

Sutlej Cotton Mills Ltd proposes to maintain a dividend of Rs 8.57 on its ten-rupee equity shares for the year ended March 31, 1967 in spite of a sharp rise in its gross profit from Rs 20.13 lakhs to Rs 36.82 lakhs. Out of its profit, the company has provided Rs 6.59 lakhs for depreciation, Rs 9.72 lakhs for taxation, Rs 61,000 for development rebate reserve and Rs 7.30 lakhs for general reserve. After providing Rs 12.85 lakhs for the proposed dividend, the balance of Rs 38,000 has been carried forward against Rs 63,000 brought in.

UNILEVER

The boards of Unilever Ltd and Unilever N. V. have announced that during the first half-year of 1967 the companies recorded an increase of 4.4 per cent over the corresponding period of last year in their sales which increased to £997 million. Profit before taxation was higher by 10 per cent at £68.2 million. Consolidated net profit was £35.1 million which was 9.3 per cent higher than the corresponding period of the last year.

TATA MILLS

Tata Mills Ltd entered the capital market on August 28, 1967 with a public offer of Rs 30 lakhs in 9.5 per cent redeemable cumulative preference shares of Rs 100 each, at par. The subscription list was to close on September 9, or earlier, but not before August 31, 1967. The company has an authorised capital of Rs 150 lakhs divided into 400,000 ordinary shares of Rs 25 each, 30,000 preference (9.5 per cent cumulative redeemable) shares of Rs 100 each and unclassified shares amounting to Rs 20 lakhs. The issued capital is Rs 97.1 lakhs (including bonus shares worth Rs 8.7 lakhs) in equities of Rs 25 each. Of this, subscribed capital amounts to Rs 96.2 lakhs. The present issue to the public will be redeemed at par, at any time after December 31, 1974, on six months' notice to the holders, but in any case not later than December, 1979. The entire public issue is underwritten. Devaluation and the general increase in the cost of production has raised the financial requirement for capital expenditure and normal rehabilitation and replacements of the company. Further, restriction imposed by the Reserve Bank of India on the acceptance of public deposit has made it necessary to make provision for a gradual reduction in the short-term borrowings from the public. The present issue is made to meet the above requirements and to strengthen the financial position of the company.

ALUMINIUM CORPORATION

The preliminary statement, released by Aluminium Corporation of India Limited, revealed a higher profit of Rs 112.63 lakhs for the year ended March 31, 1967 as against Rs 100.72 lakhs in the preceding year. Depreciation was raised to Rs 47.47 lakhs from Rs 41.09 lakhs and development rebate re-

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serve to Rs 31 lakhs from Rs 9.97 lakhs, while general reserve was lowered to Rs 12.50 lakhs from Rs 32.50 lakhs. The directors proposed to raise the equity dividend from nine to 12 per cent less tax, with the result the dividend amount was shown higher at Rs 21.59 lakhs against Rs 17.34 lakhs. The amount carried forward was higher at Rs 15.845 against Rs 7,765 brought in.

TATA POWER

Power companies of the Tata group have proposed to maintain their equity dividend for the year ended March 31, 1967, with the announcement of a final distribution of seven per cent. All the three companies—Tata Power, Tata Hydro and Andhra Valley—had given an interim dividend of five per cent. The total dividend thus amounts to 12 per cent, the same as for the previous year. Despite a rise in sales, all the three companies have reported lower earnings after providing for depreciation and managing agents' remuneration. While the sales of Tata Power have risen from Rs 977.63 lakhs to Rs 1,129.10 lakhs, its profit after depreciation and managing agents' remuneration has dropped from Rs 191.85 lakhs to Rs 117.39 lakhs. Sales of Andhra Valley have increased from Rs 585.80 lakhs to Rs 666.17 lakhs but its profit has dropped from Rs 104.34 lakhs to Rs 60.66 lakhs. The profit of Tata Hydro has fallen from Rs 86.89 lakhs to Rs 51.46 lakhs in spite of a rise in sales from Rs 398.83 lakhs to Rs 468.89 lakhs.

Out of the profit of Rs 117.39 lakhs, the Tata Power Co. Ltd, has provided Rs 8.04 lakhs for contingencies reserve, Rs 44,000 for development reserve and Rs 10,000 for arrears of depreciation besides writing off miscellaneous expenditure amounting to Rs 16.68 lakhs. The Andhra Valley Power Supply Co. Ltd has shown a disposable surplus of Rs 46.30 lakhs after providing from its profit Rs 4.41 lakhs for contingencies reserve, Rs 43,000 for development reserve, Rs 1.18 lakhs for arrears of depreciation and Rs 9.83 lakhs for miscellaneous expenditure written off. The Tata Hydro Electric Power Supply Co. Ltd has reported a disposable surplus of Rs 44.33 lakhs after providing Rs 3.45 lakhs for contingencies reserve, Rs 40,000 for development reserve, Rs 7.23 lakhs for miscellaneous expenditure written off and withdrawing Rs 3.97 lakhs from tariffs and dividends control reserve.

HINDUSTAN WIRES

The directors of the Hindustan Wires Limited have proposed to maintain the dividend on the equity shares at rupee one a share for the year ended March 31, 1967, same as previously. This is payable to those shareholders registered as on September 30.

KANORIA CHEMICALS

Kanoria Chemicals & Industries Ltd has recorded a profit of Rs 46.29 lakhs during the year ended March 31, 1967. After providing a sum of Rs 20.42 lakhs towards depreciation, the net profit during the year was Rs 25.87 lakhs as against Rs 9.97 lakhs a year before. The directors have proposed the transfer of Rs 5 lakhs to contingency reserve and Rs 20.80 lakhs to general reserve. Dividend on redeemable cumulative preference shares for the period May 23, 1962 to March 31, 1965 is proposed to be paid this year, which will be paid out of the general reserve. The company recorded increases in the production of caustic soda, liquid chlorine and hydrochloric acid. The directors have pointed out that the company has already taken in hand the work on diversification and expansion, The Industrial Finance Corporation of India has granted a DM loan to finance the imported cost of equipments for stable bleaching powder plant. The company has entered into an agreement with Messrs. Friedrich Uhde GmbH, Dortmund, Germany and with Voltas Limited, who will supply the bulk of imported and indigenous equipments respectively for the plant. Necessary letter of credit in favour of Messrs. Friedrich Uhde has also been established. The Industrial Finance Corporation of India has sanctioned a rupee loan of Rs 32.5 lakhs for benzene hexa chloride plant project. The company has received a letter of intent from the Government of India for expanding the caustic soda plant capacity by 4,500 tonnes per annum. Necessary application for required import licence has already been made to the government.

UNIT TRUST

The sale price of the unit of the Unit Trust of India has been raised from September 1, 1967, by five paise to Rs 10.10 per unit. The repurchase prices remain unchanged at Rs 10 per unit.

CAPITAL AND BONUS ISSUES

Consent has been accorded to nine companies to raise capital amounting to more than Rs 2.48 crores. Six of them are to issue bonus shares exceeding Rs 38 lakhs. The amount of bonus shares ranges between Rs 1.07 lakhs and Rs 16 lakhs. The consents are valid for 12 months.

Geoffrey Manners & Co. Ltd, Bombay, has been accorded consent to capitalise Rs 16 lakhs out of free reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of two for seven shares held.

Jaipur Investment Co. Ltd, Calcutta, is permitted to capitalise Rs. 11,01,600 from share premium and general reserve and issue fully-paid bonus shares in the ratio of two new shares for every five shares held.

Mangaldai Tea Co. Ltd, Calcutta, has been granted consent to capitalise Rs 7.5 lakhs from capital reserve and issue fully-paid bonus shares in the ratio of one for one held.

Harshadray Private Ltd, Bombay, has been accorded permission to capitalise Rs 1.6 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for five held.

Universal Lamp Mfg. Co. Pvt. Ltd. Calcutta, is permitted to capitalise Rs 1.5 lakhs from revenue reserve and issue fully-paid bonus shares.

Prabhat Silk & Cotton Mills Co. Ltd, Bombay, has been given consent to capitalise Rs 1,07,000 out of general reserve and issue equity shares of Rs 50 each by converting 535 deferred shares of Re 1 each, in the ratio of four equity shares for every deferred share held.

General Alloy Steel Ltd, Calcutta, is permitted to issue capital of Rs 1.30 crores in equity shares of Rs 10 each at par. Of this, shares of the value of Rs 37.41 lakhs will be offered to the Japanese collaborators for cash, except shares of Rs 5.68 lakhs which will be for consideration other than cash. The balance will be offered to the Indian public for subscription for cash. The proceeds will be utilised for setting up a factory at Durgapur with Japanese collaboration for the manufacture of cold rolled strips from hot rolled steel strips.

Lakshmi Machine Works Ltd, Coimbatore, is given permission to issue capital of Rs 70 lakhs to finance the purchase of capital goods for the manufacture of textile spinning machinery. The amount consists of 'F' series 1967-77 debentures of the value of Rs 35 lakhs in favour of the Bank of Baroda Ltd, and 'G' series 1967-77 debentures of the same value in that of the Indian Bank Ltd. The debentures will carry interest at 3 per cent over the Reserve Bank of India rate subject to a minimum of 8.75 per cent.

Aditya Mills Ltd, Kishengarh (Rajasthan), is also permitted to issue capital of Rs 10 lakhs for cash at par to finance expansion of the existing capacity of the mill. Of the amount,

Rs 5 lakhs are in equity shares of Rs 10 each, and the balance of Rs 5 lakhs in 9.5 per cent cumulative redeemable preference shares.

LICENCES AND LETTERS OF INTENT

The following licences were issued under the Industries (Development and Regulation) Act, 1951, during three weeks ended August 5, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licences, i.e., New Undertaking (N.U.); Substantial Expansion (S.E.); New Article (N.A.); Carry on Business (C.O.B.); Shifting and annual installed capacity.

During the Week ended July 22, 1967

LICENCES ISSUED

Electrical Equipment

M/s. Madhav Capacitors Private Ltd, Bharat Coal Compound Ball Bazar, Kurla, Bombay-70. (Poona-Maharashtra, or Mangalore, Mysore): (i) H.T. Power factor correction capacitors up to 11 KV, 3 phase 50 C/SAC—40,000 KVAR; (ii) L. T. Power Factor correction capacitors up to 400/400 V, 3 phase 50 C/SAC—10,000 KVAR; (iii) Relay & control units for HT capacitor control charge & discharge reactors—40/550 panels 400/500 Nos. (N.U.).

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

M/s. Britannia Engineering Co. Ltd, Calcutta—Mixing Rolls, Vulcanising Presses, Reduction Gears, Extruding Machines and Spreading Machines.

During the Week ended July 29, 1967

LICENCES ISSUED

Coal

M/s. Khode Valley Colliery, Sunda House, ICOA Road, Joraphalak, Dhanbad (Bihar). (Mouza Behaldih, P.O. Nawagarh, Distt. Dhanbad): Coal—14000 tonnes per annum. (COB)

Electrical Cable & Wires

M/s. Indo-American Electricals Ltd, 21-Old Court House Street, Calcutta-1. (Calcutta, W. Bengal): Enamelled Copper Strips—550 tonnes per annum. (S.E.).

Railway Rolling Stock

M/s. Escorts Limited, Pratap Building, Connaught Circus, Post Box No. 187, New Delhi. (Faridabad, Haryana): Electric Pneumatic and Air Brake Systems for Railway Rolling Stock —300 sets per annum. (N.A.).

Inorganic Heavy Chemicals

M/s. The Titaghur Paper Mills Co. Ltd, Chartered Bank Bldgs., Calcutta-1. (Choudwar, Orissa): Caustic Soda—1550 tonnes per annum; Chlorine—1320 tonnes per annum. (N.A.).

Insecticides, Fungicides

M/s. Alkali & Chemical Corporation of India Ltd, 34-Chowringhee, Post Box No. 9088, Calcutta-16. (Rishra, Distt. Hooghly, W. Bengal): Technical Material to be manufactured in the Miscellaneous Organic Chemicals Plant—1. Thiram (Tetra-Methyl Thiuram Disulphide)—300 tonnes; 2. Dithiocarbamates: 1. Ziram—250 tonnes; 2. Ferbam—25 tonnes; 3. Vapam—25 tonnes; (Formulations: In terms of Technical Material): 3. Thiram Seed Dressing WDP—150; 4. Fungicides based on Dithiocarbamates: (a) Ziram—125; (b) Ferbam—12; (c) Vapam —12. (N.A.).

Textiles Woollen

M/s. The Bengal National Textile Mills Limited, 87-Dharamtolla Street, Calcutta-13. (Calcutta, W. Bengal): Woollen yarn (other than Worsted and Shoddy Yarn)—2400 spindles. (S.E.).

M/s. Mahabir Woollen Mills, Industrial Area "A", Ludhiana-3 (Ludhiana, Punjab): Woollen yarn (other than Worsted and Shoddy yarn)—800 spindles. (S.E.).

LETTERS OF INTENT

Chemicals

M/s. India Carbon Ltd, 6, Old Post Office Street, Calcutta-1. (Thana, Bombay, Distt. Maharashtra): Ethanolamines—3,000 tonnes per annum. (N.U.).

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

From M/s. Shree Mahadeo Jute Mills Co., Calcutta to Shrimati Ratri Devi Bageria and Shri Shiva Prasad Bagaria; From Shri Ravindra Nath, Madras (licensee) to M/s. Mico Farm Chemicals Limited, Madras (undertaking).

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

M/s. The Mysore Electrical Industries Ltd, Bangalore—Power Factor Correction Capacitors; M/s. Tropical Engineering Co., Bombay—Slipring and Squirrel Cage Electric Motors; M/s. Echjay Industries Pvt. Ltd, Bombay—Capstan and Turret Lathes; M/s. Electrical Equipment Co., Bombay—Horizontal Boring and Milling Machines. Licensee: Shri Surinder Kumar Jain, Delhi. Undertaking: M/s. Synthetic Foams (India)—Synthetic Foams: M/s. Bharat Commerce and Industries Ltd, Bombay—Cotton yarn: M/s. New Swadeshi Mills of Ahmedabad Ltd, Ahmedabad—Terry Towelling Cloth; M/s. Kesoram Industries and Cotton Mills, Calcutta—Terry Towelling Cloth; Shri Prabhudayal Kanoria, Calcutta—Cotton Yarn; M/s. The New Swadeshi Mills of Ahmedabad Ltd, Ahmedabad —Round Mesh Mosquito Netting. Licensee: Shri S. Sivaraman, Pondicherry. Undertaking: M/s. Shri Venkateswara Spinning Mills—Cotton yarn.

During the Week ended August 5, 1967

LICENCES ISSUED

Coal

Shri Mahabir Prasad Marwari, Vill. & P.O. Pathargama, Distt. Santhal Parganas (Bihar). (Mouza Fulberia, Distt. Santhal Parganas, Bihar): Coal—6000 tonnes per annum. (N.U.); Shri Chittaranjan Mukherjee, M/s. Mukherjee Jote Janaki Colliery, P.O. Toposi, Distt Burdwan (West Bengal). (P.O. Toposi, Distt. Burdwan, West Bengal): Coal—4650 tonnes per annum. (COB).

Machine Tools

M/s. Consolidated Pneumatic Tool Company (India) Ltd, 301/302, Agra Road, Mulund, Bombay-80. (Mulund, Bombay, Maharashtra): High Frequency Portable Electric Hand Tools —2400 Nos. per annum. (N.A.).

Sugar

M/s. Sangamner Bhag Sahakari Sakhar Karkhana Ltd, Post Sangamner, Distt. Ahmednagar, Maharashtra State. (Ghulewadi, Taluk Sangamner, Distt. Ahmednagar, Maharashtra State): Crushing capacity of 800 tonnes of sugarcane per day. (N.U.).

LETTERS OF INTENT

Machinery Equipment

M/s. Kumardhubi Engineering Works Limited, Chartered Bank Buildings, Calcutta-1. (Dhanbad, Bihar): Mobile Cranes —(i) 3.8 tonnes capacity—20 Nos; (ii) 6.0 tonnes capacity—60 Nos; (iii) 10.0 tonnes capacity—40 Nos. (N.A.).

Machine Tools

M/s. New Standard Engineering Co. Ltd, NSE Estate, Goregaon East, Bombay-63 N.B. (Bombay, Maharashtra): (i) Moulding Machines—100; (ii) Sand Slinger—50; (iii) Mix Mullers—30; (iv) Multimulla—6, (v) Sand Preparation Equipment—150. (N.A.).

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

M/s Struthers Wells (India) Ltd, Bombay—Chemical Machinery; M/s. Industrial Manufacturers, Bombay—Capstan Lathes, Turret Lathes, Precision Lathes, Milling Machines; M/s. Asia Works Pvt. Ltd, Patiala—Tar Boilers, Patch up Repair Unit, Sheep Foot Temping Rollers & Concrete Mixers; M/s. Jay Laxmi Textiles Ltd, Bombay—Cotton yarn; M/s. Orissa Cotton Ltd, Calcutta—Cotton waste yarn.

CHAIRMAN'S STATEMENT

MUKAND IRON & STEEL WORKS LTD.

Statement of the

CHAIRMAN, SHRI KAMALNAYAN BAJAJ

The following statement by Mr. Kamalnayan Bajaj, Chairman, Mukand Iron & Steel Works Limited, was circulated along with the annual report of the Company for the year 1966–67.

POLITICAL SCENE

The country is passing through critical times being faced with acute food scarcity and economic distress. Political parties have been trying to exploit people's frustration and anger, religious sentiments, caste feelings, and regional and linguistic loyalties for spreading indiscipline, violence and lawlessness to gain their own narrow and selfish ends. The problems are, no doubt, enormous but they should not worry us. Our real and biggest problem is that we are lacking in an effective leadership.

During the last hundred years the country had been fortunate in having an unbroken chain of national leaders like Raja Ram Mohan Roy, Dadabhai Naoroji, Ranade, Gokhale, Tilak, Gandhi and Nehru. The chain of political leadership is broken. The country is left today without a national leader or leadership.

While the Congress is lacking in such leadership, the position of other parties is unfortunately worse. In the absence of such a leadership, individual or collective, which is recognised and accepted by the people, the problems are assuming larger proportions and the situation is slipping out of control.

But we are passing through a transitional period. Out of the turmoil and agony, we can hope that our country with thousands of years of tradition and wisdom will throw up a leader or collective leadership capable of lifting the nation out of this morass. It is the responsibility of the people to create the leadership and such leadership alone can guide and lead the nation. Until the people create such a leadership, which has the resources and talent to accept the challenge of the times, our problems will tend to assume a larger magnitude than is warranted.

The recent trend of members elected on a party ticket crossing the floor has brought a certain element of opportunism in our politics because many of these defections are due not so much to ideological differences as to personal dissatisfactions. At the same time, it must be realised that not seldom the leadership of the various parties in the States and at the Centre, have given room for suspicion, frustration, anger and dissatisfaction by not adhering to their principles and programmes, and trying to foster groupism and favouritism. Instead of choosing what is right, the leaders appeared to have bargained for support, taking wrong, unjust and even conflicting decisions, and committing breach of promises and understandings. This has aggravated the malady. It is for the leaders of all the parties who believe in democracy to come together to draw up a code of conduct and establish conventions for putting a stop to this unhealthy and unethical trend. Otherwise, there is the danger of our democracy being undermined.

ECONOMIC SCENE

Our economy is passing through an unprecedented multiple crisis. Devaluation of the rupee with little beneficial effects, declining rate of growth of agricultural and industrial production, acute scarcity and rapidly rising prices of essential consumer goods and dwindling exports, accompanied by a recession in demand for industrial goods, are its main facets.

This crisis is not a sudden development. It has been inherent in the various policies followed by the Government. Lack of timely preventive and corrective action and successive failures of the monsoon have only made it worse. The present crisis, therefore, calls for serious re-thinking on our economic policies.

We are in the midst of a severe recession. Because of the lack of demand for engineering and capital goods, coupled with shortage of agricultural raw materials like cotton and sugarcane, many factories are threatened with partial or complete closure, leading to unemployment and severe economic strain on the industries. Unutilised capacities in different industries are increasing. Some improvement will take place with a good monsoon expected this year, but it would take more than a year before we see any signs of improved activity. One satisfactory sign is that the Government has become increasingly aware of the gravity of the situation and has already announced certain schemes for helping the industries suffering from recession, particularly capital goods and engineering. The measures are, however, inadequate in themselves.

The basic cause of the present recession can be traced to the unrealistically high demand estimates projected by the Planning Commission in the successive Plans and large capacities established to fulfil them. In retrospect, it appears that even under normal conditions this would have set in motion recessionary tendencies. But the situation was aggravated because during the last few years the financial resources of the Government and industries and the purchasing power of the people have been progressively strained on account of mounting defence expenditure, huge investments in unproductive ventures, successive droughts and unchecked rise in prices. The situation will improve only if the Government

ruthlessly eliminates wasteful unproductive expenditure and unnecessary investments for creating duplicate facilities, improves the working of the public sector undertakings, gives maximum encouragement to exports and makes arrangements for repayment of part of the foreign loans in kind.

PLANNING

It was expected that the Administrative Reforms Commission would study all aspects of planning in proper perspective and offer suggestions which would have significant influence on the planning process as a whole. Unfortunately, it concentrated only on reconstitution of the Planning Commission with special reference to representation of Cabinet Ministers on it. No serious attempt was made to re-evaluate the planning process itself. Even the reconstitution of the Planning Commission was inordinately delayed on account of the existence of non-Congress Governments in some of the States. For various reasons, the Fourth Plan has not been, finalised as yet. As a result, we have been brought to the position of preparing annual plans from year to year, which themselves give an impression of being disconnected documents containing only the proposed levels of investment in different sectors and the physical targets desired to be attained. The annual Plan for 1967-68, recently published, further gives an uneasy feeling that the problems of the country have not been properly understood, and it is doubtful whether the Government would be in a position even to adhere to its formulations.

CAPITAL MARKET

The capital market during the last two years has been very dull. The Budget proposals do contain some welcome features, but do not provide any significant stimulus for savings and investment. The views of the newly appointed Deputy Chairman of the Planning Commission are also not very encouraging in this respect. It is necessary that the Government does not become dogmatic in its approach because any wrong step at the present juncture would add more burdens to our already strained economy.

STEEL IN THE FOURTH PLAN

The steel programme in the Fourth Plan appears to be still uncertain. According to present indications, there will be no expansion at Rourkela and Durgapur beyond what was contemplated for the end of the Third Plan. The proposed expansion at Bhilai is just marginal and it is doubtful if even that would be completed. The private sector steel plants are also not likely to augment their present capacity. The Government has decided to go ahead with the Bokaro project, but even the first stage of 1.7 million tonnes may be commissioned only at the beginning of the Fifth Plan.

Since establishment of additional steel-making capacity is a time-consuming process, this situation is disturbing. Once the economy starts booming, shortage of steel can prove to be a serious bottleneck for industrial development. The minimum the Government could do is to have a thorough market research to determine the likely demand for various categories of steel over the next ten years and prepare plans for creating additional facilities or avoiding excess production of different categories in conformity with the estimated demands.

DECONTROL OF STEEL

In pursuance of the recommendations of the Khadilkar Committee, the Government announced complete decontrol on pricing and distribution of all categories of steel with effect from 1st May 1967. This is a step in the right direction, but it was most inopportune for the Government to approve of the price increase asked by the Joint Plant Committee which determines the prices of the Main Producers. The engineering industry, which is in the midst of recession, cannot afford to purchase steel even at the old prices. The provision for supplying at international prices the steel utilised for the manufacture of engineering goods which are exported will not materially change the situation, because the quantity of steel consumed for this purpose is relatively very small. An increase in the prices for domestic consumption at this stage would not only cripple the industry still further, but also result in lower off-take of steel and, consequently, more uneconomic working of the Main Producers. The prices of the end products have also considerably gone down. Under these circumstances the price revision of the Main Producers should have been downwards and not upwards, so as to stimulate the demand and ensure better results for all concerned.

EXPORTS

Consequent on devaluation last year, it was hoped that exports, especially of industrial products, would be stimulated, but the delay in announcing the new export incentives resulted in some disorganisation of our exports. However, the situation has tended to stabilise during recent months. It is a matter of satisfaction that the Government is alive to the difficulties experienced by the industries, affected by the present recession, and the Reserve Bank of India has taken steps aimed at providing cheaper credit and other facilities to them for encouraging exports. Still, the situation needs to be reviewed from time to time to apply corrective measures, wherever necessary.

In this connection special reference may be made to the difficulties experienced by the Re-rolling Industry. Although the prices of steel were increased from 1st May, 1967 by the Joint Plant Committee, with the approval of the Government, there was a delay of nearly two months in announcing the revised cash subsidy to Re-rollers for exports of bars and rods, which do not fall in the category of engineering goods, and they were left in a state of uncertainty. Even the subsidy now announced hardly leaves any margin to them when they are not in a position to sustain any losses on account of the recession in the domestic market. The subsidy needs to be increased by at least five per cent.

LABOUR SITUATION

The labour situation in the Eastern parts of the country has greatly deteriorated. The situation in the Western region is comparatively better mainly because almost all the industrial units are compensating the rise in the Dearness Allowance to the full extent. This, has, however, resulted in uneconomical working of these units and several of them are threatened with closure. It is necessary that the Government should take all possible steps to stabilise the prices; otherwise, layoffs and retrenchment might become unavoidable, which would further aggravate the difficulties of both labour and industry.

कमलनयन बजाज

Chairman

18th August, 1967.

NOTE: This does not purport to be a record of the proceedings of the Annual General Meeting which will be held in Bombay on September 26, 1967.

RECORDS AND STATISTICS

IMF Annual Report, 1966

THE INTERNATIONAL Monetary Fund, in its 22nd Annual Report issued this week, saw a substantial change in the world economic environment since early 1966. Terming the recent economic slowdown widespread and pronounced, the Fund said that it was of great importance for the industrial countries—for the benefit of the primary producing countries, as well as for themselves—to achieve an early resumption of economic growth while keeping overall spending within the limits of available productive capacity.

In the report's general economic survey, the Fund observed that industrial production and international trade on a worldwide basis expanded substantially from 1965 to 1966, but that the pace of expansion showed a marked deceleration during the course of 1966 and in early 1967. This was traced primarily to three developments that affected many industrial countries, though in differing degrees: limitations on further output growth imposed by capacity shortages, some weakening in the underlying forces of expansion, and measures of financial restraint taken in early 1966 to alleviate inflationary pressures.

In a number of industrial countries, said the report, the effectiveness of policy adjustments to deal with these pressures was limited by difficulties inherent in economic forecasting, insufficient flexibility in the application of fiscal policy and the substantial inability of incomes policies to cope with conditions of excess demand. Measures of financial restraint tended to be applied belatedly and to take the form primarily of a more severe tightening in monetary policy than would otherwise have been called for.

Delayed Application

The United States and Canada were noted as major examples of the delayed application of financial restraint. In these countries, the rates of 1965-66 output growth were large but the remarkable pattern of several years' price stability was broken. In both countries the authorities were concerned during most of 1965 about the maintenance of a satisfactory momentum in the domestic economy, and fiscal policies were set on an expansionary course for the second half of the year. The increase in expenditures related to the hostilities in Vietnam, announced at the end of July 1965, added to the strength of expansion in the United States, and indirectly in Canada, and had a mounting economic impact that proved difficult to gauge in advance. Aggregate demand in these countries expanded at exceptionally high, unsustainable rates from the second quarter of 1965 to the first quarter of 1966, outrunning the economies' productive capabilities and generating a process of rising prices and wages.

In Germany, the Netherlands and some other industrial countries of Europe, as well as in the United States and Canada, the rise of aggregate demand during the second half of 1965 and the early months of 1966 brought such a high level of capacity utilization as to impose a restraint on the further expansion of output. Moreover, because of the intensification of inflationary pressures, the authorities in these countries took progressively more severe measures, largely of a monetary nature, to moderate demand expansion.

The situation in the United Kingdom, the report stated, differed in significant respects. Economic growth in the late 1965-early 1966 period was relatively slow, although the pressure on domestic resources was intense. Also, the application of severe financial restraint came later—in July 1966—than in the other major countries and was induced by external payments crisis. Finally, the programme that was formulated to deal with the sterling crisis and with the associated inflationary difficulties relied mainly on fiscal and incomes-policy measures, rather than on monetary measures.

Among the industrial countries, only France, Italy, and Japan still had a significant margin of unutilized economic capacity at the beginning of 1966 and, therefore, continued to pursue policies of expansion throughout the year. Fiscal policy was used to stimulate aggregate demand and, particularly in Japan and Italy, monetary policy was also kept rather easy.

During most of 1966, monetary restrictiveness was the dominant feature of national economic policy in the majority of industrial countries. Their economies, already tending to slow down, responded quickly to the policies of restraint; the whole period from mid-1966 to mid-1967 was characterized as one of general economic deceleration in the industrial countries with the exception, most notably, of Japan and also of Italy.

Outstanding Feature

Resumption of more normal rates of growth in the industrial countries was being actively encouraged by national economic policies in the first part of 1967. The outstanding feature of these policies has been a widespread retreat from the tight monetary policies and high interest rates of 1966. While such a reversal has been desirable, the report said, there is an appropriate limit to the process. A clear lesson of the 1966 experience is that, in the period ahead, industrial countries should make greater use of fiscal measures in seeking an effective combination of policies to meet their domestic and external objectives.

The weakening of demand expansion in the industrial countries during 1966 and early 1967 led to a decline in the high rate of increase in world trade and, in particular, checked the recovery in export growth of the primary producing countries that had been apparent from the second half of 1965. Reduced growth in export volume and declining commodity prices have added to the internal economic difficulties of many of the less developed countries.

The sharp changes in economic conditions and policies in the industrial countries during 1966, the report found, had substantial effects on their external payments positions. The United Kingdom, which sustained a sudden worsening of its balance of payments around the middle of the year, took firm hold of its acute payments problem during the summer of 1966 and achieved a clear improvement in the situation during ensuing months. Furthermore, there was some reduction in the strong surplus positions of France and Italy. In the European Economic Community as a whole and in the United States, however, balance of payments developments during 1966 cannot be said to have represented progress toward lessening the imbalance in the international system.

Although the US balance of payments deficit, measured on an official settlements basis, was eliminated in 1966, the underlying changes from 1965 on current account and capital account were not regarded as indicative of fundamental improvement. The current account surplus fell to its lowest level since 1960, primarily as a result of rapid economic growth and high demand pressures, including those connected with larger military expenditures for the hostilities in Vietnam. On the other hand, tightening of monetary and credit conditions had a pronounced impact on the capital account. There was a massive inflow

of banking funds, on a scale large enough in the third quarter of 1966 to produce a surplus on an official settlements basis for the year as a whole of about $200 million. During the next two quarters this inflow of funds—attributable to temporarily stringent financial conditions and to the sterling crisis—was reduced somewhat and then reversed.

A notable part of the strain from the inflow of funds to the United States was borne by the United Kingdom. More generally, the difficulties that large-scale capital movements created for the United Kingdom in 1966 provide one example of the problems that sometimes have been associated with such transfers in recent years. In a separate chapter of the report devoted to an analysis of international capital movements and capital markets, the Fund report draws attention to the very large volume of private capital that has gone from the United States to western Europe and the relatively small volume of private investment by the industrial countries in the less developed parts of the world. Many of these capital flows in recent years have been associated with the rapid economic growth in industrial countries that put severe pressures on national capital markets. The relatively heavy reliance on monetary rather than fiscal policy has also increased such pressures. In response to the balance of payments strains attributable to international capital transfers, there has been an increase in official restraints on such transfers. One significant consequence has been that the flow of capital to the less developed countries undoubtedly has been dampened even though industrial countries have tried to shield them from the effects of their programmes to restrain capital outflows.

Modest Payments Surplus

Among countries exporting primary products, the more developed ones realized a modest over-all payments surplus in 1966, in contrast to a deficit of almost $800 million in 1965. The less developed group of countries together had a balance of payments surplus of about $450 million in 1966, but this was less than half as large as the 1965 surplus. Improvements in the payments positions of these latter countries in 1966 were limited mainly to some oil exporting countries and to a few countries in the Far East where external receipts expanded in connection with the hostilities in Vietnam. Among other less developed countries, reserve gains tended to be smaller than in 1965 or to be replaced by reserve losses.

The evolution of the payments situation in the less developed countries during 1966, the report observed, included certain disquieting features. The total exports of countries dependent mainly on agricultural products increased only moderately and, with allowance for higher import prices, their import purchasing power showed scarcely any increase. The slowing down or cessation of reserve accumulation by most of the less developed countries in 1966, coupled with the general weakness of their current account positions in the second half of the year, may have foreshadowed lower import growth in 1967. Official grants and loans from the industrial countries rose somewhat from 1965 to 1966 but the private capital inflow showed a considerable decrease. The fact that the overall flow of financial resources to the less developed countries in recent years has not been keeping pace with the growth in output of the industrial countries led, in the report, to repetition of an observation made in the Fund's 1966 Annual Report: "Participation, to an appropriate extent, in the supply of financial resources to the less developed countries should have a high priority in all countries with a relatively high per capita income and should, as far as possible, be shielded from any action needed from time to time to deal with balance of payments problems."

Other aspects of the problems facing the less developed countries are also reviewed in a separate chapter of the report. Stress is placed on the advantages of policies aimed at achieving an enduring stability of the exchange rate at a realistic level. If resort is made to exchange restrictions rather than to an adjustment of the exchange rate when the latter has become overvalued, serious distortions in the allocation of resources are likely to arise. The establishment and maintenance of a realistic exchange rate, linked to appropriate domestic fiscal and monetary policies, have contributed importantly to the ability of several countries to attain, on the whole, a satisfactory rate of economic growth.

The rise in world reserves (gold, reserve positions in the Fund, and foreign exchange) during 1966 amounted to $1,400 million, which, like the rise of $1,700 million in 1965, was below the earlier postwar trend. Moreover, this increase in world reserves was itself drawn from special and reversible sources. Since the end of 1964, the report said, reserve developments have become more complex, and hence more difficult to interpret. They are analyzed, in historical perspective, in another chapter of the report.

Expansionary Policies

Commenting on international payments adjustment in 1967, the report said that the United Kingdom will need to continue to strengthen its international competitiveness by maintaining an incomes policy more effective than that of its competitors, and to ensure that adequate resources are made available for the growth of exports. The main industrialized countries in which domestic activity has been relatively strong—Japan, Italy, and (to a lesser extent) France—are for the most part well placed to meet declines in their trade balances. Particularly for France and Italy, which have relatively high reserves, a continuance of expansionary policies would seem to be appropriate from a domestic as well as an international standpoint.

The two major sources of possible strains in world payments, the report noted, are the re-emergence of a German surplus and continuation of the US deficit. In Germany, the existence of a large current account surplus, closely related to the stagnation in the domestic economy, makes the restoration of normal economic growth especially desirable and facilitates the task of achieving it. With respect to the United States, the domestic objective of restoring the growth rate to its non-inflationary potential (estimated at four per cent per annum by US officials) is in the interest of the entire world. However, measures to achieve this are likely to run counter to an improvement in the balance on current account, particularly if US growth in the period ahead exceeds that of its major trading partners. These considerations underline the importance of appropriate adjustment policies on the part of deficit and surplus countries alike. Like other countries, the United States—notwithstanding the difficulty of its payments position at present—must consider a situation of balance of payments deficit as temporary and subject to correction without undue delay. At the same time, the manner in which this deficit is financed is assuming increasing importance.

During the past year the Fund has continued to give active consideration to problems related to international liquidity and possible reform of the international monetary system. A series of four joint meetings of the Fund's Executive Directors and the Deputies of the Group of Ten has taken place since the last annual meeting of the Fund's Board of Governors. As a result of these joint meetings, there evolved the general structure of an outline of a scheme for deliberate reserve creation in the form of drawing rights which would be operated in, or in close association with, the Fund. It is expected that an Outline Plan will be attached to a Resolution to be submitted to Governors at the forthcoming Annual Meeting in Rio de Janeiro.

Concerning its own operations over the fiscal year May 1, 1966 through April 30, 1967, the Fund reported that new drawings were equivalent to $1,100 million and, after repayments of previous drawings, increased the level of outstanding drawings from the equivalent of $4,700 million, which was already a record figure, to $5,200 million. One aspect of recent operations was the increase in drawings under the Fund's compensatory financing facility. Only three members made use of the facility in the three and one half years before its 1966 amendment. Since then five countries—Ceylon, Colombia, the Dominican Republic, Ghana, and New Zealand—used this special form of assistance up to the end of June 1967, with drawings totalling the equivalent of $91 million.

By the end of the latest fiscal year, the Fund noted, total drawings since the beginning of operations in 1947 had exceeded the equivalent of $13,000 million. Of this amount, $10,000 million was in the period since April 1960 and more than $5,000 million since April 1964.

Of the 34 members obtaining drawings or stand-by arrangements during the latest fiscal year, all but the United States were primary producing countries. The United States accounted for more than 45 per cent of the drawings during the twelve-month interval with drawings of $490 million. The United Kingdom was the only other industrial country with drawings outstanding in 1966-67, and these were reduced as a result of drawings of sterling by other members and other sterling transactions. The report also noted that shortly after the end of the fiscal year the United Kingdom repurchased sterling equivalent to $405 million in eight currencies. These currencies, which the Fund had borrowed in the same amounts under the General Arrangements to Borrow (GAB) when the United Kingdom drew the equivalent of $1,000 million in December 1964, were used by the Fund to repay its 1964 borrowing.

Other developments included an increase in the aggregate of Fund quotas by $1,500 million to a total of $21,000 million. The Fund's $6,000 million General Arrangements to Borrow began a four-year renewal period. There was a further development of the policy governing drawings under the Fund's compensatory financing facility. The currencies of Brazil, Malaysia, Norway, and Venezuela were used for the first time in drawings by other members, and the Fund made its first borrowing outside the GAB, obtaining the equivalent of $250 million in Italian lire. During and shortly after the fiscal year, Bolivia, Denmark, Guyana, and Norway accepted the obligations for convertibility of their currencies as defined by the Articles of Agreement, raising to 31 the number of members which have done so. The Fund's membership grew to 106 with the addition of Guyana and Singapore and the return of Indonesia. This enlarged the scope of the Fund's annual consultations with its members which, together with expanded programmes of technical assistance, play closely associated roles in its work.

ASSOCIATION MEETING

THE INDIAN INSURANCE COMPANIES' ASSOCIATION

Chairman, Shri Himatlal V. Gandhi's Review

Addressing the 39th Annual General Meeting of the Indian Insurance Companies' Association held in Bombay on August 29, the Chairman, Shri H. V. Gandhi, stressed the need for keeping in mind the long-term requirements of the growth of Indian economy and towards this end, called for increase in agricultural production, avoidance of unproductive public expenditure, reduction in personal and corporate taxation and a cut in the size of the Five-Year Plans in the light of available resources.

Referring to General Insurance, Shri Gandhi said that the most important event was the resolution of the Congress Working Committee, recommending the nationalisation of the Industry. The general feeling, he pointed out, was that it was a political decision, hurriedly taken as a sacrificial offering to "democratic socialism", without regard to the real interests of the country. As regards the steps the Trade had taken to meet the situation, he said that a Special Committee had been appointed under the chairmanship of Shri P. U. Patel, to examine all relevant aspects of the question and a Memorandum had been submitted to the Union Deputy Minister, emphasising the great harm that would be caused to the national economy as a result of the proposed step. A brochure on the subject had also been prepared and widely circulated.

The Chairman recalled how the question of nationalisation of General Insurance had cropped up from time to time and also how in the past Shri C. D. Deshmukh and Shri B. R. Bhagat had said that General Insurance was part and parcel of the Private Sector of trade and industry and there was therefore no case for nationalisation. "The reasons advanced by the Government spokesmen still hold good today", he said. He added: "On the contrary, there is a marked improvement in the working of general insurance companies and there is competitive co-existence of both the Public Sector and the Private Sector in consonance with the country's policy of 'mixed economy'". He feared that the disappearance of the Private Sector would remove healthy competition from the field and result in a monolithic State monopoly.

Analysing the finances of general insurance companies in the context of the proposal for nationalisation, Shri Gandhi pointed out how the modest sum of Rs 58 crores, representing the Industry's resources, including paid-up capital and general and other reserves, had already been invested for the benefit of the community. Moreover, the net annual profit from general insurance business amounted barely to Rs 3.25 crores. "Neither investments nor the profits of the private sector companies could therefore add materially to the Government's resources", he said.

Referring to the broad-based ownership of General Insurance, Shri Gandhi said there were as many as 40,000 shareholders, most of them with limited means. Moreover, the companies' investible resources grew at a rate of only about Rs 5 crores and this increase was shared by more than 100 units. He said: "By no stretch of imagination it can therefore be said that there is concentration of economic power in the Industry".

While he did not claim perfection for the Industry, he said that the Industry's record was far better than that of several others and that its defects were highly exaggerated. In any case, he failed to understand how the cause of democratic socialism could be furthered merely by the transfer of business from one sector to the other. He warned that nationalisation was no panacea and it would create more problems that it solved.

In conclusion, Shri Gandhi averred that General Insurance was international in character and it depended largely on reciprocity and reinsurance arrangements with other countries. Besides being closely linked to trade and commerce, it was a highly complex undertaking demanding flexible management and tailor-made service. He declared that as General Insurance owed its success essentially to personalised service, it was totally unsuited for administration by the Government. He said that the high standard of efficiency attained by the business under the stimulus of healthy competition would decline once the management passed into the hands of Government and the incentive of wholesome rivalry was removed.

Wholesale Prices

WHOLESALE PRICES as measured by the official index (with the year ended March 1953 as 100) increased by 2.9 per cent to 220.4 during July, 1967, as compared with 214.1 for June, 1967. In July, 1967,'food articles' rose by 5.7 per cent to 254.3 and 'liquor and tobacco' by 1.0 per cent to 132.4 while 'fuel power light & lubricants' receded by 0.2 per cent to 177.8, 'industrial raw materials' by 0.8 per cent to 231.4 and 'manufactures' by 0.7 per cent to 166.3 when compared with June, 1967.

FOOD ARTICLES

The sub-group index for 'cereals' increased by 7.8 per cent to 224.9 due to a rise in the prices of all the cereals. (At this level, the index for 'cereals' was higher by 33.5 per cent when compared with that of a year ago.) Higher prices of all the pulses raised the sub-group index for 'pulses' by 7.4 per cent to 294.3. The index for 'fruits and vegetables' sub-group advanced by 5.9 per cent to 228.3 due to an increase in the prices of potatoes, onions, and bananas although the prices of cashewnuts depicted a fall. Owing to an increase in the prices of both milk and ghee the index for 'milk and ghee' sub-group increased by 3.3 per cent to 222.7. Lower prices of gingelly oil, groundnut oil and vanaspati brought down the index for 'edible oils' by 4.4 per cent to 303.2; the prices of mustard oil and coconut oil, however, rose. An increase in the prices of fish and eggs raised the sub-group index for 'fish, eggs and meat' sub-group by 4.9 per cent to 235.7. The price of meat, however, moved down. Higher prices of both sugar and gur pushed up the index for 'sugar and gur' sub-group by 10.3 per cent to 375.6. A rise in the prices of tea, coffee, turmeric, betelnuts and cardamoms increased the index of 'other food articles' sub-group by 6.9 per cent to 243.2 while the prices of cloves showed a fall.

TOBACCO

The index for 'tobacco' rose by 1.1 per cent to 127.2 due to an increase in the prices of raw tobacco.

FUEL, POWER, LIGHT AND LUBRICANTS

The index for this group receded by 0.2 per cent to 177.8 owing to a fall in the prices of castor oil.

INDUSTRIAL RAW MATERIALS

The index for 'fibres' sub-group worked out to 175.2 as against 175.4 for the previous month. The items which showed a fall are raw jute and raw wool while, raw silk exhibited a rise. The index for 'oilseeds' sub-group declined by 1.4 per cent to 321.3 compared to 325.8 for the earlier month due to a fall in the prices of groundnuts, castorseed, gingellyseed and cottonseed; the prices of rapeseed and copra, however, registered an increase. Owing to an increase in the price of manganese-ore the index for 'minerals' sub-group rose by 0.3 per cent to 149.3. Among the 'other industrial raw materials' the prices of raw hides, raw skins and lac depicted a fall while tanning materials, and logs and timber registered a rise; consequently the index for this sub-group receded by 0.2 per cent to 174.2.

INTERMEDIATE PRODUCTS

Lower prices of leather, cotton yarn, rayon yarn, copper, tin and lead brought down the index for 'intermediate products' by 1.0 per cent to 217.7. The price of aluminium, however, moved up.

FINISHED PRODUCTS

The sub-group index for 'textiles' receded by 0.9 per cent to 150.7 owing to lower prices of jute manufactures (—3.7 per cent to 127.4). The prices of silk and rayon manufactures (+0.2 per cent to 158.7), however, moved up. Among cotton manufactures, the price of cotton cloth (mills) increased fractionally while that of handloom cloth declined. The sub-group index for 'metal products' worked out to 211.1 as against 210.5 for the earlier month. An increase in the prices of 'general chemicals' pushed up the index for 'chemicals' sub-group by 0.8 per cent to 152.8. The sub-group index for 'machinery and transport equipment' worked out to 154.4 as against 154.5, for the previous month. The prices of leather-belting and vehicles showed a rise while those of bobbins and cycles moved down. The index for 'other finished products' sub-group fell by 0.3 per cent to 135.8, as a result of a decline in the price of bricks and tiles. On the whole the index for 'finished products' receded by 0.5 per cent to 157.9.

INDEX NUMBERS OF WHOLESALE PRICES BY GROUPS AND SUB-GROUPS OF COMMODITIES

(Base: 1952-53=100)

Group and Sub-Group	July 1967 (1)	June 1967 (2)	July 1966 (3)	Increase (+) or decrease (—) of (1) over (2) (4)	Increase (+) or decrease (—) of (1) over (3) (5)
Food Articles	**254.3**	**240.6**	**195.5**	**+5.7**	**+30.1**
Cereals	224.9	208.7	168.5	+7.8	+33.5
Pulses	294.3	274.0	184.9	+7.4	+59.2
Fruits and vegetables	228.3	215.6	206.0	+5.9	+10.8
Milk and ghee	222.7	215.5	182.4	+3.3	+22.1
Edible oils	303.2	317.0	309.3	—4.4	— 2.0
Fish, eggs and meat	235.7	224.7	231.4	+4.9	+ 1.9
Sugar and gur	375.6	340.5	178.2	+10.3	+110.8
Others	243.2	227.6	223.1	+6.9	+ 9.0
Liquor and Tobacco	**132.4**	**131.1**	**129.4**	**+1.0**	**+ 2.3**
Tobacco	127.2	125.8	124.8	+1.1	+ 1.9
Fuel, Power, Light and Lubricants	**177.8**	**178.2**	**167.0**	**—0.2**	**+ 6.5**
Industrial Raw Materials	**231.4**	233.2	233.7	—0.8	— 1.0
Fibres	175.2	175.4	202.5	—0.1	—13.5
Oilseeds	321.3	325.8	304.6	—1.4	+ 5.5
Minerals	149.3	148.9	146.6	+0.3	+ 1.8
Others	174.2	174.6	165.4	—0.2	+ 5.3
Manufactures	**166.3**	**167.4**	**162.0**	**—0.7**	**+ 2.7**
Intermediate Products	**217.7**	**219.9**	**198.3**	**—1.0**	**+ 9.8**
Finished Products	**157.9**	**158.7**	**156.0**	**—0.5**	**+ 1.2**
Textiles:	150.7	152.0	154.0	—0.9	—2.1
Cotton manufactures	156.7	156.7	147.6	...	+ 6.2
Jute manufactures	127.4	132.3	163.9	—3.7	—22.3
Woollen manufactures	204.2	204.2	199.6	...	+ 2.3
Silk and Rayon manufactures	158.7	158.4	157.6	+0.2	+ 0.7
Metal products	211.1	210.5	190.1	+0.3	+11.0
Chemicals	152.8	151.6	140.2	+0.8	+ 9.0
Oilcakes	292.6	297.4	271.3	—1.6	+ 7.9
Machinery and transport equipment	154.4	154.5	149.7	—0.1	+ 3.1
Others	135.8	136.2	132.8	—0.3	+ 2.3
All Commodities	**220.4**	**214.1**	**189.5**	**+2.9**	**+16.3**

Source: Economic Adviser to the Govt. of India.

INDEX NUMBERS OF INDUSTRIAL PRODUCTION

(Base: 1956=100)

	1966					1967				
	January	February	March	April	May	January	February	March	April	May
General Index (crude)	186.5	189.6	196.5	189.6	187.3	199.8	184.5	199.2	184.1	193.5
Mining and quarrying	185.8	194.4	203.7	194.0	192.1	194.2	190.0	206.8	197.0	206.0
Coal	171.2	178.2	187.8	178.0	176.4	181.6	177.3	192.9	183.5	191.7
Manufacturing	180.1	183.5	190.0	183.0	180.3	193.0	176.6	191.5	174.9	184.8
Sugar	404.3	384.3	383.1	287.6	115.1	361.1	258.3	179.9	65.5	14.0
Manufacture of textiles:	116.0	122.2	116.2	125.7	120.2	119.5	112.3	125.3	118.9	126.1
Cotton textiles	109.1	116.5	107.3	120.4	119.6	112.3	102.9	117.7	111.5	119.8
Woollen textiles	89.2	87.4	87.9	92.5	90.1	96.3	92.0	118.7	115.2	N.A.
Silk and synthetic fibres	213.9	208.6	229.5	232.3	212.1	229.1	228.6	219.5	216.8	216.4
Jute textiles	109.2	116.0	113.5	107.0	81.9	107.4	109.2	120.3	110.5	117.1
Paper and paper boards	266.8	275.4	298.3	269.6	274.6	276.8	245.0	289.9	281.5	289.8
Leather and fur products	113.3	127.1	144.9	147.1	131.5	125.5	128.0	144.8	141.0	142.6
Rubber products	194.7	214.3	217.6	193.9	176.0	230.8	239.1	234.0	200.5	213.9
Chemical and chemical products	226.1	224.2	238.3	236.9	238.2	264.8	258.1	294.0	267.9	277.7
Basic industrial chemicals	403.8	385.5	412.9	395.5	412.6	422.5	404.5	448.2	394.5	414.1
Fertilizers	248.0	226.0	267.2	253.2	256.4	368.0	374.8	505.3	450.2	458.6
Petroleum products	277.5	261.2	267.7	267.7	281.2	335.1	291.3	360.1	327.2	350.5
Cement	227.7	212.6	230.2	213.9	207.9	241.2	193.1	238.9	223.6	242.4
Basic metals	323.6	305.1	344.9	299.0	312.2	349.7	313.5	342.8	316.1	322.8
Pig iron	384.3	354.0	379.1	356.4	358.4	380.0	335.3	378.9	355.4	351.2
Finished steel	344.8	313.9	387.2	324.9	324.1	329.1	318.1	356.1	292.2	279.8
Aluminium manufacturing	486.2	424.0	457.4	409.8	536.0	645.5	602.9	677.0	622.2	651.5
Metal products	226.9	223.5	232.1	232.0	203.6	218.0	214.9	212.9	204.5	209.0
Machinery except electrical	471.9	514.2	610.9	526.6	539.7	549.8	544.7	642.6	475.1	524.6
Electrical machinery	294.1	313.0	333.9	327.2	349.7	406.7	381.9	395.7	370.6	379.0
Transport equipment	168.7	203.3	233.1	155.5	167.7	211.4	189.8	221.8	158.2	179.9
Automobiles	151.0	234.5	320.4	155.6	204.5	267.0	252.2	287.3	179.7	223.8
Motor cycles and scooters	543.6	920.1	974.5	1,034.6	723.3	966.7	897.5	1,110.9	1,147.9	897.7
Bicycles (complete)	241.3	248.1	261.1	245.5	229.3	271.6	267.9	299.2	257.5	261.1
Electricity	340.4	326.6	338.7	339.8	347.5	376.7	363.4	369.1	378.4	N.A.

Source: C.S.O.

MONEY SUPPLY WITH THE PUBLIC

(Rs. crores)

Last Friday	Money Supply	Total Currency with Public	Deposit Money with the Public			Total Variations in Money Supply
			Total	Net Demand Deposits of Banks	Other Deposits with Reserve Bank	
1960-61	2,868.61	2,098.05	770.56	757.10	13.46	+199.16
1961-62	3,045.82	2,201.16	844.66	827.43	17.23	+177.21
1962-63	3,309.97	2,379.47	930.51	907.98	22.53	+264.15
1963-64	3,752.12	2,605.56	1,146.56	1,114.66	31.90	+442.15
1964-65	4,080.28	2,769.05	1,311.23	1,289.52	21.70	+328.16
1965-66*	4,529.39	3,034.28	1,495.10	1,478.38	16.72	+449.11
1966-67*	4,953.82	3,194.88	1,758.94	1,711.53	47.42	+424.43
1966* January ...	4,363.05	2,925.95	1,437.10	1,417.75	19.35	+ 62.47
February ...	4,421.16	2,968.06	1,453.10	1,437.31	15.79	+ 58.11
March ...	4,529.39	3,034.28	1,495.10	1,478.38	16.72	+108.23
April ...	4,634.12	3,119.35	1,515.77	1,493.63	22.14	+105.73
May ...	4,615.37	3,108.56	1,506.81	1,487.82	18.99	— 19.48
June ...	4,611.99	3,055.75	1,556.23	1,535.94	20.30	— 3.46
July ...	4,573.72	2,961.22	1,612.51	1,589.05	23.46	— 38.27
August ...	4,524.51	2,920.63	1,603.87	1,584.36	19.51	— 49.21
September ...	4,459.48	2,865.45	1,594.03	1,566.71	27.32	— 65.03
October ...	4,508.53	2,898.93	1,609.59	1,578.66	30.94	+ 49.05
November ...	4,557.25	2,946.16	1,611.09	1,579.98	32.12	+ 48.72
December ...	4,679.93	3,006.85	1,673.08	1,634.41	38.67	+123.06
1967* January ...	4,744.92	3,092.83	1,652.09	1,614.50	37.59	+ 64.99
February ...	4,823.38	3,155.88	1,667.50	1,632.16	35.34	+ 78.46
March ...	4,953.82	3,194.88	1,758.94	1,711.53	47.42	+130.44
April ...	4,968.23	3,234.99	1,733.24	1,696.79	36.46	+ 14.41
May ...	4,961.89	3,243.76	1,718.14	1,687.78	30.35	— 6.34
June ...	4,961.98	3,213.85	1,748.12	1,723.75	24.37	+ 0.09

*Provisional. Source: Reserve Bank of India.

CONSUMER PRICE INDEX NUMBERS FOR WORKING CLASS

(Base: August 1939=100)

	Maharashtra		Delhi	Bengal	UP	Maha-rashtra	Madhya Pradesh	Madras	Punjab	All India†
	Bombay	Bombay June 1934=100	Delhi†	Calcutta	Kanpur	Nagpur	Jabalpur†	Madras 1936=100	Ludhiana†	
1960	401	420	158	397	476	512	166	467	167	171
1961	412	431	167	406	486	495	163	478	172	173
1962*	423	444	172	423	511	502	198	484	182	179
1963*	424	448	176	442	524	522	207	488	190	185
1964*	492	516	196	477	645	651	242	548	211	210
1965*	537	558	212	504	709	721	247	613	226	230
1966*	607	636	248	570	738	751	298	655	263	255
1966* January ...	576	604	232**	517	722	699	261	639	231	239
February ...	580	608	232	537	708	710	266	630	231	240
March ...	589	617	235	557	699	720	270	626	233	240
April ...	598	626	239	553	699	715	282	629	241	242
May ...	598	626	244	566	718	736	282	640	251	250
June ...	602	630	252	577	729	752	296	652	256	255
July ...	615	644	254	577	751	762	322	659	277	259
August ...	623	653	254	577	755	778	317	662	271	262
September ...	618	648	254	585	754	773	314	663	274	264
October ...	623	653	255	593	764	783	316	671	290	265
November ...	627	657	259	596	773	788	322	686	297	268
December ...	632	662	260	604	783	793	322	693	307	272
1967* January ...	640	670	264	593	837	788	322	692	317	272
February ...	645	675	267	585	845	783	322	692	328	273
March ...	649	679	270	593	863	788	340	685	330	276
April ...	654	684	272	608	847	788	349	680	321	279
May ...	672	702	274	612	870	814	361	685	313	284
June ...	680	710	279	...	900	846	361	696	318	291
July ...	685	715	286	...	...	856	...	703	...	...

*Provisional. †Base 1944=100. **Based on the revised series from January 1966 onwards.

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Trade Drive or Concessions?

LONDON:

VIEWED FROM Dusseldorf, Stockholm or London, the question of tariff preferences or other trade concessions has seemed to me rather less important than it did in the discussions I had in Geneva or Brussels. Perhaps it is even true that it is not generally realized how large a part of imports which move or could move into the countries of western Europe do not attract in a rigorous measure or attract at all trade or tariff restrictions.

The case of Sweden is instructive in this regard. Here is a country following a confirmed and consistent liberal trade policy remarkable particularly for low tariffs. This policy of free trade is founded in the objective circumstances of Sweden's economy. As has been pointed out by Swedish economists, a small country such as Sweden (having a population of 7.8 million people), which has comparatively large resources of some raw materials while lacking in others no less essential, has necessarily to seek to make the most of the possibilities of the international division of labour. The trend of economic development—especially industrialisation—in Sweden consequently has been in the direction of this country concentrating on those branches of industry which are supported by the availabilities of related raw materials within its borders while avoiding any excessive diversification in pursuit of a high degree of national self-sufficiency. The result is that while about a fifth of Sweden's GNP is exported, its imports are even larger. Sweden, however, is not disturbed by this excess of imports over exports since, while the consequential deficit in the balance of payments is taken care of by revenues from shipping, it is widely appreciated in Sweden that the large imports are helpful in raising the standard of living of its people.

Sweden therefore has never had any inhibitions or difficulties in associating itself fully with international movements towards the removal of trade barriers or co-operating with organizations such as the GATT. The failure of its attempts in 1957 and 1958 to participate in or at least achieve a form of association with the Six was naturally a bitter disappointment. Subsequently, with the formation of the EFTA, Sweden was able to play an active part in at least a sub-regional grouping for the integration of trade. The experience of the EFTA has been enormously satisfying. Sweden's trade with the other members of the EFTA has been rising faster than its total trade and within the EFTA itself, Sweden's trade with its Scandinavian neighbours is intensifying. The dismantling of tariffs within the EFTA, which was begun in 1960, had been completed by the end of 1966 and the full effect of free trade will therefore be seen only in the coming years.

Meanwhile, the progress of the EFTA, given the basic Swedish philosophy of free trade, has only whetted that country's appetite for a wider European integration of trade. The continuance of efforts at entry into the Common Market has therefore been always of live interest for Sweden's industry or government. It follows that Sweden enthusiastically welcomed the decision of the Wilson government in Britain to apply for the resumption of negotiations with the European Economic Commission in Brussels and, along with Norway and Denmark, renewed its application in July this year. Sweden seems to view this matter with a certain sense of urgency. Western Europe absorbs about 75 per cent of her exports and supplies some 71 per cent of her imports. As I had mentioned earlier, the EFTA part of this trade is increasing; but the relative share of the Common Market countries has been diminishing. It is rather noteworthy that Sweden's largest trading partner, on both sides of commerce, is West Germany; even the United Kingdom, Sweden's principal partner in the EFTA, stands only second. With the EEC scheduled

to complete the dismantling of its internal tariffs on manufactures by July next year, Sweden is naturally keen on the issue of entry being pressed.

There is no doubt that the whole of Sweden is united on the desirability of that country joining the Common Market. It is of course realised that Sweden could best do so only in the company of its partners in the EFTA, particularly its Scandinavian neighbours, Norway and Denmark, and it is also recognised that every difficulty that is raised in the way of the British effort to reopen negotiations at Brussels would inevitably delay the whole process. But it is emphasized in Stockholm that Sweden itself foresees no serious economic or trade problems in negotiating entry; here, the case of Denmark, for instance, may be slightly different since there is the difficulty that France may not be too keen on encouraging Danish competition in agricultural products. The political aspect, however, is somewhat more complicated and here the nuances of differences in attitudes between government and industry in Sweden are not too difficult to discover. Leaders of banking, industry or commerce whom I met in Stockholm made no secret of their view that it would be a mistake for Sweden to dwell unduly on its political neutrality in its dialogue with the EEC. As one of them put it, neutrality in war—which is the accepted national policy—does not necessarily imply that Sweden must or can be non-allied in peace on the whole. I gathered the impression that Sweden's business world would not appreciate the Swedish government attempting to make too many political reservations in its negotiations with the EEC, if and when they take place. This is apart from the consensus which certainly exists on the necessity of provisions for the continuance of special economic relations with Finland, an associate member of the EFTA, which may not be in a position to enter into any arrangement with the EEC as such. Since even the most optimistic view in Sweden or elsewhere is that things are unlikely to take a definite shape in Brussels until the years have moved into the seventies, there is undoubtedly enough time for these differences in Swedish thinking to be sorted out. It is however clear that the insistence of Swedish business opinion on that country actively working for a wider European economic integration, now qualified by the functioning of the two separate trading blocs of the Common Market and the EFTA, will continue to exert pressure on politics and politicians in Sweden.

This takes me back to my earlier point about Sweden's big and basic commitment to free trade and the opportunities this gives to countries such as ours to free ourselves from our obsession with trade or tariff barriers in exploring the scope for exporting to the industrialised nations. The truth is that what would help more than trade or tariff concessions on their part is a trade drive on ours. Of Sweden it may be said perhaps that its small population offers but a relatively limited market. But, apart from the fact that the per capita income in Sweden is second only to that of the United States, the state in Sweden is distributing wealth and income widely through welfare-oriented social policies. This means that there is a very broad stream of purchasing power flowing through the community, thereby helping in the raising and maintenance of high consumption standards. It ought therefore to be worth the while of any country to cultivate the Swedish market; and India, which is seeking to diversify not only the contents of its export trade, but also its directions, may well benefit considerably from paying more attention to possibilities of increased commerce with Sweden.

That much attention will be needed should however be emphasized. Because of the high standard of living of the Swedish people, the Swedish market is a very sophisticated market and because of Sweden's policy of free trade, it is also a fiercely competitive one. More of Indian goods could therefore sell in Sweden only on the strength of a much more effective combination of quality, price and positive merchandising. One important requirement would be for our exporters to establish and foster firm contacts with reputable distributing agents on a basis of mutual trust. Since there is a shortage of manpower and labour costs are high, a distributor of any standing will be inclined to interest himself in a product only if the volume of the business offered promises to be both steady and sufficiently large; this would often mean the appointment of a sole agent. Certain attempts at securing a footing for some of our products, I learn, failed in the past because the people on our side who were concerned in this effort did not pay sufficient heed to these details. I was also told that further difficulties were caused because the prospective agents were asked to accept conditions of business which a distributor was not normally expected to.

It seems to me that these matters need looking into if our country is to export more not only to Sweden but also to other difficult but potentially rewarding markets. There is the importance, too, of objective market studies and investigations. Government and business in our country ought to get over the notion that other countries owe it to us to buy what we have to sell. It is really up to us to produce specifically for export without depending wholly on the general advantage our country has in terms of labour costs or certain raw materials. While it is true that our domestic prices per se compare favourably with prices abroad for a number of products we may sell or wish to sell abroad, this factor alone is or will be of no practical use to us if our goods are not tailored to consumer preferences in sophisticated markets or the changing patterns of consumption in dynamic economies. I may illustrate this by mentioning the fact that proposals to market shirts made in our country have proved abortive in Sweden because, for one thing, would-be exporters are unable to arrange for machine-folding which would ensure uniformity so essential to proper handling and presentation in retailing. At the same time, a considerable demand for inexpensive cotton overalls (to be worn at factory or for home gardening and thrown away after short periods) or simple gardening tools, which our country's export trade should be able to serve, does not seem to have attracted our attention. Incidentally, an attempt, I understand, is being made in Sweden to explore possibilities of importing bicycles. It is becoming a men's fashion in Sweden to ride a bicycle to work or for pleasure and provided the braking system could be modified and certain parts such as the saddle could be made to specifications favoured in Sweden. the Indian bicycle industry may be able to cultivate a good export business with Sweden.

That an Indian export drive would be welcomed in Sweden is obvious enough since Swedish opinion recognises the fact that our adverse balance of trade with that country is restrictive of the growth of Indo-Swedish commerce. Again, in the course of my discussions in Stockholm, I was told again and again that a good part of our exports to Sweden is finding its way there through third-party countries and that one of the ways of checking this distortion of trade, which is harming our balance of trade, would be to facilitate in every way direct trading between the two countries themselves. It is in this connection, perhaps, that the activities of AB SUKAB, a non-profit. service organization of the Swedish business community, have some of their very considerable utility.

SUKAB was founded in 1940 with the specific object of arranging barters and similar transactions, consistent with the broader aims of Swedish foreign trade policies and in situations where restrictive measures of one kind or another were imposed in other countries to curtail imports for conserving foreign exchange. It is interesting to note that the Swedish government has entrusted SUKAB with the administration of its bilateral trade agreement with the German Democratic Republic (which is not recognised on the diplomatic plane by Sweden). So far as our country is concerned, SUKAB, over a period of some five years, has operated a succession of link-deals and specific commodity deals jointly with our government's State Trading Corporation. Under these STC/SUKAB agreements, payments for the goods is made into a special Account maintained by the Bank of India, Bombay, and the Skandinaviska Banken, Stockholm. The Bank of India, of course, is well known to my readers. Of the latter bank, it may perhaps be mentioned here for general information that it is the second largest commercial bank in Sweden, with 288 branches across the country and a leading position in foreign business served through a network of international correspondent banks embracing over 1,500 banking offices around the world.

The Managing Director of SUKAB, Mr Tom Bojsen is keen on emphasising the catalytic nature of his organisation's work. To him its promotional aspect is far more important than its administrative one and he firmly believes that the main purpose of SUKAB should be to assist in the expansion of the normal trade channels between Sweden and our country. He agrees that business visits by our manufacturers and exporters to Sweden are very useful and that they are perhaps fewer than they should be. At the same time, these visits according to him, should not be restricted to the purpose of making merely a few ad hoc sales but should be utilised for organizing more permanent business connections through the selection and appointment of sole agents who will have some guarantee that the business forthcoming will be on a large enough scale to justify the high establishment costs. SUKAB, I understand, is planning to take out a Swedish purchase mission to our country. Such a special mission is considered desirable since, to quote Mr Bojsen, "Swedish importers and agents, in making trips to the East, generally concentrate on examining supply possibilities from countries such as Japan, Korea and Thailand, who from a Swedish point of view appear to be more on their toes as far as prices, presentation of goods and follow-up are concerned."

—THE EDITOR

Plantations: Towards Growing Importance

AS A result of a phenomenal increase in the output of plantation products in the past two decades, Kerala, Madras and Mysore states are now accounting for a turnover in tea, coffee, rubber, cashewnut, pepper, cardamom and other items which are much larger in value than that obtained out of tea from north-east India. The President of the United Planters' Association of Southern India (UPASI) disclosed at the 74th conference of the organisation, held recently at Coonoor, that the output of tea had risen to 95.4 million kg. in 1966 from only 43.6 million kg. in 1947, of coffee to an all-time record of 76,000 tonnes from 16,024 tonnes in the same period and of rubber to 53,196 tonnes from 16,712 tonnes. The production of pepper, cashew and cardamom has not recorded such spectacular growth but with the new efforts made to increase the area under cashew and to overcome the pest diseases that afflict cardamom, the plantation industries will be growing considerably in stature in the coming years. The improvement in production has come about mainly through higher productivity and some tea estates in the Nilgiris can boast of the highest yields in the world. The techniques of cultivation are being improved while changes in the methods of plucking and application of manures have been helpful in raising substantially the outturn of tea from the same acreage. In fact, it has even been suggested by the UPASI president that there should be no great hurry for replanting overaged tea bushes as the life of the existing plants can be considerably prolonged with careful nursing and better manuring. The coffee industry has been singularly successful in the past season and has achieved an increase in its output by 13,000 tonnes to 76,000 tonnes. It is anticipated that a fresh record will be established in 1968-69 with the yield probably touching 80,000 tonnes. Rubber growers are sure of attaining a target of 60,000 tonnes.

The pace of growth in the past few years has been so fast that it would be difficult to establish an accelerated rate of growth if the profitability of working of the bigger plantations was not made more attractive. It has been emphasised by Mr M. R. M. Punja, president of the UPASI, that there is not much scope for extending the acreage under coffee and rubber and a higher level of production can be achieved only through intensive methods of cultivation and a vigorous programme of replantation. Even if the improvement in productivity recorded by the bigger estates is achieved by the smaller plantations, the same acreage can

bring about a near doubling of the yields in the next decade.

In order to enable the plantation industries to fulfil the tasks allotted to them, it will be necessary for the central and state governments to pursue helpful policies and not be unduly anxious to gather fresh revenues by raising taxation. The tea industry particularly will experience great difficulty in retaining its share of world exports, not to speak of increasing it, as it is facing formidable competition from Ceylon and Kenya. Ceylon is in the awkward position of being compelled to export surpluses that increase with a higher level of production, as it has a very small home market. A decline in purchases by Britain and other countries in the latter half of 1966 led to a slump in prices in the international markets and this country could not derive any advantage out of devaluation. Only latterly, there has been an improvement in auction prices and the value of our exports in 1967-68 may probably make better showing. The necessity for arriving at some clear-cut understanding between the world's two biggest producers cannot be overlooked. Both India and Ceylon should evolve some arrangement which will ensure satisfactory prices for this important tropical product. At the same time, any restrictive approach should not encourage producers such as Kenya, which are already having the benefit of a higher level of productivity brought about by a smaller number of persons employed per acre and lower levels of taxation. It has, therefore, been rightly urged that a long-term policy should be evolved by the government which will enable the tea estates to embark on development schemes without fear and that there should be a better appreciation of the efforts aimed at improving productivity. There will necessarily have to be a scheme for securing drawback of excise duties in respect of tea exports. This is now being denied on the plea that there will be scope for evading payment of excise duties even on tea consumed within the country.

The policy of discouraging internal consumption through the levy of heavy excise duties has also been criticised as it is felt that any compulsion to export increases in output will defeat the efforts of the industry to earn sizable sums in foreign exchange.

In the absence of any increase in world demand, the industry should be in a position to market its output within the country without difficulty. The coffee producers particularly are worried about the policy pursued by the government as the levy of excise duties on an unimaginative basis on different grades of coffee might create problems of marketing a growing output. Out of the record output of 76,000 tonnes in 1966-67 as much as 36,000 tonnes have been earmarked for export. As shipments to quota countries are governed by the terms of the international agreement and those to the non-quota countries can be increased only over a period, it is pointed out that there will be no restriction on sales at the internal auctions. The industry cannot, however, complain about the prevailing trading conditions and serious difficulties will arise only if there was an increase in production to 90,000 tonnes in the next two or three years. It is wise to recognise that exports cannot be improved to over 35,000 tonnes without depressing the overseas market. The rubber industry has, of course, no problem of marketing as internal production is considerably short of demand and only a careful policy is needed for regulating imports. Much more needs to be done for increasing production of cashewnuts while pepper growers are encountering competition from Indonesia and it has been demanded that there should be a reduction in the export duty. Whatever might be the policies pursued by the central and state governments in the coming years, it must be borne in mind at every stage that the plantation economy will have to grow in importance with an increase in the standard of living of the masses and a difficult situation will arise in the 'eighties if there were no co-ordinated measures to increase the yield per hectare in order to raise much more from the same acreage.

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Why Was Mr. Chagla in a Hurry?

OPINIONS MAY differ as to whether the Minister for External Affairs, Mr M. C. Chagla, quit the union cabinet last week on the language issue, as his letter of resignation to the Prime Minister purports, or owing to some other reasons, including the differences over the foreign policy which is reported to have come in for severe criticism at the hands of some of Mr Chagla's colleagues (especially after the recent turn of events in the Arab-Israeli conflict that have made our stand on West Asia untenable) the fact remains that his resignation has fanned the fire of the language controversy. Mr Chagla's main objection to the language policy is not that it aims at the replacement of English by Hindi as the link language for the country; in fact, he agrees with this ultimate objective. Mr Chagla also does not disagree that English will have to be replaced by the regional languages as the media of instruction even at the university stage. His primary objection is that the pace of change-over from English to regional languages as the media of teaching at the university level should not be forced through. The time-limit of five years proposed for this change-over at the undergraduate level and 10 years at the other stages of university education, Mr Chagla feels, is "hopelessly unpractical and unrealistic"; the period is not sufficient even to translate textbooks in regional languages on a crash programme, not to speak of turning out original works. Mr Chagla fears that rushing through the switch-over will not only precipitately lower the standards of education but will also endanger our unity. The mobility of teachers as well as students from one region to another will no longer be there. The acquisition of scientific knowledge in the present age of technology will be seriously retarded. Problems will arise in inter-state communication as well as at the judicial level.

There is no denying the fact that there is a good deal of sense in what Mr Chagla says. But the question arises: Has the union government decided to take the plunge and force the change-over in the short period proposed? Mr Chagla would make us believe that the decision has been taken, at least informally. The denial of the union Education Minister, Dr Triguna Sen, however, is a pointer to the contrary. So are the observations of the Prime Minister as well as those of the Deputy Prime Minister. No doubt the Prime Minister has emphasised the need for having "some framework of time" for the change-over "if we are to avoid drifting aimlessly" and the Education Minister has "pleaded guilty" of trying to introduce an element of planning and orderly progress in the movement of change-over that has been proceeding in a "desultory" and "chaotic" fashion, but at the same time they have stressed the need for having a cautious approach towards the time-limit. The Prime Minister, for instance, feels that the change-over should be effected in such a manner that "no one in India should have fear that any government policy was going to create discrimination or was going to make life more difficult for people or would reduce the opportunities before them". Dr Sen has observed: "The programme of change-over to regional languages as media of education will have to vary from university to university, from subject to subject and even from institution to institution, in the same university. The criteria in each case should be that the change-over helps at every stage, to raise standards". The first consideration for the change-over, in Dr Sen's opinion, thus is the "need for an elastic and gradual approach".

The above evidence as well as the fact that the discussions on the language issue are still going on should dispel all fears that the change-over to regional languages will be forced through. Perhaps Mr Chagla has jumped to conclusion too soon. It is, indeed, regrettable that the language controversy has been raked up at the present juncture when the country is not only passing through an acute economic crisis but is also faced with a threat to its security from the powerful neighbour across the Himalayas. Further, the present political set-up in the country is hardly conducive to cool and calm thinking on the issue which has got embroiled in deep emotions.

The three-language formula apparently best suits the country; it can preserve unity amidst diversity. Sincere efforts ought to be made to implement it throughout the country. Equally important, however, is the task of raising the standards of our education which have gone down appallingly during the last 15 years not only because of the stress laid on rapid spread of education but also due to the import of politics into the matter. The change-over to regional languages as media of instruction at the university stage has apparently to be a slow process. The time-limit of five to 10 years is hardly appropriate. No sanctity can be attached to this period if the improvement in the standards of education is to be considered as the first task. We have to shed the misconceived notions of compressing every developmental effort into a short span of time. Further the change-over from English to regional languages at the university stage ought to be brought about in a co-ordinated manner, first in humanities in the case of which it can be effected with much less difficulty than in the case of science subjects. The lack of co-ordination in the change-over even in the media of instruction at the secondary stage of education has created numerous problems for the students going in for higher education; the employment prospects of not a few have been jeopardised by this. Should this mistake be repeated? Obviously not. But this is also not the time to draw out daggers and work up an emotional atmosphere wherein it becomes impossible for all the concerned parties to take an objective view of things. Mr Chagla's exit has not helped the cause for which he was in such a hurry to become a martyr. If anything, it has made cool and impartial evaluation of the language problem difficult, if not impossible.

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Agriculture and Industry Must Move in Unison

THE FAILURE of the monsoons during the last two years and the consequent steep fall in agricultural production have brought home the truth that ours is basically an agricultural economy despite the rapid strides that our industry has taken during the past two decades. The pace of industrial growth has also slackened due to the shortfall in agricultural production and once again the inter-dependence of the agricultural and the industrial sectors of the economy has been put into sharp focus. At a two-day seminar on "Economic Growth through Agricultural and Industrial Inter-dependence," held in New Delhi on September 5-6, 1967, under the auspices of the Federation of Indian Chambers of Commerce and Industry (FICCI), this aspect of our economic ailment received wide attention. Mr L. N. Birla, President of the FICCI, set the tone of the seminar through his inaugural address, relevant portions from which have been reproduced in this issue on pages 512-14. He put the problem adroitly and succinctly by saying that our agriculture had to be forced out of the "age-old rut" through the co-operation of industry. The tired soil in this country has not received the nourishment that it needs and here industrial failure in the sphere of fertiliser production has much to do. The industry has also to provide adequate quantities of pesticides so that the ravages of insects can be eliminated. It is again industry which has to assist in the establishment of storage facilities and to provide capital for a shift from co-operative farming to corporate farming. All these suggestions by Mr Birla were endorsed by most of the participants who invariably emphasised the point that our agriculture cannot attain the expected breakthrough without substantial assistance from industry.

Mr Birla also urged that the zonal system in food distribution should be ended as early as possible because it had caused unnecessary hardships in some parts of the country. The Minister for Food and Agriculture, Mr Jagjivan Ram, agreed with Mr Birla that restrictions on food movements within the country were not desirable, but in his view such measures became necessary in conditions of scarcity. This is a weak defence for a system which smacks of selfishness by some of the regions in the country and no amount of explanation can make these restrictions valid. The Food Minister, however, sought solace in the fact that the current year's agricultural crops were likely to be substantially better than those of the preceding two years and that in food production particularly an all-time record at 95 million tonnes might be registered, necessitating the doing away with all the present controls and restrictions on movement of foodgrains from one zone to another.

The failure in agriculture during the past two years is not entirely due to natural calamities. The government must also share a part of the blame. The fertilizer policy of the government, for instance, has been disappointing in the sense that we are as yet nowhere near the target of fertilizer production fixed for the third five-year Plan. We still do not have sufficient capacity to produce the volume of pesticides needed for our agriculture. We have as yet to set up adequate capacity to save food from being wasted at various levels. Mr Jagjivan Ram's suggestion for the manufacture of small containers for purposes of storage of food needs consideration. The cost of these containers may be a hindrance because the capital investment needed for this purpose is likely to be beyond the capacity of the average farmer. In view of the extensive wastage of food at the producers' storing level, there is urgent need for evolving a scheme whereby this loss may be minimised. The proposal for the manufacture of small containers is worth a trial, though the government will have to provide some assistance in this regard; otherwise it is likely to remain a paper plan.

Some of the participants at the seminar rightly pointed out that in our present difficult food situation, we are likely to neglect the cash crops such as jute, cotton and sugarcane. Also because of the sharp increase in food prices, the farmer will be tempted to shift from cash crops to cereals. This will need to be avoided because it will have an unhealthy impact on our balance of payments position. If we become self-sufficient in foodgrains but at the same time are forced to spend increased volumes of foreign exchange on the import of cotton, jute and other agricultural raw materials, it will not assist the economy in hastening an all-round expansion. Already there are reports that a part of the area under sugarcane has been diverted to food crops with the result that we might have a reduced crop of cane this year. Such a tendency can complicate matters further. A happy balance must be struck between the promotion of both the food and the non-food crops.

The FICCI deserves to be congratulated for having organised the seminar at this time because it has given an opportunity both to the government and the industry to highlight the inter-dependence of the two sectors and to mobilise the industrial sector for furthering the means of increased agricultural production. If some of the proposals put forward at the seminar result in concrete action both at the official and the non-official levels, it will yield rich dividends for the economy. The moral of the seminar that industry and agriculture have to move in unison and that growth in one must hasten expansion in the other deserves the widest possible attention.

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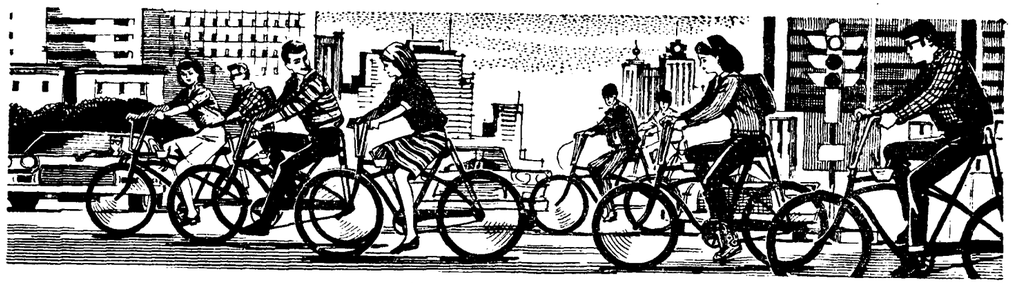

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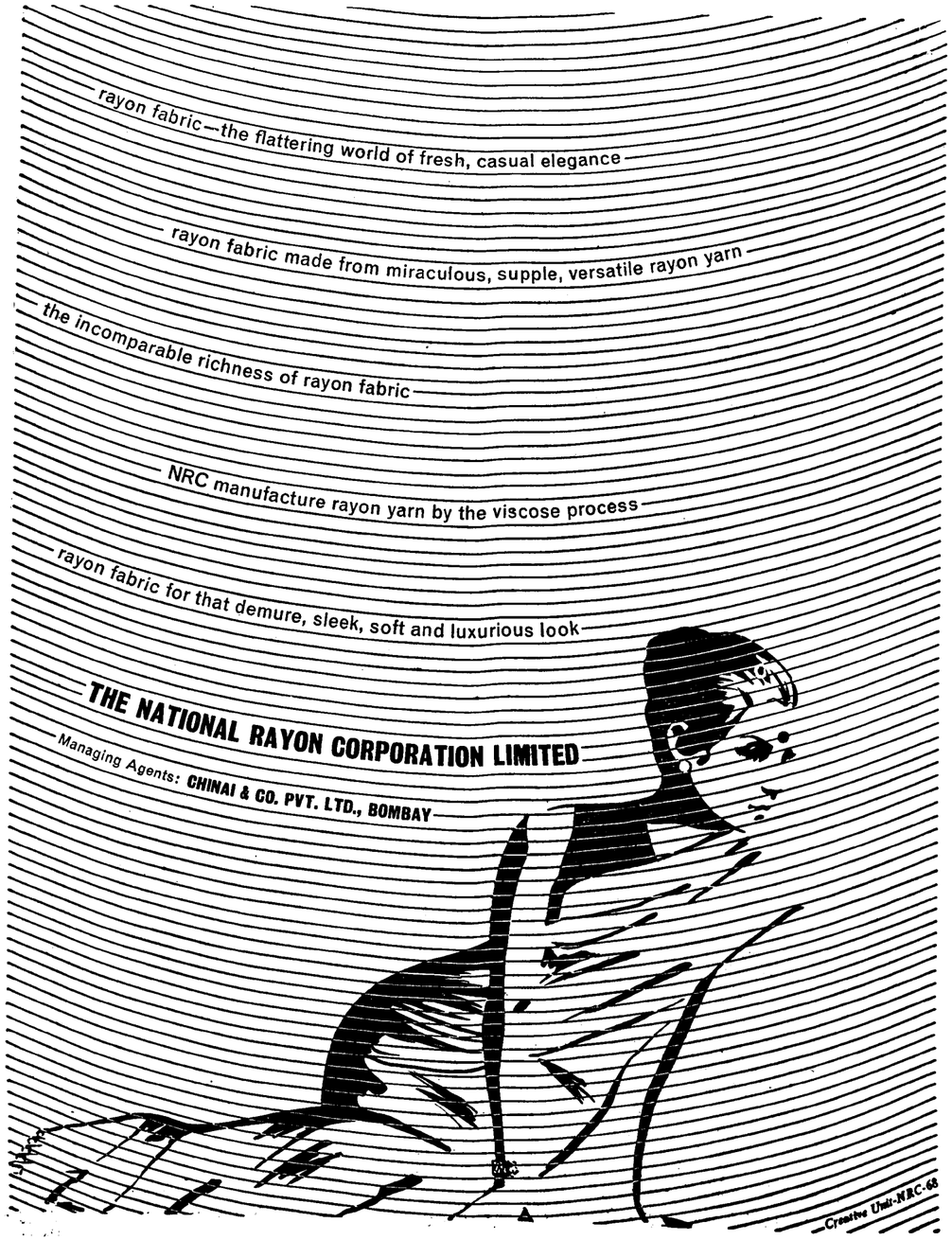
DUNLOP INDIA



Search for Economic Stability--I

MANUBHAI SHAH

WHEN WE review the economic situation in Asia, particularly the developments in the last decade, the specific problems of a private enterprise economy as represented by Japan, of planned development in a mixed economy as in India and of industrialization in a centrally planned economy as in China come into sharp focus. Also, the dominant issues arising from instability in export earnings in the primary exporting countries of Asia and the Far East come to light.

An outstanding feature of the last 17 years is the growing urge in the ECAFE countries to develop their resources and to raise the level of living of the people. A significant indication of this urge is to be found in the development plans being implemented by the different countries of this region. The impulse for development is spreading as is shown by the plans launched by India, Pakistan, Malaysia, Thailand and the Philippines. These blueprints embody essentially the aspiration of the peoples of this area to march forward from poverty to improved levels of living. It is indeed gratifying to note that within 20 years of the end of World War II, it was possible for countries of this region to increase per capita availability of cereals. During the last decade, there were significant increases in production of cereals, particularly rice, and certain cash crops such as cotton and copra, though it should not be forgotten that the gains in the availability of basic food supplies per head in Asia were achieved only by resorting to increased imports. The table below showing the supply of cereals in selected countries of the region would illustrate the point.

Again, production of cereals did not keep pace with growth in population. In the ECAFE region as a whole, though agricultural production during the past decade has increased, per capita basic production has remained less than before World War II. The increase in the production of cereals during the decade has lagged markedly behind population growth in Indonesia, Pakistan and the Philippines. In Ceylon and India, the margin of percentage increase in production of cereals over population growth has been very small. China (Taiwan), the Republic of Korea, Malaysia and above all, Japan and Thailand in contrast have succeeded in increasing the production of cereals considerably faster than their growth in population.

Food imports of the ECAFE region have been fluctuating from year to year, particularly in countries such as Ceylon, India, Indonesia, Malaysia and the Philippines. Reflecting the recent stagnation in food production in these countries, which was aggravated by adverse natural conditions, food imports of Asia have shown an increasing trend since 1963. The food imports of Asia rose by 22 per cent from $1488 million in 1962 to $1821 million in 1963. In 1964, they rose by another six per cent.

Countrywise, India's imports in 1965 were larger by 71 per cent than in the previous year and in the first quarter of 1966 they further increased by 16 per cent over the level of the food imports of the same period in 1965. Ceylon's food imports rose by 60 per cent in 1964, but dropped by 41 per cent in 1965. In the first half of 1966, they rose by 36 per cent over the imports in the first half of 1965. Japan's imports of food also rose though at a lower rate. As for the percentage share of food imports in the total trade of individual countries, it increased for Ceylon, China (Taiwan), India, the Republic of Korea, Malaysia, the Philippines and the Republic of Vietnam.

Rice Production and Imports

In the case of rice, the main staple food of this region, the demand and supply situation in 1966 in the ECAFE countries was far from satisfactory. The production of rice fell below the level of the previous year and as a result, the region became a net importer of rice .

Regarding 1966-67 rice crop, it is estimated that there will be a slight recovery in the world's and in the developing ECAFE region's rice harvest in view of better weather conditions. However, it is also anticipated that the total demand in 1967 for rice will be greater, so that there will be a general shortage of rice. It is considered that the biggest factor in a shortage of rice in the world market is a drastic reduction of rice production in the developing ECAFE region which produces more than 70 per cent of the total world production. The Republic of Vietnam, one of the major exporters of rice before 1963, turned to be a large net importer in 1965, and in addition, Indonesia returned to the rice market with a large requirement. Exports from Burma, the second largest supplier, have continued to fall due to its stagnant production in recent years. Moreover, a demand for rice prevails, particularly in the developing countries; for as incomes increase, the people tend to

SUPPLY OF CEREALS IN SELECTED ASIAN COUNTRIES

(In '000 tonnes)

Country	1961-62		1962-63		1963-64		1964-65	
	Production	Import	Production	Import	Production	Import	Production	Import
Afghanistan	...	32	3676	7	3357	80	3665	76
Burma	6827	41	7805	43	7957	42	8313	...
Ceylon	929	712	1027	658	1058	601	1086	1098
China (Taiwan)	2589	348	2717	288	2682	393	2866	352
India	85476	3602	84904	3685	90078	4550	92728	6367
Indonesia	14685	1218	16589	1151	14155	1163	...	...
Japan	20753	4964	21032	5575	18896	7111	19498	8818
Korea, Republic of	4897	533	4268	518	4192	1319	5182	622
Malaysia	999	1125	1049	1170	910	1384	1120	1091
Pakistan	21215	1212	20311	765	23214	1650	23370	1775
Philippines	5176	547	5240	352	5136	695	5305	732
Thailand	8775	36	9944	37	11026	41	10575	39
Vietnam, Republic of	4639	90	5243	146	5364	163	5231	113

Note: Production figures refer to crop years.
Import figures are for calendar years, 1961 to 1964.

Source: FAO Yearbook.

change their main diet from roots or coarse grains to rice or wheat. It is ironic that in the largest rice producing region in the world, only a few countries such as Thailand, Burma, Cambodia, China (Taiwan), the Republic of Korea and Pakistan are self-sufficient, and the rest of them are consistently in need of rice imports from rice exporting countries in the region or from outside the region—mainly from the USA, the UAR and China (Mainland).

RICE PRODUCTION AND IMPORTS IN THE WORLD AS COMPARED TO THE DEVELOPING ECAFE REGION

('000 tonnes)

		1961/62-1963-64 (average)	1964/65	1965/66	Percentage changes in 1965/66 over 1964/65
World (total)	Production	106,556	106,753	110,840	3.8
	Import	5,993	7,222	7,269	0.7
Developing	Production	77,625	84,044	76,949	—8.4
ECAFE region	Import	3,537	3,996	3,564	0.2

Note : Production refers to crop year. Import refers to calendar year of the beginning of split year.

Impacts on Economic Growth

This shortage of rice has had a decisively adverse effect on the economies of the various countries in the region, causing inflationary trends and pressing hard on the scarce foreign reserves through higher import prices of rice and higher foreign exchange expenditure on increasing rice imports. Although the rice exporting countries gained from the windfall profit caused by a rise in the international price of rice, the rising price of domestic rice resulting from crucial shortages gave additional force to the inflationary tendencies in their domestic economies. Thus, food imports necessarily and indirectly compete for foreign exchange with capital goods needed so badly for implementing development programmes; and foreign exchange resources being limited, the imports of foodstuffs have considerably strained available resources for further economic development. It may be noted that during the period 1960-65, not only did the economic growth of the developing ECAFE region (i.e., countries of ECAFE region other than Japan) lag behind that of even Latin America and West Asia, but also its rate of growth tended to decline, as evidenced by the fact that its average annual growth rate of 3.8 per cent in 1960-65 was below that in 1955-60. It was much lower than the overall growth rate of 5.9 per cent for the whole ECAFE region. The table alongside showing the gross domestic product (at constant prices) in respect of selected ECAFE countries brings out this point clearly.

The economies of the countries of this region, except a few of them, rest principally on a few agricultural commodities such as rice, rubber, copra, cotton, jute and tea. These between themselves account for nearly half of their national product and bulk of their foreign exchange earnings. The prices of these commodities in turn are subject to wide fluctuations depending on availability and demand, and this factor renders their economies extremely vulnerable and unstable. It is evident that population and purchasing power are increasing at a faster rate than domestic food production, with the result that unless this imbalance is set right and food production is greatly accelerated, economic development of the region will be seriously retarded. The strains on the economies increased considerably in 1966 and, therefore, simultaneously industrial production also gradually began to fall. The outlook for 1967 is more promising though it does not appear to be very much brighter; according to present indications the economies of these countries are likely to be under increased strain in 1967. This is true for the whole of Asia. The rice crop for 1966 and early 1967 was delayed on account of the late start of the monsoon and the output for 1967, though estimated to be better, may not be higher than in 1962 which was a bumper year. The export price of rice is satisfactory at an average £37.6 per long ton. In the case of rubber, some further increase in production was anticipated, but the manufacturing capacity of synthetic rubber has been also growing rapidly and even if the current demand for natural rubber may not increase further, international prices of rubber are declining in line with the prices of synthetic rubber. However, in India, the growers of natural rubber are experiencing a desirable boom which will help expand the production of natural rubber. As regards tea, no sizeable increase in production or export could be foreseen; on the other hand, increases in internal consumption of tea particularly in India might decrease export availability. To some extent this applies also to jute. Asian countries shall have to gear themselves up for stepping up production of rice, wheat, oilseeds, tea and jute. Copra, sugar and cotton are exceptions to this general tendency of stagnant production but their prices are on the decline.

Stresses and Strains

It is expected that 1967 might be a better year for most countries of Asia. While increasing domestic consumption of raw materials, particularly for indigenous industrial production is a welcome development, the simultaneous decrease in foreign exchange earnings creates its own problems. Of course, these pressures are a concomitant of any major development and expansionist effort. The programmes of investment designed to lift an economy from a low level normally generate incomes ahead of the availability of goods and services; this in turn tends to raise prices and causes a strain on the balance of payments. While these stresses and strains may be inevitable during short periods and at various points, it is essential to reduce them by appropriate measures to keep the growing economy on an even keel.

Industrial production is important in itself and its pace cannot be unduly slowed; but industrial production is primarily dependent on agricultural production. If the handicaps at present imposed on general economic progress by domestic food shortages and limited foreign exchange earnings are to be relieved, the rate of increase in the production of both food and cash crops is essential for all the countries of this region. The one cardinal lesson we in the region will have to remember is that agricultural production cannot be relegated to the second place. The central aim of all developmental planning must be to provide for balanced growth. Apart from the dependence of the one on the other, 70 per cent of the people of Asia depend on agriculture and any improvement in this sector necessarily benefits the largest number of people. In the fourth Plan, we in this country have to concentrate almost exclusively on intensive agricultural development.

SELECTED ECAFE COUNTRIES: GROSS NATIONAL PRODUCT (GNP) AT CONSTANT PRICES

Country	Average annual rate of growth			
	Aggregate product		Per capita product	
	1955-1960	1960-1965	1955-1960	1960-1965
Burma	5.7	2.3	3.7	0.2
Cambodia	8.2	5.0	5.9	2.7
Ceylon	3.1	2.2	0.5	—0.3
India	3.9	2.6	1.8	0.2
Indonesia	1.6	2.0	—0.5	—0.3
Iran	6.4	4.9	4.4	1.8
Philippines	4.5	4.6	1.4	1.2
Developing ECAFE Countries	**4.0**	**3.8**	**1.8**	**1.5**
Australia	3.9	5.0	1.6	2.9
Japan	9.7	9.5	8.7	8.4
New Zealand	3.9	4.7	1.7	2.5
All ECAFE countries	**5.7**	**5.9**	**3.4**	**3.5**

Emphasis on Industry

In drawing up our plans in this country, naturally, a great deal of emphasis had been laid on industrial development, without overlooking the basic importance of agricultural development. However, in actual experience, it has turned out that increases in agricultural production have not kept pace with the growing needs of our economy. This has to be taken into full account in good time and increasing emphasis should be laid on a proper and purposeful development of agricultural production.

Agriculture in Asia and particularly in countries such as India and Pakistan will have to be vitalized and a greater sense of urgency imparted to the need to maximise agricultural output. Phenomenal scientific and technological developments have taken place in the world during the last 60 years in the field of agriculture. The dry farming lands and desert tracts have been converted by sheer human endeavour to orchards and garden farming. And it is on the basis of a highly developed agricultural system that such countries as Australia, New Zealand, Israel and Scandinavia have achieved the highest standards of living and have built up a vast edifice of nutrition on the one hand and of industries based on agricultural raw materials on the other. Even the strength of the economies of the USA and USSR has its roots in agriculture. While making all efforts to reduce population growth and thus relieve its pressure on land, let us, with the aid of nature and science, transform agriculture and change it from its present primitive stage into a scientific operation.

Unless planned afforestation, reforestation and controlled deforestation are systematically undertaken, unless the soil gets its nutrients from the well-developed forests, unless the centuries-old ravages of reef, reel and sheet erosions are immediately controlled and checked and the remedial measures in the shape of "Operation-Soil-Conservation and Contour Bunding" are undertaken with vigour and drive, agriculture in this region cannot be speedily rehabilitated and modernised. A casual comparison between the yield per hectare in the Asian region and in the regions of the western and the northern hemispheres will demonstrate the lamentable state of our agriculture. The yield of wheat per hectare is 850 kilograms in Asia, as against 1670 kilograms in Europe and 1390 kilograms in North and Central America. The yield of millets is 650 kilograms in Asia compared to 1040 kilograms in Europe and 1170 kilograms in North and Central America. In other agricultural commodities as well, the picture is the same.

Improved methods and technique; utilisation of improved seeds and their multiplication; intensive and extensive use of balanced and compound fertilisers with organic and synthetic manures and provision for nitrogen, potassium and phosphorus in blended ratios suited to different soils; speedily undertaking minor and major irrigation works; raising of water tables in vast tracts of dry farming lands; flood control and remedial measures for waterlogged areas; control of pests and diseases rampant in different crops in this region; and all other scientific and modern methods of farming suited to each area in this region will have to be adopted and implemented with a new faith and a new vision. Modern agriculture is an industry and should now be the most important industry for the countries of this region.

Price Stabilisation

Not only the physical and scientific aspects of agricultural techniques are called for but agronomy has also to be considered with a new and farsighted angle. Stabilization of prices and measures of price support in one way or another, as may suit the different national economies of this region, have to be vigorously pursued. It may be that at times, there are inflationary pressures and shortages of consumer goods. These can be checked by several measures of fiscal and monetary discipline. But the long-term need to ensure economic price levels for primary producers should not be overlooked. Complacence and over-confidence or short-term measures of expediency have to give place to long-term, correct and adequate price support policies. The farmer or the cultivator is the weakest economic unit in the Asian region. He has to face the ravages of the seasons; he has to confront nature from the day he starts preparing the soil to the day he harvests his crop. He is confronted with a thousand and one, small and big, hostile and favourable, natural and man-made forces. He has also to face the onslaught of superior economic forces sometimes the prices of his produce sagging to subnormal depths and giving him an inadequate return for his toil and investment.

The system of land tenures in this region has also to be drastically transformed. The land must belong to the tiller and the intermediaries between the state and the tiller must go. Thus the pace of land reforms has to be accelerated so as to enable the agriculturists to become the occupants of land without any intermediaries.

(To be concluded)

Eastern Economist 20 Years Ago

SEPTEMBER 19, 1947

During recent weeks expression has been given from several quarters to premonitions of an imminent crisis in the economy of our country. If these premonitions were purely the outcome of overwrought imaginations or the mood of depression through which the country seems to be passing at present, they could easily be brushed aside as unworthy of serious notice. But they are entertained by persons who are generally known for their sober and realistic appreciation of a situation and who will not lightly assume the role of prophets of evil. They have, therefore, to be taken as based on some appraisal—which may or may not be wholly sound—of factors which are shaping or going to shape the economy of the country in the coming months. It is possible that there has been an element of exaggerated emphasis on some trends; it may even be that the direction or intensity of some forces has not been accurately gauged and, therefore, unduly disturbing inferences are drawn. There is, however, a persistent undercurrent of feeling that the economy of the country is about to enter a perilous phase. 'Crisis' is probably a misleading term to use in this context because of the definite meaning and associations that have come to be attached to it. As is well known, it connotes a general breakdown of the economic system succeeding, or caused by, a wave of unhealthy activity and characterised by a sudden decline in investment, production and employment, drop in prices, wage cuts and retrenchment and an all-round curtailment of demand and consumption.

INDUSTRIAL EMPIRES OF FAVOURED FEW

Charges against banks are fantastic: Industrial magnates own and manage banks for their own benefit. They become directors, possess immense powers and control huge resources. It is further alleged that banks lend freely to directors and their own concerns. They get a preference in rates, security and margin. They use their powers to deny credit to eligible and competent rivals, leaving no scope for free competition. Favoured few are thus able to create industrial empires of their own with the help of bank credit. In brief, argument is that existing pattern of credit distribution has encouraged concentration of power.

WHO IS RESPONSIBLE FOR CONCENTRATION OF POWER?

The process is actually the other way round. It is operation of Government policies that has encouraged some big and industrial houses to come into existence, function and grow. Industrial investment and credit pattern is determined and prescribed by planners and authorities. Banks do no more than follow the official priorities and guidelines. They don't have power to create or encourage monopolies. □□Bank managements are associated with leading business or industrial groups, because entrepreneurial and managerial talents in our country are limited. But they don't have the power or freedom to lend as they like. They work within the framework of national policies and serve national interest.

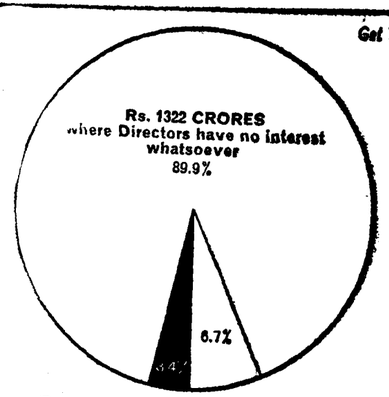
HOW LITTLE FOR DIRECTORS?

Advances to bank directors or to concerns where they are *interested in management* are 3.4 per cent of total advances. A further 6.7 per cent are given to concerns where the bank directors have no direct or personal interest—they have only a *nominal* interest. In the balance of 89.9 per cent of advances, bank directors have *no interest*—direct or nominal.

Advances of 15 Largest Private Sector Banks

	Amount Rs. Crores	% to total
Advances in which directors have an *interest in management*	50	3.4
Advances in which directors have no direct or personal interest—they only have a *nominal* interest	99	6.7
Advances in which directors have *no interest* whatsoever	1322	89.9
Total	1471	100.0

Get Your Facts Straight—9



Rs. 50 CRORES Advances where Directors are interested in management

Rs. 99 CRORES Advances where Directors' interest is only indirect and nominal

WHO BENEFITS FROM BANKS?..

banks don't abuse power or misuse funds to create monopolies...

NO FAVOURS FOR THEM

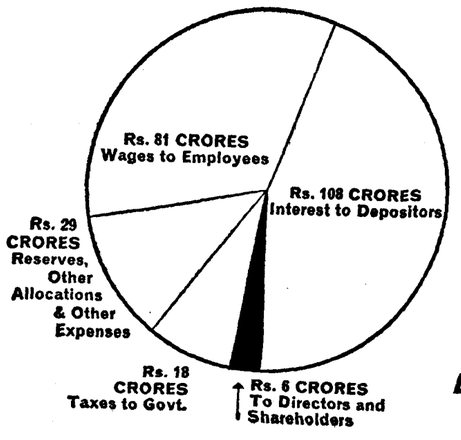
Even in providing this little assistance, banks don't favour their directors. Reserve Bank has special and stricter standards in assessing such loans. They are made in ordinary course of business, openly and strictly on merits. Rates, margins and security—standards applied are always the same for directors as for others.

FOR WHOM THE BANKS EXIST?...

Banks serve those who *have* savings and those who *need* them. Banks have invested Rs. 1,000 crores in Government Securities. They finance multi-purpose projects in public sector. They have lent Rs. 2,600 crores to finance production, development and marketing of goods. 92 per cent of bank borrowers are small people, each having a limit of less than Rs. 1 lakh. Banks exist for all.

AND WHO BENEFITS FROM THEM?

Not the directors, nor the shareholders. In 1965, dividend distributed to them was only Rs. 6 crores. The Government—yes. It got Rs. 18 crores in taxes. One and half lakhs employees—of course, yes. They received Rs. 81 crores in wages and bonus. Most of all, depositors. Without their savings there can be no banks. They were paid Rs. 108 crores as interest. Banks do not work for benefit of a few and wealthy directors, nor a growing body of shareholders, but for the large number of their depositors and employees—all smaller people of modest means.



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Language Controversy

K. SANTHANAM

THE LANGUAGE controversy has become a recurring headache to the government and the people of this country. It raises its head periodically and some attempts are made to treat it though half-heartedly with the result that it re-appears in a more acute form. This is because the various issues arising from any attempt to replace English are dealt with piecemeal while the issues themselves are closely connected.

The major aspects of the language question are :

(i) the official language of the union;

(ii) the official languages of the states;

(iii) medium of instruction in the secondary schools and the link language;

(iv) medium of instruction in the universities and the link language;

(v) medium of instruction in higher technological institutions and scientific research; and

(vi) problems of inter-communication and mobility of teachers and students.

For some time, the problem of official language has been dealt with as if it were a separate question. It appeared to be simple to decide that in a state which is mainly unilingual, the regional language should be the official language, while, at the union level, Hindi should step into the place of English at the end of 15 years from the commencement of the constitution as laid down in the relevant articles. It has not been found possible to carry out these decisions. At the union level, English has had to be continued as the main official language, though Hindi has been formally recognised as the principal language. It has become the fashion to call English the 'associate language.' This is verbal jugglery. The simple fact is that a large proportion of the staff in the central secretariat cannot today function in any language other than English for the simple reason that it has not been trained to think or write or speak upon the matters with which it is closely concerned in any other language. This is true of even those officials who hail from the states where the regional language is Hindi. It is only when and if Hindi becomes the main medium of instruction of higher education that it is possible to contemplate the central secretariat functioning in Hindi. Till then, only a formal recognition of the high status of Hindi in the form of translated reports and addresses, which few care to look at, is possible.

All-India Problem

The problem of union official language is not merely one of the central secretariat. In each state, there are as many or more employees of the central government as there are of the state government. Many departments such as the posts, telegraphs and the railways will have to function in the regional language as the medium of instruction in the state is bound to be the regional language at least up to the university stage.

It is a facile assumption that there is no intimate connection between the medium of instruction in schools and study in colleges and professional work in offices. Now that it has been more or less agreed that the universities of a state should adopt the regional language as the main medium of instruction, the maintenance of inter-communication between the intelligentia and the movement of students from one part of this country to another depend upon the insistence and enforcement of a minimum degree of proficiency in what is called the link language. Here again, a semantic confusion has been created by the introduction of the term 'library language' by the Education Commission. It is true that, with a certain effort, it is desirable for post-graduate students and scholars to acquire the ability to read and understand books in French, German, Russian, etc. Facilities should be provided for such purpose in all universities but for a link language, the student should be nearly as proficient in it as he is in the main medium of instruction itself. As a matter of fact, it is only through its use as an alternative medium that it can serve the purpose of a link language. Thus, if English is to be a link language in higher education, the student should, at the end of the secondary school stage, be able to write and speak in that language with almost equal facility as in the mother tongue or the regional language. In other words, education has to be bilingual in the school and college courses with one language common to the whole country. It is only then that there could be all-India services, all-India institutes of technology and scientific research institutions open to students from all parts of our country.

Failure to recognise this elementary truth will have to be paid for by the breakdown of our educational system, linguistic isolation of various parts of the country and a dangerous blow to national unity.

No Alternative

If it were at all possible to use Hindi immediately for higher education, science and technology, it may be worthwhile considering whether it could be made a compulsory link language but, unfortunately, for most purposes of higher education, technology and scientific research, Hindi is even more inadequate than other regional languages. I do not think that with the best will in the world, the Hindi states can overcome this inadequacy in less than a generation. Therefore there is no alternative but to stick to English as the only available link language for serving as the official language of the union, for all-India services, universities and research institutions.

I am astounded at Mr Morarji Desai's demand the other day that all courts including the high courts should begin to function in the regional language in the next five years. It may be conceded that business in the lower courts and some parts of the proceedings even in the higher courts should be in the language of the people concerned but for lawyers to be able to argue intricate legal issues, quote precedents from judgments of other high courts and the Supreme Court and for judges to write judgments against which appeal can be preferred to the Supreme Court, it will not be possible today or in the immediate future to have any language other than English. Otherwise, there will be utter chaos in the field of law and justice.

It is wrong to think that it is the opposition to Hindi from Madras, Bengal and other states that stands in the way of replacement of English by Hindi. It is the inevitable result of English having been the medium of instruction in schools and colleges during the last 150 years during which there has been a tremendous revolution in science, technology and human knowledge. It may be unfortunate that all our languages should have been deprived of vital growth during this critical period. However difficult it may be, I agree that we should endeavour to enrich the capacity of all our languages to serve the purposes of higher education but even this is possible only by coupling them with the language which is now fully adequate for modern purposes. Unless this country wants to slide back to medieval conditions in education as well as industry, students, executives and legislators have to be men and women with a high proficiency in English. National prestige may be

saved by calling it a link or associate language but at least in the post-graduate courses of the universities, higher technical institutions and scientific research, English has to be the effective and functioning medium. For constitutional and political reasons, Hindi may be accepted as the second link language for the present and students in non-Hindi areas may be compelled or encouraged to learn it for three or four years in the secondary school. It will then serve as a link language at the popular or market level.

For another decade or two, the position of every one of our languages is likely to be highly fluid. It is possible that some of them may easily attain the capacity to serve all modern purposes while others may find it difficult to do so. It is not possible to lay down a hard and fast rule now which will prevail for all time. For the present, however, the sooner it is realised that English has to be the main link language for all national purposes, while our languages are making up their inadequacies, the better it will be for all concerned.

Special Drawing Rights

PAUL EINZIG

AFTER FOUR years of interchanges through innumerable meetings, the Finance Ministers of the ten industrial countries have now reached an understanding which will be submitted to the annual meeting of the IMF at Rio de Janeiro. Should the understanding then become a definite agreement, and should it be ratified by the governments and parliaments concerned, additional liquid resources tentatively estimated between $5 billion and $10 billion may be made available in annual instalments some time between 1969 and 1974.

Many commentators take the line that the matter is as good as settled. Yet even after the ratification of the agreement, in order that the scheme should become "activated"—a new term which must be added to the international monetary vocabulary—a specific approval by the governments representing at least 85 per cent of the voting rights at the IMF will have to be obtained. Whether the French government will still maintain the conciliatory mood which it unexpectedly displayed towards the end of the London meeting on August 26 remains to be seen. Possibly by then General de Gaulle may not be in charge, but his anti-expansionist attitude is shared by the French government as a whole and is deeply-rooted in French character.

Originally France was willing to agree to consider the adoption of some emergency plan which should be elaborated and agreed upon, but which must be kept in reserve until some major emergency makes it necessary to produce additional liquid resources in order to prevent a disaster comparable with the crises of the 'thirties. She wanted to reserve her right to veto—in association with her partners in the Common Market —the activation of the plan if, in her opinion, there was no emergency of sufficient gravity to justify its application.

Different Plan

Actually the plan that has emerged from the long discussions appears to be something quite different. The fact that the proposed liquid resources are intended to be released in five equal annual instalments conclusively proved that it is not intended as an emergency measure which would call for an immediate release of large resources for the duration of the emergency and not a minute longer. As far as it is possible to foresee from various official and officially-inspired explanations, the present scheme is meant to be activated if after its ratification the governments representing 85 per cent of the IMF voting power are of the opinion that the amount of monetary gold and foreign exchange reserves is not sufficient to ensure the financing of an expanding volume of foreign trade. There is no need for an acute emergency to arise or even to threaten. If and when the opinion that existing liquid reserves are not sufficient to ensure adequate expansion in the volume of foreign trade comes to be held by the required majority the new plan will be adopted as a permanent part of the international monetary system, subject only to reconsideration after the completion of the first period of five years.

This means that the new plan is not intended to provide any safeguard against a major emergency. It is true, should such emergency arise while it is in operation the gradually released special drawing rights would facilitate to some extent the prevention of an acute crisis. But since the system will operate as a built-in inflator it is bound to over-stimulate expansion and accentuate the rising trend of prices. This must mean that soon the increased credit requirements resulting from higher prices would offset the increase in liquid reserves. It must also mean that non-stop expansion will create an increasingly vulnerable situation which is likely to culminate sooner or later in a catastrophic crisis.

It is entirely fallacious to imagine that so long as an inflationary trend of the world economy is maintained there is no danger of a slump, so that, so long as the IMF doles out $1,000 million to $2,000 million of special drawing rights per annum, the resulting inflationary effect will safeguard the world against a deflationary slump. Human memory is short but the older generation economists surely remember that during the late 'twenties similar doses of inflation were rejected by the gradual application and expansion of the gold exchange standard. The disastrous ultimate result is too well known even to post-war economists to call for a re-statement.

Unfortunate Aspect

The most unfortunate aspect of the use of special drawing rights for financing routine expansion is that they will not be available if and when they should be needed for meeting a real major emergency. One cannot eat one's cake and keep it. Confronted with the threat of a major emergency, the governments would be almost as helpless as they are today—they would have to begin once more to elaborate some new form of emergency device. And since the use of special drawing rights is bound to make the inverted pyramid of international finance even more precarious than it is now, it will further increase the difficulty of finding a new formula at a moment's notice.

But conceivably French orthodoxy will prove to be a blessing in disguise in the situation that will arise in 1969 when the agreement on special drawing rights comes to be ratified. It is almost always a matter of opinion whether the existing volume of liquid reserves is adequate. Today French experts such as M. Rueff hold the opinion that these reserves, far from being inadequate, are in fact excessive, and that the surplus should be disposed of by a removal of the gold exchange standard effect produced by the use of the dollar and of sterling as reserve currencies. It is by no means certain that in two years' time France will be willing to accept the inflationary Anglo-Saxon point of view according to which, since the sky is the limit to the desired expansion of foreign trade, existing reserves are always necessarily inadequate.

Should France veto the misuse of the new plan for the financing of non-stop inflation, the formula would remain available if and when the additional resources become urgently wanted for preventing a major disaster. The formula is ingenious. It would be a pity if it were to be discredited by its injudicious application.

Problems of Small-Scale Industries in Maharashtra

R. V. MURTHY

THE ROBUST optimism of the chairman of the Maharashtra Small-Scale Industries Development Corporation (Mr G. B. Newalkar) reflected in his address to the fifth annual general meeting of the corporation (MSIDC) is in refreshing contrast to the utter despair of many small-scale industries, especially in the engineering sector, in Maharashtra today. The recession has hit these industries so badly that some of them do not have funds even to pay lay-off dues and retrenchment compensation, according to reliable reports from several centres.

If recession in respect of these industries has been brought about by devaluation and the government's decision to do away with deficit financing, a falling off in demand in the case of some other industries, and in the activities of the MSIDC as a consequence thereof, seems to have stemmed from the government's policy of progressive decontrol of raw materials. For an organisation such as the MSIDC which, since its inception, was the agency for canalising scarce and controlled industrial raw materials in Maharashtra, the deprivation of its single biggest activity, viz., procurement and distribution of scarce and controlled industrial raw materials on behalf of and for the small-scale industrial units in the state, was, indeed, a big blow. It suddenly brought down the turnover of the MSIDC in the raw materials section by more than 100 per cent. First, that is since September 1965, when the Scarce Industrial Raw Materials Control Order came into force, it had to stop distribution of non-ferrous metals. Then came the progressive decontrol of iron and steel items with effect from June 1, 1967. As a result, the MSIDC stands exposed to the full impact of the forces of free market. It has now to procure and distribute on its own raw materials to the state's small-scale industries in competition with the producers and trading concerns who have a network of trained and experienced selling agents. Surely, as it is constituted today, the MSIDC is in no position to accept this challenge, but it is noteworthy that Mr Newalkar, who recognises this, is not without ideas, to rise to the occasion. His answer is, or rather, has been, to develop some other commercial activity which is not only of equally vital assistance to the small scale industries but has also potentialities of growth.

Promising Activity

What could be a more promising field than marketing assistance to small-scale industries? The activity actually started in 1965 itself when the MSIDC had its first shock. It is gratifying to note that this has been making steady progress since then. From Rs. 20 lakhs in 1965-66, the total value of the orders executed on behalf of these industries rose to Rs 78 lakhs in 1966-67, while, in the current year, (1967-68) orders on hand at the end of the first four months have already risen to two crores of rupees. Mr Newalkar was fully justified in stressing that this activity should become the main prop of the corporation for some years at least. More, he wanted all other activities to be looked upon as subsidiary to it. He was right too when he went on to point out that the marketing assistance would go a long way towards removing the most serious weakness of a multitude of small-scale industrial units. Likewise his assumption that, with all that is being done in helping these industries by way of procuring raw materials and ensuring adequate credit facilities to them, the only tough problem to be faced by these industries is marketing. However, in regard to financing, he had a rider to add when he insisted that the state financial corporations should be made the financial agencies exclusively catering to the credit needs of small-scale industries. By reason of their local character, he felt, these institutions could be more prompt and effective in extending financial help than such all-India bodies as the IDBI or the IFC.

Evidently, for the same reason, Mr Newalkar did not favour a marketing policy for the products of the small-scale industries for the country as a whole. If at all an all-India policy was needed, it should be limited to reservation of certain products for exclusive manufacture by small-scale industries. But this is a debatable issue, what with our experience of reservation of certain items of cloth production in the textile industry. Without indulging in such debatable issues or experimenting with such lines as the sole selling agency business, however promising they may appear, the MSIDC would do well to concentrate on marketing activity, an activity in which it has made a good start, also a commendable progress, and the potentialities of which Mr Newalkar would appear to have studiously explored. This is, as he has fully recognised, the weakest link in the organisation of our small-scale industries, as witness the difficulties being experienced in the disposal of handloom and powerloom products today. Once the marketing side is taken care of, small-scale industries could turn their attention to diversifying their lines of production orientating them either as ancillary industries to larger industries at home or as exporting industries. In both these spheres, it is not enough just to produce, as perhaps we could afford to do in some of our handicraft specialities which fetch fancy prices, but produce quality goods at competitive prices. For, in the world markets which are becoming buyers' markets growingly, we can meet the relentless competition of rival sellers or exporters only on the basis of the best quality and the most competitive, if not the cheapest price.

Bold Step

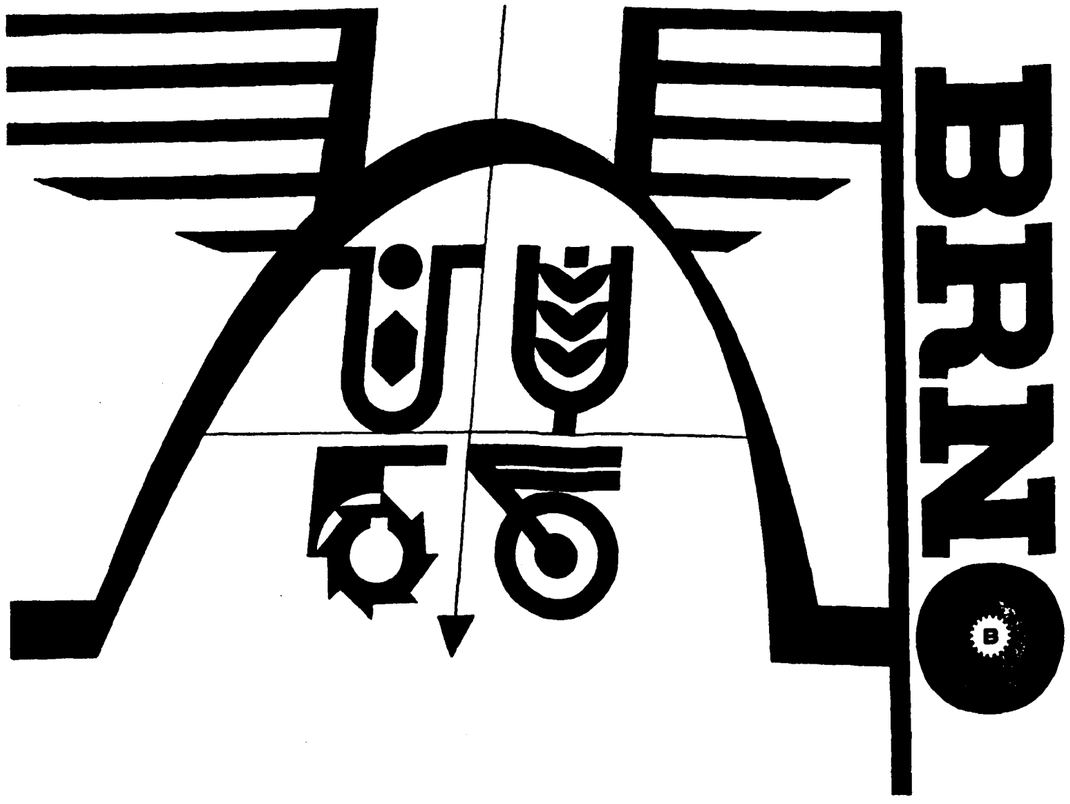
The corporation could also well move more boldly—the more so now that its essays so far have proved satisfactory—with its capital participation scheme. By helping to broaden the equity base of small-scale units thus, the MSIDC would render easy the task of commercial banks which may hereafter be expected to take a big hand in helping small-scale industries with the combined blessings of the Reserve Bank and the Government of India.

Obviously Mr Newalkar is quite ambitious. He seems to have dreams of making the small-scale industries an equal if not a dominant partner with the big organised industries in the export sphere also. True, the MSIDC has made some notable progress in export promotion and has been accepted as a registered export house after being in the field for two years now, but this is hardly any experience in what is admittedly an extremely specialised field. In any case, it is asking for too much, we feel, for the MSIDC chairman to suggest a recasting of the state Directorate of Export Promotion on the ground of its being too unwieldy, especially after the pioneer exploratory work he conceded it has done. Surely it should be possible for both the bodies to co-exist, one serving as an advisory body and the other as a functional body, actively engaging itself in exporting.

Similarly, Mr Newalkar need not be so choosy or exclusive in the matter of the corporation training its own personnel. Why should there be an exclusive institute for training personnel recruited in the public sector undertakings only? In spheres like trade and exports, the public sector personnel have still a lot to learn from the private sector, even if the union Commerce Minister feels ready to take over all foreign trade today to please the AICC. The government's own study, if not the STC's experience, it is reliably learned, has indicated the impracticability of going headlong with any such move. In a dynamic economy, to entrust all import and export trade to any one agency, even if it be a government agency, is to create an unwieldy monolith incapable of reacting quickly and adjusting readily to the rapidly varying nuances of foreign trade in the highly competitive world we live in today.

INTERNATIONAL TRADE FAIR BRNO 1967

Czechoslovak Socialist Republic **September 10–19, 1967**



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No More Monkeying in Shipping

A Special Correspondent

ALTHOUGH THE Hindu pantheon abounds in innumerable gods, it is the presiding deity of the occasion that is regarded and worshipped as omniscient, omnipresent and omnipotent. Similarly, whenever our ministers inaugurate a conference or meeting, they regard the subject-matter of that conference or meeting as of vital importance and exhort those concerned, as well as those not so concerned, to appreciate this and exert their utmost to solve all the relevant problems. We certainly seem to have specialised in this business to an extent that must evoke the envy of everybody. This is by no means an easy task, but the irony of it is that its value and importance both tend to get deflated alongside the record of how we have managed or been able to tackle these problems. And it is the same story whether it is food or finance, or transport or shipping. When, therefore, the proceedings of the twenty-fourth meeting of the National Shipping Board also fell into this familiar pattern, no one could have been surprised.

The National Shipping Board (NSB) was established in March, 1959 as a permanent statutory body under the Merchant Shipping Act of 1958 to advise the central government on matters relating to our shipping and its development. It has, over the past eight years and a half, examined several problems relating to the shipping industry and has also made a number of recommendations for its development. To mention the more important of these, the NSB has recommended, inter alia, the introduction of general cargo service, the establishment of an institute for training in commercial shipping and the expansion of the repair and dry dock facilities; it has also submitted a report on the difficulties of the ship-repair industry and examined the question of government policy with regard to shipping in the public and the private sectors.

Ambitious Target

The board has ably and, thanks to the bold stand of its first chairman, Mr G. L. Mehta, stoutly fought for a reasonably ambitious target for shipping in the fourth Plan (four million GRT)—(provision made currently, however, is only for three million GRT with 0.5 million GRT under construction at the end of the Plan)—and the fifth Plan (five million GRT), the target for coastal shipping for the fourth Plan being 400,000 GRT. The board's able championing of the cause of shipping was amply reflected in the stand it has taken on questions such as the development rebate and the effects of devaluation. A number of other problems too have been engaging the attention of the board, these including loading and unloading facilities at the ports (highlighted by the large imports of foodgrains), economies of bulk carriers in overseas trades, acquisition of additional tankers (a rather controversial issue for some years now), establishment of an institute of marine technology, collection of shipping statistics and profit margins of our shipping companies in both the public and the private sectors.

The union Minister of Transport and Shipping, Dr V. K. R. V. Rao, noted, in the course of his inaugural address, the progress made by our shipping since the board met for the first time in 1959, while the new chairman of the board (Mr Narendrasingh Mahida, MP) referred to the present trend in world shipping, and both need to be recorded here for purposes of reference. On January 1, 1959, according to Dr Rao, Indian shipping consisted of 141 ships aggregating 638,000 gross tonnes, whereas, on August 31, 1967, it had risen to 236 ships aggregating 18,95,000 gross tonnes. Besides, there are on order today 34 ships of 455,000 gross tonnes which means that we are in sight of the two-million mark. Similarly, as against the largest flag vessel of about 13,000 deadweight tonnes in 1939, today's largest vessel is of nearly 55,000 deadweight tonnes (and the two tanks in order are of about 77,000 DWT). Compared to nil in 1959, there are now 27 bulk carriers or overseas tankers of the aggregate GRT of 619,000. So much for ownership.

As regards participation in the different liner trades also, our shipping has made notable progress. It now carries about 50 per cent of the liner trade between our country and the UK (both ways), has an arrangement with the USSR under which Indian and Soviet ships carry 50 per cent each of the cargoes moving to and fro, and is engaged in very nearly 50 per cent of the total liner trade in the India-Japan trade, not to speak of the 30 to 40 per cent of the total trade in the India-USA sector. Contrast with this the position in 1947-48, when not a ton of the liner trade between our country and the UK was carried by our ships and in 1959 when our shipping had hardly any share of trade to claim in the India-USA sector.

To set these against the world picture, we may turn to the figures cited by Mr Mahida. As on June 30, 1967, the total world orders booked stood at the record level of 35.3 million GRT (plus 1.5 million GRT more than a year before). No less than 1881 ships aggregating 13.5 million GRT were under construction at the world's shipyards (plus 920,827 tonnes over the previous year). Our shipowners had 31 ships totalling 1,08,729 GRT, out of which 25 ships of the total GRT of 71,149 were being built in our shipyards. The latest figure of the total tonnage under construction and on order on account of our shipowners is about 455,000 GRT of which the share of our shipyards is 294,000 GRT. One has only to mention Japan's 4.6 million GRT under construction and 16.3 million GRT on order to give an idea not only of the disparity between the two countries but also of the leeway our country has to make.

Matter of Gratification

Are our rulers alive to this? "It is a matter of gratification", said Mr Mahida, "that there has been appreciation of this need in the government circles." Illustrative of this appreciation presumably was the reference by the union Transport Minister to the many gaps that still remain to be filled by our shipping. Dr Rao bluntly told the meeting that "our performance in the field of bulk cargoes is still far from satisfactory." This then points to the need for building up tanker and bulk carrier tonnage at an accelerated pace, as he added. Even in regard to our liner trade, Dr Rao, while complimenting our shipping on the remarkable progress achieved, rightly wanted further strengthening. In particular, he made references to the trade with east and west Africa and with countries in the Red Sea and the Persian Gulf regions.

It is, indeed, gratifying that at least some recommendations of the board are receiving the attention of the government. Dr Rao made a mention of the urgency of providing adequate ancillary facilities, such as repairs and drydocking. The way in which we have gone about providing drydocking facilities since the days when the late N. Gopalaswami Ayyangar was in charge of the Transport Ministry makes as telling and gloomy a tale as one could conjure up. Each minister in turn has referred to the urgency of it, and precious little is heard of it again until a meeting or conference takes place.

Dr Rao showed ample awareness of the technological revolution in the shipping industry, as witness his remark that the future seems to belong to container ships, but, as he himself stated, prior to any such changeover from conventional to container ships, our ports would have to wear a new look. These and the several other problems of our shipping today need to be more closely and carefully studied and we suggest that the really representative meeting the union Transport Minister proposes to convene, after returning from his tour abroad shortly, should devote its whole-hearted attention and arrive at realistic and resolute decisions. The government must then implement such decisions promptly and without monkeying with them as it is apt to do even with expert advise on important questions.

FROM THE CAPITAL'S CUPBOARD

Indo-Ceylon Collaboration in Tea Exports

INDIA AND Ceylon are likely to enter into an understanding to ensure that their earnings from the export of tea are not depressed by the monopolistic practices of foreign buyers. An official delegation from Ceylon has had talks in this connection with representatives of the Commerce Ministry in New Delhi this week.

While the quantum of tea exports from these two countries has not declined, the earnings have fallen. This is because the four groups of buyers at the tea auctions have joined hands to beat down the sellers. Besides, the heavy offering of low grade tea by Ceylon has contributed to a decline in the unit value of tea. Foreign buyers have been blending this tea with superior grades and earning profits up to 95 cents per kilogram.

Since Ceylon is essentially a producer of low grade tea, an important proposal discussed by the two official delegations was that this country should import a sizable quantity of this tea for domestic use and on its part offer larger quantities of the high quality tea it produces at the auctions. It is felt that once the pressure of heavy offering of low grade tea eases, the foreign buyers will not have much chance of rigging the prices at the auctions. The two delegations have also considered proposals for diversifying the auctions in order to break the monopolistic hold of the buyers. An indicator of their concern over the decline in the unit value of tea is that they have proposed that this matter might be discussed at the level of the Prime Ministers when Mrs Indira Gandhi visits Ceylon next week. Any arrangement that they might work out in the meantime to safeguard the interests of both countries in tea exports is likely to be placed before the two Prime Ministers.

KHADI INDUSTRY IN DOLDRUMS

The khadi industry, which is already in the doldrums, is faced with further difficulties because of the changed political complexion of many state governments. Some of these have not been extending the same support and patronage to khadi as in the past. In fact, the Government of Punjab is reported to have decided not to give preference to khadi for making uniforms for its staff.

Meanwhile, unsold stocks of khadi cloth and yarn have been increasing at an alarming rate. It is roughly estimated that these stocks are worth about Rs 35 crores. To enable it to dispose of the accumulated stocks, the Khadi and Village Industries Commission (KAVIC) has approached the government that it be allowed to sell khadi products at a rebate of 20 to 25 per cent of the sale value for a few months during the remaining part of 1967-68. As it is, the government has extended by five years the deadline for repayment of loans amounting to over Rs 49 crores by the commission, which were due last year. How much more the substantial rebate proposed by the KAVIC for the disposal of its stocks will cost the exchequer it is not known.

APPOINTMENT OF WAGE BOARDS

Serious differences of opinion have arisen between the Finance and the Labour ministries over the utility of wage boards. It can now be confirmed (despite Mr Morarji Desai's denial) that the Finance Ministry had strongly urged that in view of the need to relieve the pressure of cost-push and demand-pull on prices, a decision should be taken not to appoint wage boards or not to accept the recommendations of existing wage boards for a certain period from now.

So far, the Labour Ministry has held its own against the pressures of the Finance Ministry. In fact, it has taken a strong stand against the latter's suggestion, which it has described as "unworkable in practice". It has warned that if the scheme of wage boards is given up, it will lead to innumerable industrial disputes. This will result in greater disruption of production and "the value of the fall in production of goods and services will be several times the value of the purchasing power that is kept away from the hands of the workers".

The Labour Ministry, however, recognises that much needs to be done on the labour front to help implement the government's policies and measures to check inflation. It has suggested that the Trade Unions Act and the Industrial Disputes Act should be amended to ensure that agreements between workers and employers are scrupulously observed and that any breaches are severely punished. Also, these acts should be amended to prevent impediments being placed by trade unions in the way of rationalisation of industrial management and processes so long as it does not affect the terms of service of existing employees. The ministry feels that these steps will help to earn increases in wages and profits through improvement in productivity and efficiency.

IDIKKI HYDROELECTRIC PROJECT

Aid-givers generally do not feel as confident as we do about our ability to manufacture plant and heavy equipment although we have the most modern and sophisticated units to fabricate them. Even Canada, which is more accommodating than others in the matter of aid to this country, seems to have doubts about our capacity to do things economically and in time. A couple of years ago, the Canadian government offered to help build the Idikki hydroelectric project in Kerala (the largest in the state) with a loan assistance of $20 million (Canadian) for purchasing from Canada three generating units (each of 130 MW) and ancillary equipment. While accepting the loan offer early this year, the Government of India informed the Canadian government that it had been decided to import only two generating units from Canada and the third would be manufactured by the Bhopal Heavy Electricals Ltd. A polite but firm reply came from the External Aid Office at Ottawa: "It is their confirmed opinion that the interest of the Idikki project would best be served by having the third unit manufactured in Canada." The main reason given by it was that there were engineering risks in supervising the erection of equipment from different sources. A further attempt by the Government of India to persuade the Canadian authorities to agree to the manufacture of the third unit in the country brought forth an even more firm reply: "The evaluation of the Canadian officials indicated that economic and technical considerations precluded entirely the possibility of completing the project within the present time-table and cost estimates, unless all the three generator units were fabricated in Canada by the same manufacturers." The government has now accepted the Canadian stand and the Idikki loan agreement, which has taken more time than anticipated, will be signed shortly.

CENTRAL BOARD OF DIRECT TAXES

Mr F. H. Vallibhoy, at present joint secretary in the Ministry of Finance, will take over as Chairman of the Central Board of Direct Taxes next month from Mr S. A. L. Narayana Row, who is retiring. Mr Vallibhoy was Income-Tax Commissioner at Madras and Calcutta before coming over to the centre.

WINDOW ON THE WORLD

The Netherlands: An Economic Laboratory

JOSSLEYN HENNESSY

I

THE UK 'SICKNESS' OR THE DUTCH 'DISEASE'?

LONDON:

THE POSTWAR economic history of the Netherlands provides an interesting and enlightening small-scale laboratory study of some fundamental problems that are bothering most of the economies of the industrialised nations outside the communist world.

The contrast between the postwar international "images" of the UK and of the Netherlands is both striking and curious. Recurrent balance of payments crises, Stop and Go, alleged lack of export competitiveness, incomes rising faster than productivity and creeping inflation have won the UK an unenviable image, summed up as "the British sickness". But if you study the facts, you see that the postwar Netherlands experience has been identical. Yet no one talks of "the Dutch disease" and the Netherlands' international image is respectable. What is more, now that all governments add to inflation by spending more than they can afford in real terms, the Netherlands is even hailed as the successful practitioner of an "incomes policy" —the current panacea for inflation. Nobody cares to remember that the Dutch incomes policy went overboard in 1963 and that, today, four years and three governments later, inflation is still a problem.

Why, then, the difference in the British and Dutch images?

The Short Answer

The short answer is that the scale of the UK's international trade sends waves round the world when something goes wrong, whereas the scale of the Netherlands trade sends ripples.

"Old fashioned" economists (Yes, sir, I'm one of them!) continue to reiterate (to mostly deaf politicians' ears) that if you allow inflation no incomes policy can work, and if you maintain a stable currency, you don't need an incomes policy. If you persist in inflating, a wage and price "freeze" (which, when you have an incomes policy, is the polite euphemism for a "Stop" period) can hold back the waters of the dam for a short time, but you cannot hold them indefinitely (unless you move into a controlled economy of the Stalinist type—now significantly being dismantled even in communist countries). When you end the freeze, you are overwhelmed by a "wage explosion", as were the Netherlands in 1963, which led to average pay increases of 15 per cent in 1964 and a further 11 per cent in 1965, with a balance of payments deficit of Fl. 639 million in 1966. And, although the increase in public spending is the cause of all this trouble, Dutch political pressures continue in favour of more of it.

Scarcity of capital in 1966 meant that public investment in the first two years of the 1966 to 1970 plan will be well below target. Yet Dutch political leaders encourage calls for more public expenditure on (1) roads to relieve traffic congestion in towns and (2) residential housing.

On its own expenditure the government's idea of a "freeze" is not (as you might, bless your innocent heart, have thought) to budget for a surplus in 1967, but to reduce the deficit from Fl. 1,600 million (1966) to about Fl. 500 million (1967), a figure which is too high to be financed by non-inflationary borrowing of savings from the capital market. This reminds me of the fat man who, in order to get his weight down, announced not that he was going to cut out chops for breakfast, luncheon and dinner, but that he was going to eat two per meal instead of three.

The latest OECD Survey on the Netherlands says that Dutch forecasting techniques are highly advanced, but adds suavely in the next breath that one difficulty in recent years has been that official forecasts have tended to "present a rather brighter picture of the economy than actually materialised", that "inherent uncertainties have not been sufficiently taken into consideration", and that when it became apparent that events had disproved the forecasts, "great difficulties" have prevented proclaimed economic targets from being "adapted to actual economic trends". This foible is common to all planners in all countries. Urged on by politicians, anxious to increase the supply of "bread and circuses" to the voters, they indulge in wishful planning and when the wishes cannot be fulfilled, the political leaders become political followers and fall back on inflation to postpone the moment of horrid truth.

The effects of past Dutch trends and policies (mostly in the form of a wage and price level higher than it realistically should have been) can only be overcome by policies appropriate to the present (repeat present) state of the economy. This, says the OECD blandly, requires a management of demand which (a) avoids the repetition of excess demand and over-employment of resources characteristic of the first half of the 1960s in the Netherlands and (b) helps the economy to achieve reasonable progress in output and productivity.

II

HOW TO DIVERT GOODS TO EXPORT MARKETS

The government has been compelled to recognise the truth of the OECD's observations to the extent that its policy is to let the freeze bite (as it has), allow a sufficient margin of unemployment, and hope that a new expansion of exports will lead the Netherlands back to healthy growth. Professor Zijlstra, previously head of the caretaker cabinet and now governor of the central bank, has a personal interest in seeing the export forecast fulfilled. He is one of Holland's leading economists, and claims to have proved that when domestic unemployment rises, goods are released from the home market and diverted to exports. This is known as the "Zijlstra effect" in Holland, where the theory is apparently treated with respect. We have no name for it in the UK but we are equally familiar with it. Unfortunately its association with Stop and Go has caused it to be discredited as part of the "British sickness". The latest thought on this in the UK is that the "will to export" depends not only on an available margin of spare capacity but also—and just as much—on the possibility of sufficiently attractive profits to make exporting worth while, but this depends on a variety of factors including wage levels, other costs of production, and the state of demand in foreign markets.

Most British exporting is done by about 100 big companies, which have sufficient funds to put up with narrow profit margins, but if we really want to boost our exports we need to interest some 400,000 smaller firms, often employing fewer than 100 persons. Most of these are selling at home all that they can make, whether there is a credit squeeze or not. Here is an example: one of the biggest organisations of its kind in

Europe, although it employs only 40 people, is Allied Industrial Designers. It is a close company and is therefore hard hit by absurd tax rules. If Allied Industrial Designers sell £50,000 more designs next year it will be able to keep a mere £2,400 net in the business. Profit on the £50,000 would be at the most £10,000. Corporation tax takes 40 per cent. That leaves £6,000. Under close company rules at least 60 per cent must be distributed (of which £1,000 would reach shareholders after tax) and that leaves £2,400. And then one of these days capital gains tax will have to be paid on that. The company has three courses open to it: (1) It might become a public company, but the experts advise that this is not practical, at any rate for several years. (2) It might become a partnership, in which case all profits must be distributed, no profits retained, surtax quickly hits the partners, and the risk increases. (3) It might transfer its activities to another country with a more sensible tax system.

So much for the Zijlstra theory that domestic unemployment necessarily releases goods from the home market and necessarily causes exports to rise. Of course, excessive domestic demand can divert goods from export markets but the mere imposition of credit restrictions does not, of itself, stimulate exports if other factors counter the "Zijlstra effect".

Professor Zijlstra's Dutch critics cite the following figures to show that excessively high wage rises have eroded the Netherlands' competitiveness in foreign markets:

RISE OF LABOUR COSTS PER UNIT PRODUCT FOR THE PROCESSING INDUSTRY

(Changes as Percentage of the Preceding Year)

	1960	1961	1962	1963	1964	1965	1966
Competing countries	2.1	5.0	4.1	2.7	2.6	3.7	3.5
of which EEC	2.9	6.0	5.9	5.2	4.0	4.4	3.0
Netherlands	2.0	12.0	4.0	7.6	6.0	6.0	4.0

Source: Social and Economic Council, quoted in the Amsterdam Bank Review.

The table shows that between 1960 and 1966 labour costs in all competing countries rose on average 3.4 per cent per annum and in the EEC countries (excluding the Netherlands) by 5.2 per cent, whereas in the Netherlands they rose by nearly seven per cent. The critics argue that Dutch exports have continued to grow because once trade channels have been established exporters are ready to accept diminishing returns as long as possible, but when the time comes at which profits vanish they close their export departments down.

III

PAST PROGRESS: PRESENT HOPES

All this is not to suggest that the Netherlands have not made good progress since the war. Here are the annual growth rates of GDP in eleven European countries:

GROSS DOMESTIC PRODUCT 1948/63

(Compound Annual Rate of Growth)

(Percentage)

Austria	5.8
Belgium	3.2
Denmark	3.6
France	4.6
Germany	7.6
Italy	6.0
Netherlands	4.7
Norway	3.5
Sweden	3.4
Switzerland	5.1
United Kingdom	2.5

The table (from Professor M. M. Postan's first-rate newly published "Economic Survey of Western Europe: 1945/64", Methuen University Paper Back, London, 1967), in 1954 constant prices, deals with domestic, not national product, in order to exclude the effects of income from abroad. The Netherlands' difficulty is that it has not as yet managed to adjust to the structural change that occurred in 1963 when the incomes policy blew up and the need for balanced development became apparent. The 1950s all-out investment in industry turned the Netherlands from an agricultural into an industrial economy, but roads and houses were neglected. After the 1963 elections the government launched a drive which raised the output of houses from 85,000 to 120,000 a year, simultaneously with a road building campaign. Fine! All except for one oversight: the government did not raise enough revenue, over and above its rising welfare commitments, to finance this drive. So it fell back on inflation. Resources became hopelessly overstrained as public investment spiralled and wages soared over 41 per cent in three years in an over-fully employed labour market.

'Lord! What Fools These Mortals Be!"

The savings index fell from 132 in 1961 to 71 in 1965. Local governments competed with central government expenditure, clamouring for more capital which the market had not got. The one consistent ray of sense in this free-for-all was the central bank's attempt to limit the expansion of credit. This is an old story, of which you have read often enough in this column. Central banks, free from the need to win votes, know what is wanted, but monetary policy, unaided by fiscal policy and restraint in government expenditure, cannot do the whole job. It is like a battalion trying to storm an enemy position by a bayonet charge without help from artillery, tanks and dive bombers. Since, moreover, the expenditure of the public authorities is unaffected by rising interest rates, whereas that of the private sector is, private enterprise (which has to earn the surpluses without which the state's coffers cannot be replenished) is penalised. As Puck observes in Shakespeare's "Midsummer Night's Dream": "Lord! What fools these mortals be!"

As if this were not enough, Dutch exporters had simultaneously to face difficulties in their main outlets—Belgium, the UK, West Germany, and the USA—which, for precisely the same reasons, were coping with high interest rates and credit restrictions.

But an end to this gloom. It is encouraging to find that the OECD thinks that the Dutch decks have now been cleared of excessive inflationary pressures and that, providing demand is sensibly managed, the Dutch compass now stands at set-fair. The growth of productive capacity in 1966 and 1967 will have exceeded the expansion of demand and unemployment is now about three per cent. The balance of payments is improving from last year's deficit. The OECD thinks, therefore, that a sufficient margin of free resources has been created to allow output and demand to grow, without undue pressures, in line with the current rate of expansion of nearly five per cent per annum.

Two comments: (1) If the government had had the political courage to back the central bank's policy all along, the troubles of the past four years could have been avoided and growth would have continued without the frustrating jerks of Stop and Go. (2) The OECD's optimism is qualified by the condition "if demand is managed sensibly".

Sources and acknowledgements: I have taken facts and figures from the OECD's 1967 Survey of the Netherlands, the Annual Report of the Netherlands' Central Bank, and the Economist Intelligence Unit's Quarterly Review, but these distinguished authorities are not responsible for my interpretations derived from my ruminations over a variety of sources.

Europe Remains Conservative

E. B. BROOK

VIENNA:

THIS SUMMER has seen two big boosts to world trade. The first was the Kennedy Round reducing a large range of tariffs to an unprecedentedly low level. The second is a new plan for a new type of international monetary instrument. Both agreements involved discussions lasting about four years and both were at times on the edge of failure. The new international monetary instrument should prove in time to be the first step in phasing out the important part now played by gold in world finance.

The Bretton Woods conference of 1944, which laid the foundations of the post-war international financial system, was built around gold and the US dollar. The new agreement will begin to move the world away from this system by reducing the importance of gold, the US dollar and the pound sterling in world finance. It does this by providing a supplement, a fourth element, in setting up reserves a country may hold to meet its international obligations.

While it does not permit nations to trade always "in the red" the new reserve element will make it easier for countries spending more abroad than they are earning to put their books into balance without submitting to severe economic deflation at home.

The new element is a special drawing right in the 106-nation International Monetary Fund which would permit drawings which, unlike present IMF drawings, would not have to be paid back though their use would be partly restricted. These rights will exist on the books of the Fund and, as credits, will be usable only by governments to settle accounts among themselves. The extent of drawing right will be determined by a nation's quota in the Monetary Fund, the equivalent of its subscription to the Fund.

French Co-operation

This plan has to face examination at the annual meeting of the IMF in Rio on September 25 and if, as expected, it is approved there it will still have to be finally sanctioned by national legislation of each member-state. This process may delay the plan's operation by two or three years. Activation will come only if member-countries with 85 per cent of the Fund's votes approve the plan. This gives the European Common Market, whose members have 17 per cent of the vote, the possibility of veto if they act negatively together. A negative Common Market attitude is, however, unlikely since France was able to force through several concessions, notably one insisting that a country with an international payments deficit that uses all of its special drawing rights must repay 30 per cent of them to the IMF. How much credit a country has used will be calculated on the basis of a five-year average.

In international monetary affairs there is usually a burst of optimism, sometimes exaggerated, whenever an agreement is achieved. Over this proposed new aid to trade financing the most cheerful comment has come from the USA, which, nevertheless, had been obliged to yield a few bargaining points over it. Britain is relieved but not jubilant. The continent is characteristically taciturn and defensive.

It is an odd trend in current European opinion that, though the continent has benefited continuously since world war II from its ever more intimate relations with US financing and US business investment and techniques, the pervasive sentiment is reluctant, cautious and often complaining.

Of the latter, a constant complaint concerns the number of British and continental business and professional people, well qualified in their spheres of work, who find employment in the USA. They range from medical specialists through bankers, scientists and business executives to butlers and waiters.

Europe always takes the attitude that it is being deprived of its best, slowly but deliberately being reduced to a second class continent, whereas, in fact, it benefits enormously from the far more advanced and experimental methods, installations and mentality of American business and banking. Quite rightly were European delegates to the "brain drain" conference at Lausanne told to stop moaning and get up to date. They were told to accept the so-called "drain" as a "welcome exogenous force, identifying the agenda for action."

Europe, especially Britain, the Low Countries, France and West Germany and increasingly Italy and Spain, have received and still receive a tremendously invigorating injection from American business. This is met with ill-concealed resentment whereas it should be a stimulant and a spur to get rid of the considerable overhang of tradition and status-consciousness in European business.

Damaging Overhang

There is, especially in France and central Europe, a damaging and retarding overhang of traditional seniority. German technicians are hidebound by their professors' prerogatives and privileges, no less than by their methods. Business houses and banks cling to old methods as much as to old installations. In many ways it is no exaggeration to say that the Middle Ages have not yet disappeared for the simple reason they provide so many dug-in sinecures and secure points.

Overstaffing and extravagance in many European banks and firms has to be seen to be believed; the laboriously complex methods of many European companies and banks is almost incredible. There is also, in central Europe, a desire for spaci-

Success often comes to those who dare and act.

ousness and display which, if it does not detract from efficiency, certainly spends much money uselessly.

Much European banking still regards even an ordinary cheque with suspicion and one cannot draw a cheque for even the most insignificant sum without receiving through the post a typewritten record of the transaction and a new statement showing the slightly lower balance. Monthly bank statements are considered insufficient and insecure—one might run a trifle into the "red", which is unthinkable.

Europeans generally are economically a most nervous people. The West Germans, whose financial reserves are among the world's most satisfactory, were frightened by a trade recess last year into national and personal economies which have damaged businesses in almost all their western neighbours this year. While maintaining their capable and vigorous export drive, the West Germans now buy less from abroad. Sixty-five per cent of them spent their holidays in Germany instead of, as usual, travelling. The consequences to Austria, northern Italy and Yugoslavia have been a disappointing tourist season. Hotel and pension keepers who operate, as many of them do, on a small capital basis, have failed—bankruptcies this year in Austria are up 13 per cent on 1966.

Generally speaking, also, many of Europe's holidaymakers who travelled did so on the cheap. Those who lived in caves while visiting Greece were an extreme case but this year there have been as many hitchhikers as cars on Europe's roads, more than ever before. The only part of Europe that seems satisfied this year with its tourist intake are Hungary and Rumania—up 40 per cent and 23 per cent over last year.

It is, perhaps, also in accordance with customary European caution that, since the Kennedy Round, the Common Market and the EFTA appear to have withdrawn more within themselves. In the first six months of this year EFTA's trade has grown overall, the total exports of the EFTA countries combined being 7.7 per cent higher than in the same period last year. But trading has increased principally between the EFTA members. All EFTA countries increased their intra-EFTA imports much more than their imports from the Common Market and some members reduced their imports from that area.

While this increased intra-EFTA trading is, presumably, the logical result of the final removal at the end of last year of all tariff and quota restrictions within EFTA it emphasises, as does the current trend of Common Market trading, the tendency to cater too closely for the European love of narrow and exclusive grouping which not only hurts the weaker parts of the non-European world but confirms Europe in its basic conservatism.

Brno Beckons Businessmen

A Correspondent

THE NINTH International Trade Fair at Brno--an important industrial centre in Czechoslovakia—will be held between 10th and 19th of this month. Last year no less than 996 exhibitors from all over the world had participated in this fair; this year the number of exhibitors is likely to exceed the 1,000-mark. Even though two-thirds of Czechoslovakia's foreign trade is with its socialist partners in eastern Europe, the volume of its trade with the non-socialist countries has been growing year after year. The non-socialist countries which are regular exhibitors at Brno are Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Kuwait, the Netherlands, Switzerland, the UK, the USA and West Berlin. India participated in this fair in 1964; despite its growing trade with Czechoslovakia, India has not taken part in this fair since 1965.

The trade fair at Brno deals mainly in engineering products, especially machine tools, mining and foundry equipment, machines and equipment for the chemical and food processing industries, machinery for the textile and rubber industries, high and low voltage electrical engineering equipment, etc. Czechoslovakia will, of course, be the leading exhibitor at this fair It will put up no less than 3,500 exhibits out of which 250 will be new products. The exhibitors from all countries will show their best in a bid to compete for the gold medals—30 in all—which will be awarded for the outstanding products exhibited at the fair.

Special Feature

A special feature of the fair is the sympcsia where scientists and technicians from all countries get together to discuss scientific and technical problems. Editors of the technical press also meet to discuss problems of reporting on the scientific and technical aspects of new discoveries in technology.

That Czechoslovakia is a highly industrialised country in eastern Europe is clear from the structure of its national income, two-thirds of which originates in industry. What is of greater significance is that Czech industrial products are accepted in the non-socialist countries for their excellence in quality. The well-known Skoda car—Model 1,000 MB—has been able to enter the highly sophisticated US market where it is able to compete with some of the best cars produced in the world. The techniques of manufacture in industrial products have reached a high level in Czechoslovakia and a clear demonstration of this achievement is presented every year at Brno. The standard of living in Czechoslovakia has moved up significantly during the last two decades. A recent survey has shown that nearly every family in the country owns a radio while every other family has a television set. The waiting period for a car --Skoda's Model 1,000 MB--is more than three years which is a clear indicator of the newly-acquired affluence.

Far Reaching Changes

While in the technical field Czechoslovakia has taken great strides, it has recently brought about far-reaching changes in planning its economy and the management of its enterprises. The "new economic model" is designed to increase productivity to provide incentives to workers and yield "profit" a word which is no longer taboo. Younger executives are revolutionising the economy of this country in order to bring it up to the international levels both in technical and economic performance. The economic system is being made competitive and consumer-oriented. Competition has now been accepted as a necessary element to make the producers conform to standards.

Co-operation between the Czechoslovak enterprises and various firms in the non-socialist countries has grown in recent years. Some technicians have also been sent abroad for training in specialised industries. The Sandrik Works at Jevicko (Moravia) recently sent some of its employees for training to the United Kingdom; it also imported machinery to produce razor blades from Swedish stainless steel under an English patent. Under an agreement the Tops Works in Ljubnjana (Yugoslavia) will produce typewriters in co-operation with Jan Sverma Works in Brno. According to another contract, Czechoslovak semi-automatic lathes will be produced in Yugoslavia for third markets. There is an arrangement between Yugoslavia and Czechoslovakia for exchange of products. The trade agreements with the non-socialist countries are also being strengthened. Last year, France agreed to increase its imports from Czechoslovakia in 1967 by three million US dollars as a supplement to the five-year commercial pact signed in 1965. As trade between socialist and non-socialist countries is likely to increase further in the coming years, there is no doubt that more and more businessmen from all over the world will be attracted to Brno.

Trade Winds

CASH ASSISTANCE TO EXPORT ITEMS

THE GOVERNMENT of India will give increased cash assistance to a number of items meant for export in order to make them more competitive and promote their sales abroad. The decision, which was taken last week at a top-level inter-ministerial meeting after discussions with representatives of various industries and panels of exports promotion councils, will benefit mainly engineering and chemical industries. All exports made up to September 30 next year will be eligible for cash assistance. Items eligible for cash assistance include plywood and timber products, china clay, absorbent cotton, power cables and a large number of steel products. The specified steel products which have thus been listed are not receiving any cash assistance, but they are eligible for five per cent import replenishment. It has now been decided to grant 15 per cent cash assistance provided they are fabricated from indigenous steel and the value added by processing is at least 33⅓ per cent of the international price of the raw material used. The Ministry of Commerce will examine each of the items in this list and approve the products eligible for 15 per cent cash assistance on the basis of this formula. The items whose cash assistance has been increased are:

Steel castings: assistance is being increased from 20 per cent to 25 per cent.

Steel forgings: import replenishment of 40 per cent and cash assistance of 20 per cent subject to the condition that the industry commits itself to export goods worth at least Rs 1 crore by March 31, 1969. If the contracts for export or physical exports fall below this level cash assistance will be only 15 per cent of the f.o.b value.

Steel pipes and tubes: cash assistance increased from 20 to 25 per cent.

Wire ropes: cash assistance increased from 15 per cent to 20 per cent.

Railway wagons: the present cash assistance of 20 per cent will continue but the Commerce Ministry will be empowered to allow an additional assistance up to five per cent on merit on account of freight disparities.

Power cables: it will be granted import replenishment up to 70 per cent and cash assistance of 10 per cent on contracts to export against cash valued at not less than £100,000.

Diesel engines: cash assistance increased from 10 to 15 per cent.

Electric fans: cash assistance increased from 10 to 15 per cent.

Light bars: cash assistance increased from 10 to 15 per cent.

China clay: new item, cash assistance of 15 per cent.

Plywood and timber products: new item, cash assistance of 15 per cent.

Absorbent cotton: new item, cash assistance of 15 per cent.

Paper cans: cash assistance increased from 10 to 15 per cent.

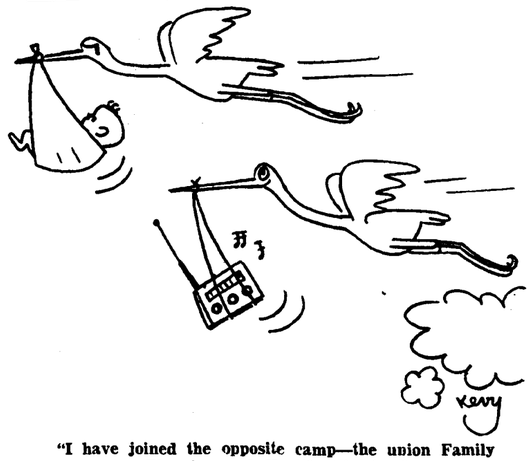
The measures have been welcomed by the Engineering Export Promotion Council of India and speaking in New Delhi, its chairman, Mr R. L. Rajgarhia, said that the council had set for itself an export target of Rs 40 crores in 1967-68. The eventual target in 1970-71 was Rs 100 crores. The measures according to him, were the result of the meetings which the Commerce Ministry had been holding with priority industries over the past three months. In all 17 industries were covered in as many meetings. He said useful results had come out of the meetings in the form of additional incentives which would go a long way in giving a boost to our exports.

ANNUITY DEPOSITS

The Government of India has decided to reduce the exemption limit for annuity deposits from the total annual income figure of Rs 25,000 to Rs 15,000 and to increase the rate of deposits for the income ranges above Rs 25,000. Details of the two decisions will be shortly announced. At present, the rates of annuity deposits are as follows: Rs 25,001 to Rs 40,000—7.5 per cent; Rs 40,001 to Rs 70,000—10 per cent; and above Rs 70,000—12.5 per cent. By reducing the exemption limit from Rs 25,000 (which was fixed through the Finance Act of 1966) to Rs 15,000, the income-tax assessees having income between Rs 15,000 and Rs 25,000 will be required to make deposits or, if they choose not to do so, would have to pay the additional income-tax in the form of penal tax. It is not yet known whether the rate of deposit for this range (Rs 15,000—25,000) would continue to be five per cent (as was provided under the existing scheme for those who opted to make such deposits) or would be modified. In 1967-68, the estimate of resources under the annuity deposits is of the order of Rs 14 crores. As a result of the lowering of the exemption limit and raising of the rates of deposit for higher income slabs now decided upon, the government expects an increase in the deposit resources of the order of Rs 10 crores. As a result of raising the exemption limit from Rs 15,000 to 25,000 in 1966-67, the reduction in receipts were put at Rs 7 crores. Besides, this gain as a result of restoring the exemption limit to Rs 15,000, the 20 per cent rise in the rate of deposits would yield another Rs 2 to 3 crores.

$45M. YEN CREDIT

An agreement for a $45 million non-project credit by Japan to India was signed in Tokyo last week between the two countries. The credit which is for the current year had been pledged by Japan under the auspices of the Aid India Consortium in April last. The loan will carry interest at the rate of 5.5 per cent instead of 5.7 per cent which had previously been the rate of interest on yen credit. The repayment period has been extended to 18 years, including a grace period of five years. The new yen credit includes $6.1 million for refinancing purposes, leaving India only $38.9 million for developmental pur-



"I have joined the opposite camp—the union Family Planning and Health Ministry."

chases. India will use $20 million to purchase fertilisers and the bulk of the rest for buying industrial raw materials. The repayment period for the refinancing part of the credit has been set at 15 years. Japan is yet to pledge $15 million for the last year and an equal amount for this year on account of project credit as India is not yet ready with her fourth Plan.

PLANNING COMMISSION

With the taking over by Prof. D. R. Gadgil as Deputy Chairman of the Planning Commission and the appointment of new Members, the distribution of work among them has been effected as below: The Deputy Chairman will have the following principal groups directly under his charge: (a) Economic group consisting of (i) economic policy; (ii) financial resources; (iii) employment; (iv) international trade and payments; (v) food policy; and (vi) prices, incomes and wages policy. (b) Plan co-ordination consisting of (i) central plans; (ii) state plans; (iii) regional and area plans; (iv) documentation; and (v) backward classes welfare. In addition, the plan evaluation wing and administration of the Planning Commission will be directly under his charge. Mr R. Venkataraman, Member, will have industry and labour, transport and power group, which will consist of (i) modern industries—large, medium and small; (ii) rural industries; (iii) minerals; (iv) railways; (v) road transport; (vi) shipping; (vii) communications, including village roads; (viii) power, including rural electrification; and (ix) labour welfare. Mr B. Venkatapiah, Member, will have agriculture and rural development group consisting of (i) agricultural production and distribution; (ii) land development; (iii) land reforms; (iv) irrigation and water management; (v) agricultural credit; (vi) marketing and warehousing; (vii) co-operation; (viii) administrative reforms; and (ix) rural housing. Mr Pitambar Pant, Member, will have the perspective planning group consisting of (i) perspective planning; (ii) inter-industry group; (iii) natural resources; (iv) manpower; and (v) statistics and surveys. Dr B. D. Nag Chaudhuri, Member, will have the scientific research and social services group consisting of (i) scientific research; (ii) education; (iii) health and family planning; (iv) urban housing and drinking water supply; and (v) urbanisation.

M.M.T.C. PERFORMANCE

The total turnover of the Minerals and Metals Trading Corporation during 1966-67 increased to Rs 89 crores, marking an increase of more than 30 per cent over the previous year's figure. The share of exports has increased from Rs 41 crores to Rs 63 crores. Within the increase of Indian exports of iron ore from 11.3 to 13.3 million tonnes, the corporation's share rose by over 12 per cent from 6.75 to 7.58 million tonnes. The balance of 5.61 million tonnes were exported by the private shippers of Goa against 5.1 million tonnes in the previous year. For the current year, the MMTC has contracted for a total supply of 8.13 million tonnes to Japan. India continued to hold during 1966 her position as the largest single supplier of iron ore to Japan contributing 22.5 per cent of that country's total imports of 44 million tonnes of the commodity. Exports of manganese ore were 1.16 million tonnes and, with the various promotional measures undertaken by the corporation in consultation with the Consultative Committee on Manganese Ore, are likely to go up as the production of the ore improves. Exports of ferro-manganese were mainly against the barters concluded with the Commodity Credit Corporation of the US government; in addition, 10,000 tonnes were exported on cash basis. With the contracts for supplies to Burma and Ceylon continuing, 3.77 lakh tonnes of coal were exported which is a substantial increase over 2.02 lakh tonnes in the previous year. Two long-term contracts were concluded for supply of one lakh tonnes of low grade Bauxite per annum to each of two firms in Italy for a period of four to five years; in addition, over one lakh tonnes of Bauxite were sold to the UK and other countries; exports of Bauxite were de-canalised towards the end of the year. The exports of chrome ore by the Corporation increased from 26,000 tonnes to 37,000 tonnes. It continued to import non-ferrous metals, certain categories of steel and raw cotton required for the consuming industries concerned. The total turnover of imports during the year was slightly over Rs 25 crores. Revaluation of the outstanding debts and liabilities of the Corporation at the time of devaluation resulted in a net gain of Rs 2 crores. Because of that, and also due to increased volume of business particularly in iron ore and the continuance of concessional rates of railway freight during the year, the profit before tax increased to Rs 9.25 crores compared to Rs 1.25 crores in the previous year, the percentage of it to turnover increasing from 1.84 per cent to 10.39 per cent. This was in spite of price increases given to iron ore and manganese ore suppliers.

EXPO '67: INDIAN PAVILION

His Excellency Roland Michner, Governor-General of Canada, paid a third visit to Indian pavilion in Expo'67 exhibition at Montreal on September 1. He was accompanied by Lady Michner. This occasion was utilised for presenting him with a silver replica of an electrical multiple unit coach, manufactured at Integral Coach Factory, Perambur. Meanwhile, sales at the pavilion during the first fortnight of August amounted to 99,000 Canadian dollars in the case of boutiques and 39,000 Canadian dollars at the restaurant attached to the pavilion, bringing the total sales up to August 15, 1967 to 940,000 Canadian dollars. A Canadian dollar is equivalent to Rs 6.9376.

GALVANISED SHEET PRODUCTION

The main producers of steel have taken steps to augment the production of galvanised sheets. Consignments of zinc,

AN EASTERN ECONOMIST PUBLICATION

INDIA'S PROGRESS SINCE INDEPENDENCE

A STATISTICAL BIRD'S-EYE VIEW

This effort at the statistical presentation of India's progress since Independence in the main directions of social and economic evolution was first undertaken in April, 1963. The present publication, which is the third edition, has benefited from the experience gained of readers' reactions to the earlier editions. Although an attempt has been made naturally not only to bring the statistics up-to-date but also to revise the contents in order to make them more interesting and informative, we have found it profitable to stick to the original idea of maintaining a combination of comprehensiveness in outline and selectivity in detail. This volume is not by any means intended to be even a summary of the nation's progress in the last 20 years. Its aim simply is to indicate broad trends and developments in a statistical form.

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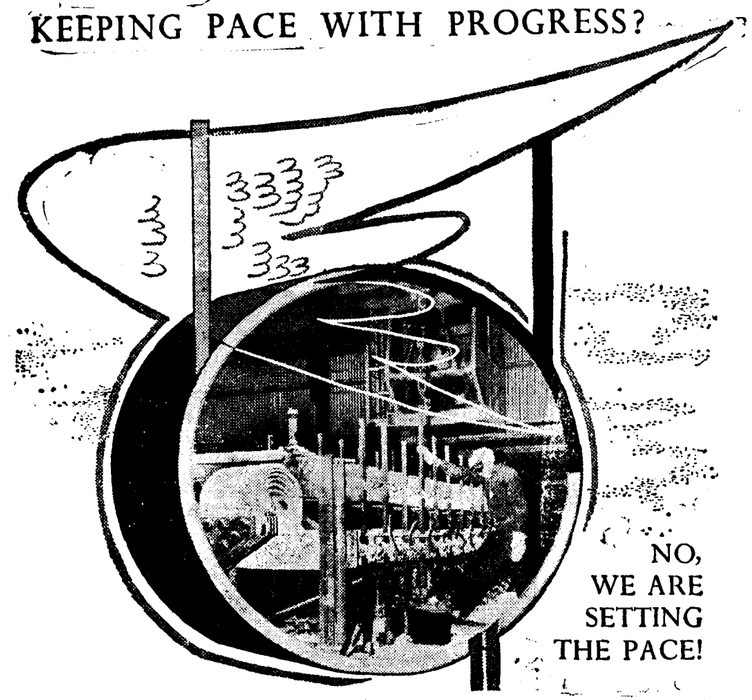
with a remittance of Rs. 6.50 (price Rs. 5.00 plus Rs. 1.50 towards packing and postal registration charges).

KEEPING PACE WITH PROGRESS?



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Hindustan Aluminium's smelter at Renukoot in U. P. was commissioned in May 1962. Today it is the biggest in India ■ In 1966, it produced 40,566 tonnes of aluminium or about 48.5% of the all-India output of 83,627 tonnes. ■ The sales turnover in 1966 totalled about Rs. 18.60 crores, including supplies of fabricated and unfabricated aluminium for electrical, utensils and consumer durables, packaging, transportation, building and construction, coinage, machinery and equipment, defence and other applications. ■ At the end of 1966, Hindalco's total assets were about Rs. 49.40 crores ■ Hindalco's rated primary capacity has recently increased by 50% to 60,000 tonnes per year and fabrication facilities are being raised to 37,000 tonnes. ■ A further colossal expansion of primary capacity to 120,000 tonnes is expected in a few years from now.

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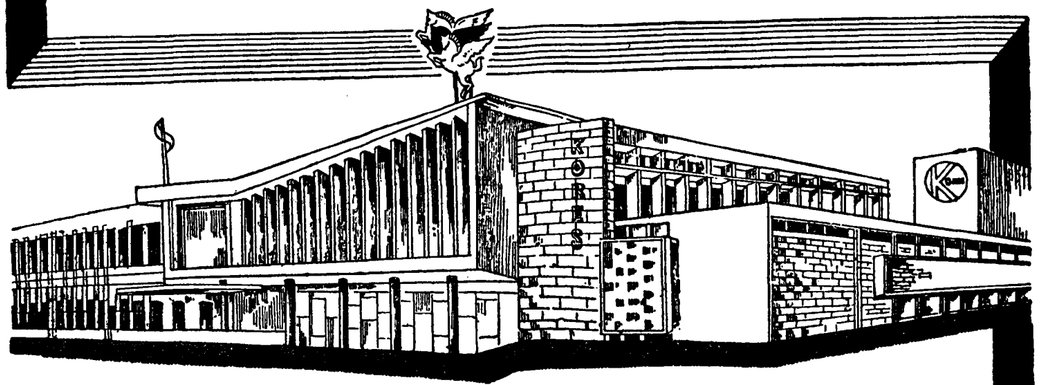

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arrangements for whose import have already been made, will start arriving from the middle of September. From October this year, TISCO is expected to achieve a production of 5,500 tonnes per month of galvanised sheets against 1,800 tonnes per month on May 1, 1967. IISCO which has not been producing galvanised sheets for some time past, expects to produce about 2,500 tonnes per month from the end of October, and the production is expected to increase to 5,000 tonnes per month from December onwards. HSL's new galvanising line at Rourkela, with a capacity of 160,000 tonnes of galvanised sheets per year, is likely to be commissioned early next year.

NATIONAL DEFENCE FUND

Contributions to the National Defence Fund up to the end of August 1967 amounted to Rs 80.47 crores. Of this, Rs 19.84 crores were contributed from September 1, 1965, and Rs 1.16 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 August 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.

GERMAN AID FOR RAILWAYS

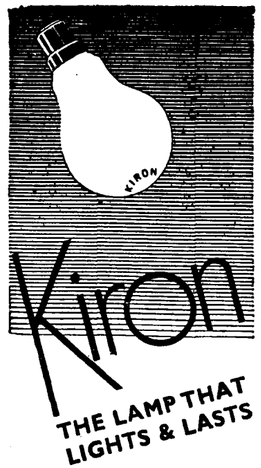
A three-man West German mission, headed by Dr Ottokar Hahn, was in India recently in connection with the proposed DM 16 million financial assistance for the Indian Railways. The projects which are to be covered by this credit include installation of route-relay interlocking system in the Bombay suburban area and at Vijayawada and Kharagpur, import of power packs for diesel shunting locomotives being manufactured at Chittaranjan and certain special purpose machinery which is not produced indigenously.

I.D.B.I.

During 1966-67, both the number of applications and the amount of assistance sanctioned by the Industrial Development Bank of India showed some decline, following the substantial step-up of activity in 1965-66. This is revealed in the bank's annual report published last week. Total sanctions (gross) declined from Rs 70.1 crores in 1965-66 to Rs 64.2 crores in 1966-67 as a result of a decline in assistance sanctioned in the form of refinance, direct loans and underwriting of shares and debentures, which was partly offset by increases under rediscounting and subscriptions to shares and bonds of financial institutions. Guarantee assistance sanctioned during the year was also smaller than in 1965-66. There was, however, an increase in assistance from Rs 51.1 crores in 1965-66 to Rs 59.3 crores. Assistance outstanding at the end of the year stood at Rs 144.3 crores and outstanding commitments at Rs 53.3 crores. As regards direct assistance, the IDBI received, during 1966-67, 71 applications from 46 industrial concerns for Rs 100.2 crores; of these, it sanctioned assistance on 33 applications to 25 industrial concerns for Rs 33.9 crores, comprising 19 loans for Rs 23.7 crores, 10 underwriting arrangements for Rs 2.4 crores and 4 guarantees for Rs 7.9 crores. The bulk of the direct assistance sanctioned during the year was in the form of loans. A part of the assistance sanctioned was in response to requests from industrial units for finance to meet the overruns in project cost arising from devaluation, inflation in the economy, delays in implementation, etc. The size of assistance sanctioned to individual projects varied from Rs 7.5 lakhs to Rs 5 crores, indicating the considerable element of flexibility in the range of operations of the IDBI. Industry-wise, the pride of place was taken by fertilisers, basic metals (including alloy and special steels) and machinery industries, the three together accounting for 80.8 per cent of the total sanctions. During 1966-67, the total income of the bank's general fund amounted to Rs 6.43 crores and total expenditure Rs 4.37 crores. Of the excess of income over expenditure of Rs 2.06 crores, Rs 1.70 crores were credited to the reserve fund, raising the Fund to Rs 3.76 crores at the end of June 1967. The balance of Rs 36.1 lakhs was transferred to the Reserve Bank of India, the amount transferred in the previous year being Rs 26.4 lakhs. The development assistance fund showed a profit of Rs 37.2 lakhs.

ESCORTS GO TO GHANA

The well-known firm of Escorts Ltd is the first to take Indian know-how to Ghana. It has entered into a collaboration with a firm in Accra for the setting up of a joint venture under the name and style of Escorts Agricultural Engineers Ltd. To the new company's total capital of £50,000, the contribution of Escorts will be 60 per cent, mainly in the shape of technical know-how and machinery made in India; the rest of 40 per cent will be the share of the Ghanaian collaborator, who will provide land, building and running capital for the project. Escorts-Agricultural Engineers will produce wire nails making machinery, galvanised buckets, head pans, pipe welded iron and steel, screws, bolts and nuts, agricultural equipment, etc. Besides, the company will also run a 2,000-acre farm where Indian made tractors and other agricultural equipment will be demonstrated mainly with the object of popularising them in Ghana. West Africa is a vast market and the Ghanaian government particularly gives the following facilities to foreign collaborators: a tax 'holiday' up to 10 years; free repatriation of profits and investments, if necessary; guarantee against expropriation by government; full assistance in the import of machinery and raw materials; exemption from property tax and rates; capital allowances in respect of buildings, plant, machinery, etc.; and exemption from indirect taxes and charges.



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Company Affairs

MUKAND IRON

MR KAMALNAYAN Bajaj, Chairman, Mukand Iron & Steel Works Ltd, in a statement circulated along with the annual report of the company for the year 1966-67 indicated that the establishment of additional steel-making capacity was a time consuming process and present indications of postponement in the expansion schemes of various steel plants was a disturbing factor. He believed that once the economy started booming, shortage of steel could prove to be a serious bottleneck to the industrial development. The minimum the government could do, he suggested, was to have a thorough market research to determine the possible demand for various categories of steel over the next 10 years and prepare plans for creating additional facilities or avoiding excess production of different categories in conformity with the estimated demands. He welcomed the decontrol move on pricing and distribution of all categories of steel with effect from May 1, 1967, which was done in pursuance of the recommendations of the Khadilkar Committee. He, however, was critical of the government's measure to approve of the price increase asked by the Joint Plant Committee which determined the prices of the main producers. The engineering industry, he added, was in the midst of recession and could not afford to purchase steel even at the old prices. The provision for supplying at international price the steel utilised for the manufacture of engineering goods which were exported would not materially change the situation because the quantity of steel consumed for such purposes was relatively small. He added, that an increase in the prices for domestic consumption at this stage would not only cripple the engineering industry but would also result in reduced off-take of steel from the main producers. Under the present circumstances, when the prices of end products had also considerably come down, an upward revision of prices by main producers was unfortunate. He suggested that the move should have been for a downward revision so as to stimulate the demand and ensure better recsults.

Mr Kamalnayan Bajaj stated, that the government had delayed for nearly two months the announcement of revised cash subsidy to re-rollers for exports of bars and rods which did not fall in the category of engineering goods. Even the subsidy announced would hardly leave any margin to them while they were not in a position to sustain any losses on account of the recession in the domestic market. He suggested that the subsidy should be increased by at least 5 per cent.

BENGAL CHEMICALS

Dr B. N. Ghose, Chairman, Bengal Chemicals and Pharmaceutical Works Ltd, stated in the annual general meeting held recently that the company recorded satisfactory results despite the handicaps it suffered during the year. It improved its sales by about 10 per cent over the last year's results. The dividend at 10 per cent has been proposed to be maintained by the directors. The commissioning of the sulphuric acid plant with a capacity of 50 tonnes every day at Panihati factory was expected shortly. It was delayed, he added, because of the non-availability of proper and adequate quantities of raw materials, rising costs and transport bottlenecks. He added that tar distillation and soap manufacturing units at Panihati factory were idle for want of raw materials. Attempts were, however, being made, he added, to maintain the continuity of business in road tar. The soap department was facing the crisis because the prices of engineering raw materials were abnormally high. Similarly the production of alum suffered because of disruption in the movement of bauxite from South India by railway wagons in October-November 1966. Supplies of glycerine, an important raw material for several pharmaceuticals, also dropped during the year, he stated. The devaluation of the rupee has increased the cost of import, the chairman added.

Dr Ghose stated that the exports of the company dropped due to various reasons such as the non-availability of imported raw materials and inadequate supply of indigenous materials necessary for export products. He added, however, that with the liberalisation of the import policy by the Government of India the company expected the export to improve during 1967-68. He added, that certain new products introduced by the company had been well received in the market and were expected to command a good sale in due course.

UNIVERSAL CABLE

The directors of the Universal Cable Limited have in their report for the year ended March 31, 1967, stated that the Government of India has now decided—in accordance with its import substitution policy—to ban the manufacture of pilc cables up to 11 kv with effect from July 1969. As such, the company is changing over from pilc to PVC cables. Arrangements are in progress for implementing this change-over. Pilc cables of 22 kv and 33 kv are not affected by the government directive. As such the manufacture of these cables is being continued, the production of which commenced during the year under review. Additional equipment for expanding the production of railway signalling cables has been installed. However, as the market for insulated cables is depressed for some time, the company is diverting its energies more to the manufacture of AAC and ACSR conductors. Plant and machinery for capacitors project have been received and with the help of Japanese collaborators, their erection is progressing fast. This plant is expected to go into commercial production from September 1967. Meanwhile, arrangements are being finalized for the marketing of the product.

In spite of higher sales at Rs 5.66 crores against Rs 4.44 crores, the working results for the year have shown a decline in earnings. The net profit, after providing for depreciation and taxation, amounts to only Rs 35.31 lakhs against Rs 62.61 lakhs for the previous year. In this connection, the directors state that on the one hand, production costs went up steeply as a result of the sharp increase in the cost of imported raw materials after devaluation as well as in the cost of indigenous stores and in wages. On the other hand, selling prices of cables declined due to general depression in the country and the increased competition in the cable industry resulting from surplus production. In fact the higher sales do not reflect the real market conditions. There was a back-log of outstanding orders against which dispatches were made during the year under review. As a matter of fact, the cable industry, as a whole, has been working at much below the rated capacity since the past six months because of inadequate demand, not to speak of the increased excise duties and railway freight. Except depreciation which is raised to Rs 37.23 lakhs from Rs 28.36 lakhs, all other allocations have been reduced: taxation from Rs 19.75 lakhs to Rs 15.00 lakhs, development rebate reserve from Rs 25.01 lakhs to Rs 7.07 lakhs; general reserve from Rs 25.00 lakhs to Rs 18.00 lakhs and dividend equalization reserve from Rs 12.00 lakhs to Rs 11.00 lakhs. For the second year in succession the dividend is maintained at Re. 1 a share.

GWALIOR RAYONS

The directors of the Gwalior Rayon Silk Manufacturing (Weaving) Co. Ltd, in their report for the year ended march 31, 1967, observe that the company's programme of installation of sophisticated automatic looms and finishing equipment for processing wide varieties of synthetic fabrics is progressing satisfactorily. The engineering division, apart from manufacturing another complete staple fibre spinning plant of 20 tonnes per day capacity, has manufactured sulphuric acid plant, CS 2 electric furnaces, water treatment plant and machinery, including demineralisation plant, rayon machinery and equipment. The marketing research department of the company introduced new varieties of fabrics made of cotton, wool, jute and other man-made fibres in blend with staple fibre. Referring to the Bhiwani Textile Mills, the report stated that the cost of production, which has shown a steep rise on all fronts, had its impact on the working of this unit also. However, with the modernisation of its dyeing and finishing sections, its working is expected to improve. The company has made an application for imports of essential machinery and equipment for the caustic soda project. Another application for imports of machinery for establishing a rayon pulp plant in Mysore State with a rated capacity of 100 tonnes per day is pending with the government.

UCO BANK

The net profit of the United Commercial Bank Ltd, for the year ended June 30, 1967, after taxes, including Rs 3.42 lakhs brought forward from the previous account, amount to Rs 40.26 lakhs. The directors have decided to pay an interim dividend for the current year at the rate of Rs 3 a share less tax, which will absorb Rs 16.80 lakhs and to carry forward the balance of Rs 23.46 lakhs to the current half-year. The dividend for the year ended December 31, 1966, was Rs 6.50 a share (13 per cent) less tax.

BROOKE BOND

Brooke Bond Estates India Ltd, has produced encouraging working results for the year ended June 30, 1967. The preliminary statement reveals a higher pre-tax profit of Rs. 11.99 lakhs against Rs 8.31 lakhs in the preceding year. After raising the taxation provision from Rs 4.47 lakhs to Rs 6.76 lakhs, the profit after tax still works out higher at Rs 5.24 lakhs against Rs 3.84 lakhs for 1965-66. After adding Rs 22,532 being the balance brought forward from the previous year, Rs 15,823 being provision for staff and labour bonus in respect of past year withdrawn and Rs 42,500 being development rebate no longer required, there is an available sum of Rs 6.05 lakhs. From this Rs 25,505 is transferred to capital reserve and Rs 51,243 to development rebate and allowances. The directors have proposed to raise the ordinary dividend from 7.5 to 9 per cent.

GONTERMANN-PEIPERS

Gontermann-Peipers (India) Ltd will shortly raise capital amounting to Rs 90 lakhs, divided into 9,00,000 equity shares of Rs 10 each. Of the present issue, Rs 11 lakhs have been subscribed by the Indian promoters. Shares worth Rs 36 lakhs and Rs 18 lakhs have been allotted to Gontermann-Peipers GMBH, West Germany and Deutsche Entwicklungs Gesselschaft, MBH, West Germany, respectively, against payment of equivalent amount in West German marks, which is to be utilized for purchase of imported plant and equipments. The balance of Rs 25 lakhs is being offered to public subscriptions, at par. The entire public issue is underwritten.

The main objects of the company are to initiate and to carry on business as manufacturers and exporters for iron and steel rolls (solid and hollow) for all industries, including steel plants. The factory is situated in Diamond Harbour Road, West Bengal. The construction of the factory is under completion. According to the present manufacturing programme, the company shall be in a position to produce 1,200 tonnes in the first year and 3,000 tonnes in the following years. The company has already made a provision to enlarge its capacity to 8,000 tonnes a year subsequently. The products of the company can be exported to all parts of the world. The industrial Finance Corporation of India, the ICICI and Industrial Development Bank of India have agreed, in principle, to make available to the company long-term loans of Rs 30 lakhs, Rs 20 lakhs and Rs 10 lakhs, respectively, to meet a part of the project cost. Production is expected to commence by March 1968.

TRANSFORMER AND SWITCHGEAR

Transformer and Switchgear Ltd has reported satisfactory progress for the 15-month period ended March 31, 1967, with the gross profit rising from Rs 16.19 lakhs to Rs 19.81 lakhs. The directors have recommended an equity dividend of 10 per cent, calculated for a period of 15 months which will absorb Rs 62,480. Allocations include: development rebate reserve Rs 5,284, taxation Rs 5.37 lakhs and depreciation Rs 12,325. General reserve gets Rs 2.60 lakhs. The net profit works out to Rs 8.03 lakhs against Rs 8.65 lakhs for the previous year. The proposed dividend will be paid out of general reserve. The directors state in their report that the production has been stepped up to 187,750 KVA from 150,670 KVA and the turnover has increased to Rs 73.23 lakhs from Rs 55.92 lakhs. The company has received an industrial licence for expansion to 250,000 KVA per annum. The company is negotiating a new agreement with its West German collaborators. When concluded, it will enable the company to produce transformers of high rating and capacity.

BOMBAY SUBURBAN

Bombay Suburban Electric Supply Co. Ltd has earned a higher gross profit of Rs 101.26 lakhs for the year ended March 31, 1967, against Rs 99.54 lakhs in the previous year. Sales went up from Rs 3.52 crores to Rs 4.06 crores. The directors have recommended a final dividend of Rs 7 per share (making 11 per cent for the year) against the previous year's final dividend of Rs 6 per share (making 10 per cent). In his statement to shareholders, the chairman has indicated that the power offtake by industrial consumers has slowed down. But it is being made good somewhat by enlarged offtake for residential lights and fans consumption. The company has a programme to raise Rs one crore of additional finance towards the close of 1967, Rs 50 lakhs of which will be in the form of equity capital and the balance of Rs 50 lakhs in redeemable debentures.

HINDUSTAN WIRES

Hindustan Wires Ltd has earned a profit of Rs 11.17 lakhs for the year ended March 31, 1967, against a profit of Rs 12.59 lakhs, after providing Rs 9.10 lakhs for depreciation and Rs 2.86 lakhs for development rebate reserve. A taxable ordinary dividend of Re 1 per share has been maintained and paid out of the general reserve which is allocated Rs 11 lakhs. Sales rose from Rs 2.39 crores to Rs 2.66 crores. Owing to depressed market conditions, prices of finished goods could not be increased fully to compensate the higher cost. The company is making efforts to diversify its production and to manufacture different wires which were not being produced by the company.

SARAN ENGINEERING

The Saran Engineering Co. Ltd has earned a lower profit of Rs 2.46 lakhs in the year to March 1967, against Rs 3 lakhs in the previous year, after providing Rs 1.01 lakhs for depreciation, Rs 2.85 lakhs for taxation and Rs 20,601 for development rebate reserve. After adjustments and transferring Rs 1.97 lakhs to the general reserve, the directors propose to maintain the dividend at 10 per cent which will absorb Rs 60,000. A sum of Rs 1,040 has been carried forward. The directors state in their annual report that the difficulties in the sugar mill industry will have an adverse effect on the current year's working of the company which produces sugar mill machinery. The directors have abandoned the proposed pneumatic power hammer project with German collaboration, and the proposed issue

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of 300,000 equity shares of Rs 4 each to finance the project has also been dropped. The directors have proposed the issue of bonus shares in the ratio of 1 for every equity share held, by capitalising Rs 6 lakhs out of the general reserve.

ZANDU PHARMACEUTICAL

The Zandu Pharmaceutical Works Ltd, Bombay, has earned a much lower profit of Rs 3,735 for the year ended March 31, 1967, against Rs 1.89 lakhs for the previous year, after providing Rs 1.25 lakhs for depreciation, and Rs 10,435 for development rebate reserve. After adjustments and transferring Rs 25,000 from the general reserve, the directors propose to pay the preference dividend, which absorbs Rs 24,150, and have skipped the equity dividend, which was paid at Rs 11 a share in the previous year, absorbing Rs 1.65 lakhs. The chairman has ascribed the lower profit to mounting costs of raw materials, packing materials, higher wage bill, as against the selling prices fixed at the levels of April 1963.

PREMIER TYRES

Premier Tyres Ltd has shown good results during the year ended March 31, 1967. Sales have gone up from Rs 2.68 crores to Rs 6.84 crores (inclusive of exports of Rs 39.53 lakhs). After providing depreciation of Rs 18.47 lakhs, the year's working shows a profit of Rs 50.91 lakhs which is adjusted against the previous year's loss and the debit balance of Rs 21.09 lakhs is carried forward. With an expected turnover of Rs 10 crores this year, the company hopes to clear all preference dividends in arrears and declare a small maiden dividend also. With the payment of the final instalment of Rs 3 lakhs on March 15, 1967, the company has cleared in full the loan of Rs 30 lakhs of the Agency for International Development. The factory has been working in three shifts from September 1, 1966. The company has been planning to expand production of tyres by 25 per cent. The expansion will require about Rs 30 lakhs, but the company can finance it from its internal resources. The recession in the automobile industry, the company sources believe, will not affect the fortunes of the company. Demand for tyres will continue looking up. The company's sales in the first five months of the current year have already gone to Rs 3.75 crores. After expansion annual sales might go up to Rs 14 crores. The company has received a letter of intent for manufacturing cycle tyres and tubes. It is also planning to take agencies for lamps, bulbs, spare parts and accessories required for the automobile industry.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 11 companies to raise capital amounting to over Rs 4.55 crores. Eight of them are to issue bonus shares exceeding Rs 52 lakhs. The amount of bonus shares ranges between Rs 47,160 and Rs 25 lakhs. The consents are valid for 12 months.

Raymond Woollen Mills, Bombay, will capitalize Rs 25 lakhs out of general reserve and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for three held.

Killcott Tea Co., Calcutta, is to capitalize Rs 10.44 lakhs from capital reserve and issue fully paid bonus shares in the ratio of one for two held.

United General Trust, Bombay, will capitalize Rs 5,85,000 out of general reserve and issue fully paid equity shares of Rs 50 each as bonus shares in the ratio of one for two held.

Nutan Mills, Ahmedabad, is to capitalize Rs 5 lakhs out of free reserves and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one for five held.

Likwan Tea Co., Calcutta, will capitalize Rs 2,20,000 from its general reserve and issue fully paid bonus shares in the ratio of one for eight shares held.

Scientific Fertilizer Co., Coimbatore, will capitalize Rs 2 lakhs out of free reserve and issue fully paid equity shares of Rs 50 each as bonus shares in the ratio of one for five held.

Hindustan Embroidery Mills, Delhi, will capitalize Rs 1,41,690 out of general reserve and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one for five held.

Bangalore Printing and Publishing Company will capitalize Rs 47,160 out of general reserves and issue fully paid equity shares of Rs 10 each as bonus shares in the ratio of one bonus share for every 10 fully paid-up equity shares held.

Delta Jute Mills, Calcutta, will issue capital of Rs 1,27,75,540 consisting of Rs 19 lakhs in 9.1% cumulative preference shares of Rs 100 each and Rs 1,08,75,540 in equity shares of Rs 10 each, to be allotted as fully paid to the existing holders of the preference and equity shares of Budge Budge Jute Mills and Cheviot Mills, on the amalgamation of the two companies with Delta Jute Mills as approved by the Calcutta High Court.

Ahmedabad Advance Mills, Bombay, will issue capital of Rs 30 lakhs in equity shares of Rs 100 each for cash at par for setting up a cold rolled steel mill.

New Central Jute Mills, Calcutta, will issue loan capital of Rs 2.45 crores in first and second mortgage debentures of Rs 45 lakhs and Rs 2 crores respectively carrying 8% interest.

LICENCES AND LETTERS OF INTENT

The following licences were issued under the Industries (Development and Regulation) Act, 1951, during the fortnight ended August 19, 1967. The list contains the names and addresses of the licensees, articles of manufacture, types of licences, i.e., New Undertaking (N.U.); Substantial Expansion (S.E.); New Article (N.A.); Carry on Business (C.O.B.); Shifting and annual installed capacity.

During the Week ended August 12, 1967

LICENCES ISSUED

Boilers

M/s. Indian Sugar & General Engg. Corpn., Yamunanagar, Distt. Ambala. (Yamunanagar, Haryana): High Pressure thermal power station boilers ranging from 60 MW to 200 MW with pressure of steam 650 lbs to 2000 lbs per square inch—Capacity to be fixed one year after the factory has gone into production. (S.E.).

Automobiles

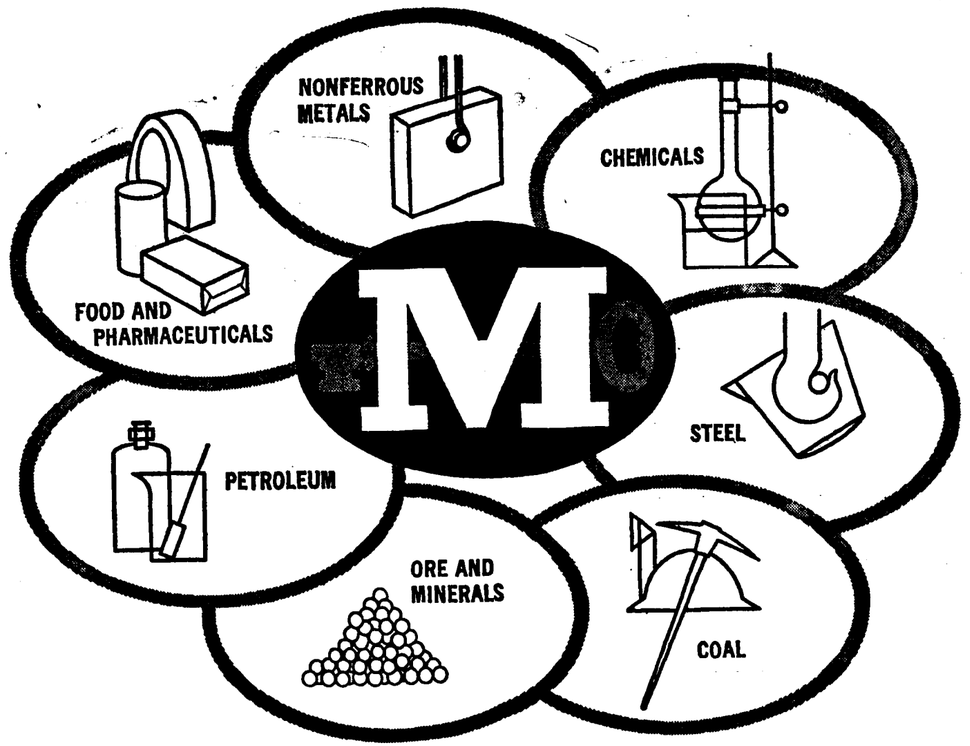
M/s. Luk Auto Ancillary (India) Ltd., Jeevan Vihar Building, Parliament Street, New Delhi-1. (Haryana State): (i) Clutch Discs for Motor cycles, scooters etc—60,000; (ii) Clutch discs for Tractors & Heavy Equipment—36,000; (iii) Discs for Diesel Engines—60,000. (N.A.).

Mining Machinery

M/s. McNally Bird Engineering Co. Ltd, Chartered Bank Buildings, Calcutta-1. (Kumardhubi Dhanbad Distt. Bihar State): 1. Lime Recovery Plant. 2. Lime Burning Plant. 3. Coke Calcining Plant. 4. Ore Pelletizing Plant. 5. Manganese Ore Nodulizing Plant. 6. Phosphate Ore Nodulizing Plant. 7. Lightweight Aggregate Plant. 8. Magnesite Calcining to Periclase for Refractory Industry. 9. Carbon Paste Plant. 10. Special Coking Plant. 11. Pelletizing Fine Materials. 12. Rock Crushing and Screening. 13. Pneumatic Handling system. 14. Complete Line of Kennedy Van Saun Machinery such as Crushers and Kilns, which are components of the above plants —Capacity: Two such plants in 3 years. (N.A.).

Insecticides and fungicides

M/s. Cyanamid India Ltd. P.O. Box 6577, Worli, Bombay-



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18 WB. (Atul P.O., via Bulsar, Gujarat State): Malathion (Technical)—675 tonnes per annum (after expansion). (S.E.).

LETTERS OF INTENT

Machine Tools

M/s. Indian Sugar & General Engineering Corpn. Yamunanagar, District Ambala, (Yamunanagar Haryana); Press Brakes; Plate Bending Rolls, Guillotine Shears — 60 numbers per annum. N.A.); M/s. Godrej & Boyce Mfg. Co. Pvt. Ltd, Lalbaug, Parel, Bombay-12 (DD). (Vikhroli Distt. Bombay, Maharashtra): Iron worker per annum—36 Nos. (N.A.).

Food Processing Industries

M/s. Tapioca Products, Prop. M/s. Sayaji Mills Ltd, Kathwada, Ahmedabad-2. (Chalakudy, Kerala): (i) Starch and Modified Starches—36,000 tonnes per annum; (ii) Glucose Syrup—14,000 tonnes per annum (after expansion).—(S.E.); M/s. The Jeypore Sugar Co. Ltd, Post Box No. 703, Madras-6. (Orissa): Liquid Glucose—9000 tonnes per annum. (N.A.).

Leather

Shri G. B. Ghanekar, Prop. M/s. Universal Agencies, Ghanekar Building, P.O. Box No. 111, Panjim (Goa): Capacity per annum (in pairs)—(i) Footwear with Leather Soles—7,00,000; (ii) Footwear with Rubber Soles—5,00,000; (iii) Footwear with plastic soles—3,00,000. (N.U.).

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

M/s. General Abrasive Co. (P) Ltd, Bombay—Bonded Abrasives; M/s. Plastic & Machinery Distributors, Calcutta—Mould Dies and Tools; M/s. Sassoon Spg. & Wvg. Co. Ltd, Bombay—Cotton yarn (two); M/s. Dawn Mills Co. Ltd, Bombay—Cotton cloth.

During the Week ended August 19, 1967

LICENCES ISSUED

Textile Machinery

M/s. Mather Greaves Ltd, C/O Mather & Platt Limited, Post Box No. 327, Bombay-1 (BR). (Akurdi Village, Chinchvad District, Poona, Maharashtra): Continuous Open Width 'J' Box Bleaching Range and continuous rope type 'J' Box Bleaching Range—3 units per annum. (N.A.).

LETTERS OF INTENT

Machine Tools

M/s. Precision Industries, 14, Rajabahadur Mansion, 11, Bruce Street, Bombay-1. (Madras State or Mysore): (i) Broaching Tools—3,000 numbers per annum; (ii) Broach Grinding Machines—4 numbers per annum. (N.U.).

Food Processing Industries

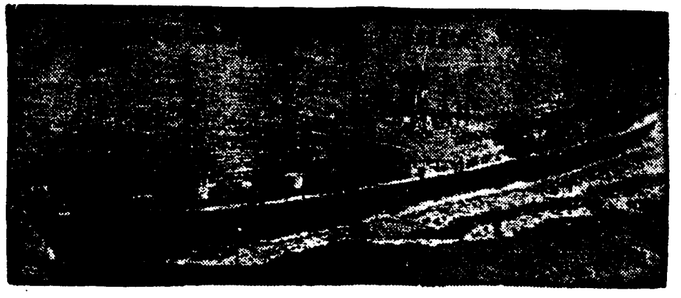
M/s. Jagatjit Distilling & Allied Industries Ltd, 54, Ring Road, Lajpat Nagar—III, New Delhi-14. (Haryana, Punjab): Malt Extract—from 1800 tons to 3,000 tonnes per annum. (S.E.)

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

From M/s. Premraj Ganpatraj & Company Private Ltd, Madras to M/s. Madras Electrical Conductors Private Ltd, Madras.

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

M/s. The Tube Investment of India Ltd, Madras—Push Rods for Motor Industry and Bundy Welded Tubings; M/s. B. S. Gupta & Sons, Calcutta—Cinema Arc Carbons, Midget Electrodes and Miscellaneous Carbon Products; M/s. Anil Huthee Singh, Ahmedabad—Loudspeakers, Paper Cones, Spiders; M/s. Alcock Ashdown and Company Limited, Bombay—E.O.T. Cranes, Wharf Cranes, Goliath Cranes and Jibs Cranes, etc; M/s. Indian Hardware Industries Ltd., New Delhi—Eccentric Presses and Portable Electric Tools; M/s. Dhanda Engineers Pvt. Ltd, Faridabad—Milling Cutters, Reamers, Taps, Dies, Tool Bits, Single Point Carbide Tipped Tools and Gauges; M/s. Hind Chemicals Ltd. Kanpur—Di-Amino-di-phenyl-Sulphone; M/s. Modi Spg. & Weaving Mills Co. Ltd, Modinagar—Towelling Cloth; M/s. Birla Cotton Spinning & Weaving Mills Ltd, Delhi—Terry-Towelling Cloth; Shri Madanlal K. Goenka, Akola—Cotton yarn and cloth.



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COMPANY MEETINGS

Shri S. L. Kirloskar

KIRLOSKAR OIL ENGINES LTD., POONA 3.

Speech of the Chairman, Shri S. L. Kirloskar

The following is the text of the Speech delivered by Shri S. L. Kirloskar, Chairman, at the 21st Annual General Meeting of the Company held in Poona on Tuesday, 29th August 1967:

Ladies & Gentlemen,

I welcome you to the 21st Annual General Meeting of the Company.

The Directors' Report and the Audited Accounts for the year ended 31st March 1967, have been circulated to you. I am sure, you will have gone through it. With your permission, I shall take them as read.

ACCOUNTS

It gives me pleasure to report that your Company has had another successful year. The accounts for the year ended 31st March 1967, reveal a profit of Rupees 1,82,35,927 after providing for Depreciation for the year, Remuneration to the Managing Agents and the amount set aside for the payment of Bonus to the Employees. Your Directors have set out in the Report, their recommendations for the allocation of the profit, under various heads. In spite of the appreciable increase in the paid-up equity capital of the Company, during the year under review, your Directors have recommended maintaining the rate of Dividend, namely 16% on the Equity Shares and 10% on the Preference Shares, subject to deduction of taxes.

PRODUCTION & SALES

The year was highlighted by increased production and sales. The plants for assembling RA Type Engines at Faridabad and AV Series Engines at Madras have been functioning quite satisfactorily. They have helped us to increase our production, with comparatively lesser outlay.

The production of Thin Walled Bearings and Bushes is also on the increase. More and more varieties of Bearings and Bushes, suited for different makes of automotive and industrial stationary type engines are now being produced. The white metal strip plant to which I had occasion to refer, in my report last year is in production. This has not only stimulated our production of bearings, but has also reduced our dependence on foreign sources of supply for white metal strips. It has also saved the country considerable foreign exchange.

You must have read recently in the Press that our engines have not been included in the approved list of engines for Tagai Loans to agriculturists, by the Government of Maharashtra. Obviously, you would be interested to know the reason for this. Till the beginning of May 1966, our engines were on the list of approved engines for Tagai purposes. However, the Government of Maharashtra, by a notification dated 5th May 1966, excluded our engines from the said approved list for the first time as they did not accept the reasonable increase in price demanded by us, in spite of our giving them the full details regarding the increase claimed.

Here, a word about our pricing policy would be necessary. In the price of our engines, the main factor which determines it is the cost of production and that is the item which has been continuously increasing. A rise in the cost of production, within a certain limit is normally absorbed by us. It is only when it gets beyond the limit that we change our prices. Revision of prices of our engines is usually made at the beginning of the financial year so that it may not disturb our distributors' commitments to their customers, for the year.

Further, (i) from the very beginning of our Company, we have, as a matter of policy, maintained a uniform price for the whole of India. Our engines are sold in all parts of the country for the same price, freight paid up to the destination. (ii) We supply engines to various State Governments and it is stipulated in every agreement with the State Governments that we shall not supply these engines to any other State or party at a lower price. This is a contractual obligation and we are bound by this stipulation in the matter of price of our engines. From these facts, it can easily be seen, how impossible it is for us to change our prices to the Maharashtra State Government or to any other Government for that matter. The Government of Maharashtra does not however seem to appreciate the rationale of our pricing policy.

We have brought these facts to the notice of the Maharashtra State Government. In the course of our discussion with them, we also suggested that we would be supplying them all the material particulars regarding the proposed revised price structure in the month of December every year, whenever the circumstances necessitate an upward revision of the prices. This would enable the State Government to go through our case and offer their views in time. We would then get sufficient time to consider their views and fix our revised prices for the next financial year in the beginning of April every year.

I am constrained to say that in spite of our supplying the Government of Maharashtra full details regarding revision in the price of our engines in December last, they have not been able to come to a decision in this matter and no mutually acceptable solution to this problem has been reached yet. We have not been favoured by any reasoned views by the State Government except for a query as to whether we would accept a lower price than that proposed by us. We could not accept such a proposal in the absence of any logical reason in support of their suggestion.

We have an all-India market for our engines and as stated earlier the prices we have fixed hold good for all parts of the country. Other State Governments have accepted our prices as reasonable. We have not come across any single instance where there was any price resistance in selling our engines. On the contrary, on account of the superior quality of our engines their assured performance and lesser running cost, our prices have proved very competitive.

Moreover, unlike in the case of consumer goods, where a little reduction in price is likely to boost the demand and increase sales, in the case of products like oil engines, the demand is not directly related to cost. There is no flexibility o

elasticity in the demand, directly related to price, in the case of our engines. For instance, if there is really no demand for our engines, no matter what low price we quote, the situation is not going to alter.

In spite of this problem we are facing, we have done our very best to serve the interest of agriculture in our State by supplying almost the same number of engines as we normally used to supply to farmers in our State. We have found that if the choice is left to the agriculturists. Kirloskar Engines would be their first choice. You would be interested to know that last year, when there was drought conditions in different parts of the country, we rushed extra quotas of engines to such areas by postponing supplies to our export markets. We shall continue to play our part in the national effort for the production of more food, as equitably as we can. I would also like to inform you that we are still in correspondence with the Maharashtra State Government and I only hope that it will be possible to evolve a mutually acceptable procedure for resolving the current stalemate.

EXPORTS

As during the last year, our exports rose by 20% in value over that for the previous year. The physical quantum of export of our engines and other products however showed a decline, compared to that during the preceding year. The major reasons for this decline in exports are, temporary adjustments due to devaluation in the various export markets, non-implementation of the Indo-UAR agreement and the unfavourable crop conditions in West Asian countries.

However, the year witnessed a spread over of our activities in many new markets. The development of these markets, during the next few years will augment considerably our export trade there.

The year also witnessed the beginning of the manufacture of our engines at the factory of Messrs F. H. Schule, GMBH. Hamburg, our subsidiary in West Germany. It is hoped, this will considerably strengthen our position for sales of our engines in Europe.

The working of our sales office at Bangkok has been quite satisfactory. This has inspired confidence in our products in that region. The buyers there are now convinced that our engines are backed up by an efficient organisation for affording prompt after-sales service and supply of spare parts. We have recently opened a similar sales office and a warehouse at Rotterdam. This has facilitated speedy supply of engines to the distant South American markets and to Canada. The sales to these markets are now being co-ordinated from Rotterdam.

INFLATION & RECESSION

A major set back, which the industries had to face in this country, during the year 1966, was the rising degree of inflation. The pressure of rising prices on the cost of production has been considerable. In most cases, it was much more than what the industries could normally absorb. The causes of the inflation are many and very complex.

Whether the present inflation and the recessive position would improve in the near future, because of an improvement in the food situation, consequent upon a favourable monsoon, is still a matter of wide guess. So it would not be wise to act on this assumption. The industries will have to be on their guard and they would do well to watch their step.

EXPANSION

The expansion schemes we had initiated progressed well during the year. The licences under the Industries (Development and Regulation) Act, 1951, and the licences for importing machinery and equipment for these expansions have since been received. But the present recession in the Engineering Industry has been causing us some anxiety, even though its impact on us is not, as yet, so pronounced. However, we are watching the situation and holding in abeyance all our expansion programmes for a period of six months. This, however, will temporarily impede our exansion programmes. This cannot be helped under the circumstances. It would be unwise to ignore visible signs of recession on every side and proceed with our expansion schemes in the hope that these conditions may not remain long. If the situation does not improve and the recession continues, the consequences of our making fresh outlays on these expansion schemes might be quite embarrassing. It is to avoid such a contingency, as stated by me earlier, that we are suspending all our expansion activities for the time being and watching the situation.

ISSUE OF CAPITAL

In my last report, I had referred to the proposed issue of 2,50,000 Equity Shares of Rs 10 each, at a Premium of Rs 4 per share to be offered to the existing holders of Equity Shares pro rata. I am happy to state that this issue was over-subscribed. This is indeed very assuring and we very much appreciate the helpful co-operation extended to us by our shareholders in readily coming forward to subscribe to the shares offered to them.

SUBSIDIARIES

M/s. Shivaji Works Ltd, Shivashahi:

Our subsidiary M/s. Shivaji Works Limited, has again a good account to render for its last financial year. Increase in production and sales was well maintained and the results again exceed those of the previous year. It has maintained the same rate of Dividend as during the last financial year.

M/s. F. H. Schule, GMBH, Hamburg, West Germany:

The sales, prices and payment terms during its last financial year have been satisfactory. The net earnings, however, suffered from a sharp increase in prices of raw materials, bought out parts and supplies, and higher wages.

During the year 1966, the Company made a profit of DM. 471,468 (equivalent to about Rs 8,84,003) including profits carried forward from the previous year. It has declared a Dividend of 10% on the nominal value of the shares for the year 1966.

During the five months of 1967, there has been less numoer of orders. The turnover, however, is about the same as compared to the coresponding period of 1966. In view of the prevailing recession in Engineering Industries in West Germany, the rising labour cost, insufficient load on heavy machine tools, etc. the profits may suffer during 1967.

PROSPECTS FOR THE CURRENT YEAR

I do not find the prospects for the current year particularly encouraging. We have begun the year rather reasonably well, and we hope to be able to, at least, maintain, if not increase our sales. This is satisfactory, considering the predicament in which the Engineering Industry in the country is placed due to the recession. But the difficulty is, with the increasing cost of labour and material, and the Government's impositions, to produce from these sales, the level of profit we would need, for the growth of the business and for maintaining the Dividend to the shareholders. It is only the Government that can save the situation by taking immediate steps to arrest the increasing cost. So, much depends upon the measures the Government would devise to ease the inflationary pressures.

On behalf of the Directors and the shareholders, I offer our thanks to all who have contributed to the success of the Company during the year under review. Their sustained efforts, have contributed in no small measure to the results we have been able to achieve during the year. The future success of our concern equally lies in the hands of all the people we employ in whatever capacity. It will be their enthusiasm and efficiency that will carry us through to greater success in the coming years. Future rewards can only come out of greater production efforts by every individual in every sector of our business.

(Note: This does not purport to be the proceedings of the Annual General Meeting.)

THE INDIAN IRON & STEEL COMPANY LTD.

At the Annual General Meeting of The Indian Iron & Steel Co. Ltd, held on Friday the 8th September 1967, Sir Biren Mookerjee, Chairman of the Company, prefaced his remarks as follows: /

You will all have by now received a copy of my statement for the year 1966-67. Since then, there have been further developments which I must report to you. The general law and order situation in your Works is deteriorating rapidly and complete indiscipline reigns supreme. The number of major Gheraos since March now exceeds fifty and threats of new and ingenious devices whereby your Works could be brought to a standstill are being formulated by workmen at the behest of their Union leaders. The latest is a move to disrupt the water supply of the entire Works and townships by a minority of workmen consisting of no more than forty persons at the pumping station. Not only will this mean irreparable and permanent damage and destruction of expensive plant—because of the high temperatures involved, millions of gallons of water are required daily for re-circulation to reduce temperatures—but also that the townships with a population of over 50,000 persons will be bereft of water for domestic and sanitary purposes. All our representations and appeals seem to fall on deaf ears.

Another occurrence which recently took place merits your attention. There are certain ominous and significant overtones to this incident as it involves outsiders i.e. not the Company's own employees. About 200 outsiders, armed with spears, bombs and lathis scaled the walls of the Company's Works, blocked the entrance gate by felling trees across the roadway and assaulted several workmen at their work. When the police were contacted, they took no action as they said they had no instructions from Calcutta. It appears that the police nowadays require instructions from headquarters to deal with cases of criminal assault and criminal trespass by outsiders. Under no stretch of imagination could these incidents be described as employer-employee friction since the persons involved were not connected with the Company in any way. An astonishing sequel to these incidents occurred when the Company's workmen in large numbers arrived at the gates to attend to their duties. Being obstructed by the 200 miscreants inside the premises, now reinforced by two jeeps, the workmen threatened to enter the Works by force. At this juncture the police pickets, who were silent spectators during the morning's tragedy, suddenly remembered their duties as custodians of law and order and threatened to arrest the Company's workmen whose only crime appeared to be a desire to enter their lawful place of work and earn their daily bread! You may draw your own conclusions from these happenings.

It is even becoming apparent that the gentlemen of the fourth estate are somehow endeavouring to devalue the word Gherao in the newspapers so as to create a general impression in the minds of the populace that these are mere non-violent demonstrations staged to obtain redress for genuine grievances: the word has in fact acquired an almost facetious meaning in certain circles, perhaps because they have never been on the wrong side of a Gherao.

The recession means for us, as for most industries in India, but particularly the engineering industry in West Bengal, a reduction in orders and obviously therefore a reduction in output. But the strange phenomenon that confronts us today in West Bengal is that where the order book is sectionally adequate, the workmen select that particular section for its go-slow tactics. Similarly, workmen appear to be concentrating their attention on the loading and transport sections and since goods cannot be despatched, customers cannot be billed or money collected. In the meanwhile, workmen have to be paid their wages irrespective of production. By this process, the liquid resources of the Company are so severely strained that if things continue in the present manner, I do not see how the Company can find the cash to repay its loans or to pay a dividend even though the books may reveal a small paper profit. What is particularly alarming is the total demoralisation and frustration of the Company's officials without whom the plant cannot operate. Lack of proper maintenance alone can reduce equipment to a shambles.

You are aware that profits last year were more than Rs 4 Crores worse than the previous year: estimated profits for the current year indicate that this year's performance is far worse. What the future has in store I cannot pretend to guess, but if I have to frame a forecast on existing trends, I will need no recourse to an astrologer's services to predict a collapse of your Company's operation. Despatch figures, as I had mentioned earlier, has touched a nadir of one third of last year's average which in itself was not a good performance. Failure to honour our international commitments will not only bring shame and opprobrium on the Company but lead to its bankruptcy and inevitable liquidation. Furthermore, the Company's inability to repay foreign loans guaranteed by the Government of India will not only involve the nation in avoidable wastage of public funds but besmirch its image of creditworthiness before the world.

I cannot express to you the agony and anguish through which I have been passing when I see before my eves a vast industrial complex, with which I have been actively associated for nearly forty years, crumbling to dust, not as a result of enemy action but by the senseless spirit of destruction of our own citizens. It is not for me to say to what extent national interests will suffer if my forebodings come to pass, but I can assure shareholders that I have left no avenue unexplored to seek a way out of this impasse.

(This does not purport to be a report of the proceedings of the Annual General Meeting).

RECORDS AND STATISTICS

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SOUTH INDIA SHIPPING CORPORATION LIMITED MADRAS-2

Chairman's Speech

The following is the text of speech delivered by Sri J. H. Tarapore, Chairman, at the Third Annual General Meeting of the Company, held at Madras on Saturday, the 26th August, 1967.

Ladies and Gentlemen,

I take great pleasure in welcoming you all to the Third Annual General Meeting.

2. The Directors' Report, the audited Statements of Accounts for the year 1966 and the Auditors' Report thereon, have been with you for some time and with your permission, I shall take them as read.

3. Shipping being an international industry, the more so, Tramp Shipping, and, as no industry can divorce itself from the economic and political conditions obtaining in the country, I would like to say a few words on the world situation and the economic and political situation in India.

Sri J. H. Tarapore

With China passing through the convulsions of a so-called 'cultural revolution', wedded to blatant aggression against other countries and working in collusion with Pakistan, a country, very aggressive towards India; the war in Viet Nam, showing no sign of abating; the West Asian crisis; internal turmoil in various countries, etc., the world situation is far from happy.

Against the background of widespread political instability and violent conflicts and suppression of citizens' fundamental rights, in many parts of the world, we, as a nation, can take just pride, in two very important and significant events, which confirm us as an established truly democratic nation. The Fourth General Elections were free and were conducted in accordance with the principles strictly governing democratic institutions, as is clearly evidenced by changes in the composition of the Governments in several States. The other event, the election of our revered, scholarly President, Dr Zakir Hussain, to the highest office of the country, is an eloquent testimony to our maturity, as a democratic nation, wedded to true secular principles.

ECONOMIC SITUATION

On the economic front, 1966 and 1967, for India, have been disastrous. With the failure of two successive monsoons, millions of our people in various parts of the country, particularly in Bihar, have suffered untold hardships. Industry has also been seriously affected by a recession in demand on the one hand and steadily increasing costs, on the other. There has been a steady erosion of law and order and the labour situation, in many instances, has gone out of hand. This sorry state of affairs can partly be attributed to the frustration and despair caused by the absence of any significant improvement in the standards of living, together with large-scale unemployment or under-employment and further aggravated by the persistent shortages and spiralling prices. However, I am confident, if we do not succumb to political pulls and pressures, our country will emerge from the present crisis and achieve rapid economic progress, particularly so, as the country has been chastened by the ordeal it has already passed through.

I trust saner counsel will prevail and sensible and pragmatic policies will be followed, both at the Centre and State levels and that every effort will be made, from time to time, to bring down the present level of taxation, both on individual and corporate incomes, which is retarding growth and increasing costs and prices substantially and the very progressive steps, now being taken, to remove some of the numerous controls imposed, which have drained from the economic field most of the vital stimuli and power of growth, will be stepped up.

In the last two decades, our country has progressed in several spheres, though we could have done much better, if proper priorities had been given for the essential needs of the country and men of vast experience, of whom there is no dearth in India, had been associated at every stage, in the planning of the country's economy. In my opinion, under the present circumstances, all our energies and available resources should be concentrated, firstly, only on projects of dire necessity, next, in ensuring that the idle capacity in the country, is fully utilised and finally, on projects rendering quick returns. Frittering away of energies of the people and the country's resources, on comparatively unimportant projects, should be completely avoided, particularly when urgent problems face the country, on the solution of which depends, the well-being of the millions of citizens of this nation.

TRAMP SHIPPING

4. During the year under review, Shipping Industry, particularly Tramp Shipping, has been subjected to great difficulties and severe pressure. Your Directors, in their report, have reviewed the market trends, till about the end of July. I will, therefore, only dwell upon further developments since then.

Tanker freight-rates are still at about a boom level and, as far as is known, practically, all tankers and ore-oil bulk carriers, have now moved out of the dry cargo trade, to the oil trade. Oil Companies, it is reported, have further extended their Time and Voyage Chartering activities, to about the middle of 1968.

Bulk-carrier timecharter rates have further appreciated slightly, since early August, and have been more or less stable, compared with voyage-charter rates, which are still, on an average, about $5.25, on the U.S. Gulf/Holland grain trade. Reference is being made to this trade, as the grain trade, is more or less, the pace-setter for freight-rates in the tramping trade. This appreciation in the rates, is giving the sorely needed relief to the tramp-shipping industry, in the throes of a severe slump, till early in June 1967.

It is pertinent to explain here, the reasons for and significance of fluctuations in the voyage-charter rates.

In the above-mentioned grain trade, the fluctuations, since the closure of the Suez Canal, have been from $ 4.00 to $ 6.50, though generally, fixtures are being made between $ 5.00 to $5.50. These fluctuations are due to most Voyage Charterers still fixing on a spot basis, hoping to catch vessels in distress. Hence, depending on the spot demand and supply position, rates vary, quite often, from day to day.

With practically only dry cargo vessels now plying in the dry cargo trades, firstly, the seriousness of the incursion of tankers into the tramp dry cargo grain trade is brought home, and secondly, that there is no real shortage of world tramp dry cargo tonnage, even with the exclusion of ore-oil carriers. The sufficiency of the dry cargo tonnage, is amply borne out by

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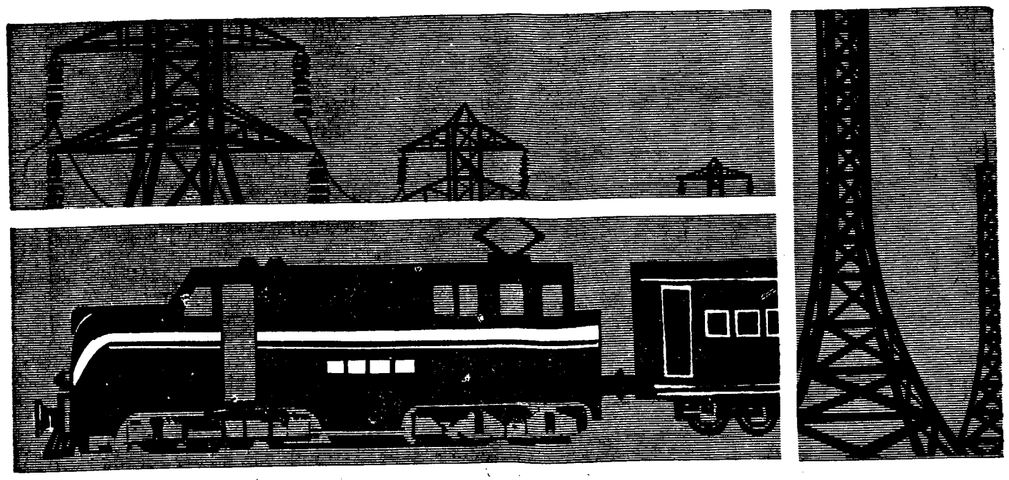

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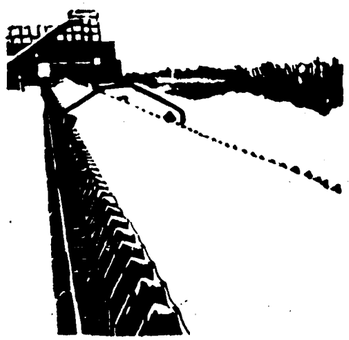

What is the major criterion amongst engineers in the choice of Conveyor Belting? *Greater productivity and economy!* That is why from steel mills to chemical plants, from thermal power stations to fertiliser plants, from mines and washeries to cement plants, the call goes out for Dunlop.

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the fact that, Voyage Charterers, still persist in fixing on a more or less spot basis, to cover even their long-term requirements, hoping to catch vessels in distress, and by the fact that, the freight-rate now prevailing, in this very vital sector of the tramping trade, which more or less reflects the freight-rates in other tramp trades, in spite of the closure of the Suez Canal, is only at about 1965 levels, which is far from what one may call, boom levels. Therefore, when tankers and ore-oil carriers re-enter the tramp dry cargo trade, one may anticipate a substantial depression again in this trade, for a protracted period, unless Owners, observing this danger signal, restrict their orders for future newbuildings for the tramp trade, particularly for bulk-carriers. It is apparent, expansion in the world tramp shipping tonnage, is outstripping the growth in world trade, in the traditional bulk cargo trades.

INDIAN OVERSEAS TONNAGE

5. The growth of Indian overseas tonnage, has been highly commendable, in spite of being fraught with severe limitations of finance and foreign exchange. The most remarkable aspect of the expansion in this sector is that, not only has it achieved the acquisition target set under the Third Plan, but exceeded the same, without any increase in any way, in the allocation of funds in the Plan. The credit for this, must be shared between the Indian Ship-owners, who have arranged for substantial credits from abroad and the Shipping Development Fund Committee, for its generous assistance given to Indian Ship-owners, by way of long-term rupee loans, at low rates of interest. However, I would like to sound a note of warning that, in spite of the remarkable progress achieved in the Indian tonnage expansion, there is no room for complacency, as, in spite of the overall excess in world tonnage, Indian tonnage is less than 1% of the world tonnage and which, today, is sufficient to only carry about 13% of Indian overseas cargoes, instead of our legitimate share of 50%.

6. The Fourth Five Year Plan tonnage target, in the draft outline, has been set at 3 million GRT., with another 500,000 Tons under construction, or on order, to be acquired early in the Fifth Five Year Plan. With the acquisition of 3 million GRT., it is anticipated that, Indian bottoms will be able to carry about 30% of the country's foreign trade. When it is considered that, during 1965-66, the estimated freight payments made to foreign flag vessels, were to the tune of about Rs 170 crores and to the Indian Flag vessels on the overseas trade, about Rs 40 crores, the vital necessity would be apparent, not only to achieve the Fourth Plan target, but also to exceed it. This would be further apparent by the estimates of the Planning Commission, as to the anticipated foreign exchange outflow during the Fourth Plan period, to achieve the target set, i.e., an outflow of foreign exchange of about Rs. 160 crores, against a corresponding earning of foreign exchange, of about Rs. 400 crores, after meeting the operational expenditure in foreign exchange. In view of the most difficult balance of payment position and the need for huge savings/earnings in foreign exchange, would it not be wiser to set in the Fourth Plan period, a target for acquisition of ships of about 5 million GRT., which, according to the Planning Group on Shipping and the National Shipping Board, will be necessary to carry 50% of Indian overseas cargo in our bottoms? I would, therefore, appeal to the Government of India, that, not only should Shipping be treated as a priority industry, but preference should be given to this industry, over other priority industries, earning/saving less foreign exchange.

It is regretted that, a provision of only Rs. 90 crores has been made in the draft for the Fourth Plan, for advance to Shipping Development Fund Committee. It is estimated that, this allocation will fall short by about Rs. 45 crores and I sincerely trust, that ways and means will be found for making at least this additional allocation.

Apart from this, as it is becoming increasingly difficult to negotiate purchases of ships on deferred payment terms, particularly after devaluation, and credit facilities are tightening, it is hoped that, the Government of India, will seriously consider allocating adequate foreign exchange, from the free resources, to meet the requirements of this vital sector.

7. I am happy to inform you, that your Company's bulk-carrier tonnage, is the second largest in the country and that your Company owns the largest bulk-carriers on the Indian Registry and that, in the year 1966, out of a total acquisition by Indian Owners, of new bulk-carrier tonnage, of about 315,000 DWT., your Company's share was about 170,000 DWT. I understand, this tonnage acquisition, by your Company, in one year, is an Indian record.

EMPLOYMENT OF VESSELS

8. I am glad to advise that, four of your Company's vessels, are today employed in the carriage of vitally required grain to India. The m.v. CHENNAI PERUMAI, now in Madras, is just completing the discharge of grain, which she brought from the U.S. North Pacific and is to proceed to Australia, for lifting another cargo of grain to India. The m.v. CHENNAI OOKKAM, is also presently in Madras, discharging her cargo of grain from the U.S. Gulf and the m.v. CHENNAI SADHANAI and the m.v. CHENNAI JAYAM, are on their way, with two more grain cargoes for discharge, either on the West or on the East Coast of India. Efforts will be made to keep these vessels, subject to cargo being available, in the Indian trades, as far as possible. However, the previous assurance of the Government of India, that a substantial share of Indian ore exports, would be readily available to Indian Ship-owners, has not materialised, but, a silver lining in the dark clouds is that, the M.M.T.C., is making commendable all-out efforts to persuade the Japanese buyers to purchase ore on a C.I.F. basis, or at least allocate, 50% of the cargo purchased by them on F.O.B. basis, for transportation in Indian bottoms.

9. I would like here to say a few words, in regard to the restriction placed on the employment of Indian bulk-carriers, which, in my opinion, is a severe handicap to profitability in tramping and the future expansion of the Indian tramping tonnage.

Indian tramp-ship owners' trading licences are now being issued for periods of one year, at a time.

A pre-requisite for success in tramping trade, is astuteness and the ability to make sound spot decisions and take fullest advantages of any and every opportunity that comes a tramper's way and, whenever market conditions permit, to fix at least some of his vessels, on long-term business, showing a reasonable profit, which would, to a fair extent, offset the losses suffered by some vessels, caught in periods of slump, particularly because, the periods of slump are not only sudden and frequent, but protracted and steep. The sudden slump, early in 1966, bears this out. It is because of this, that, even in a very favourable market, most bulk-carrier Owners, fix some of their ships on long-term time-charter, or long-term affreightment contract, or long-term consecutive voyages, rather than reap hay while the sun shines and fix all their ships, on the then obtaining very high freight rates, for short-term business. As a matter of fact, most of the Tramp Fleet Owners, who today are giants in this field, have studiously followed the policy of fixing a fair number of their vessels, whenever the opportunity offers, on long-term, reasonably profitable business, as an insurance against losses, of some of their vessels, trading during periods of slump. Apart from this, there are some Tramp Fleet Owners, who follow a policy, with a view to quick and substantial expansion of their fleets, immediately the opportunity offers, to fix all their vessels on long-term business, even at a small profit, and against such long-term charterparties, raise finance, to build new ships, from time to time. I am informed, one such Owner, who started in shipping with one barge, now owns the largest fleet of bulk-carriers and tankers.

As most long-term and medium term timecharters and/or affreightment contracts and/or consecutive voyage charters, are tied up with negotiations for sales and/or purchases, these buyers or sellers, find themselves in a situation, when their negotiations for sizeable sales and/or purchases of bulk com-

modities, quite often spread over a number of years, cannot be finalised, except at considerable risk, unless the requisite tonnage is first fixed. It is at such times, when tonnage is not readily available and a buyer or a seller, does not want to take a risk, that he will be prepared to pay a hire, or freight-rate, above the then prevailing market rate and a few ship-owners, with vessels in suitable positions and time, can cash in and obtain the higher freight-rate, or hire. As a matter of fact, the very essence of successful tramping, depends on cashing in on such opportunities, as and when they present themselves.

When such a rare opportunity knocks at your door, and a Charterer is in a desperate hurry to fix, he will not wait for counters to his bid, beyond the time-limit offered by him, as, more often than not, the time-limit is tied up with the time-limit, within which a purchase or sale contract has to be finalised. The Charterer will accept the lowest offer received within his time-limit. Therefore, such bids, if not countered firm, immediately, are lost to someone else, who counters in time.

The history of Tramping, will evidence that, over long periods, astute trampers, who have not failed to seize every opportunity coming their way, have been able to weather the storms and have made sizeable profits.

In my humble opinion, should Indian Owners be fortunate enough to fix their vessels on sufficiently long-term business, they could fairly easily raise loans, in rupees and/or foreign exchange, against such charter-parties, to expand their fleets, at a much faster pace, apart from the fact that, their chances of survival, during protracted periods of slump, would also be reasonably assured.

IMPACT OF DEVALUATION

10. We are most thankful to the Government for having agreed to grant additional loans to meet the extra rupee costs of ships, purchased on deferred payment terms, consequent on devaluation, and also to allow depreciation on these extra costs. It is, however, a matter of deep regret, that the logical application of the same principle to development rebate, has not been made. The declared objective of Development Rebate, is to build up funds for the purpose of replacement and/or expansion. Ship-building costs, have been steadily going up and it had been estimated that, even the development rebate of 40% would not be adequate, to meet the higher cost of replacement, together with accumulated depreciation allowance. With the devaluation of the rupee, in June 1966, the rupee cost of ship, has gone up by a straight 57.5%. Therefore, there is all the more need, to extend this rebate, in respect of this additional rupee cost, if the very purpose of this allowance is not to be defeated. Apart from this, Development Rebate, is one of the most important concessions by way of outright tax-holiday, provided under the Income-tax Act. Even prior to devaluation, it was considered an uphill task, for a newly formed shipping company, to be in a position to generate adequate profits, which will absorb the quantum of development rebate, within the statutorily stipulated period of 8 years. In this connection, members will recall, that in the course of my address last year, I had made a special plea to the Government, that while their approach to the question of granting development rebate to highly capital-intensive industries was enlightened and sympathetic, as evidenced by the higher percentage prescribed and reduction in the percentage of statutory reserve, having regard to the modest profitability, the period of carry-forward, should be extended from the present tenure of 8 years to at least 12 years. After devaluation and consequent enormous increase in the rupee cost of the vessels, there is an immediate and urgent necessity for Government to extend the present tenure of 8 years to 16 years, for carrying forward the unabsorbed development rebate. Shri Morarji Desai had stressed more than once, in his speech, introducing the current Finance Bill, that every effort would be made to render the various concessions and reliefs under the Income-tax Act, more **meaningful**, such as, for example, his proposed measure in respect of Section-84 relief. I would, therefore, fervently request the Government to consider the question of extending the period of carry-forward of unabsorbed development rebate, from 8 years to 16 years, if this relief is to be more meaningful.

11. Shipping is not only one of the most important and quickest foreign exchange earners, but the foreign exchange outflow for the acquisition of ships, is negligible, in view of the fact that, apart from the small down payment to be made for ships acquired on deferred payment terms, there is no additional nett foreign exchange outflow, the ship paying for herself, concurrently from her earnings. From the very first year of operation of the ship, she will be able to meet not only the instalments due against principal and interest and all the other expenses in foreign exchange, out of her earnings, but also leave a positive surplus. Such surplus, it is obvious, would increase from year to year, as interest payable correspondingly decreases. As a matter of fact, the surpluses accumulated in a few years, would be adequate to liquidate the foreign outstanding deferred liability, together with interest, before the stipulated period of the loan. Needless to say, with the country's present balance of payment position and the foreign exchange earning capacity of ships and the great national importance, both from the point-of-view of economic stability and strategic strength, the more so, for a country like ours, with its very vast coastline, there could be no two opinions on the Shipping Industry being given every encouragement possible, to expand at a much faster rate, than it is presently doing. I would go further to state that, the expansion of shipping, should have highest priority, after projects of dire necessity to the country, such as, agriculture.

12. The importance of the Shipping Industry, is evidenced by the fact that, all leading maritime nations of the world, in one way or another, extend various forms of assistance, concessions and benefits, to ensure this industry's speedy and steady growth. To cite one example, amongst other assistance given, Japanese owners, placing orders on Japanese shipyards, are guaranteed full cargoes for their vessels, for a period extending up to 10 years, at remunerative freight-rates. What better insurance could the Shipping Industry require, or what better incentive? No wonder, the phenomenal growth of the Japanese shipping industry! In this respect, Japan is not the only country giving such substantial assistance, even highly advanced and wealthy countries, such as, the United States, give ship-owners, very substantial construction and operational subsidy.

PORT FACILITIES

13. With the phenomenal growth of the bulk trades and the vast expansion in bulk carrying tonnage, the drafts at our ports, have to be considerably increased. Likewise, other facilities and services, such as, cargo handling, berthing capacities, storage capacities, road transport and railways, need also to be increased considerably, if we are to become competitive in the field of exports. It is a patent fact that, the ship's operating cost, is reflected in the freight-rate. Therefore, slower the turn-around of the ships in ports, the higher the incidence of freight, which very adversely affects the landed cost of our exported and imported commodities. Besides, there is also an unnecessary outflow of forein exchange, by way of higher freight-rates, to be paid to foreign flag vessels. As a matter of fact, amongst other commodities, the very future of Indian ore exports, is at stake, if we do not move in this matter, immediately.

Ports are a national asset, on whose efficient functioning, depends, not only the smooth flow of our foreign and domestic trades, but also the cost structure of various industries and, therefore, the economic growth and the health of the country. The development of ports, consequently, should be a national responsibility, the burden of which, should not merely fall on the user of the ports, but on the nation as a whole.

14. It would be pertinent to mention here that, port labour discipline, has virtually collapsed. Strikes are, more or less, the general order of the day, with very severe repercussions on the operating costs of ships and, consequently, the freight-rates, which will soon have disastrous effects on our economy. Necessary measures should be taken to remedy this sorry state of affairs.

15. For a leading maritime nation, a sound ship-building industry and repair and drydocking facilities, are a must. I sincerely trust, no efforts will be spared, to increase the present capacity of the existing shipyards and to construct additional units. I may add here that, repair and drydocking facilities, should not be restricted to the ship-building yards alone. The expansion of these facilities are also of vital importance at major ports, if we are to earn sizeable foreign exchange from foreign flag vessels, who require these services and also to operate our own ships economically.

16. There is a shortage of floating staff, particularly Engineer Officers and a proper assessment of the requirements of the industry in this regard, should be made and the existing facilities for the training of Merchant Navy Officers, suitably augmented.

17. In concluding, I would like to state that the Shipping Industry in our country, now being in the charge of an eminent and dedicated economist and, I am sure, you will all agree with me, that however great and numerous the problems, this industry is in safe hands and we all look forward to the future with confidence.

I am sure the members will join me in conveying our thanks and deep appreciation to the various departments of the Government of India and their Officers for their most valuable assistance and co-operation extended and to the members of our staff, ashore and afloat, for their most loyal and efficient services rendered to the Company and to our Brokers and Agents abroad, for their fixing your ships on favourable terms and rates and the efficient services rendered to your Company.

(NOTE: This does not purport to be the Proceedings of the Annual General Meeting.)

BENGAL CHEMICAL & PHARMACEUTICAL WORKS LTD.

Extracts of the speech delivered by Dr B. N. Ghose, M.B. F.R.F.P.S. (Glas), Chairman, Board of Directors, at the 67th Annual General Meeting of the Company on the 31st August, 1967 at Academy of Fine Art, Calcutta.

Gentlemen,

At the very outset of my address it is gratifying for me to report that our Shri S. Basu, Deputy Managing Director of the Company, has been awarded a Fellowship for training in France under the Indo-French Technical Co-operation Programme organized by the Indian Institute of Foreign Trade.

The country is now in the grip of economic difficulties and the year under review was not obviously one of smooth sailing. The unsatisfactory food situation which, I am afraid, is posing a national threat to our developmental programmes, has further deteriorated. The increasing prices of the essential commodities have been soaring up unabated and the theory of holding the 'price-line' as propounded by the authorities at the helm of affairs has been transformed into a mere wishful thinking rather than a reality in our day-to-day existence.

The labour situation in the State during the last few months has been causing a grave concern to the Industries. The growing lawlessness, lack of discipline in the labour force, "Gheraos" and go-slow in factories have been adversely affecting the Industries in West Bengal; and it will be quite pertinent to point out that the coercive methods employed by the labour for redress of their grievances have, of late, assumed a serious proportion much to the detriment of production.

The working results of your Company for the year 1966-67 have been satisfactory despite the handicaps it had to suffer during the year under review. The sales have increased by about 10 per cent over the last year's figures and the profits too have increased. Rising prices of raw materials, higher transport charges, increased payments of Dearness Allowance to the members of the Staff and other overhead expenses continue to exist and have increased our burden in the coming year. Your Directors recommend maintenance of the same dividend at the rate of 10 per cent on all classes of Equity Shares after transfer of a sum of Rs 1,49,000 to General Reserve No. II.

The commissioning of the 50 tons/day Sulphuric Acid Plant at Panihati Factory is expected in the course of this financial year and the Company will have the benefit of I.T. Relief by way of Development Rebate and Depreciation Allowance. The Heavy Chemicals section at Panihati had shown an increase in its turn-over.

Non-availability of proper and adequate quantities of raw-materials, rising costs, transport bottle-necks specially in the Railways, are seriously affecting the business activities of the Company.

The two other affected sections at Panihati Factory are Tar Distillation and Soap Manufacturing units. I already reported to you earlier that our Tar Distillation Plant was idle for want of Crude Tar. There has been no improvement in the situation since then. Attempts are, however, being made to maintain the continuity of our business in Road Tar and the by-products of Coal Tar, though diminished in volume. Soap Department is also facing a crisis. The prices of indigenous raw materials are abnormally high; no one can expect to compete with other producers who get a substantial quota of imported Tallow/ Palm Oil.

As regards supplies of indigenously available raw materials vitally needed for our Chemical and Pharmaceutical complex, our production of Alum suffered for disruption of movement of bauxite from South India by Railway Wagons in October/ November, 1966. Supplies of Glycerine, also an important raw material for some of our Pharmaceutical products, suddenly dropped. In the early months of the year under review there was an abnormal rise in the prices of non-essential vegetable oils which prejudicially affected some of our toilet and other products.

Our Exports during the year under review have gone down due to various reasons, chief amongst them are non-availability of imported raw materials and inadequate supply of indigenous raw materials necessary for our export products. However, with the liberalization of the import policy by the Government of India we expect that our exports during 1967-68 will go up. Since devaluation of the rupee in June last year cost of production of certain Chemicals has gone up with the result that difficulties are being experienced in competing with the continental manufacturers. Despite the hurdles we are facing now, utmost efforts are being made to increase our export in the foreign markets.

The overall production of Pharmaceuticals during the year 1966-67 was satisfactory despite high prices of raw materials, shortages of packing materials and handicaps due to Drugs Prices (Display and Control) Order. Progress in sales was observed in all the States, though the rate of progress was not up to our expectations. Increase in sale of injectules, sera and vaccines is noteworthy. Our Cholera Vaccines and Antivenom Serum are finding favour with the medical profession.

The Company's business at its branches at Bombay and Kanpur has been satisfactory during the year under review and our Delhi Depot is also maintaining its progress. Attempts are, however, being made to turn them to more profitable units.

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

RECORDS AND STATISTICS

Agricultural and Industrial Inter-dependence

IN HIS welcome address at the inauguration of the two-day seminar on "Economic Growth Through Agricultural and Industrial Inter-dependence", held in New Delhi on September 5-6, Mr L. N. Birla, President of the Federation of Indian Chambers of Commerce and Industry, made a number of suggestions "to get our agriculture out of the age-old rut and give it a new turn". He urged the government to remove food zones, introduce corporate farming and entrust extension work to industries. A balanced economic growth, he said, was possible only when agriculture, employing about 70 per cent of our population, moved ahead at the same speed as industry.

Reproduced below are excerpts from Mr Birla's address:

Agricultural development anywhere, and specially in Indian conditions, cannot be considered in isolation. The complementarity of industry and agriculture in our country is particularly striking. This inter-dependence, if anything, was more forcefully brought out during the prolonged spell of drought that the country experienced in the recent past. A steep decline in the production of food and non-food crops slowed down the wheels of industry all along the line. What is more significant, it was brought home to everybody that agriculture 'cannot go it alone'; industry on a wide spectrum must be geared to meet the farmers' requirements of a variety of inputs. It is uneconomic to divide farm and non-farm needs even though the economic mechanisms vary. Anyway, industrial expansion depends upon the availability of increasing raw-material supplies from agriculture. I may remind you that agro-based industries contribute approximately 30 per cent of the total organised industrial output in India and earn as much as two-thirds of our total foreign exchange. It is not only the cash crops that affect the fortunes of industries; the availability of foodgrains also has a direct bearing on the cost of industrial production. For, the price of foodgrains reflects itself in the wage level of industrial workers. So, human as well as economic considerations call for an integration of agriculture and industry.

Balanced Growth Possible

In the first two Plans the balance between industry and agriculture was more or less maintained. But in the third, agricultural progress lagged very much behind and, as a result, industry was forced to slow down. It is my firm belief that balanced economic growth is possible only when agriculture, which employs about 70 per cent of our population, also moves ahead with equal speed. In this context, it is appropriate that in this seminar we should lay emphasis on economic growth through agricultural and industrial inter-dependence.

My idea is not to spell out in detail the necessary ingredients for achieving this happy 'consummation devoutly to be wished'. I am sure, you will deliberate upon these and allied questions. We have number of papers ably written by experts which discuss the various aspects of agricultural and industrial development and the inter-dependence of the two sectors. My intention is not to anticipate the conclusions of the seminar. What I wish to do at the moment is only to throw up some ideas for whatever they are worth and to pose a few questions.

Today the economic situation has become a cause for grave anxiety. The budget speech of the Deputy Prime Minister, the Economic Survey, the annual Plan for 1967-68—all make depressing reading. After having attained a record output in 1964-65, the production of foodgrains has slumped. The output one of feeding 511 million people. It is also one of raising the standard of living of the 70 per cent of our population who live on agriculture.

What is the answer to these problems? If I may state in a single sentence, it is to get our agriculture out of the age-old rut and give it a new turn. Modernisation is, however, easily said than done. It is easy to suggest that the farmers should have modern implements. The use of modern techniques of farming also implies improved seeds, chemical fertilizers, adequate irrigation, use of insecticides, pesticides, weedicides and pre-supposes adequate credit, processing and marketing facilities and reasonably remunerative prices. The list of desirables is really long and formidable. Moreover, these factors alone will not change the face of Indian farming unless institutional changes are also brought about.

But we are running against time. Our resources are also limited. We have, therefore, to be selective. We have to concentrate our resources on those inputs which will increase output immediately, and establish the type of organisation which would secure the distribution of these inputs in the best possible manner. The Planning Commission for the first time recognised the importance of this approach in its annual Plan for 1966-67.

A selective approach implies three things:

First, we have to select areas for intensive cultivation. I know, this is what government are already doing. But the implications of this approach have to be kept in mind. The selection of rich soil for intensive cultivation increases regional and even inter-state disparities. Unfortunately, in the tight position in which we are placed, this appears inevitable. Our immediate concern is with the increase in production. It is only when we have enough production that we can consider how the disparities can be reduced. Meanwhile a rational and judicious approach should be pursued about distribution of the produce to different states. Regional disparity about prices and availability of supplies must be removed, and in this context the question of removing zonal system and freeing the inter-state movement of grains may be considered seriously. In the background of regional disparity in the allocation of resources and varying emphasis on the development of different crops in different states, the disparity in the prices and availability of food and raw materials like fibres, molasses, oilseeds, etc., may result in far-reaching economic complications and political repercussions, which are not likely to be healthy for our federal structure.

Agricultural Inputs

Secondly, we have to be selective with regard to the use of agricultural inputs. In my opinion, we have to concentrate on four items, viz., fertilisers, minor irrigation, pesticides and storage facilities. An expert committee of the Planning Commission has recently estimated that the post-harvest loss of food due to storage and handling amounts to 7.3 million tonnes or 9.33 per cent of the total production, of which loss due to bad storage alone amounts to 4.5 million tonnes or 6.58 per cent of the total production.

Thirdly, we have to be selective about organisational and institutional framework. Presently we have two types of farm management patterns: individual proprietorship and co-operative farming. Scattered and fragmented holdings are unsuitable for effective and economic use of inputs and modern farm management techniques. With the exception of only a few cases, our experiment on co-operative farming has proved to be frustrating. If in spite of sufficient resources allocated and considerable attention and care given both by the government and by the Congress for over a decade, co-operative farming has failed to yield results, the failure cannot be treated as accidental, and the time has come for unbiased rethinking and objective appraisal of the system.

Various working groups and study teams appointed on co-operative farming have presented a dismal picture about its performance. Lately the Committee of Direction on Co-operative Farming appointed before drafting the fourth Plan recommended 'consolidation rather than further expansion of such farms' because in most cases these are officially inspired and guided, lacked technical and managerial efficiency and failed to inspire the peasants. But to our surprise the draft outline of the fourth Plan increased the financial provision for it by 257 per cent over that spent in the third Plan and has expected 'co-operative farming to play a positive role in the country's agricultural economy' and holds that 'it should be looked upon as an important element in the schemes for achieving new advances in agriculture.' I would even like the dissolution of inefficient co-operative farms without clinging to them as prestige issue. A shift in emphasis from co-operative farming to corporate farming appears to be more appropriate and a selective trial needs to be given to this. I think it may not be impossible for such farms to ensure the cultivators joining them a guaranteed minimum return equal to their present average earnings per acre of land.

Private Sector's Role

To begin with, agro-based industries, e.g., jute, cotton textiles, sugar, vanaspati, etc. may be permitted to promote and run such farms in selected areas. Moreover, the country today needs very large quantities of improved seeds, and these cannot be grown on small holdings by poor farmers. Government alone has not been able to meet all the requirements. It would have been in the interest of the country if this production had been supplemented by the private sector. It is in this context that the question of allowing joint stock companies and resourceful individuals to go in for large scale seed farms assumes importance. These seed farms can also serve as demonstration centres. The idea is not to deprive the small farmer of his land or of his opportunities. There is enough culturable waste land in the country which is beyond the resources of the individual farmer to develop and bring under the plough.

During the last decade or so the farmer has become fertilizer conscious and the situation today is that there is not enough fertilizer available in the country to meet the demand. Similarly, the farmer has been responsive to pest control services. This has proved that once he becomes convinced of the usefulness of a changed practice, our farmer does not hesitate to adopt it willingly. But there is still a tremendous shortage of fertilizers, pesticides, irrigation and storage facilities.

Modernisation of agriculture is an intricate problem but not an impossible one. The success lies in being selective and pragmatic in approach. Every tunnel ends in light provided we walk straight through it. Agriculture is not a compulsion only but a skill also, to which technology is added. Thus it has come to include an industry like the tractor industry or the fertilizer industry. The only difference is that agriculture is the biggest industry in India and, as such, should be run on most efficient lines. Unless every farmer acquires business consciousness he is not apt to use resources with economic effect. Business consciousness has been the key to the success of agriculture in any part of the world. Business consciousness and efficient use of land would increase our yield per acre many times more than the present yield. In the post-war period our total agricultural production has no doubt increased by more than 50 per cent. But most of it has been obtained by extension of area under cultivation while our yield per acre has hardly increased by 12 to 15 per cent. On the other hand, as FAO Survey (1963) reveals: In north America the yield has during the same period increased by 78 per cent or so. In western Europe, in spite of intervening war and a 4 per cent decrease in farm land, the production has increased by 23 per cent due to increase in per acre yield. Oceania has recorded 78 per cent increase in production of which 52 per cent has been obtained by increase in yield per acre.

Reasons for shortage of food and agricultural commodities

A Far Cry

In the past two decades government introduced a number of measures to stimulate the growth of agricultural production and remove anomalies in the agricultural system. The basic purpose was to inject a sense of security, provide inducements for improvement in production and earnings and promote social justice. While our achievements on the agricultural front are by no means negligible, the goal of self-sufficiency, specially in foodgrains, even after 15 years of planning, remains a far cry. Besides, as the source of raw material for industry and as a component of exports, agriculture has had unbalancing influence on the pattern and growth of general economic activity. It is no doubt appreciated that unless agriculture is put on a sound basis, the uncertainty and aberrations in the system will persist. There is no escape from the problem of increasing the agricultural output—a problem which has bothered us all along in these fifteen years of planning and, particularly the last ten.

The problems of Indian agriculture are not new or of recent origin. Various commissions and committees have reported on the conditions of agriculture and rural economy in India since 1880s. Many solutions have been suggested and remedies proposed. The fact, however, remains that even today Indian agriculture is mainly of the subsistence type. There are large variations in production from year to year and even in the best of years production is not enough to meet the consumption requirements and provide for a buffer for future lean years. What is more disconcerting is that our population has now been increasing at the annual rate of 2.5 per cent, and according to government estimates it reached 511 million in July this year. The problem we have to solve is not merely

are often traced to high pressure of population and low per capita availability of arable land in our country. In this connection, it is interesting to observe again from FAO Survey that while man-ratio to farm land in India is 2.4 per hectare it is 13 in Japan, 11.7 in Korea, 10.5 in Taiwan, 9.5 in UAR and 6.4 in Ceylon. In fact, out of 52 countries covered by the survey, in 16 countries the pressure of population on farm land is much higher than that in India, but their productivity per hectare is much higher than that in our country. Stated in declining order of productivity India's position is below 32 countries. Therefore, pressure of population should not be taken as a justification for lower production.

A feature of our land utilisation, which has not yet received adequate attention of the planners is the price elasticity of cultivated area among the competing crops, specially those which have the same sowing season. A case study with 'aus' paddy and jute both having the same sowing season in West Bengal, Bihar and Assam has clearly established that the total area under each of these crops fluctuates along with the changes in price parities of these products in the preceding lean season. This has adverse effect on the working of agro-based industries, on the income of cultivators and also on the price structure.

During the second Plan the maximum support prices of cash crop like sugarcane, cotton and jute were fixed to ensure remunerative prices to growers and their adequate production and supply. Although this step helped to stimulate production of cash crops it has very adversely affected the production of foodgrains due to large-scale diversion of acreage from foodgrains to non-food crops, and resulted in sky-rocketting of their prices. Whenever the price parity swung in favour of one group of crops there was a shifting of acreage towards its cultivation and a consequential decline in the area under cultivation in other group of crops, leading to a shortfall in their supplies, increase in their prices and the shifting of land towards their cultivation. Thus a vicious circle of price rise and shifting of land went on repeating itself almost with a certain regularity. In the process we have neither solved the problem of food supply nor ensured a steady supply and price of raw materials to our agro-based industries. In fixing and revising the minimum prices of agricultural commodities a macro approach rather than a micro approach and a national policy rather than random decisions by states is warranted. I hope our Minister of Agriculture will also look into this problem.

Advantages of Decentralisation

The union Ministry of Food and Agriculture, its community development departments, state agricultural departments, etc., have for over 15 years been conducting agricultural extension programmes. Decentralisation of the administration of agricultural policy has definite advantages. But it has to be considered in the perspective of past experience whether it will not be in the interest of higher production for the centre to assume greater authority, as it is saddled with greater responsibility?

But the services provided by government departments are hardly adequate, considering the size of the problem. It is here that I envisage an important role for industry. Our critical appraisal of government effort will be mere idle talk unless we as industrialists do not make good some of the lacunae in agricultural development. I would particularly refer to those sections of industry like cotton textiles, jute, tea, sugar and vanaspati which are more intimately linked with agriculture. Since there is a two-way traffic between industry and agriculture, it is desirable that industry should come forward to supply all the inputs and implements to the farmer and also give him the necessary technical know-how from the stage of soil testing to harvesting, storage and marketing of the produce. Happily the type of services I am suggesting are no longer in the realm of theory; they are being actually provided, even though on a small scale, by different industries and their associations. Apart from educating the farmer through brochures and pamphlets in the regional languages and through audio-visual media, some associations and groups of businessmen have established and are establishing agricultural service centres. While the functions of these centres vary depending upon their resources, there are some objectives common to all of them: They undertake to supply implements and inputs to the farmer on a 'no-profit-no-loss' basis; their experts supervise various farm operations; the farmer is given short and medium term credit; and in some centres, after-sales service and repair of the equipment is also undertaken. These service centres are also aiming at building up sufficient trained managerial talent from among the farmers. Associations of agro-based industries, like the Indian Cotton Mills Federation, the Indian Jute Mills Association, the Indian Sugar Mills Association, Vanaspati Manufacturers' Association of India, coffee and tea planters associations, etc., have also been conducting programmes aimed at raising the productivity and production of the crops that form their basic raw material. These programmes may be symbolic at present. But this is only a beginning. Industry has realised its responsibility and that, I am sure, is a valuable attitude and the fulfilment of responsibility may not be far away.

Importance of Proper Distribution

So far I have confined my observations to problems of agricultural production. Proper distribution of the produce is an equally important function and if I have referred first to the production aspect it is because I feel that the present difficulties of the distributive trade mainly arise from the abnormally low production.

In the field of distribution the first thing to tackle is the chain of problems created by restrictions on the movement of foodgrains. Today every single state is a zone by itself and there are restrictions not only on inter-zonal movement but in some cases even on movement within the zone. The Federation has been giving careful consideration to the zonal policy and we are of the view that whatever might be the short term benefits, zonal policy will prove harmful in the long run. The ultimate effect of the policy will be to depress production in surplus states and in the course of time all the states in the country might become deficit. As it is, zonal policy and procurement should go hand in hand. The insistence that farmers should receive the controlled price has made them dodge the established markets and divert their surpluses through other channels. This is proved by the declining trend of grain arrivals in established markets. There is another unhealthy effect of this policy and it is that every state is now striving to be self-sufficient in foodgrains at the cost of commercial crops and irrespective of the comparative advantages of growing cash crops rather than foodgrains. The zones are, therefore, not only inimical to efficient production but also against the federal spirit. We frequently hear of 'import' and 'export' of foodgrains from one state to another as if India were not one country but a loose union of independent and sovereign countries. I would, therefore, plead that the policy with regard to food zones may be abandoned at the earliest possible opportunity.

The monsoon this season is reported to have been good all over the country. Added to this is the new agricultural strategy that is employed to increase productivity on a sustained basis. All this has given rise to hopes that we might hit the target of 95/100 million tonnes of foodgrains this year. We all pray that these expectations are realised. With a good harvest, I am confident that you, Sir, will certainly reconsider the whole policy of food distribution.

The expected output of 95 million tonnes will be a record. There is every reason to believe that this output will go on rising if we take practical measures and are not swayed once again by fancy policies. In that case the target of 115 to 120 million tonnes of foodgrains by 1970-71 will well be within our reach. We shall truly be self-sufficient.

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From Canada with Friendship

OTTAWA:

THE CANADIANS are without doubt one of the world's friendliest peoples. They are friendly among themselves and friendly towards foreigners. To some extent it is because of their history and geography; to an even greater extent perhaps because of the hard economics of their national existence. Living in a hemisphere dominated by the culture and commerce of the United States, they find their country too vast for a population too small. The Canadians need more people than they themselves could reproduce and very much more capital than they themselves could save for realising in full measure the vast unexplored potential that still remains in the natural resources of that land. The scope of this potential was brought home to me strikingly through an observation in the tourist information material I came across. This statement noted in part pride, part wonderment and part concern that there were still hundreds of lakes in their country which the Canadians have not even been able to name.

In a world fearfully speculating about a population explosion, many responsible Canadians very simply state that the greatest need in Canada is people, because they see that Canada's industrial growth depends on a growth in population. The population of Canada is now about 20 million. It is believed that this number should grow to 60 million over the next 25 years if Canada's burgeoning industrial revolution is to find reasonable fulfilment. There will be work for so many more skilled hands to do. It follows that immigration is a vital force in the evolution of the Canadian community. Since 1946, over 2.5 million immigrants have poured into Canada, this number alone representing about an eighth of the total labour force in the country. The importance of immigration to Canadian development becomes all the greater when it is read in conjunction with the not inconsiderable emigration of Canadians, including many immigrants, to the United States. Since the natural growth in population which has been contributing nearly 90 per cent of the increase in the labour force in the present decade may quite possibly slacken in the future as a result of increasing urbanisation and the changing social priorities of individual men and women, a dynamic immigration policy will obviously be an active element in Canada's scheduling of its economic expansion.

Since immigration involves the injection of a high proportion of young, adult groups, ready for employment, it would appear that Canada's demand for capital, from both internal and external sources, is bound to enlarge rather fast. This would in fact mean that foreign trade is due to become an even larger sector of the national economy than it already is. As at present, Canada's exports measure at 17 per cent of its GNP and its imports 16 per cent. In terms of the trade among nations, Canada comes fifth, with a share of about 4.4 per cent of the value of world imports and exports taken together. The bulk of its foreign trade, however, is canalised towards the United States and, to a less extent, Britain and other Commonwealth and preferential countries. This, however, has not detracted Canada from full participation in the processes of an orderly evolution of a multilateral trading system for the nations of the world. Canadian trade policies have certainly been backing enthusiastically initiatives or associating themselves actively with efforts, whether within the international agencies or outside, for greater freedom of world trade.

Among the declared purposes of Canada's joint endeavours with other nations in the area of international trade policy-making is the promotion of measures for increasing "mutually beneficial" trade between the industrially advanced countries on the one hand and developing countries on the other. The Prime Minister, Mr Lester Pearson, has gone on record to the effect that "a major avenue" for seeking a solution of "this problem of world poverty" is to be

found in the field of international trade. The Government of Canada has accepted in principle the need for the industrially advanced countries removing trade barriers affecting products of low-income countries without full reciprocity. I must however add that, in the course of my discussions here, I could not locate any expectation of or much enthusiasm for any early abolition, wholesale, of such barriers. In this respect the attitudes in Canada's capital are distinctly different from the calculations I came across at the secretariat of the UNCTAD in Geneva. Canadian policy, however, may not be found wanting in supporting or co-operating with any initiative that may come from an individual country such as the United States or an international body such as the Development Aid Committee of the OECD.

The Canadian attitude thus has certain nuances. In the first place, Canada is not too keen on the creation of a new preferential system—even if it be in favour of developing countries—if the effect of the system were to be to encourage or perpetuate distortions in the patterns of international trade. The argument is that such concessions as may be shown to developing countries must at least be "reciprocated" to the extent and in the sense that the beneficiaries will take effective steps to establish or develop economic and competitive production and export capacities so that they may outgrow within a reasonable period of time the need for preferential treatment. Secondly, Canadian thinking is rather insistent on the point that preferential treatment of the products of developing countries should be sectorwise so that the countries which are called upon to grant concessions may not entirely be prevented from safeguarding what is described as "sensitive" domestic industries.

Canada's concern on the latter point is not difficult to understand. Historically Canada's foreign trade policy has equipped itself with the means of preventing the "dumping" of products by the more resourceful and gigantic economy of the United States. Currently, this machinery is being employed to protect "sensitive" domestic manufactures from what the Canadian authorities may regard as "unfair" competition from any foreign country. This system, under which import duties could be (and are) levied automatically, retrospectively and entirely within the executive discretion of the authorities of Internal Revenue, has undoubtedly some harsh features and in actual practice the Canadian government has not been averse to negotiating with exporting countries difficult or disputed situations and finding mutually acceptable solutions. A case in point is Canada's treatment of our exports of cotton textiles to Canada in respect of which much hard bargaining had to take place before reasonable freedom of entry could be secured. It is clear that there is scope here for a very considerable liberalisation of Canadian policy and it is in fact the case that the Canadian government proposes to introduce legislation next year to carry out its obligations in terms of a provision of the recent Kennedy Round settlement that allegations of dumping should be supported by "proof of injury".

Meanwhile, as in its exports to other industrially advanced countries, India has a hard job to do organising its export production and marketing more efficiently and energetically. Practically everything I said on these aspects in an earlier article relating to our trade with Sweden would be relevant in this context as well. A few more points may be noted in addition. Canada has been unilaterally according to our country the British preferential tariff treatment without contractual obligation. One incidental effect of the Kennedy Round is that we have lost some ground here—to the extent, say, of about seven per cent, on an average, of the margin of preference. Secondly, China, having become a large customer of Canadian wheat, is naturally more keen than ever on pushing its own products in the Canadian market. This would mean keener competition for our exports, including textiles. Mexico is another country which is taking more and more interest in expanding and diversifying its exports to Canada—and this again could mean more competition for our export trades. The Mexicans are intrigued and irritated by such anomalies as their exporting only raw cotton to Canada while Poland is successfully marketing in Canada shirts made out of imported Mexican cotton. While the immediate aim of Mexico is to step up the general scale of its exports to Canada—it is claimed that there has already been good progress, exports having gone up by more than 40 per cent since the trade drive began around 1964—an important purpose of the Mexican effort is to develop the Canadian market for Mexican manufactures.

Our country's need to promote exports to Canada is not by any means less considerable or urgent than that of Mexico. As a matter of fact, whereas Mexico is able to pay for about two-thirds of its imports from Canada by exporting to that country, our exports to Canada as a percentage of our imports from that country are rather lower. It is true that emergency food assistance has taken our total imports from Canada to well over the one-hundred million Canadian dollar mark, but even otherwise India could do with imports of development and essential maintenance goods from Canada of an order easily double that of the rate of our exports to that country now averaging around 40 million Canadian dollars.

Currently development grants and loans from Canada are helping to pay for the excess of our imports over our exports. Canada seems to be in this "aid business"—as one hears it described these days—with a great deal of enthusiasm. It has accepted the giving of development aid as a part of civilized living within the international community. While its assistance to India falls within the framework of this policy, it is clearly to be seen that the Canadian government attaches particular importance to the Indian transaction. I had noted at the outset that the Canadians are a friendly people and of their great goodwill for the people of India there need be no doubt. Fortunately there are no complications on the political plane to mar this feeling, although some of the actions of the Government of India in the United Nations in relation to the Arab-Israeli conflict had undoubtedly puzzled and annoyed Ottawa. I may also add that Mr Chagla's technique of diplomacy by declamation was as little admired in Canada's capital as it was in most of New Delhi. But all this does not take away from the fact that Canada derives genuine pleasure from its association with our country in many constructive international roles or arrangements and would be happy to see these co-operative relations continue and prosper.

This apart, even in more objective terms, Canada regards Indian development as having special significance for the peaceful progress of the world order towards desirable social goals. This assessment is accompanied by a wise awareness of the vastness and complexities of the Indian effort and there is therefore a commendable restraint in the Canadian mind about passing facile judgments on the shortcomings of that effort. A good illustration of this sense of responsibility is the Canadian refusal to join a certain international chorus in praise of the alleged superiority of Pakistan's development effort over the Indian. On the contrary, many Canadian observers note with concern the neglect that has been the lot of East Pakistan's economy and suggest that Pakistan, which has been receiving a relatively high quota of foreign aid per capita, seems to be allowing the gains to be monopolised by, so to say, six families and thereby risking its political and social stability.

Presiding over the administration of the development aid programmes of the Canadian government is Dr Maurice Strong, Director-General of the Department of External Aid. Dr Strong, who was in India and other Asian countries earlier this year, is as emphatic as anybody else that the large-scale food aid which Canada is now giving to our country should only be an ad hoc rescue and relief operation outside the basic development assistance programme. He favours Canada taking an active part in Indian projects for the modernization and expansion of agriculture. It is planned to send a team of experts to India in October for this purpose. It will not submit reports or draw up plans, but make precise and practical recommendations on which both Canada and India could jointly go to work immediately. A major interest of this team will be the development of water resources, an area in which Canadian engineering has vast domestic accomplishments to its credit. It should be mentioned here that, while there is general satisfaction in Canada with the utilisation of its development aid by our country, considerable irritation is being expressed over the fact that the Government of India is slow in issuing import licences against the credits for maintenance imports agreed upon by the World Bank Consortium. It is argued that, after having contended that these funds were urgently needed for keeping Indian industry going, the Government of India should have been able to make a better job of putting these resources to work. Mr Morarji Desai will be visiting Ottawa shortly and if aid happens to be among the subjects he discusses with Mr Mitchell Sharp, Minister of Finance, it is quite likely that he will have to lend his ears to some sharp complaints.

But problems such as these are perhaps in the day's business. What must really impress those who think about these matters is Canada's utter national dedication to the philosophy and practice of development aid. In this respect the people are even ahead of the government. The Canadian government after all does have a problem of revenue and is confronted with a budgetary deficit of not inconsiderable dimensions which it is attempting to bring under control in the face of demands from provincial governments for more federal funds. Simultaneously talk of tax reform or even tax relief is very much in the air. Finally there is the never-ending call in a dynamic and progressive community for more social welfare and, in the field of housing particularly, there is a clear need for more of both public and private investment.

Nevertheless enlightened and responsible public opinion in Canada today is asking for more in the area of development aid, not less. It is noted, in sadness and anger, that the funds appropriated for this purpose are still only about half a per cent of the GNP. The government's assurance that the goal of one per cent would be realised by 1970 does not seem to satisfy. Last month, the Anglican General Synod, meeting in Ottawa, bluntly declared that it wanted action now, in this centennial year, and urged the government to make larger contributions of development aid as "Canada's birthday present to the underdeveloped nations of the world". To the voice of the Church was united the voice of the press and the daily 'The Ottawa Journal', commenting on a statement by Mr Paul Martin, Minister for External Affairs, that Canada's foreign aid budget would be boosted by the early 'seventies, impatiently demanded: "But why not sooner?". The Canadian economy is bounteous. So is the Canadian heart.

—THE EDITOR

Eastern Economist 20 Years Ago

SEPTEMBER 26, 1947

Comparatively a mere thimbleful before the 15th August, the refugee problem has during the last six weeks gathered torrential force. Its overwhelming suddenness, vastness and complexity might have baffled even a better-set government. It is like all big and tough problems. Organisationally, it is a problem of dealing with masses of people, uprooted from their lands and homes and jobs and subjected to intense physical and mental suffering—of taking a rapid census, ascertaining losses and assessing present needs. Administratively, it is one of evolving an efficient machinery for organizing the movement of men, of affording them immediate relief, settling them on land and in new homes and jobs and of gradually assimilating them as contented citizens and also delimiting the spheres of, and co-ordinating, official and non-official effort on the one hand and Central, Provincial and State effort on the other. Financially, it is one of ascertaining the extent of relief —short-range and long-range—to be given, of working out the financial cost involved and of finding the means of raising the required funds. Whether the problem is in point of the numbers involved the biggest in history or not—competent observers have estimated the number of displaced persons in Europe at the end of the war at thirty millions, which is certainly far beyond the limits contemplated at present for displacement and exchange of populations from both the Dominions together—it is certainly the most complex in the sense that it is to be handled within a matter of weeks.

Waiting for a Bumper Harvest

THE DMK government, unlike its predecessor which had a distinguished record for constructive work but which was let down badly on account of a serious deterioration in the food situation just before the elections, seems to have luck on its side. The latest reports from the districts indicate that a record rice crop would be harvested and it would be possible for the state to spare sizable quantities of this badly needed cereal to Kerala. In 1964-65, an output of 4.3 million tonnes of foodgrains was achieved. A new high level is now expected to be touched at 4.7 million tonnes. There has already been a decline in prices for several grades of rice in the interior areas and paddy will start arriving in volume from the beginning of October. It is now being planned that ADT-27, which is regarded as a wonder grain, should be cultivated as a second crop over large areas in the Cauvery delta and it would be possible for rice to be sold at one rupee a measure all over the state. This is indeed a happy prospect. With Andhra Pradesh and Mysore also expecting satisfactory harvests, the communists in Kerala will be seriously upset if there was a sudden improvement in the rice situation and there was also a significant decline in prices. The use of large quantities of manures and new strains of paddy is reported to have been responsible for a break-through in cultivation and given satisfactory weather conditions in the coming months and in the next year as well, the hangover of drought conditions in the last two years could be easily got over.

It should not be overlooked, however, that Madras got through a delicate situation without much difficulty only because of the completion of numerous medium-sized irrigation projects and the use of pump-sets on a large scale for lifting water from underground sources. Over half the number of pump-sets in use in the whole country are located in Madras state, thanks to the energetic measures adopted by the former state government and the successful implementation of an ambitious programme of rural electrification by the Madras State Electricity Board. The decline in food output was thus only marginal in 1965-67. The production of foodgrains in 1967-68 is expected to constitute a new record in the history of the state.

The DMK government would appear to be lucky also in its move for reducing prices for edible oils. Even before the proposal for regulating the movement of groundnut kernels from the state to outside areas could be implemented, a distinct improvement in the outlook for oilseeds crops has resulted in a substantial decline in prices for edible oilseeds and oils. In the past two months a drop of over 100 points per quintal of groundnut oil has been recorded. For a time, the quotation was even below the import parity of about Rs 278 per quintal of soyabean oil. There are no reliable estimates about the size of the different crops for the current season but it is expected in market circles that the record output of 1964-65 is expected to be exceeded in many directions and there is even the prospect of the country being in a position to meet the requirements of the internal market fully from its own sources. The prices for groundnut oil and gingelly oil, after coming down abruptly, are even now quoting, after a slight rally, at reasonable levels. Coconut oil is ruling high because its output cannot be increased at will and coconuts are in great demand.

There would have been an even more pronounced decline in prices for groundnut oil but for devaluation. Under similar conditions, groundnut oil was quoted in 1964 around Rs 240 per quintal and a quotation of well over Rs 500 was touched when the scarcity was most acutely felt early this year. Since vanaspati manufacturers were purchasing soyabean oil at Rs 2,700 per tonne, exclusive of sales tax, there is no possibility of a decline in prices for groundnut oil to below this level unless supplies proved considerably in excess of demand. The position may be complicated to some extent by the availability of large stocks of soyabean oil with the government but there is no serious danger of a slump in oil prices as there is a large unsatisfied demand. It may, however, be necessary to suspend imports of soyabean oil under the PL 480 Agreement if it became clear in the next few months that the crops in Andhra Pradesh and Gujarat too would be very large and there would be a problem of absorption temporarily. In that context, it will be necessary to prevent imports of edible oils in the first instance as the government would otherwise be tempted to permit limited exports of groundnut oil in order to earn foreign exchange. This may bring about an undesirable rise in prices some time later as it happened in 1965 when sizable exports were permitted and a failure of the crops in 1965-66 upset all calculations. Until it is known that there will also be a satisfactory level of production in the next season, there should not be any great anxiety to lift the ban on exports of oilseeds and oils.

While a stabilisation of prices at reasonable levels would be helpful to both consumers and producers, it is important to know whether new trends in production have emerged. For quite a long time the yield per acre has remained static and the increase in output of edible oilseeds has come about mainly with an extension of acreage. Since large areas are dependent on rainfall and it has not been possible to use chemical manures in an intensive manner where the required water supply was not assured, the efforts to raise the yield per acre have not been quite successful. In the past two years, greater attention has been paid to this aspect of the problem and it has been reported that the experiments carried out on pilot projects by such firms as Hindustan Lever have been encouraging and an extension of the methods of cultivation adopted in these areas will be very helpful in boosting the output of oilseeds. New hybrid varieties are being cultivated in vast areas and it is confidently felt that, with the use of manure and pesticides, the yield could be easily doubled. But this important task will be greatly facilitated if lift irrigation can be used, as is being done in the principal groundnut-growing areas in Madras state, Andhra Pradesh and Gujarat. The lesson of Madras has to be copied by other states without delay. If greater attention can be paid to the tapping of underground water resources rather than to the implementation of minor irrigation works, immediate results can be secured. There are known areas where large underground water reserves exist. If electricity is not immediately available in the areas concerned, diesel pump-sets could be installed to be followed by electrically driven sets.

If the country's deficiency in oilseeds can be overcome in this manner, the stabilisation of the output of coarse cereals and pulses also would have been indirectly achieved. Cotton too lends itself to similar treatment. It is not surprising, therefore, that the complaint has been voiced in some quarters that not much attention is being paid to the development of cash crops and there is obsession at the present moment only with the problems relating to the production of foodgrains.

Growing Failure in Exports

IT IS now generally admitted that the devaluation of the rupee has failed in its primary objective of stepping up exports. The export earnings are estimated to have declined to $1,525 million in the year ended May 1967 from $1,720 million in the corresponding preceding period. The need for maximising the earnings of foreign exchange continues to be as urgent as ever. In the circumstances, we would have expected the Government of India to revise its export policy in the light of the last year's experience but it merely continues to make ad hoc changes in relation to some of the export commodities. For the past two years, the government has been thinking of announcing an export policy resolution but it appears that this is unlikely to appear in the near future.

Last week the Government of India announced its decision to increase the cash assistance for certain export items such as steel castings, forgings, pipes and tubes, wire ropes, wagons, power cables, diesel engines and light bars. Other items such as plywood and timber products have also been given additional cash assistance while for china clay and absorbent cotton, the assistance has been given for the first time.

The industries concerned have welcomed this decision. The Chairman of the Engineering Export Promotion Council has said that with these incentives, the exports of engineering goods are likely to go up to Rs 40 crores in 1967-68 and to Rs 100 crores in 1970-71. It is doubtful, however, if these targets are likely to be reached because in 1966-67, the exports of engineering goods were valued at only Rs 29 crores. Currently the engineering industry is passing through a rather severe recession with a large proportion of its capacity still idle. The latest export statistics are far from encouraging. The total exports of engineering goods in April-June 1967 were only Rs 5.52 crores against Rs 7.64 crores in the same period of 1966, recording a fall of 28 per cent. There was a decline of 6 per cent in exports to south east Asia, 46 per cent to west Asia, 57 per cent to Africa, and 60 per cent to west Europe though exports to east Europe improved by 23 per cent, to the USA by 19 per cent and to other countries by 127 per cent. Unless the engineering industry improves the utilisation of its capacity and cuts down its cost of production, increased cash assistance by itself is unlikely to be of much use in boosting exports.

While the government's approach to the export of engineering goods has been somewhat helpful, its policy towards the traditional industries continues to be far from realistic. The jute industry, for instance, is passing through a difficult phase and other industries such as tea, manganese and iron ores are also confronted with mounting costs of production and increasing competition. The Federation of Indian Chambers of Commerce and Industry, in a communication to the union Commerce Minister, has made some specific suggestions for export revival. These include reduction or removal of export duties, re-introduction of tax credit certificates, revision of cash assistance schemes, and setting up of a machinery to take quick decisions. The Federation has also recommended the re-introduction of the rebate of income-tax on export profits and export turnover.

These suggestions are unlikely to find immediate favour with the government because of the loss of revenue involved but it is clear that unless measures more or less on these lines are adopted, most of our export industries may not be able to compete successfully. Mr Manubhai Shah, while he was Commerce Minister, used to say that export incentives should be looked upon as medicine rather than as daily food. His idea was that they should be given only for a temporary period but the fact that even after the devaluation of the rupee we have to think in terms of large-scale incentives shows the extent to which our goods have become uncompetitive in world markets.

It is also necessary to emphasise that cash assistance and other incentives should be made available to exporters as promptly as possible. It was because of the failure of the different departments of the central government to administer the incentive schemes efficiently that the country ultimately had to devalue the rupee. It appears that even now the government departments continue to function in the same leisurely way as before. The Engineering Export Promotion Council pointed out a few days back that because of the delay in the settlement of drawback claims and payment of cash assistance, exporters have been discouraged and many have even "dropped out of the exporters' community".

The Chemicals and Allied Products Export Promotion Council has also strongly criticised the dilatory official procedures in implementing the incentive schemes. In a speech in Calcutta recently, the Chairman of the Council said, "The fixation of duty draw-back and settlement of draw-back claims, as is well known, take considerable time. The present procedure for fixing draw-back rates particularly on a brand basis is extremely cumbersome and time-consuming with the result that it has taken roughly two to three years to fix these rates for certain products. In addition to this, whenever there is a revision of import duty, the draw-back rates need to be revised and here again such amendment or revision takes considerable time. On top of this, the payment against draw-back claims is not given promptly."

All this shows clearly that the central government has yet to show a sense of seriousness and urgency in handling the vital problem of export promotion.

Search for Economic Stability—II

MANUBHAI SHAH

THE COUNTRIES in the ECAFE region have shown a steady expansion in industry in the recent past. In manufacturing and mining production, the countries of this region recorded an expansion of 5.6 per cent in the first three quarters of 1966 over the corresponding period of the previous year as against 4.4 per cent for the world as a whole and about 8.4 per cent for North America. It is encouraging to note that heavy and chemical industries in this region are growing faster than light consumer industries, thereby laying a broad base for future industrial expansion. The output of coal in the Asian region has rapidly expanded from 86.9 million tons in 1956 to 166.7 million tons in 1965. In this period, crude steel production multiplied four times from nearly 13 million tons to 53 million tons. Cement production has nearly trebled from 21 million tons to 59 million tons. The year that has gone by has seen a sizeable advance in the production levels in these basic industries. Electricity generation in the region has also increased substantially. From 114 billion kWh generated in 1957 in Asia, it has gone up to 300 billion kWh in 1966. In many countries, high priority has already been given to the development of hydro-electric power. This is a field in which all the resources of Asia will need to be mobilised to meet the ever rising needs of industry and agriculture.

A disturbing trend is discernible in trade and balance of payments of the ECAFE region. The value of imports of the region increased by 8.2 per cent during the decade 1955-65, while exports increased by 4.8 per cent only. In consequence, the trade gap widened to nearly US $2687 million in 1965 from about US $808 million in 1955. The consequent pressure on external payments led most countries in the region to a greater tightening of import restrictions. A rather unhappy feature about the present balance of payments situation is that even those countries which have substantial trade surpluses with this region and have no problem of unemployment, continue to have restrictions on their imports from this region. The mode of functioning of the European Economic Community has been a matter of great concern for the countries in this region, especially for the populous countries such as India and Pakistan.

Balanced Development

Just as it is necessary in the developing economies of this region that there should be a balanced development of both agriculture and industry, it is desirable that there should be a balanced development of both the centralised and the decentralised industries. There can, of course, be no hard and fast rules about it. Each country must work out its own programme according to its genius and in the light of its own special requirements. In this country, balanced development is very essential, partly to provide employment for the millions and partly to build from below the necessary technical know-how, which would later be required for the large-scale development programmes which are already in sight. Development of the decentralised industries is most essential for a politically stable democracy, so that technical skills, management talents, entrepreneurship and wealth get distributed in a better way and monopolies and concentration of economic power and wealth may be restrained to some extent.

In the under-developed countries of this region, the establishment of heavy and large-scale industries has got to be necessarily accompanied by the development of small-scale, village and cottage industries. This is a matter of economic reality and not merely a question of dogma. The basic and heavy industries are capital-intensive. With massive capital outlay, they generate inadequate employment potential. To rectify this imbalance in both their social and economic objectives, it is necessary to simultaneously foster the growth of small and cottage industries.

The planning experiment in our country is full of interest from several points of view. Starting from the achievements made in the first three Plans, the fourth Plan is striving to carry forward the economy towards a more rapid and self-sustained growth. It is an attempt to diversify the structure of the economy, mainly by the development of agriculture, natural resources and capital goods industries which, in course of time, should contribute to the development of consumer goods industries. There is another important reason why the experiment in planning in this country is particularly interesting. Planning seeks to take the country towards a "socialistic pattern of society", which in turn implies the continued and simultaneous expansion of both the public and private sectors in a mixed economy. The concept of socialism which is consistent with the mixed economy is one of the distinctive features of our experiment in planned development.

State's Role

The state has been given, through the public sector, a leading role in this country in the planning processes. This is principally due to the fact that the public sector is required to initiate and co-ordinate the process of economic expansion and to mobilise capital resources and technical skill—functions which the private sector may not, in an underdeveloped economy, feel attracted or competent to carry out. While several new industries are being established in the public sector, especially the basic industries, this development itself, along with provision of additional power and transport and capital-cum-production goods, has continued to foster larger development in the private sector. Our planning is based on the premise that there is no conflict in a balanced growth of public as well as private initiative; in public ownership as well as private ownership and control of the means of production; and that a social and economic democracy—which has been called the socialist pattern of society—could be evolved in the light of emerging social and economic experience.

Capital formation for the financing of development projects has naturally thrown up several problems. This country has tried to provide some institutional financial assistance for industrial projects by grant of loans on special terms or by participating in equity capital. Industries which have received such assistance include the manufacture of explosives for civil purposes, intermediates for certain types of dye-stuffs, chemicals, industrial machinery, paper, textile machinery and steel. Financial assistance for industries is afforded by the Industrial Finance Corporation of India, Industrial Development Bank, the National Industrial Development Corporation and the Industrial Credit and Investment Corporation of India (ICICI). The Industrial Finance Corporation of India has sanctioned financial assistance in the form of advances and long-term loans to industrial concerns to the tune of Rs 253 crores since its inception. The Industrial Development Bank has so far given loans and participated in equity capital to the extent of Rs 13.2 crores. The National Industrial Development Corporation has helped to promote several projects in which the private sector had hitherto shown no special interest on account of the very heavy investments involved or expectation of low return in the earlier stages. The National Industrial Development Corporation has helped jute and cotton textile industries with sanction of loans totalling Rs 27 crores to facilitate their modernization and rehabilitation programmes. The ICICI has granted loans and participated in equity capital to a total of Rs 124 crores which includes both foreign exchange and rupee credits. Various

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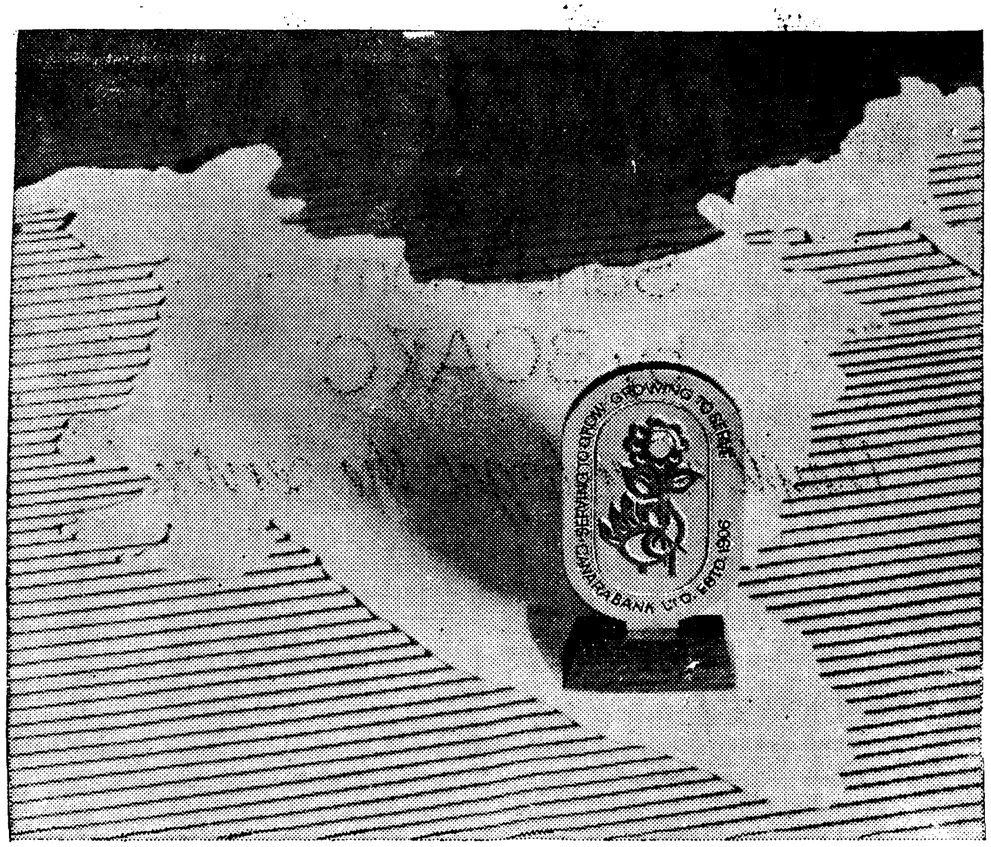

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states have also set up their finance corporations for the grant of loans to industrial and trading concerns.

Notwithstanding various difficulties, our economy has registered an impressive advance in recent years. The index of industrial production advanced from 100 in 1956 to 191.8 in 1966, an increase of more than 90 per cent in a decade. Industrial capacity has been growing rapidly, especially in capital goods and intermediate goods industries; these industries had lagged behind but they have now sufficiently caught up. In the course of the last decade we have been able to produce a large number of industrial products such as electrical goods of various types, diesel engines of different capacities, textile machinery, cycles, scooters, automobiles, automobile spare parts, chemicals and pharmaceutical products, cement, insecticides, newsprint, plastic materials, and a large variety of industrial machinery and machine tools. A number of basic industries are in the process of development. Three steel plants in the public sector have shown commendable progress, while two large private sector steel plants have also undergone sizeable expansion. The Ranchi complex of heavy machinery and heavy foundry forge and the mining equipment project are however facing serious hardships. There has also been sizeable expansion in consumer goods industries. Thus in this country, both the private and the public sectors have contributed to this industrial expansion and there are indications that this co-operation between the two sectors is likely to increase in scale as well as effectiveness in the coming years.

Our country produced 800,000 tons of steel per annum at the time of Independence. The accelerated growth of iron and steel industry could be judged from the fact that in 1966, we produced 6.6 million tons of crude steel. In the case of cement, production has risen from 1.4 million tons at the time of partition to 11 million tons in 1966. In the case of heavy machine building industry, the progress has not been so fast.

When this country attained its independence in 1947, there was practically no production of indigenous machinery. Presently, this country is producing machinery worth Rs 500 crores per annum. Including all equipment and fabrications, it will be around Rs 650 crores. This is indeed a miracle. In the field of chemical fertilisers, even though the progress has been tardy, the production of all nitrogenous and phosphatic fertilisers approached the figure of a million tons in 1966. New massive fertiliser plants are coming up in the private and the public sectors and are expected to raise their capacity to 3 million tons of chemical fertilisers per year by the end of the fourth Plan.

Power and Transport

The industrial advance in this country has also involved expansion in the supply of fuel, power and transport. The production of coal increased from 35 million tons in 1951 to 69 million tons in 1966. The generation of electrical power increased from 5.3 billion kWh in 1951 to 33 billion kWh in 1966.

For the successful implementation of our Plans, we regard an increase in agricultural productivity as absolutely essential. Agriculture must therefore receive the highest priority. A progressive increase in investment calls for corresponding increase in food supply—in aggregate food production as well as in the marketable surpluses. In 1966-67, the output of foodgrains in India aggregated nearly 75 million tons, which is very poor indeed. This has proved insufficient in relation to demand. The need to secure additional supplies from abroad has caused strain on the balance of payments. Inevitably, we have to redouble our efforts to increase food and other agricultural production.

The last three years in this country have been marked by considerable stresses and strains which have become manifest in several ways. Prices are rising and the balance of payments deficit continues to grow. The continuing need for food imports, the requirements of machinery and equipment for development programmes of industries and the fact that many of our new industries depend considerably on imported components and raw materials, have continued to strain our balance of payments. Appropriate measures have been taken such as tightening of credit and restrictions on imports but the price spiral is still continuing to rise.

Our small saving schemes have been significantly attractive for the investor in terms of the return he gets, and the campaign to mobilise these savings are being intensified though the present results have not been satisfying. The basic problem for a developing economy is that of raising the level of savings to the requisite degree. There has been a steady erosion of rural incomes in this country over recent years. Again there has been no expansion of marketable surpluses of foodgrains and agricultural commodities. I think there is room for further analysis of the savings process in under-developed economies and especially of the institutional aspects of the problem. The most important factor in savings is, of course, the level of income itself. Raising the level of internal savings and resources is undoubtedly most essential and vital. Because of all this, the necessary institutional arrangements for ensuring a steady stream of savings becoming available for development need close study. Rural banking and corresponding expansion of rural agricultural credit facilities are the only answer. Agricultural development has been too much neglected for too long. The accumulation of savings in rural areas should be directed from non-banking and non-monetised sectors to the main stream of healthy banking and monetary sectors. Unless savings are tapped, the rate of investment cannot be stepped up.

Indigenous Effort

It is true that in the ultimate analysis, the economic emancipation and growth of any country can and should come out of its own resources and efforts; outside help can only play a marginal role. Even so, substantial investments from abroad will be necessary to launch the under-developed economies on their career of self-sustaining and accelerating growth.

Foreign investments can and will play a notable part in promoting the development of the countries of Asia. Such investment can help in several ways. First, it supplements the inadequate volume of savings in under-developed countries during their early stages of development and, therefore, makes possible a larger developmental effort. Second, it provides the foreign exchange needed for the import of essential imports for agriculture and industry and of plant and equipment and thus alleviates the most serious bottleneck in development plans. Third, it serves to bring with it technical know-how and expertise as well as training facilities which are indispensable for raising the level of productive efficiency.

The investment will, of course, need to be canalised in directions which promote the development of the economies concerned, and in particular towards schemes which will improve the foreign exchange position of the recipient country. In order to ensure such investment with benefit to all the parties concerned, the recipient country should, of course, provide facilities for remittance of earnings and capital, and a non-discriminatory treatment. With the rapid expansion of the economies of the ECAFE region, the possibilities for such investment were expected to increase very considerably especially in the newer industries. But unstable political conditions in Asia and the growing indifference of the foreign investors harbouring monopolistic tendencies and motivated by political strings have belied these expectations. In the past, foreign investment has been largely in extractive industries. There is

now, of course, a welcome trend towards establishment of undertakings which produce complex modern industrial goods in which capital brings with it a wealth of technical expertise. The increased availabilities of steel, electricity, etc and the development of transport facilities help to promote the setting up of such undertakings to cater to the needs of the vast markets of this region. Unfortunately foreign capital has an anti-export bias which robs foreign investment in under-developed economies of its major international function of expanding exports.

I may refer briefly to the record of foreign investment in this country in the recent past. Foreign business investment in private sector in India rose from Rs 264.6 crores in June 1948 to Rs 936 crores in March 1965 and would be over Rs 1000 crores now. There have been more than 1200 cases of technical/financial collaboration between foreign and Indian ventures over the last two decades. Assistance from the governments of friendly countries plays a notable part in promoting progress of developing countries of Asia. Our country is grateful for the help it has received in this way for the execution of its plans. To facilitate inflow of foreign capital, liberal policies are being followed by countries of Asia. In our country, there has not been and will be no discrimination between foreign and Indian undertakings in the application of the general industrial policy; all reasonable facilities are being given for the remittance of profits and repatriation of capital, consistent only with the foreign exchange position of the country, and in the event of nationalisation, fair and equitable compensation is assured. Concessions such as tax-free dividends under certain circumstances have also been extended to foreign investors.

Trend of World Prices

While the major problem for under-developed countries is to raise savings, the success of their efforts is conditioned to some extent by the trend of world prices and demand. In this context, we cannot but view with concern the emergence of recessionary trends in industrially developed countries. And so, whichever way we approach the problem, it turns out to be one of carrying out rapid, all-round development, and of finding the necessary internal and external resources. More production and still more production is the only answer. And the rich countries must reorient their policies of international trade so as to ensure fair and remunerative prices for the major products of the developing countries.

In such a situation, it is important that we should make the best possible use of such resources as we have. The one striking feature of the economies of Asia and Far East to which I would like to draw pointed attention, is that 'productivity' is very much lower than in the industrially advanced countries. This is true in almost all sectors of the economies of this region. Thus, even in agriculture which has been practised for centuries, the per acre yield in Asia (excepting such countries as Japan) is much lower than in the rest of the world. We know that part of the explanation lies in the fact that farmers in these countries do not have at their disposal the same volume of resources as farmers in other areas. This is not, however, the complete explanation. A great deal can be done to raise productivity without sizeable investment, by popularising improved methods and techniques. Relatively small expenditure in terms of better seeds and implements or even mere adoption of improved practices can make a substantial difference to yield. Through the national extension movements, a concerted effort has to be made to raise productivity in these spheres, apart from the results that can be achieved by large-scale expenditure on multipurpose irrigation projects or by establishments of fertilizer and pesticide factories. The problem of a quick increase in productivity in agriculture in this region has got to be gone into more closely by all the countries of Asia.

In the industrial field also, there is scope for substantial increases in output with the existing equipment. While some units are equal in efficiency to the best in the world, there are many others where the fullest use is not made of the available capital equipment. A concerted effort to raise productivity in industry should be made an essential feature of development plans in the ECAFE region. The drive for increased productivity in this region is feeble.

The problem of development is a fascinating one. It is not merely an economic problem; it is a sociological and human problem, reaching down to the inner-most psychological urges of a community. It is necessary to keep constantly in mind these wider considerations. The working of the ECAFE has been good—and yet not so good. Our commission like the other regional commissions of Africa and Latin America has addressed itself primarily to our own regional problems, but the problems of economic development are most complex and need super human effort, whether we are in Asia or in Africa or in Latin America. The countries of Asia and Africa have achieved political emancipation within the last two decades. The need for economic emancipation of Asia is urgent and imperative but the efforts of both the developing communities of Asia and the rich countries of the world are too feeble and often retrogressive. We, the peoples of Asia, must find our answers if our ancient civilisations in which we take pride have to shine forth again. I am confident that we have the ability and the energy to do so. What we lack is determination and social organisations to sustain hard and concerted work. To this end, we the peoples and the governments of Asia must work.

(Concluded)

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Problems and Prospects of Foreign Collaborations in India

Dr ASHOK KAPOOR

BY PROVIDING foreign rights and services (and capital), foreign collaborations have played a major role in the development of various types of industrial undertakings in India in a short space of time. The pace of industrial development achieved through foreign collaborations is much faster than would have been possible through purely indigenous efforts. By facilitating the development of indigenous resources, foreign collaborations have increased the ability of Indian companies to undertake independent industrial activity. The association with foreign rights and services has provided the "average" Indian company with a much better understanding and appreciation of more effective management—in terms of both techniques and concepts. And as a result of this increased awareness by the "average" Indian company, the growth potential for a broad base of Indian industrial units holds forth great promise over the long-term.

But foreign collaborations have not been able to make their maximum contribution toward the development of Indian industrial units. Indian and foreign companies are dissatisfied with some areas of interbusiness relationship. And the government's policies and practices on foreign collaborations have not always facilitated maximum contribution from foreign rights and services.

Differences in management lead foreign companies to be dissatisfied with their Indian partners. In most cases this situation arose because the foreign company did not evaluate its Indian partner before entering into a collaboration. Also, the "average" Indian companies in particular hardly ever evaluate their proposed foreign partners from the standpoint of management compatibility. On the other hand, the experienced foreign companies and the large Indian companies are in a position to evaluate effectively their proposed partners from a management compatibility standpoint.

Indian and especially foreign companies must evaluate their proposed partners before entering into a collaboration. Foreign companies should bear in mind that the criteria used for evaluating an Indian partner may not be the same as those used for a European partner. The unique environmental factors (social and cultural) influencing Indian management must figure in the evaluation process.

Better management, in both technical and non-technical areas, is the greatest need of Indian companies, especially the "average" ones. The high demand in the protected Indian market, along with the very limited industrial experience of almost all Indian companies, has encouraged the development of "inefficient operations." Indian companies must recognise the vital role of effective management in industrial operations. Foreign companies through foreign collaborations represent a major means of introducing better management into Indian companies. But foreign companies in turn should recognize that the environmental factors (social, cultural and economic) call for a modification of western concepts and techniques when applied in the Indian context.

Foreign Technicians

Foreign technicians have played a major role in establishing and developing various types of industrial undertakings. They have by and large provided more rapid and efficient development of operations than would have been possible through purely indigenous efforts. Also, their presence has encouraged Indian companies to undertake substantially independent activity.

While foreign companies would prefer to use foreign technicians for over-all technical direction (in addition to their work on specific problems), Indian companies object to using technicians for over-all technical direction. Indian companies argue that foreign technicians are not sufficiently familiar with "conditions of operations" in India to deal with problems calling for an intimate knowledge of social-cultural factors. Foreign companies, on the other hand, argue that an experienced over-all administrator can make a significant contribution to the development of an Indian industrial unit.

Dr Ashok Kapoor is Assistant Professor, Graduate School of Business Administration, New York University. **This study represents at best the first stage of exploration of a complex but important area. It is largely based on interviews with Indian and foreign companies and government officials. A total of 104 interviews were conducted with the following breakdown: US companies—18; European companies—9; Indian companies—55; Government of India officials—17; others—5. The interviews were conducted in New York City, various places of Europe, New Delhi and Bombay.**

Both sides are correct from their respective viewpoints. To be increasingly effective in over-all administration, foreign technicians should develop a better understanding of the social-cultural factors in India. Indian companies should carefully consider whether the benefits of a foreign technician in an over-all administrative capacity are likely to be greater than the possible drawbacks.

The respondents to this study, especially the large foreign companies, have strongly indicated the need for a longer duration of tax exemption for foreign technicians engaged in over-all management or technical administration. Industry is getting increasingly complex in terms of size and technical sophistication. And India, like most developing countries, is particularly short of skilled managers. The government should carefully review the adequacy of the duration of tax incentives provided to foreign managerial personnel.

Research and Development

Indian companies, both large and "average", engage in very little research and development activity. The high demand in the Indian market along with the lack of industrial experience provides few incentives for Indian companies to engage in research and development. Indian companies are almost completely dependent on foreign research and development supplied to them under foreign collaborations. Any meaningful level of research and development activity by Indian companies is still quite some time away.

A major contribution of foreign collaborations has been in making Indian companies more research and development conscious. The large Indian companies have become much more research and development conscious after a foreign collaboration than they were before one. While a large number of "average" Indian companies do not plan to engage in any research and development activity in the near future, their exposure to foreign research and development seems to have convinced them about its value in an industrial undertaking. Foreign collaborations by providing tried and tested rights and services have been particularly successful in making Indian companies more research and development conscious. And this facilitates the development of a large base of research and development conscious Indian companies. Thus, the contributions of a foreign collaboration lie not only in the immediate gains secured by the Indian company but also in the long-term benefits it secures.

Most Indian companies are unaware of the possible need for modifications of the technical features of their foreign rights and services to suit Indian conditions of operations. Modifications require technical ability and knowledge of the

conditions in which the modified rights and services are to be used. In order to modify effectively, Indian companies require close and continuing guidance. In terms of technical ability, foreign companies are better qualified than most Indian companies to undertake modification of rights and services. But to modify effectively the Indian conditions have to be recognized. Indian companies state that when the need for modification has been recognized by the foreign companies, they have not been able to recognize the special requirements of the Indian context. Frequently, especially in technical collaborations but also in financial ones, neither the Indian nor the foreign companies have recognized the need for modification. Indian and foreign companies and the government should pay particular attention to the question of modification of foreign rights and services.

Foreign companies regard the compensation for their rights and services to be inadequate. However, they have accepted "inadequate compensation" for their rights and services in order to secure a foothold in the Indian market. They hope that when the "atmosphere" for foreign collaborations improves and they enter India in a bigger way, the government will recognize their earlier sacrifices and provide them with better terms of compensation.

The large foreign companies are interested in long-term market gains. It appears unlikely that the large foreign companies in particular will significantly increase licensing of their rights and services unless they can enter India on a larger scale and on terms that are acceptable to them. Such companies are unlikely to increase licensing activity in India purely because of higher compensation for their rights and services. Thus, the inadequate inflow of foreign rights and services is more likely to be corrected through improvements in the "atmosphere" for foreign collaborations than through an increase in compensation for rights and services.

Industrial Policy Resolution

According to its policy, the government is to take a progressively active role in the development of industry. However, the practice is different from the policy. Foreign companies. especially those unfamiliar with India, are not aware of this distinction and are likely to accept the policy at face value and this has an adverse effect on their outlook toward India as an area of investment. Lack of knowledge of government policies and practices is a major drawback of foreign companies interested in investing in India*. The government should take effective steps to reduce this information gap.

The government's restriction on areas of investment open to private companies is a source of dissatisfaction, especially to large foreign companies. Because of this restriction, some foreing companies have refused to collaborate in India, and some have restricted themselves either to pure licensing arrangements or to limited investments in Indian projects. They claim to be unwilling to enter India under the special concessions sought by the government in order to "open" areas of investment otherwise "closed" to private companies.

The policy of restricting private (especially foreign) investment to certain areas should be carefully reviewed. Thus, what were the objectives of the policy when originally formulated? Have they changed over time? Should they have changed over time? Have the objectives been achieved? Foreign companies, on the other hand, should recognize that policies in India, as in other countries, are determined by political and economic considerations. Instead of adopting a rigid approach, foreign companies should be more flexible in determining the conditions under which they would consider an investment.

Almost all companies interviewed for this study are dissatisfied with their negotiation experience with the government. Respondents state that they have encountered "useless", "expensive", and "frustrating" delays in negotiations. This has had a seriously adverse effect on their attitude toward investing in India. One of the major reasons for the dissatisfaction and delays is that companies do not know the "standards of government decision." The responding companies argue that the government should develop standards on the basis of which it reached decisions and that these standards should be well publicized. Also, standards of decision are urgently needed within the government for the various departments and ministries that act on an application for a foreign collaboration.

Responding companies recognize that because the government must face various problems and uncertainties, it must have flexibility of action. The recommendation for standards of government decisions is not meant to reduce the government's flexibility. Responding companies, especially foreign, argue that the extent of flexibility and the resulting ad hoc nature of government decisions, is proving to be a hindrance to effective performance by government officials and by companies.

Government officials interviewed for this study recognize that delays in project negotiation and development are serious hindrances to efficient development of industry. Shifts in procedures (often based on the recommendations of one of several review committees) do not treat the causes of the problems but only the superficial systems. The companies interviewed for this study state that the problems of interpretation and implementation begin to arise in moving down the organizational ladder of the government. Proper interpretation and implementation of policies require more specific standards for government decisions.

To ensure progress in the future, it will be necessary to see to it that standards are translated into practice. This will require much greater planning and co-ordination of the various ministries and departments of the government. In brief, responding companies state that their project negotiation and development experience can be substantially improved if there is effective implementation of the standards for government decisions.

Foreign Equity Interest

The policy of restricting the extent of foreign equity interest has had an adverse effect on foreign investments. The large foreign companies seeking long-term growth in the Indian market regard majority or 100 per cent equity interest as one of the necessary conditions for entering India. Because of the restrictions on foreign equity interest, some foreign companies have not collaborated in India. Some of the large companies that have collaborated state that they are not likely to increase their interests in India by a substantial extent as long as the present restrictions on foreign equity interest are in effect. Relaxation of the government's policy on the extent of foreign equity interest can improve the climate for foreign collaborations in India. The policy should be reviewed in the light of experiences of more than a decade.

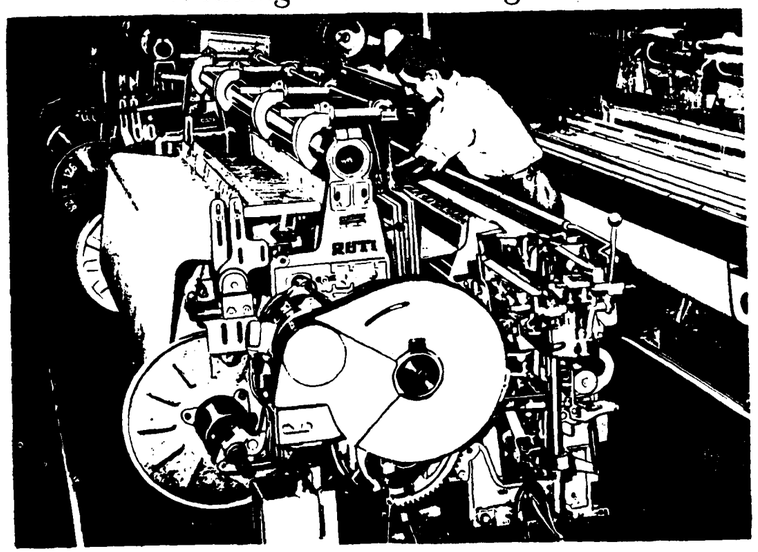
The government's requirements of export rights for Indian licensees has made foreign companies more hesitant to license in India. However, securing rights has not helped Indian companies to export. In fact, most Indian companies seek export rights for the sake of meeting the government's requirements.

The government should not seek export rights for all Indian licensees. It should adopt a "selective policy." Export rights should be sought only for those Indian companies that can reasonably be expected to export within the duration of a technical collaboration.

Indian companies are not likely to develop exports over the short term because of various reasons, such as high domestic demand, high cost of indigenous products, low quality, lack of familiarity with foreign markets and market needs, and lack of foreign marketing organization. These problems cannot be

* For greater detail, see Ashok Kapoor and Robert N. Tadrose. "Indian Investment Centre: An Evaluation," EASTERN ECONOMIST Vol. 49, (July 28, 1967), pp. 152-165.

Weaving Masters all agree:



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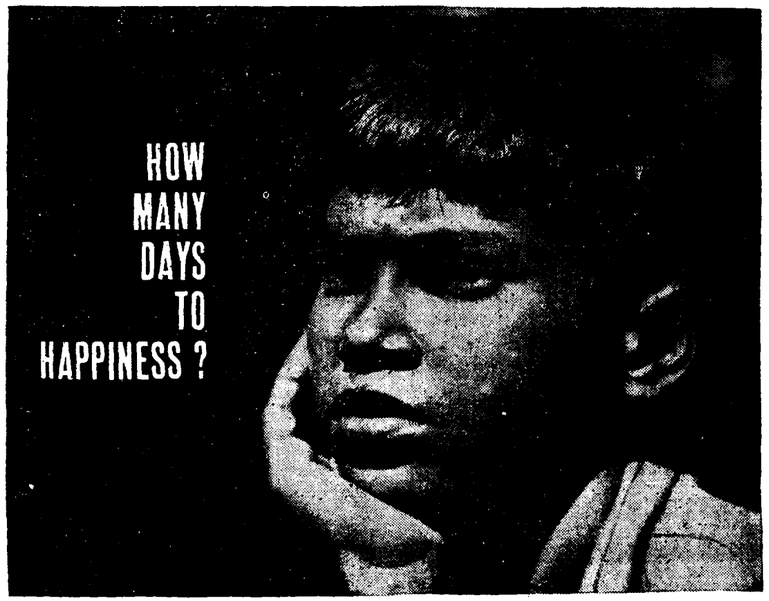

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resolved over the short-term. However, they can be reduced more effectively through foreign collaborations than through purely indigenous efforts.

The inflow of foreign rights and services (and capital) has been far less than what the country needs in order to achieve its desired pace of industrial development. Under the existing policies and practices on foreign collaborations, it is unlikely that there will be a major increase in the extent of the inflow of foreign rights and services. And the gap between the country's needs and the extent of the inflow will continue to increase.

The major requirement for increasing the inflow of foreign rights and services is an "improvement of atmosphere" for foreign collaborations and domestic industrial activity. This will call for improvements in many areas over a period of time.

The benefits of foreign collaborations do not lie only in the immediate uplift of industrial activity. Even more significant is the long-term development of Indian industrial units. These "hidden benefits" have not been fully appreciated.

Over the past decade Indian and foreign companies and the government have acquired a wealth of experience in foreign collaborations. But unfortunately there has not been sufficient research to determine and analyze the problem areas of foreign collaborations. A systematic effort should be undertaken to study all aspects of foreign collaborations to learn in what ways they can facilitate the development of Indian industrial units.

Community Vs Workers

A Correspondent

WITHIN THE government, the merits of the scheme of wage boards, which has been in operation for nearly a decade, are being questioned. The Finance Ministry believes that if the vicious circle of wages and prices chasing each other is to be broken, the scheme should be suspended for some time. The Labour Ministry, on the other hand, fears that in the absence of the scheme there will be widespread industrial unrest, especially in the present inflationary situation. Having given in to the government employees recently on the question of additional dearness allowance, the Finance Ministry cannot justifiably urge suspension of the scheme of wage boards or postponement of the implementation of their proposals. Nor can the Labour Ministry allow its role as the custodian of labour interests to turn a blind eye to the interests of the economy as a whole.

None will dispute that wage boards constitute a much better mechanism than industrial tribunals for the settlement of wage disputes which are a major source of friction between employers and workers. Because of its tripartite character—an equal number of representatives of employers and workers and an independent chairman—a wage board facilitates evolution of acceptable decisions by the parties themselves. Over a score of industries have so far been covered by the scheme of wage boards which is an index of its acceptability at the hands of both employers and workers. Since the examination of the question of wages has been done on an all-India basis, wage boards have helped in bringing about a rationalisation of the wage structure in a number of industries.

This is not to say that the scheme is free from deficiencies. Both employers and workers themselves have been critical of some of its aspects. Workers have often urged that the recommendations of wage boards should be made statutorily binding on both parties. This demand has been occasioned by the failure of some industrial units to implement the recommendations. But the Labour Ministry, which has examined this matter, does not think that it would be beneficial to workers to put wage boards on a statutory footing. According to the ministry, the statute for constituting wage boards would not essentially differ from the Minimum Wages Act and what the workers would ultimately get would be minimum wages. Under the present wage boards scheme, workers in an industry have got much more than the minimum wages without having to raise industrial disputes and to refer them to tribunals.

Employers have represented to the government that it should not accept the recommendations of a wage board on which there is no agreement between them and workers. Even in regard to the unanimous recommendations, they point out that there may be units whose financial position does not permit them to implement the recommendations. They have, therefore, urged that these units should be allowed to negotiate lower wage rates with the trade unions concerned. They argue that unlike in the case of minimum wages, which every unit has to pay compulsorily or in the alternative has to close down, all establishments cannot be deemed to have the capacity to pay the rates recommended by wage boards, which are generally higher than the minimum wages. It is of course perfectly legal for employers and workers of a unit to voluntarily settle the wages at levels below those recommended by wage boards. But difficulties arise when they fail to reach agreement and the dispute is referred to a tribunal.

The objections of the Finance Ministry to the scheme of wage boards, as it is operating at present, arise from different considerations. It feels that the scheme has resulted in an increase in costs; in the context of an inflationary situation, the scheme needs to be reviewed. It is insisting that (a) it should be consulted about the personnel and the terms of reference of wage boards, (b) it should be consulted before decisions regarding the acceptance of a wage board recommendations are taken, and (c) the government should have the right to modify even the unanimous recommendations of wage boards. Some kind of prior consultation is already taking place between the Labour Ministry and the Economic Affairs Department of the Finance Ministry regarding the composition and the terms of reference of wage boards as well as the implementation of their recommendations. It seems that the Finance Ministry wants to have a greater say in these matters by bringing its Department of Expenditure also into the picture. Since the recommendations of wage boards do not have any direct financial implications so far as the central exchequer is concerned, it is pointless to urge consultation with the Department of Expenditure.

But the Finance Ministry's suggestion regarding acceptance by the government of the unanimous recommendations of wage boards is pertinent and needs very careful consideration. Wage boards have invariably approached their task as one of assessing only the needs of workers and making recommendations to meet them. The larger question of the repercussions of their proposals on the economy, as a whole, has seldom been kept in mind. For instance, the Coal Wage Board's report does not show that it gave any thought to the likely impact of the wage structure evolved by it on the cost of production of coal and the effect this would have on consumers. This kind of approach detracts from the merit of unanimous recommendations. Representatives of employers on wage boards generally agree to wage increases, however substantial they may be, in the certain hope that they will be allowed suitable price increases which they can pass on to the consumer.

In the changed economic situation, it should be the responsibility of the government to consider on merit even the unanimous recommendations of a wage board and reach decisions after taking into account their impact on the price line in particular and the economy generally. Such decisions might sometimes be at variance with the unanimous recommendations. The government would on that account be accused of denying labour what wage boards have recommended as its due. To obviate any friction, it is necessary to redefine the terms of reference of wage boards so that they themselves assess the effect of their proposals on the economy before finalising them. What the present situation requires is not the suspension of the scheme of wage boards, as suggested by the Finance Ministry, but its modification so that while serving the interests of labour it does not ignore the interests of the community.

FROM THE CAPITAL'S CUPBOARD

Concessions for Hotel Industry

SOME FURTHER concessions to the hotel industry are in the offing. It is realised that a major impediment to the development of the hotel industry is exorbitant land prices. Generally sites for hotels are sold by open auction or by inviting tenders. The government is understood to have decided in principle that the successful bidder or tenderer need not pay the full price of the plot. Instead, he will be required to pay only the annual ground rent at 6¼ per cent of the accepted auction or tender price. Details of the scheme are being worked out.

The scheme of financial assistance for the construction of hotels of the type which will suit foreign tourists and for expansion and renovation of existing hotels has also taken shape. The government has set apart five crores of rupees for this purpose. A broad decision has been taken that loans up to a maximum of 75 per cent of the value of the fixed assets of a hotel project, viz, land, buildings and other immovable assets, should be given at six per cent interest.

Meanwhile, the government is thinking of introducing an air-taxi service for the benefit of well-to-do tourists. The idea is to have a small fleet of twin-propellor aircraft (each carrying six to eight persons) for taking them to places of tourist attraction within a radius of 100 to 150 miles. The utilisation of the services of flying clubs for this purpose is under consideration. A decision will be taken after the government has had the views of the Tourist Development Council on the proposal.

ACCENT ON PROCUREMENT

Some significant changes in the food policy are likely consequent on the certainty of a good harvest this year. Zonal restrictions will not be removed but the scrapping of the single state zonal system is quite on the cards. In its place, larger zones comprising two or more states will be created. The advantage of having larger zones is that it will help check smuggling and reduce disparities in foodgrain prices in the adjacent states.

The accent in the new policy will be on intensified procurement as imports on the present scale will not be possible next year. Even if food production touches the 95 million tonne-mark, availability will depend on how much comes into the market. Therefore, the centre is keen that procurement should be done vigorously so that deficit pockets in certain areas and the needs of the people during the lean season are taken care of. It is an index of the importance it attaches to intensive procurement that it has proposed a target of seven million tonnes against 3.6 million tonnes in the last season. The centre is convinced that no scheme of procurement can be effective unless the system of levy, which applies to rice mills, is extended to the producers. How many of the states will accept this will be known only after next week's meeting of the chief ministers in New Delhi.

WAGE BOARDS

The Labour Ministry is thinking of alternatives to the wage board scheme because of pressure from workers that the recommendations of the wage boards should be made statutorily binding on all parties. The Law Ministry has pointed out that if the wage boards are placed on a statutory footing, they can give their awards only in terms of minimum wages as these wages alone are legally enforceable. Since the wage boards have been recommending increased wages, it would be disadvantageous to workers if they were set up under a statute. The alternative that is engaging the attention of the Labour Ministry is a kind of tribunal consisting of a presiding officer assisted by assessors representing the employers and the workers. The findings of such a tribunal can be treated as a judicial award. It is pointed out that the advantage of this scheme is that this machinery, though statutorily constituted, will be, to all intents and purposes, tripartite in character like the wage boards. Besides, the induction of assessors will help to cut down the delays that have characterised the functioning of normal industrial tribunals.

The complaint of the Finance Ministry that wage costs have considerably gone up under the wage board scheme will be evident from the increases in wages granted to workers in the following industries.

Industry	Percentage increased in wages
Iron ore	up to 246 per cent
Limestone and dolomite	up to 170 per cent
Iron and Steel	28 to 69 per cent
Cement	7 to 100 per cent
Jute	12 to 20 per cent
Coffee	24 to 40 per cent

INCREASED COAL PRICES RAISE COSTS

The implementation of the coal wage board recommendations has landed the government in difficulties in regard to some of its export commitments. The huge order for the supply of Rs 8¼ crores worth of railway wagons which the South Korean government recently placed with this country is among those affected.

We secured this order—500 tank wagons and 600 hopper wagons—in the face of stiff competition from advanced countries such as the USA and Japan. Among the global tenders that were invited, our quotations were the lowest. In other words, we had undertaken to supply the wagons at practically rock-bottom prices. The cost of manufacture of the wagons will now go up fairly substantially because of the increase in the price of steel consequent on the price increases allowed to the coal industry.

The State Trading Corporation, which successfully concluded the deal with the South Korean government, on behalf of private wagon manufacturers, is in a dilemma: whether to approach the buyer for a revision of the contract or to ask the government to subsidise the export of wagons to South Korea. The Indian companies which have been entrusted with the execution of the order are Braithwaite (tank wagons) and K. T. Steel (hoppers).

Meanwhile, this country has also tendered for the supply of 350 wagons to some east African countries and the expectation in New Delhi is that the contract would be awarded to us. In view of these developments, the railways are in no hurry to place advance orders with engineering units for wagons and other items to help them overcome the recession. The predicament of the railways is how to utilise the available large idle capacity.

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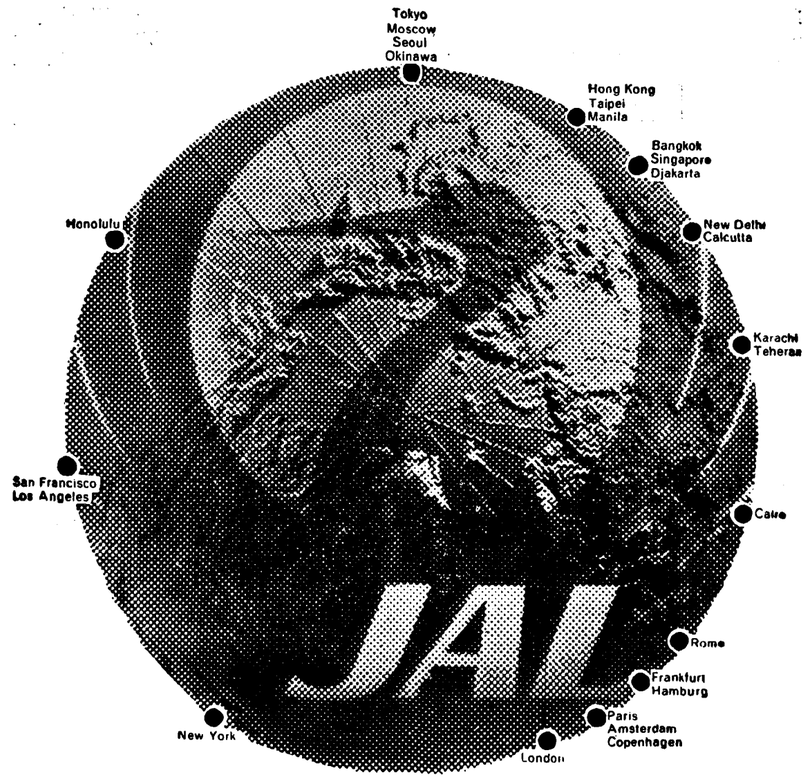

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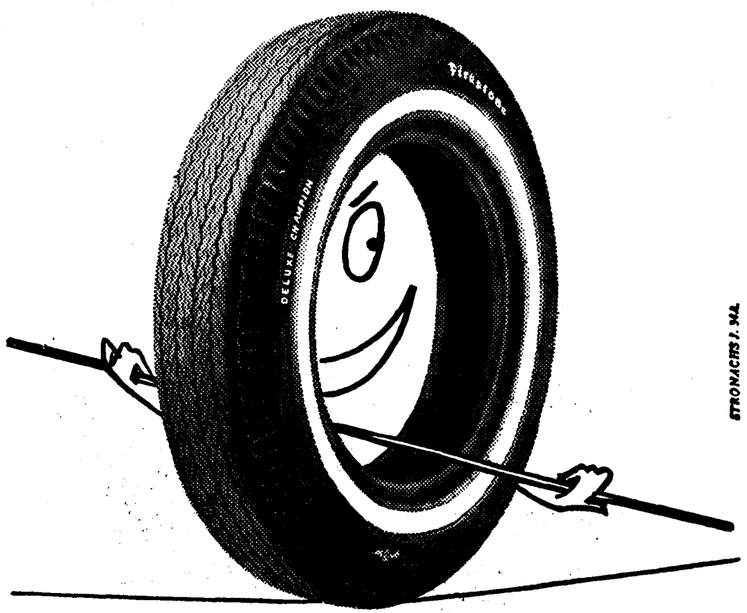

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WINDOW ON THE WORLD

Progress Report on the EEC

JOSSLEYN HENNESSY

I

EXPANSIONARY POLICIES

LONDON:

THE SHORT-term economic policy of the EEC Council revealed important changes in outlook since December. Then, the six-monthly policy recommendations were still primarily aimed at maintaining cost and price stability; now they aim at expansionary measures. The growth rate of the EEC as a whole has slowed down, cyclical unemployment has gone beyond acceptable limits and pressure on costs and prices has eased. The council has therefore recommended that individual EEC governments should now concentrate rather more on activating growth than on what they regard as the equally important task of ensuring cost and price stability. Their strongest recommendations are addressed to West Germany, whose recession is spreading a chain reaction on other EEC economies, and on other European countries, notably Sweden, Denmark and Austria. The council thought the West German measures so far taken were appropriate, but not positive enough to ensure economic revival. Specifically, it recommended (1) an increase in public investment, particularly by the Lander and the local authorities, (2) taxation of former stocks should be abolished when switching to the value-added tax on January 1, 1968, and (3) some cautious encouragement to lagging private consumer demand. The council approved the measures already taken, or about to be taken, in France, Belgium and Luxembourg, but advised further stimuli if the growth rate should fail to pick up satisfactorily in the next three or four months. As prices and costs were still rising fairly briskly in the Netherlands, which were also experiencing a considerable balance of payments deficit, no expansion measures were recommended there, nor in Italy, which is maintaining a rapid rate of growth. The EEC Commission remained true to its five-year economic programme by clamping down again on inflationary deficit financing of government spending, although it reluctantly agreed that it would have to be allowed if needed as an anti-cyclical policy weapon.

The commission and Council have no power to do more than advise member governments, but the growing interdependence of the European economies makes their recommendations increasingly important. The next economic policy meeting, expected in December 1967 at the latest, will assess the results attained by the present recommendations.

The OECD foresees that the EEC gross domestic product as a whole will rise at an annual rate of 3.5 per cent in the second half of 1967. For all OECD European countries, including EEC, EFTA, Ireland, Iceland, Greece and Turkey, the growth rate is expected to be 3 per cent, a slight acceleration over the first half of the year.

II

RELATIONS WITH E.F.T.A.

Following the UK and Irish reapplications for membership of the EEC, Denmark, Norway and Sweden have intimated their desire to reopen negotiations. Both Denmark and Norway have applied for full membership under Article 237 of the Rome Treaty but the more cautious Swedish application (July 28) stated that Sweden wanted to maintain the progress made already within EFTA towards a duty-free Nordic market and to participate "in the extension of the European Economic Community in a way compatible with a continued Swedish policy of neutrality". The application is the more ambiguous as the Swedish government seems to want full membership rather than associated status. Under existing interpretations of the treaty, membership of the EEC will eventually mean political integration. The summer holidays have put an end to EEC discussions on the British, Irish and Scandinavian applications but the commission is preparing a draft opinion to be presented to the council on September 30.

Switzerland has told the EEC Commission that its original request for negotiations with the EEC, made on December 15, 1961, is still open. However, Switzerland's interpretation of its neutrality is stricter than Sweden's, and Switzerland's agricultural protectionism also poses problems. It follows that a solution acceptable to Sweden might not necessarily be acceptable to Switzerland. Portugal remains aloof but might move when the EEC clarifies its position towards other EFTA applications and towards Spain. Finland is in much the same position. Austria's negotiations with the EEC have jogged along independently since March, 1965.

Although all but two of the eight EFTA countries (including Finland) now look to the EEC for progress towards a European free trade area, this has not affected EFTA's ordinary work. The delays likely to occur in the EEC negotiations give EFTA the necessary lease of life to continue work on non-tariff obstacles to trade and liberalisation in agricultural goods.

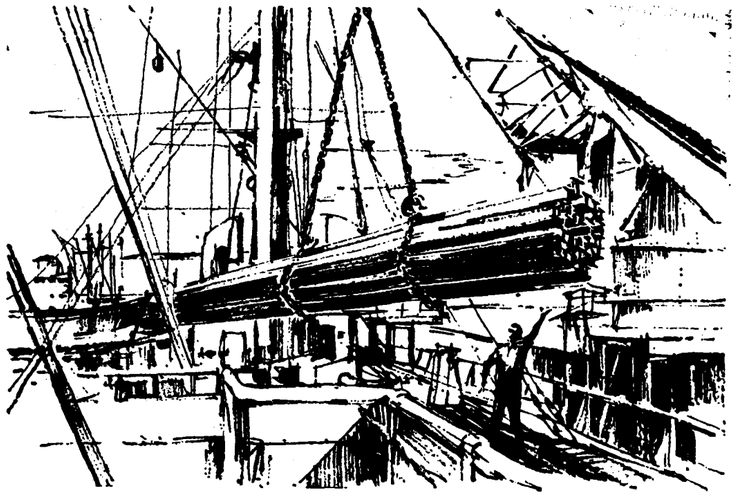
Austria's Five Points

The EEC Commission decided in June that the basis for further negotiations with Austria should be changed to take into account a memorandum sent to the member-governments by the Austrian government in May, though it is hard to see how it alters the situation. The memorandum sets out the Austrian position on five points which have contributed to the delays in the negotiations up to now.

First, Austria considers that there are no insurmountable obstacles to a de facto customs union, and has already agreed on the rate of adjustment to the Common External Tariff (CET). Austria reserves its position, however, on any future modifications of the CET if made for political reasons. This takes the problem back to the key question of the institutional framework into which the agreement is to be fitted.

Second, Austria is prepared progressively to align her agricultural market with that of the EEC during the transition period and to maintain this harmonisation afterwards if and when the EEC should decide to alter its policies. Here again, however, the clarification of Austria's position cannot help until a decision is reached on the type of agreement to be aimed at. A report made by the commission to the council in April stressed that complete harmonisation of agricultural policies could only be achieved in a full membership agreement. Any other agreement would lack the institutional flexibility and swiftness essential for an effective common agricultural policy.

Thirdly, the memorandum agreed to two of the three EEC proposals on Austrian trade with eastern Europe, i.e., that Austria would limit the total value of quotas for eastern Europe to a maximum of 10 per cent of total import, and the value of



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imports of any particular commodity to a maximum of one-third of the total quota.

Fourthly, Austria wishes to limit the harmonisation of the economic policies' clause to trade and tariff policy only, while making every effort to prevent distortions of competition.

Finally, Austria would not like the political neutrality clause to entail the automatic suspension of the agreement in the event of war but that, depending on the circumstances, only parts should be suspended. The similarity between the problems that have arisen in the Austrian negotiations and those that may arise with Sweden and Switzerland suggest that no agreement with Austria will be reached until a definite line has been agreed on relations with the other EFTA applicants.

The negotiations with Austria have been further complicated by Italy's political intervention. At a meeting of the European Coal and Steel Community's council on June 29, Italy declared that it would oppose negotiations with Austria so long as there was evidence that its territory was being used as a base for "terrorist activities" in Italy (the South Tyrol problem). Coming on top of the major economic difficulties, this political intervention can only lengthen the inevitable delays.

III

ISRAEL, MOROCCO, TUNISIA

Israel's unsatisfactory trade agreement with the EEC was allowed to lapse on June 30. Until a new formula for association can be worked out, the tariff status quo will be maintained. A report, adopted by the commission early in June, outlined three possibilities for a new agreement, all based on the fact that Israel is neither asking for financial or technical assistance (for which provision is made, for example, in the trade agreement with the Lebanon), nor for harmonisation of economic policies. Whatever agreement is reached will, therefore, be purely commercial.

The three possibilities outlined by the commission are: (1) another trade agreement, but with a wider application. However, even with the proposed new concessions on eggs, mangoes and diamonds, and bigger tariff reductions on avocadoes, fruit juice, etc., this agreement would only cover about 20 per cent of Israel's trade with the EEC, and only 10 per cent of its industrial exports, which makes it but marginally better than its predecessor. A more favourable agreement to Israel would result from proposal (2) for a preferential trade agreement under article III of the Rome Treaty, which would create a free trade area or a customs union for industrial products and grant non-discriminatory treatment on agricultural products, i.e., the concessions made to other Mediterranean countries would apply to Israel. This solution would be preferable to the first and possibly also to (3) an association agreement under Article 238 of the Rome Treaty. The main criticism here is that association councils are not as flexible, nor can they be as politically uncommitted, as the constitutional links necessary to a free trade area agreement. Nevertheless, the commission's last meeting on Israel favoured an association agreement because the commission felt that Europe had special responsibilities towards Israel. Like the other negotiations, those with Israel will not be resumed until the autumn, when they will go to the top of the agenda because the council's decision to maintain the status quo only covers the period up to June 30, 1968.

Contrary to earlier expectations, the council has decided to speed up negotiations with Morocco and Tunisia. The Committee of Permanent Representatives seems to favour a ten-year agreement with the same terms of renewal or rescission as for the Yaounde Convention; if the agreement were not renewed after ten years the Mahgreb countries would revert to the preferential system at present granted them by France. The agreements concluded with the three countries individually would expire simultaneously, even though Algeria might not sign until two or three years after Morocco and Tunisia. The agreements will, in principle, provide for financial co-operation.

The main problems concern trade in agricultural products. The commission seems prepared to offer intra-community treatment for industrial products other than processed agricultural products and petroleum products—for which a quota system on the lines of the Netherlands' Antilles protocol is being considered. On citrus fruit, agreement may be possible on the basis of a new suggestion made by the commission, and to which Italy, the main opponent to Mahgreb citrus imports, has not been unfavourable. This would provide a protective cushion for Italy's citrus exports: the Mahgreb countries would be asked to respect a price level slightly above the EEC reference prices in return for customs preference. If the Mahgreb's export prices fall below EEC reference prices, compensatory taxes will be enforced. The advantages of this would be a steady and comparatively high return for the Mahgreb's citrus exports, without entailing a price struggle within the EEC, or a new financial burden for the Agricultural Fund. Italy would in principle agree to see this system extended to other "sensitive" fruits and vegetables, notably tomatoes, but the other EEC members were lukewarm about this. The commission will prepare a general report by the end of September, and it is thought possible that a draft negotiating mandate on trade could be ready by the end of the year.

EEC TARIFF TIMETABLE

Steps Taken	Date
10 per cent cut in all internal tariffs	1.1.1959
Most tariff cuts extended to other GATT members if rates not below common external tariff (CET) rates	
10 per cent cut in all internal tariffs	1.7.1960
—Do— —Do—	1.1.1961
10 per cent cut in internal tariffs on industrial goods (IG)	1.1.1962
5 per cent cut in internal tariffs on non-liberalised agricultural products (AP)	
First 30 per cent move towards CET on IG (see note III)	
10 per cent cut in internal tariffs on IG	1.7.1962
5 per cent cut in internal tariffs on liberalised AP	
Tariffs on many AP replaced by levies	1.8.1962
10 per cent cut in all internal tariffs	1.7.1963
Second 30 per cent move towards CET on IG (see Note III)	
10 per cent cut in all internal tariffs	1.1.1965
10 per cent cut in all internal tariffs	1.1.1966
Second 30 per cent move towards CET on AP	
5 per cent cut in internal tariffs on IG	1.7.1967
10-15 per cent cuts in internal tariffs on AP	
Duties on IG now 15 per cent, and on AP generally 25 per cent of base tariffs	

Notes to Tariff Timetable

I. **Base Tariffs:** in general the legal tariffs on 1.1.57.

II. **Agricultural Products:** tariff changes affect products covered by common agricultural policy only in theory.

III. **Moves to CET:** in consequence of reduction in the CET proposed in GATT tariff negotiations, adjustments in external tariffs have generally been made towards the original

CET less 20 per cent—that is towards the CET (R). Thus, on 1.1.61 the difference between national base tariffs on industrial goods and the CET (R) was generally reduced by 30 per cent and on 1.7.63 by a further 30 per cent. If the base tariff was 15 per cent or less above the CET or below the CET (R) at the time of the first cut, the duty became the CET or the CET (R) respectively. If it was between the CET and the CET (R) the duty was unchanged. On ten particularly sensitive products the move was made on the basis of the CET, not of the CET(R). Tariffs on agricultural goods have been adjusted towards the original CET.

IV. **Tariff quotas and safeguards:** where higher tariffs would create special difficulties, member countries may, as a temporary measure, be authorised to import limited quantities of few products concerned at reduced or nil rates. On a few items where the freeing of trade would produce serious difficulties, member countries are authorised to abolish restrictions at a reduced rate, or to take other safeguard measures.

V. **Association of Greece:** under the association agreement, effective from November, 1962, the Six are applying to imports of industrial goods from Greece their internal tariff treatment. Agricultural imports are subject to a special regime: duties on Greek fruit and vegetables have been cut by 60 to 65 per cent, tobacco by 80 per cent. Most Greek industrial products, however, will be protected until 1984, when Greece becomes a full EEC member, and industrial tariffs have so far been reduced by only 10 per cent. On a few other industrial items, tariffs, which are to be abolished by 1974, have been reduced by 30 per cent. Greece has reduced tariffs on a few food products. On 1.11.1965 it made a limited move towards the CET, but for most products the first step towards the CET is not due until 1.5.1970.

VI. **Association of Turkey:** the association agreement, in force since December, 1964, provides for a preparatory period of at least five and possibly nine years, followed by a twelve-year transitional stage during which a customs union is to be evolved. Meanwhile, the EEC gives Turkey preferential tariff quotas for tobacco, figs, raisins and hazelnuts. During the preparatory stage the EEC will grant development loans up to $175 million.

VII. **Association of African states and Madagascar:** under the Yaounde Convention (concluded on June 1, 1964 for five years) between the EEC and eighteen African states and Madagascar, most products produced by the AASM enter the EEC duty free while otherwise afforded internal EEC tariff treatment. In return, the AASM undertake to cut duties on EEC imports annually by 15 per cent. In practice, however, the associates are allowed to maintain their old tariff structure.

VIII. **Association of Nigeria:** the agreement (signed in July, 1966 to remain in force until May 31, 1969, but not yet ratified) is similar to the Yaounde Convention. However, for its main export products—cocoa, groundnut oil, palm oil and plywood—Nigeria will be allowed only fixed duty-free quotas; imports beyond these quotas will be subject to normal third-country duties.

IX. **The next steps:** The remaining 15 per cent internal tariff on IG will be removed on July 1, 1968, simultaneously with the third and final alignment of all national duties to the CET. Since free trade in almost all AG will also be established by mid-1968, the customs union of the Six will be achieved 18 months earlier than envisaged in the Rome Treaty. Although the final alignment to the CET was in principle to be 40 per cent, the low-tariff Benelux countries and West Germany will not have to increase their external duties by as much as originally expected because of the further tariff cuts negotiated in the Kennedy Round, but the French and Italian external tariff cuts will have to be even larger than planned initially.

E.F.T.A. TARIFF TIMETABLE

20 per cent cut in internal tariffs	1.7.1960
10 per cent cut in internal tariffs	1.7.1961
Ditto	1.3.1962
Ditto	31.10.1962
Ditto	31.12.1963
Ditto	31.12.1964
Ditto	31.12.1965
20 per cent cut in internal tariffs	31.12.1966

Duties on industrial goods now generally zero per cent of base tariffs.

I. **Base tariffs:** in general the legal tariffs on 1.1.60. A few special provisions have been made for duties then under revision. For Denmark the base date is 1.3.60, for Finland 1.6.61.

II. **Agricultural products:** theoretically tariff cuts only apply to industrial products but these are broadly defined and hence many agricultural products, particularly processed, are included. Denmark and Portugal have concluded several bilateral agreements on agricultural products, e.g., Danish butter and bacon, and Portuguese wine.

III. **Tariff cuts:** affect only goods of EFTA origin or, in certain cases, manufactures when consigned from one member country to another. Chief exceptions affect a range of goods on which Portugal is following a slower timetable, and more limited ranges of goods on which Norway and Finland (an associate member since 1961) are reducing duties more slowly (see below).

IV. **Portugal:** as a relatively under-developed country Portugal is still afforded higher tariff protection on about half of its imports. Import duties on these goods, reduced to 60 per cent of the base level at the end of 1966, to be abolished by January 1, 1980 at the latest. However, where exports of such goods represent at least 15 per cent of national production in three successive years prior to 1966, the tariff on them will be reduced annually by 10 per cent.

V. **Finland and Norway:** a few industrial goods remain subject to internal import duties at 40 per cent of the base tariffs. These duties are to be reduced annually by 10 per cent and will disappear at the end of 1969.

VI. **The next steps:** by the final internal tariff cut of 20 per cent on 31.12.1966 free trade was established three years earlier than originally planned. Finland will reach zero at the end of 1967.

Sources and Acknowledgments: The foregoing summarises, by special arrangement, an exclusive 40 page report in the latest issue of "European Trends", published quarterly by the Economist Intelligence Unit, 27 St. James' Place, London, S.W.1., but the EIU is responsible neither for the emphasis of my summary nor for my comments.

Get Your Facts Straight-3

MAGIC OF CO-OPERATION DISAPPEARED

Magic word 'co-operation' was first proclaimed in 1893. Even after 75 years of missionary zeal, ample and concessional resources and special favours, co-operative credit movement has failed to come to grips with problem of modernising agriculture. Attention has now focussed on banks.

JAI KISAN

Can Bank Finance Bring Agricultural Revolution?

EXCLUSIVE FIELD SO FAR

Expert committees had all along reposed faith in co-operatives. Even after Independence, Rural Banking Enquiry and Rural Credit Survey preferred co-operatives. Banks were declared unsuitable for rural credit. □ □ Farm finance has remained exclusive preserve of co-operatives. It was the policy of Government. Co-operatives were afraid of competition from commercial banks. Banks were never expected or required to finance agriculture. The responsibility was never placed on them.

RURAL CREDIT—YEARS OF FAILURES—SCAPEGOATS OF BANKS

Yet Banks are blamed today for failures elsewhere. First, co-operatives. They have failed. Their overdues are heavy, bad debts extensive. Money-lenders are still very much in the field. Second, Planning Commission and Government. They failed to have or implement any comprehensive rural development programme for modernising agriculture. Banks are the scapegoats.

A MODEST CONTRIBUTION

Banks do make their contribution. Directly they finance production and development in plantations. Indirectly they help cotton and sugarcane growers, tractors, seeds, fertilisers, tube-wells, pesticides and buy debentures of land mortgage banks. Above all, they finance movement and marketing of farm products. Without such a support from Banks, their prices would tumble like a house of cards, causing misery to farmers. All these assistance total more than Rs. 300 crores.

CAPABLE TO FACE THE CHALLENGES

What is more, Banks want to get involved much more in agricultural development. They are starting an Agricultural Finance Corporation. They will own and manage it. They will provide funds. They will bear the risks. □ □ Now that challenges are hurled at them, Banks are willing and capable of facing them. Agricultural development will not suffer for lack of funds.

RURAL DEVELOPMENT PROGRAMME

Banks will provide the funds. But farmers also need right type of *fertilisers* and improved *seeds. Irrigation* network is not always adequate. Existing patterns of *land tenure* and size of farms do not provide enough incentives. Finally, all these need to be co-ordinated, land improvements have to be organised and the knowledge of *modern techniques* and implements has to be spread. □ □ These are elements of an integrated *Rural Development Programme.* Without them finance will be useless, pointless. Banks will certainly finance agriculture. But their finance will not grow food, unless other missing links in the chain of agricultural development are provided and strengthened.

CREDIT

Fertilisers · Better Seeds · Irrigation · Land Tenure · Modern Techniques

Banks Serve the Nation and they do it well

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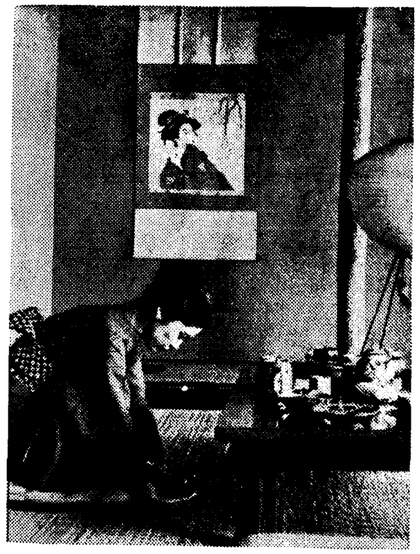
INDIAN BANKS' ASSOCIATION

TO PROMOTE FREE AND FRANK THINKING

Amsterdam—where eating herring is an art



Tokyo—with its impressive tea ceremony

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ROYAL DUTCH AIRLINES

Prosperity Reborn

Dr W. SPROETE

CAN A small country such as the German Democratic Republic (GDR), which has only 3.3 per cent of the territory and 3.4 per cent of the population of India, rank favourably in modern world economy? The answer is provided by an analysis of the economy of the GDR.

Notwithstanding the devastation caused by the war in the eastern part of Germany and the adverse starting point for economic development as a result of the splitting of Germany, the German Democratic Republic succeeded in staging a swift recovery within a decade. Today the GDR is among the ten most advanced industrial states of the world. As regards the volume of industrial production it ranks fifth in Europe. In world trade, it holds the twelfth place while in European trade, its rank is eighth.

As early as in 1962, the industrial production of the GDR was 90 per cent of pre-war Germany in 1936 although it comprised not even one-fourth of the territory and one-third of the population of former Germany. The galloping speed of growth, the stability of the national economy, the steadily rising standard of living and the rapid expansion of foreign economic relations are characteristics of this new state.

During the last few years, a new economic system of planning and managing the national economy and other spheres of social life has been effected in stages in the GDR. The basic idea of the 'new economic system of planning and management' is the rational combination of the central public planning of the decisive social processes (accumulation, consumption, stipulation of development proportions of the main branches of national economy, etc.) with the active co-operation of the state-owned industrial enterprises. The numerous private industrial enterprises in the GDR are included in this system by contracts and other agreements. They are thus given an assured place in the economy.

Important Steps

The 'new economic system' envisages the achievement of the maximum effectiveness of the national economy. A number of important steps were taken for this purpose, e.g., revaluation of fixed funds of the nationally-owned enterprises, an industrial price reform, the trial and introduction of a production fund levy as well as pressing into service of electronic data processing machines. The implementation of this new economic system of planning and management has not been completed. The scientific and technical revolution and the new conditions in the international markets call for a continuous development of this system. Broadly, it is true to say that the stormy economic development in the GDR since 1961 has been due to the happy results of the 'new economic system'.

The national income was estimated at 8,780 crores MDN (East German marks) in 1966. Between 1962 and 1966, more than 6,700 crores MDN were invested in the economy. The capital formation amounted to 20.4 per cent of the national income in 1966. Substantial expenditure was incurred for bringing about a scientific-technical revolution in the economy. The expenditure on research and technology increased by 55 per cent in 1966 as compared to 1962. The chemical industry, power generation, the electronic industry, important branches of metal working industries and other branches of industries were considerably expanded. In per capita output for electricity, for instance, the GDR ranks third in the world (3,148 kWh per head). The expansion in power capacity makes an intensified development of the chemical industry, the petro-chemical industry in particular, possible. The output of the petrol refineries multiplied almost eight times between 1962 and 1966. Chemicals alone constituted about 17 per cent of the total industrial output in 1966. The progress of the chemical industry can be felt in all spheres of life beginning with plastic goods which are needed in every household and ending with the production of automobiles. There was a sizable increase in the production of fertilizers also.

Through socialist reorganisation of agriculture, self-sufficiency has been achieved in meat, milk and eggs; about 95 per cent needs of butter are met from within the country. The important factors which helped to increase agricultural production were increase in the use of fertilisers, machinery and improved technology in general. Between 1962 and 1967, 27,100 additional tractors and 5,000 additional combined harvestors were pressed into service. Thus, there is today one tractor for every 47 hectares of arable land. In 1966, 68.2 kg nitrogen, 50.8 kg phosphate, 93.8 kg potash and 244.8 kg of lime were used for every hectare of arable land. This resulted in a continuous improvement of soil fertility due to which yield per hectare increased. Through improved feeding and cattle farming the milk yield of cows rose from 2,448 kg in 1962 to 3,083 kg in 1966, on an average. This agricultural expansion raised the monthly average income of workers and employees in agriculture and forestry from 540 MDN in 1963 to 606 MDN in 1966.

Dependence on Foreign Markets

Due to shortage in mineral resources and raw materials and the existence of highly developed manufacturing and processing industries, the GDR is dependent for them on foreign markets. The trade with socialist countries commands a high proportion. In 1966, the share of the socialist countries in foreign trade was 73.5 per cent out of which the share of the USSR was 41.4 per cent. About 70 per cent of the GDR's exports consist of products of the metal industries. Endeavours for developing foreign economic relations on the basis of equal rights with non-socialist countries and especially with developing countries found expression in the fact that with a general increase in foreign trade turnover by 34 per cent between 1962 and 1966, the foreign trade turnover with developing countries rose by 70 per cent in the same period.

India is one of the most important overseas trading partners of the GDR. The mutual exchange of goods increased at a fast rate in recent years. It rose from Rs 23.24 crores in 1963 to approximately Rs 50 crores (value after devaluation) last year. The "Bureau of Indian Trade Organisations" recently opened in Berlin, the capital of the GDR, could contribute to the strengthening of contacts between the two countries. The establishment of the Bureau will not go very far in removing the obstructions to trade between the GDR and India which are there on account of the non-existence of normal consular and diplomatic relations.

The average monthly earned income of workers and other employees in the GDR was 650 MDN in 1966 (appr. Rs 1300). Only about 31 per cent of the wages were spent on foodstuffs. Also, 53 out of 100 households had a television set, 31 a refrigerator and 32 a washing machine. With a capacity of 121 hospital beds per 10,000 persons, the GDR ranks first in the world in this regard. In 1962 one doctor had to tend to as many as 1100 citizens but in 1966 only to 800.

About 50 per cent of all children between the ages of 3 and 6 years have the opportunity to go to a kindergarten; in 1966-67, 22,500 students were studying at universities and colleges in the GDR. The majority of them receive scholarships and do not have to pay any fees for their studies.

Trade Winds

COAL PRICES: AGREEMENT REACHED

THE GOVERNMENT and the coal industry in the private sector have reached an agreement over the prices of coal consumed by the public sector steel industry and the railways. This is the result of the discussions, both formal and informal, which the Joint Working Committee of the coal industry held last week separately with (i) the Steel Ministry, represented by its Secretary, Mr H. Lal, and the representatives of the Hindustan Steel; and (ii) the Loco Coal Tender Committee, representing the Indian Railways. While the Steel Ministry has agreed to a flat increase of Rs 5 per tonne over pre-decontrol prices in respect of various grades of coking coal, the Loco Committee has approved orally of the Joint Working Committee's offer to supply to the railways coal from the Bengal and Bihar fields at Rs 5 per tonne over the existing rates for all grades of coal up to Grade II, and Rs 4 per tonne for supplies from the Madhya Pradesh fields. As a result of this accord, collieries have resumed loading coal for steel plants, whereas supplies were already being made available to the railways pending a final settlement on the prices. The last week's round of talks was necessitated by a disagreement between the interested parties over the interpretation of the term "average price increase", after the coal industry had agreed to an increase in coal prices at the rate of Rs 5 per tonne on an average as against Rs 7.08 demanded by it on the basis of its calculations of the impact of the coal wage board's award.

The Joint Working Committee and the Steel Ministry have also arrived at a broad agreement on an interim three-point compromise plan for joint sampling of coal supplies to steel plants. An independent agency will be asked to post inspectors to check samples at destinations as well as loading points and report on discrepancies in the grades of coal. The inspectors will be in position by December 1. If there is persistent discrepancy in the grades, steel plants will stop taking supplies from the collieries concerned. A committee will be appointed with representatives of both the steel and coal industries to make a detailed examination of the difficulties of the two sides and work out a permanent settlement.

STATES LOANS SUBSCRIBED

The total subscriptions to the 15 state government loans amounted approximately to Rs 119.46 crores against the aggregate notified amount of Rs 114.75 crores, according to a Reserve Bank of India announcement. Subscribers to all the loans will receive full allotment. The loans opened for subscription on September 1 and closed on September 9.

ESSENTIAL COMMODITIES ACT AMENDED

The President promulgated on September 16 an ordinance to amend the Essential Commodities Act, 1955 in order to make its penal provisions more stringent and its enforcement more effective. The salient features of the present amendment are as follows: All offences under the Essential Commodities Act have now been made cognizable and bailable. The penalty provision has been amended to attach absolute liability to offences under the Act so as to make contravention of orders punishable, whether committed knowingly, intentionally or otherwise. The provision for confiscation, for contravention of orders, has been made applicable to all essential commodities. The maximum period for which a sentence of imprisonment can be imposed has been increased in the case of certain offences from three years to five years. Provision has also been made in the case of second and subsequent offences for imposition of a minimum punishment of one month's imprisonment and also for suspension of business in the commodity in respect of which contravention of an order has taken place for a minimum period of six months. The existing provision for summary trial of offences under the Act in certain cases has been extended by a period of two years, that is, up to December 31, 1969. Other provisions include powers for the enforcement staff to seize books of accounts, and powers for the court to order forfeiture of packages, coverings or receptacles in which the essential commodity is found, along with any animals, vehicles or other conveyances used in carrying it, in cases of contravention of orders.

SUGAR POLICY REVISED

The Government of India decided last week to modify its sugar policy announced on August 16. Subject to a minimum of 13 lakh tonnes of sugar which it will need to meet its rationing commitments, the government has changed the base year for calculating the 60 per cent pre-emption from 1966-67 to 1967-68. The decision has been made on a representation by the sugar industry. The modification will help spread the benefit of the partial decontrol more evenly over all the units. The earlier decision would have placed those units which produced less sugar during 1966-67 in an advantageous situation, and with less to part with by way of pre-emption out of their 1967-68 production, they would have been left with more sugar for sale in the free market; this would have encouraged them to pay a higher price for cane, thus creating problems of cane diversion and affected production. The government has also decided to reduce our sugar exports. It will now only honour the agreements already entered into by it with the USA and the UK, our total export of sugar to which will be 90,000 tonnes in 1968. This is a sharp decline from our sugar exports of two lakh tonnes in the current year and four lakh tonnes in the previous year. The loss through exports is expected to be recouped by the industry from free sale of sugar in the domestic market. In view of the low international sugar prices, government subsidy for export this year is as high as Rs 9 crores.

FOODGRAIN FROM U.S.A.

India and the United States concluded last week an agreement for the supply of one million tonnes of American wheat and milo as well as for 70,000 tonnes of vegetable oil and 30,000 bales of extra long staple cotton under the US Food for Peace (PL 480) programme. It brings the amount of US foodgrains supplied to India during 1967 to 6.1 million tonnes and the total since 1951 to over 52 million tonnes. The agreement, which is a supplement to the basic agreement of February 20, 1967, is for a total value of $86.5 million (Rs 65 crores). The terms are similar to those of the last PL 480 agreement concluded on June 24, 1967. India will pay for four-fifths of the value of the commodities in rupees. Eighty-seven per cent of these rupees will be loaned by the United States to the Government of India to finance development projects. A further five per cent is reserved for loans to American firms operating in India or for Indian firms with American collaboration. Payment for the remaining one-fifth of the commodities, and up to one-half of the ocean freight costs for shipping this portion will be covered by a long-term rupee loan. The loan, repayable over 40 years, will have a ten-year grace period during which no repayment of principal will be required and interest will be one per cent per annum. Interest during the subsequent 30 years of repayment will be 2.5 per cent. As in the June 24 agreement, when payments are made under the terms of the loan for one-fifth of the commodities, the rupees received will be convertible to dollars at the option of the United States. With the new agreement, the total value of PL 480 commodities supplied to India rises to $4,006 million. The supplies include 43 million tonnes of wheat, 4.7 million tonnes of maize and milo, 1.75 million tonnes of rice, 3.25 million bales cotton, 297,000 tonnes of vegetable oils and considerable quantities of tallow,

TRADE MARKS

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Issued by: J. E. Jhirad, Bombay,
Constituted Attorney of
Imperial Chemical Industries Limited, London

CAFI.4717(R)

E.I.D.-PARRY AND EXPORTS

The E.I.D.—Parry Group has always been export-oriented and among the first exports—at the end of the 18th century—were piece goods, cotton stuffs, paintings, saltpetre, vegetable oils, animal horns, redwood, indigo and sugar.

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Apart from earning foreign exchange by export, the Group has consistently sought to check the outflow of exchange for imports by setting up manufacturing units in the country. It leads in the manufacture and sale of sugar, confectionery, fertilisers, sanitaryware and in the formulation of Plant Protection products

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tobacco, canned fruit and dairy products. The proceeds of this long-term credit will constitute an additional resource for financing India's annual and long-range development plans.

WORLD BANK LOAN TO I.C.I.C.I.

The World Bank approved last week a loan equivalent to $25 million to the Industrial Credit and Investment Corporation of India, a privately-owned development finance company. The money will be used for loans and investments in private industry in India. The bank loan will be guaranteed by the Indian government. Repayment will be made in semi-annual instalments beginning in January, 1970.. During its 12 years of operation, the ICICI has distributed its funds mainly among new industrial enterprises for the production of items such as iron products, chemicals and electrical equipment

TEA EXPORTS: JOINT EFFORT

The possibilities of evolving a common approach to the problems of tea exports were considered last week at a meeting of the official delegations of Ceylon and India. The three-member Ceylonese delegation, participating in the discussions, consisted of Mr B. Mahadeva, Permanent Secretary, Ministry of Agriculture, Mr Gamini Correa, Secretary, Planning and Economic Affairs, and Mr V. A. J. Senaratne, Director, Ministry of Commerce. The High Commissioner of Ceylon, Mr Kankanige Siri Perera, also participated in the discussions. The Indian delegation comprised Mr B. N. Banerji, Special Secretary, Ministry of Commerce, Mr Bhagwan Singh, Chairman, Tea Board, Mr Romesh Bhandari, Ministry of External Affairs. Mr Ajit Majumdar, Ministry of Finance, Mr B. D. Jayal, Joint Secretary, Ministry of Commerce, Mr S. Banerjee, Deputy Secretary, Ministry of Commerce, and Mr M. Satyapal of the Planning Commission. Exports of tea play an important part in the economy of both the countries. During the discussions an attempt was made to exchange ideas on the possibilities of adopting a common approach to the problems of tea exports in the light of recent trends in the world market.

Meanwhile, the Committee of the Tea Association of India has stated that the reported proposal by Ceylon for import of Ceylonese tea by India will be harmful for the progress of the indigenous industry.

RECORD TEA OUTPUT

In 1966, total production of tea in the country reached an all-time record of 374.8 million kg., marking an increase of 8.4 million kg. over the preceding year.

COFFEE EXPORT QUOTA

India's quota of coffee exports to scheduled countries is likely to be increased by 8,000 to 10,000 tonnes during the current year. We at present export about 22,000 tonnes of coffee to the quota countries and nearly 10,000 tonnes to the non-scheduled countries. According to Mr Mohd Shafi Quereshi, Deputy Minister of Commerce, who headed the Indian delegation to the meeting of the International Coffee Council held recently in London, India had actually asked for a quota of 45,000 tonnes this year. Our coffee production is expected to reach 85,000 tonnes in 1970-71 when it would be possible for us to export more.

INDUSTRIAL LICENSING POLICY BODY

Prof. M. S. Thacker formally took over as chairman of the three-member expert committee on industrial licensing policy on September 12. Prof. Thacker, who will continue to have the same status as he had as Member of the Planning Commission, convened the first formal meeting of the committee last week. For the present the committee has been located in Udyog Bhavan and its staff has been drawn from the Department of Industrial Production.

REVENUE COLLECTIONS

The revenue realised from items on which duties are levied by the central government in the first three months of the current financial year amounted to Rs 464 crores against Rs 423.10 crores for the corresponding period in the preceding year. The revenue collected in June, 1967 was Rs 180.27 crores as compared with Rs 157.77 crores in June last year. Following are the details of the revenue realised under various heads:

(Rs. lakhs)

Revenue Heads	During June		Up to June	
	1967	1966	1967-68	1966-67
Customs	4,405	3,561	13,997	12,634
Union Excise (excluding cess on salt, rubber, coal and iron ore)	8,808	7,699	25,597	23,679
Corporation tax	3,372	3,088	3,816	3,329
Income tax	1,366	1,347	2,800	2,471
Estate duty	22	28	65	59
Wealth tax	16	24	44	54
Expenditure tax	—	—	—	1
Gift tax	3	5	15	14
Opium	35	25	66	69
TOTAL	18,027	15,777	46,400	42,310

NO CUSTOMS DUTY ON WOOD-PULP

To encourage indigenous manufacture of newsprint the Government of India has decided to exempt wood-pulp imported for the manufacture of newsprint from the whole of the customs duty leviable on it.

BOARD OF TRADE

The twenty-sixth meeting of the Board of Trade will be held at New Delhi on October 3, 1967. The meeting will consider, among other things, the report of the working group on export credit and finance. The report on the results of the Kennedy Round of Trade Negotiations will also come up for discussion. The meeting will review India's foreign trade following devaluation and measures taken to increase exports. Action taken on the recommendations of the Board of Trade at its previous meetings will also be reviewed.

PRICES OF ENGINEERING GOODS

A survey carried out by the Indian Engineering Association (Western Region) reveals that in the wake of the recession in the engineering industry, companies in western India have effected considerable price reductions for various engineering products. In the case of the structural fabrication industry the price reduction is of the order of 20 per cent compared to

the prices prevailing a year ago. The current price varies from Rs 1,200 to Rs 1,400 per tonne according to the type of work as against last year's price of Rs 1,400 to Rs 1,800 per tonne. In addition, manufacturers are unable to include in their contracts escalation clauses for increases in cost of labour or raw materials, even though such clauses were accepted as a matter of course hitherto. Among other engineering products whose prices have fallen over the last one or two years are: steel castings from 20 to 45 per cent; transformers and switchgear 20 to 25; welding electrodes 15 to 30; industrial furnaces 10 to 15; industrial fans 10 to 12; electrically operated platform trucks 10; sectional work platforms 22; spray booths 23 to 48; boilers five to nine; lifts five to 10; cotter pins seven to 13; water coolers nine to 15; window air-conditioners nine; and tungsten carbide four to 10 per cent. All these reductions, however, have taken place in the face of rising costs for indigenous raw materials, imported materials and equipment on account of devaluation of the rupee, rising taxes and duties, and most of all rising wage bills on account of dearness allowance linked to the galloping cost of living index. These factors are further aggravated by the necessity of having to reduce production for lack of demand and the consequent increase in the cost of production per item.

NAGARJUNASAGAR PROJECT LOAN

A sum of one crore rupees has been sanctioned as loan by the union Irrigation and Power Ministry to the Government of Andhra Pradesh for meeting expenditure on the Nagarjunasagar Project during the current year. This brings the total loan sanctioned since 1955-56 to Andhra Pradesh for this project to Rs 133.16 crores. The loan will carry interest at the rate of 5¾ per cent per annum and is repayable in 20 equal annual instalments, commencing from the 11th year.

TOOL ROOM FOR SMALL UNITS

The United Nations Development Programme (Special Fund Sector) has approved a proposal made by the Government of India for setting up a tool room for small industries in Hyderabad. The United Nations will provide sophisticated machinery worth about Rs 70 lakhs. The local costs totalling about Rs 60 lakhs will be contributed by the Government of India. Six UN experts will provide technical assistance for the first two or three years. This centre will impart technical training to suitable personnel in the small-scale sector.

CO-OP. STORES FOR SMALL TOWNS

Co-operative department stores will shortly be started in a number of small towns in the country. The central government will henceforth entertain proposals from states for setting up co-operative department stores in towns having a population between 1.5 lakhs and two lakhs. It has sent a circular to state governments asking them to forward proposals for opening department stores in 21 small towns. It will contribute to share capital of these stores and will provide loan-cum-subsidy under a set pattern. Under the accelerated programme of the Government of India, 42 big department stores are now functioning in various states. These stores together have an average daily sale of over Rs 6 lakhs.

EXIM BANK LOAN

An agreement for a loan of $2 million (Rs 1.5 crores) for financing Indian Aluminium Company's Rs 31.5 crore expansion project on the west coast of India was signed in Washington last week between the Export-Import Bank of Washington and Indian Aluminium Company. Earlier the company had signed an agreement with the Export Credits Insurance Corporation of Canada for a loan of 5.5 million Canadian dollars (Rs 3.85 crores) for the project. The project includes integrated bauxite, alumina and smelter facilities and expansion of fabrication facilities near Bombay.

JUTE GOODS BUFFER STOCK

Mr H. S. Singhania, President of the Indian Jute Mills Association, last week met the Commerce Minister, Mr Dinesh Singh, and Mr K. B. Lall, Secretary, Ministry of Commerce, and informed them of the decision of the Indian Jute Mills Association to form the Jute Goods Buffer Stock Association. The Commerce Minister welcomed the decision of the IJMA and expressed the hope that the working of this association and of the buffer stock operations will provide support for the market and help "both our industry and overseas sales."

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INDIAN POSTS AND TELEGRAPHS

davp 67/187

Company Affairs

HINDUSTAN MOTORS

THE DIRECTORS of the Hindustan Motors Ltd in their annual report for the year ended March 31, 1967, have stated that the credit balance in the revenue account was Rs 2.42 crores after taking into account a sum of Rs 16.23 lakhs brought forward from the previous year and after providing for depreciation (Rs 2.60 crores), development rebate (Rs 2.18 crores) and taxation. The directors have proposed to transfer Rs 1.25 crores to general reserve and Rs 1.02 crores towards dividend reserve. They have recommended the payment of dividend at the rate of Rs 1.25 per share on ordinary shares from the dividend reserve. The directors have stated that during the year under review the production of motors increased further. The percentage of indigenous content in Ambassador car has been the highest within the automobile industry in the country.

The directors have stated that all the machinery has been imported and installed at the plant against the first loan of $15.8 million form AID and £450,000 from CDFC, which were secured for the purpose of the company's expansion programme for trucks and increasing the indigenous content of cars and trucks. The company has secured another loan of $23 million from AID for the purpose of its expansion programme as well as for the manufacture of Bedford engines. Some of the machines ordered have been received and installed. On installation of the rest of the machines, it is expected that the operation of the engine plant will commence by the latter part of the current year.

In the heavy engineering division, there is an improvement in the production of cranes and shovels; but the demand for these was slack on account of depression in the engineering industry. Orders for most of the machinery against the loan of $2.95 million from AID secured for the manufacture of shovels as well as to increase their indigenous content, have been placed. The company has made considerable progress in developing the indigenous content of shovels. Orders for most of the equipments against the loan of £250,000 from CDFC, secured for the manufacture of cranes and for the expansion of steel structural shop, have also been placed.

Arrangements are being made to take up the manufacture of USI's presses and parts thereof in India in collaboration with Messrs U. S. Industries Inc., US. The agreement has, in this connection, been signed. The letter of intent for the manufacture of said presses has been given to the company by the government; but the formal licence is awaited. The application for the import of capital goods, required for this project, is also pending with the government for sanction.

The directors have added that the prices of raw materials and components have been rising continuously, while there is also an increase in salaries, wages and other expenses. Devaluation has added considerably to the cost of capital equipments. Taking into consideration all these factors, the working results should be considered satisfactory. Although sales have risen to Rs 46.50 crores from Rs 39.76 crores, the net profit, after depreciation and taxation was lower than that in the previous year. The directors have decided to raise fresh capital by issue of 2,50,000 cumulative redeemable preference shares of Rs 100 each out of the unissued authorised capital of the company.

INDIAN ALUMINIUM

The directors of Indian Aluminium Co. Ltd have announced their intention to apply to the Controller of Capital Issues for permission to raise Rs 6.40 crores by a rights issue of ordinary shares to existing shareholders. An extraordinary general meeting is being convened on Friday, October 20, 1967, to approve the share issue, which is subject to the usual government clearances. It is intended to issue the new ordinary shares on a one for one basis at a price of Rs 10.70 per share. Of the issue price, Rs 3.50 will be payable on application and the balance will be called in two further instalments. On allotment, it is intended that the new shares will rank pari passu with the existing ordinary shares, to the extent that the par value has been paid up. The new shares will be issued as soon as possible after the necessary consents have been obtained. Proceeds of the issue will be utilised for the company's West Coast project. Alcan Aluminium Ltd, Indal's principal shareholder, has indicated its willingness to take up its rights under the proposed issue. Reporting on the company's activities during the first half of 1967, Indal directors state that following higher sales, the company's earnings for the period amounted to Rs 1.12 crores. This is a considerable improvement over the performance of the corresponding period of 1966 and was achieved in spite of a 25 per cent to 30 per cent cut in electric power supply to the Hirakud smelter; the cut has been restored since July 4, 1967. Full power was supplied throughout to the Alupuram smelter. It is expected that during the second half of the year the company's two smelters will be operating at rated capacity. Payment of an interim dividend to ordinary shareholders will be considered by the Board as usual in October.

HINDUSTAN LEVER

Hindustan Lever announced its decision to pay an interim dividend in respect of 1967 of 60 paise per share, subject to deduction of tax, such dividend to be payable on 24th October.

LULLABY

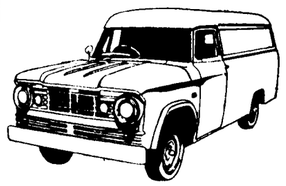
SISTA'S PAL-543.

VERSATILE VEHICLE

POLICE VAN

STATION WAGON

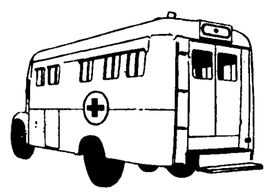
DELIVERY VAN



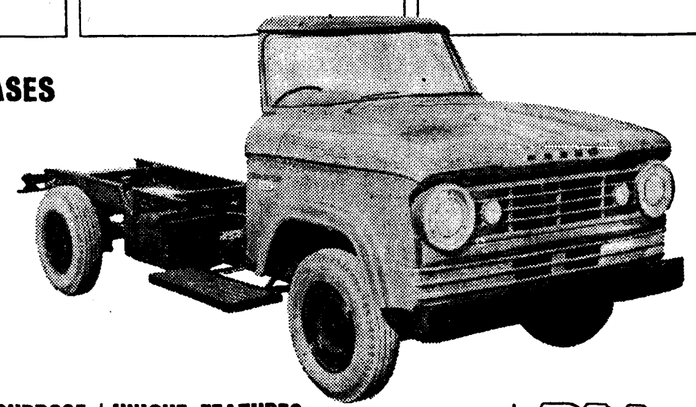
DODGE FARGO D-300

PICK-UP

AMBULANCE



1½ TONNER IN TWO WHEEL BASES



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1967, to shareholders registered in the books of the company at the close of business on 10th October, 1967.

SUESSEN TEXTILE

Suessen Textile Bearings Ltd entered the capital market on September 11, 1967, with a public offer of 31,968 equity shares of Rs 10 each and 33,400 (9.3 per cent) cumulative redeemable preference shares of Rs 10 each. The subscription list was to close on September 18, or earlier, but not before September 16, 1967. The company has an authorised capital of Rs 120 lakhs divided into 800,000 equity shares of Rs 10 each, 250,000 (9.3 per cent) cumulative redeemable preference shares of Rs 10 each and 150,000 unclassified shares of Rs 10 each. Of these equities and preference shares worth Rs 59.61 lakhs have already been issued, subscribed and paid-up. The present issue is for Rs 10 lakhs (Rs 6.66 lakhs equity, Rs 3.34 lakhs preference) of which 17,316 equity shares of Rs 10 each will be allotted at par to Messrs Spindelfabrik Suessen, Schurr, Stahlecker and Grill GmbH, Suessen, West Germany and another 17,316 equity shares to the Star Trading Co. Pvt Ltd at par. The balance of equity shares worth about Rs 3.20 lakhs and preference shares worth Rs 3.34 lakhs is now offered for public subscription at par. The entire public issue is underwritten.

The main objects of the company are to manufacture and deal in all types of equipment and parts for modern textile spinning machinery such as ball and roller bearing top rollers, jockey pulleys, high drafting systems etc. required for the textile industry. The present issue is made because of the increase in the capital project cost from the original estimate of Rs 120 lakhs to the revised figure of Rs 130 lakhs due to the reorientation of the project.

FACIT ASIA

The fifth annual report of Facit Asia Ltd for the year ended March 31, 1967 shows that despite a rise in sales from Rs 41.22 lakhs in the previous year to Rs 47.88 lakhs, the profit for the year under review has declined to Rs 1.60 lakhs from Rs 3.24 lakhs earned a year ago. This is after providing Rs 2.77 lakhs for depreciation and Rs 35,000 for development rebate reserve. A heavy item of expenditure in the profit and loss account is special tools written off which claims Rs 7.88 lakhs. The year's profit has been utilised to reduce the accumulated losses. The report states that the net surplus available is less than that of the previous year owing to higher cost of imports and increased commitments in respect of foreign loans —both factors being the off-shoot of devaluation. This increased cost could not as yet be absorbed, either fully or partially by increased selling rates. The company's expectations of liberalised licences and easier conditions of import were belied. The office equipment industry being a non-priority industry, not only foreign exchange allocations were meagre and inadequate but also there was inordinate delay in the issue of licences and their subsequent amendments which have all contributed to a very unsteady and sluggish production. However, the report states, fairly reasonable targets have been achieved during the year under review.

INDIA CEMENTS

The report of the India Cements Ltd, Madras, for the year ended March 31, 1967, states that the second unit at the Sankaridrug factory, which was commissioned in March, 1966, had a full year's production and the performance is satisfactory. As directed by the government, the company had been using furnace oil in place of coal in both its factories at Sankarnagar and Sankaridrug. To compensate for the extra cost involved, the government had made adjustments in the retention price payable to these two units. However, the Cement Allocation and Co-ordinating Organisation, which had been entrusted with the administration of the distribution of cement and the pooling of prices after decontrol, which came into force from January 1, 1966, required such of the units as had been using oil to switch-over to coal and had also discontinued the payment of compensation from April 1, 1967. As directed by the government, the two plants at Sankaridrug were planned only on oil and therefore, the company was not in possession of coal mills, to enable the switch back to coal. Based on the decision of CACO, orders have been placed for an additional coal mill. As, however, this equipment is expected to be installed only by the end of the current financial year, the company is obliged to continue the use of oil at the unit at Sankaridrug, without being able to claim the compensation. Consequently, it is estimated that the additional expenditure due to the usage of oil in the second unit would be about Rs 40 lakhs which will be reflected in the working of the current financial year. The company has embarked on a substantial expansion scheme for the production of an additional one million tonnes of cement per annum at its two existing factories. The preliminary work in connection with the expansion has already been taken up and orders for the first three plants have been placed with the machinery suppliers. It is expected that the first plant will go into commercial production by the end of 1968.

PREMIER CABLE

The annual report of the Premier Cable Ltd states that for the year ended March 31, 1967, the company's factory commenced commercial production from July, 1966. The profit and loss account reveals a surplus of Rs 1.21 lakhs before providing depreciation Rs 4.59 lakhs and after transferring a sum of Rs 4.10 lakhs being the expenses during trial runs for the period April 1, 1966, to July 7, 1966, to buildings, plant and machinery and electrical installations in proportion to their costs. This is in addition to a sum of Rs 16.17 lakhs already allocated to capital account up to March 31, 1966. A sum of Rs 11,864 being the brought forward loss and income tax and agricultural income-tax from the previous years is being adjusted against the surplus and the directors propose that the balance of Rs 1.09 lakhs be carried forward to next year. The net sales during the year (August to March) was Rs 36.88 lakhs which, the directors say, is not very satisfactory. However, the level of sales during the year was low mainly because of the factory having started commercial production only from July and it took some time to stabilise the output. Under the diversification permitted by the Government of India, the company has started manufacturing bare conductors and secured substantial orders for the same. The company is also trying out the possibility of manufacturing 11 KV cables and some specialised cables with the help of the company's collaborators.

MOHAN MEAKIN

Mohan Meakin Breweries Ltd, formerly Dyer Meakin Breweries Ltd, has produced better results for the year ended March 31, 1967, with a gross profit of Rs 251.78 lakhs against Rs 237.70 lakhs for the previous year. There was an increase in sales from Rs 10.61 crores to Rs 12.02 crores. Allocations are: depreciation Rs 45.04 lakhs, taxation Rs 128.50 lakhs and

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	Old Number	New Number
Editor	48489	383425
Editorial Department	43883	381899
Managerial Department	44984	384856

development rebate reserve Rs 3.42 lakhs. Of the net profit of Rs 74.82 lakhs the directors have provided Rs 52.27 lakhs for general reserve and Rs 21.27 lakhs for the proposed dividend. After adjustments, a sum of Rs 20,010 is carried forward against Rs 24,543 brought in. The directors state that the better trading results are a sequel to the unhindered availability of the major raw materials, but the restrictions on the free movement of barley, the company's basic raw material, from Punjab has posed a serious problem for the company. The management has taken up the question with the Punjab government and it has now permitted the movement of stocks purchased by the company from Punjab to its factories in Himachal Pradesh. It has entered the export market in a big way with its mango-based products in demand in west Asian countries. A beginning has also been made to export beer and spirits.

CAPITAL AND BONUS ISSUES

Consent has been accorded to 10 companies to raise capital amounting to more than Rs 3.59 crores. Five of them are to issue bonus shares exceeding Rs 48 lakhs. The amount of bonus shares ranges between Rs 3 lakhs and Rs 30 lakhs. The consents are valid for 12 months.

Gold Mohur Mills Ltd, Bombay, has been accorded consent to capitalise Rs 20 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of two for every five equity shares held.

Saroja Mills Ltd, Coimbatore, has been allowed to capitalise Rs 15,18,800 out of free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every equity share held.

Hindustan Equipment Suppliers Ltd, Bombay, is permitted to capitalise Rs 5,25,000 out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two held.

Shree Jagdish Oil Industries Private Ltd, Bombay, has been granted consent to capitalise Rs 5 lakhs out of general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for two held.

Seeyok Tea Co., Ltd, Calcutta, has been given consent to capitalise Rs 3 lakhs from revenue reserve and issue fully-paid bonus shares in the ratio of one for one held.

Bharat Machinery Mfg Co. Ltd, New Delhi, is permitted to issue capital of Rs 1 crore for cash at par to finance the construction of a factory for the manufacture of cutting tools. Of this amount, Rs 75 lakhs will be in equity shares of Rs 100 each and Rs 25 lakhs in 9.5 per cent cumulative preference shares of Rs 100 each.

ATIC Industries Ltd, Atul (Gujarat), is allowed to issue capital of Rs 84 lakhs in 84,000 equity shares of Rs 100 each for cash at par, to finance the manufacture of alcion and procion dyestuffs.

Pilsner Breweries India Ltd, Goa, is given permission to issue capital of Rs 80 lakhs in equity shares of Rs 10 each for cash at par. Of this, shares of a value of Rs 39.20 lakhs will be offered for public subscription. The proceeds will be utilised to finance the setting up of a brewery plant at Arlom, Marmagao, Goa.

Hoechst Pharmaceuticals Ltd, Bombay, is granted permission to issue capital of Rs 42 lakhs in equity shares of Rs 100 each for cash at par as rights shares to provide for capital expenditure for increasing production capacities.

Blackwood Hodge Equipment Ltd, Calcutta, is also allowed to issue 50,000 equity shares of Rs 10 each of a value of Rs 5 lakhs for cash at par to augment its working capital.

CHAIRMAN'S STATEMENT

The LIFE INSURANCE CORPORATION OF INDIA

Statement by Shri M. R. Bhide, Chairman, at the Hundred and Thirty-sixth Meeting of The Life Insurance Corporation of India held in Bombay on 15th September, 1967.

The draft of the Annual Report and the Statement of Accounts for the period 1st April, 1966 to 31st March, 1967 are before us for consideration.

Before I deal with some of the important aspects of our work, it is necessary to mention the economic recession and slump in industrial and agricultural production which has been felt for sometime past in the country. The Government of India is taking various measures to see that the economy of the country is revived. It is hoped that with a good monsoon it will be possible for the country to regain its economic balance to a considerable extent. Till that happens, the economic situation is unlikely to improve to any real extent and the cost of living may even go up. We are almost on the verge of a galloping inflation. All this is causing considerable difficulties to every one.

In such a situation the capacity of the people to save must necessarily go down and this adversely affects insurance business, more particularly life insurance business. As far as the economic situation is concerned, we, on our own, can do very little except to tighten our belts and be ready to give all possible co-operation to Government in the measures it takes to improve the situation.

Added to the problem created by recession, large sections of the people are affected by drought and famine. This too has an adverse effect on our business. Fortunately the monsoon has so far been good and let us pray and hope that it will continue to be so during the rest of the year.

NEW BUSINESS

The most important part of our activity is new business. It will be seen that during the year under review, our new business was a little over Rs 770 crores under 14.12 lakhs policies as against Rs 798 crores under 15.61 lakhs policies in the previous year. The fall in business can be attributed to the economic conditions, natural calamities like drought and famine and agitation by some of our employees.

SIZE OF POLICY

The average sum assured per policy during the year went up to Rs 5,456/-. About 69% of the total number of new policies were issued for sums between Rs 1,000/-and Rs 5,000/-.

FIRST INSURANCES

During the year 9.91 lakhs policies viz. 70.5% of the total number of policies issued in India were taken by persons insuring for the first time. In the previous year, 10.95 lakhs policies, being 70.4% of the total number of policies issued in India during that year, were issued on the lives of persons insuring for the first time.

RURAL BUSINESS

The development of rural business has continued to show steady progress. 5.07 lakhs policies viz. 36% of the total number of policies issued in India, assuring Rs 217.22 crores, were issued during the year to people in rural areas as against 5.58 lakhs policies, being 35.9% of the total new policies issued in the previous year, assuring Rs 220.62 crores. Taking into consideration the fact that the agricultural conditions in many parts of the country were unsatisfactory and that migration of the rural population to urban areas for earning a living has, as in the past, continued and even increased, the results cannot be considered unsatisfactory. The scope of business in rural areas, afterall, would always depend on the earning and saving capacity of the various classes of people. It is significant to note that 84.4% of the total number of new policies issued in rural areas were first insurances.

The scheme for collection of premiums through selected Post Offices in rural areas has worked successfully in the States of Andhra Pradesh, Bihar, Haryana, Himachal Pradesh, Kerala, Madras, Mysore, Orissa, Punjab, Rajasthan and Uttar Pradesh. It has also been extended in certain selected areas of West Bengal. The amount collected through Post Offices during the year amounted to over Rs 72.23 lakhs.

NON-MEDICAL BUSINESS

During the year, the assured sum limits under the Non-Medical Schemes were increased to a maximum of Rs 7,500/- and Rs. 4,000/-. The progress of business under these schemes has been good as is evident from the fact that during the year 6.32 lakhs policies, being 44.9% of the total number of policies issued in India, were issued under these schemes, assuring a total amount of Rs 176.15 crores, being 23.2% of the total new sums assured in India.

SALARY SAVINGS SCHEME

Under this scheme, we issued, during the year, 3.06 lakhs policies, assuring Rs 121.19 crores as against 2.88 lakhs policies, assuring Rs 108.56 crores during the previous year. The scheme is also in operation for Government employees in 9 out of 17 States in the country.

BUSINESS IN FOREIGN TERRITORIES

During the year the Corporation issued 5,887 policies assuring Rs 12.33 crores at post-devaluation rates of exchange in foreign countries where it is operating as against 6,445 policies assuring Rs 8.50 crores last year. We have stopped our operations in Tanzania where insurance business has been nationalised since February 1967.

BUSINESS IN FORCE

The total business in force as on 31st March 1967 was Rs 4,736 crores under 121.39 lakhs policies as against Rs 4,394 crores under 115.89 lakhs policies as on 31st March 1966. The increase in the total sum assured during the year under review amounted to 7.78% over the last year's figure.

LAPSE RATIO

The ratio of lapses to mean life assurance business in force came to 7.4% during the year as against 7.2% during the previous year. Taking into account the economic situation, the lapse ratio cannot be considered unsatisfactory.

PREMIUM AND OTHER INCOME

The premium income for the year under review went up to Rs 196.98 crores from Rs 179.76 crores in the previous year, while the total net income for the year was Rs 272.39 crores as against Rs 224.55 crores during the previous year.

LIFE FUND

The Corporation's Life Fund as on 31st March 1967 amounted to Rs 1123.90 crores as against Rs 977.56 crores as on 31st March 1966, registering a rise of Rs 146.34 crores.

INVESTMENTS

The total book value of the investments of the Corporation in India and abroad, as on 31st March 1967, was Rs 1,080.39 crores

of which that pertaining to life business was Rs 1,077.93 crores. The book value of the investments pertaining to life business in India on the same date amounted to Rs 1,051.62 crores. Of the said investments, 73.4% was invested in the public sector, 6.9% in the co-operative sector, 0.7% in the joint sector and 19% in the private sector.

The Investment Reserve Account amounted to Rs 43.26 crores.

The Corporation agreed, during the year, to underwrite 99 new issues to the extent of an aggregate sum of Rs 26.09 crores. In its investment policy, the Corporation has always kept the interests of the policyholders prominently in view and, subject to that, has tried to achieve the social objectives of nationalisation by playing its role in the social and economic development of the country. It has, for this purpose, continued to invest in Schemes for Housing, Water-works, and Drainage and in Co-operative Sugar Factories, Industrial Estates, State Electricity Boards, etc.

TOTAL ASSETS

The total assets of the Corporation as on 31st March 1967 amounted to Rs 1247.54 crores as against Rs 1099.99 crores as on 31st March 1966.

RATE OF INTEREST

The income during the year from loans, properties and investments in respect of life business, before deduction of income-tax, was Rs 59 crores as against Rs 50.46 crores during the previous year. The income-tax deducted at source amounted to Rs 8.58 crores.

The gross rate of interest realised on the mean Life Insurance Fund was 5.76% as against 5.51% during the previous year, while the net rate of interest realised was 5.29% as against 4.76% during the previous year. There has, thus, been an improvement in our gross and net earnings.

EXPENSE RATIO

The overall expense ratio for the year for the life business comes to 27.72% as against 27.55% in the previous year. The renewal expense ratio has increased to 15.91% from 14.69% in the previous year. The statutory limit for the renewal expense ratio is 15% and we propose to approach the Government to condone the increase over the statutory limit. The increase in the ratio is due to the increasing payments to our employees, rising prices and inflationary forces.

In this connection, I would mention that the Government have recently appointed a Committee under the Chairmanship of Shri R. R. Morarka to go into the question of expenses of management of the Corporation.

GENERAL INSURANCE BUSINESS

During the year under review the Corporation secured a gross direct premium of Rs 6.99 crores as against Rs 2.57 crores in the previous year. Of this, Rs 2.04 crores was secured under Fire Insurance, Rs 3.01 crores under Marine Insurance and Rs 1.94 crores under Miscellaneous Insurance. The total net premium collection during the year amounted to Rs 3.14 crores as against Rs 1.82 crores in the previous year.

The net claims during the year amounted to Rs 19.54 lakhs under Fire Insurance, Rs 52.83 lakhs under Marine Insurance and Rs 45.23 lakhs under Miscellaneous Insurance. A sum of Rs 95.49 lakhs has been added to the reserves.

The commission and expenses of management amounted to 7.84% of the net premium during the year under review as against 27.4% in the previous year.

PROFIT AND LOSS ACCOUNT

The gross profit for the year including the underwriting profits in the Fire and Miscellaneous insurance departments and the loss in the Marine insurance department and taking into account the interest and other income and outgo has come to Rs 91.72 lakhs. A provision of Rs 50 lakhs has been made for taxation and the balance of Rs 41.72 lakhs has been transferred to Profit and Loss Appropriation account, of which a sum of Rs 36.55 lakhs has been transferred to the general reserve.

ADMINISTRATION OF GENERAL INSURANCE BUSINESS

All the offices of the Corporation are now in a position to write general insurance business. The administrative work relating to underwriting and claims is handled mainly by the Divisional Offices while the Branch Offices are authorised to issue Cover Notes in respect of Fire, Motor and a number of sub classes of Miscellaneous business. The Central Office is handling only the underwriting and claims work relating to Marine Hull, Aviation and a few specialised classes of Miscellaneous business. All insurance business under the direct or indirect control of Government, including aviation business under Government control, as also war risk insurance under Marine Hull and Hull Machinery and business under Personnel Injuries (Compensation Insurance) Scheme, 1965, is handled by the Corporation.

FINANCING OF HOUSING SCHEMES

During the year the Corporation sanctioned 1,144 loans amounting to Rs 337.58 lakhs to policyholders for construction or purchase of houses under the 'Own Your Home' scheme. The Corporation also advanced Rs 12 crores as loans to State Governments for financing various types of housing schemes and land acquisition and development schemes. An amount of Rs 9 crores was advanced as loans to Co-operative Housing Finance Societies and other authorities for financing Housing Co-operatives in various States.

STAFF

The number of employees in the service of the Corporation in India increased from 51,576 as on 31st March 1966 to 52,131 as on 31st March 1967. The gross monthly salary bill amounted to Rs 221.23 lakhs in March 1967.

ELECTRONIC DATA PROCESSING

Effective from 17th July 1967 the Bombay EDP Unit has gone on stream and the first block of 50,000 policies is now being regularly serviced with the help of the computers. Work on the conversion of further policies is in progress. Construction work of the computer centre at Calcutta has been completed.

SIR DHIREN MITRA

The Corporation records with regret the sad demise on 31st December 1966 of Sir Dhiren Mitra, one of the first Members of the Corporation, who was associated with the Corporation for nearly a decade. His mature advice and guidance were always of great value to us.

CONCLUSION

Before closing, I take this opportunity to record my appreciation and thanks for the co-operation and advice I have received from the Members of the Corporation and my colleagues on the Investment and other Committees. I also record my appreciation of the services rendered by the Officers and staff at all levels and the agents of the Corporation but for whose help and advice the Corporation would not be able to continue to achieve its objective of spreading the message of insurance to the people.

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

COMPANY NOTICES

THE GANESH FLOUR MILLS COMPANY LIMITED, DELHI

Registered office: Subzimandi, Delhi

NOTICE

NOTICE IS hereby given that the 75th Annual General Meeting of the Share holders of The Ganesh Flour Mills Company Limited, Delhi, will be held at the Company's premises No. 64-65, Najafgarh Road (Industrial Area), New Delhi, on Monday the 16th October, 1967 at 10 A.M., to transact the following business:—

1. To receive, consider and adopt the Directors' Report and the Audited Balance Sheet and Profit & Loss Account of the Company for the financial year ending 31st March, 1967;

2. To declare dividends;

3. (a) To appoint a Director in place of Shri Satya Narain Gupta who retires by rotation under the Articles of Association of the Company and being eligible for re-appointment, offers himself for re-appointment as a Director of the Company;

   (b) To appoint a Director in place of Shri Om Parkash who retires by rotation under the Articles of Association of the Company and being eligible for re-appointment, offers himself for re-appointment as a Director of the Company;

4. To appoint Auditors for the financial year 1967-68 and fix their remuneration. Messrs. A. F. Ferguson & Co., Chartered Accountants, the retiring Auditors being eligible for re-appointment, offer themselves for re-appointment as Auditors of the Company for the year 1967-68;

SPECIAL BUSINESS

5. To consider and if thought fit to pass the following with or without modification as an ordinary resolution:—

   "Resolved that the Company hereby consents and approves contributions made during the financial year ending 31st March, 1967 to Charitable and other funds including donations to political parties not directly relating to the business of the Company or the welfare of its Employees amounting to Rs 1,06,404.00 which includes the sum of Rs 57,085.00 received by the Company from its Dealers towards charity according to trade usage".

6. To consider and if thought fit to pass the following with or without modification as an ordinary resolution:—

   "Resolved that the Company hereby approves of the appointments, and consents to the continuance, as the case may be, of the following Dealers/Sole Distributors/Distributors, for a period not exceeding five years, commencing from the date of such appointments and for the products and the area respectively mentioned subject to any variation that may be made in the terms of their appointments including changes in Area and Product and subject also to the condition that the arrangement may be terminated earlier by one month's notice on either side".

(List of Dealers/Sole Distributors/Distributors and the explanatory statement regarding special business as required under Section 173(2) of the Companies Act, will be included in the notice of the Annual General Meeting to be sent to the Share holders alongwith the Balance Sheet).

By order of the Board of Directors
For The Ganesh Flour Mills Co. Ltd.,
KIRPA NARAIN
Secretary & General Manager.

Delhi,
Dated 12th September, 1967.

N.B.

(a) The Register of Members of the Company will remain closed from 1st October, 1967 to 16th October, 1967 (both days inclusive).

(b) Members unable to attend are required to send their Proxy Form, sent alongwith the notice, duly stamped, signed completed in favour of a person attending the meeting. Form not properly signed or completed or received less than forty eight hours before the meeting will be treated as invalid.

(c) A member entitled to vote is entitled to appoint a Proxy to attend and vote instead of himself and that a proxy need not be a member of the Company.

(d) The terms of appointment of Dealers/Sole Distributors/Distributors as mentioned in item No. 6 above will be open for inspection of the members at the Registered Office of the Company from 1st October, '67 to 16th October, '67, during office hours.

(e) All Share holders of the Company are requested to send their present address to the Company before the date of the Meeting so that Dividend Warrants for the year ending 31-3-67 may reach them at their correct address.

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, organises 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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THE EAST INDIAN COAL CO. LTD.

(Incorporated in England with limited liability).

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS hereby given that the One Hundred and Fifteenth Annual General Meeting of the members of the abovenamed Company will be held at the Head Office of the Company No. 4, Clive Row, Calcutta-1, on Friday, the 27th day of October, 1967 at 11-00 a.m. for the following purposes:—

1. To receive and consider the Audited Accounts for the year ended 30th April, 1967, the Balance Sheet as at that date and the Reports of the Board of Directors and the Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in place of one retiring.
4. To fix the Auditors' remuneration.
5. To pass with or without modification the following resolution which will be proposed as an ordinary resolution:—

(a) "That it is desirable to capitalise a sum of £133,600 being part of the Share Premium Account and a sum of £96,800 being part of the General Reserve of the Company, and that accordingly an aggregate sum of £230,400 as aforesaid be capitalised and that this amount be used as capital bonus which shall be applied on behalf of the members who, on the 27th day of October, 1967, are registered holders in respect of 384,000 issued shares of £1 each in the Capital of the Company in payment in full for 230,400 new shares of £1 each, and that such 230,400 new shares credited as fully paid (hereinafter called "the bonus shares") ranking in all respects pari passu with the existing shares in the Capital of the Company save and except that the bonus shares shall not rank for any dividend declared by the Company in respect of any period ending on or before the 30th day of April, 1967, be allotted to such members in the proportion of three bonus shares for every five of the existing shares held by such members on the 27th day of October, 1967 and the bonus shares so distributed shall be treated for all purposes as an increase of the nominal amount of the Capital of the Company held by such members and not as income.

Provided that in ascertaining the number of bonus shares to which each member is entitled fractions of bonus shares shall be ignored and that the bonus shares resulting from such fractions shall be allotted to such of the Directors as the Board may decide to be held in trust by the Directors to whom such bonus shares are allotted to sell the same at the market rate and distribute the net proceeds of sale proportionately among those members who if fractions had not been ignored would have been entitled to the fractional shares.

(b) That in satisfaction of the said capital bonus the Board of Directors of the Company be and is hereby directed (subject, in case of non-resident members, to permission of the Reserve Bank of India) to allot and distribute the bonus shares amongst the members entitled thereto in the proportion aforesaid provision being made for fractional cases and

(c) That the Board of Directors be and is hereby authorised to take all necessary steps and give such directions as may be necessary and to settle any question or difficulty that may arise in regard to the issue of the bonus shares at it thinks fit."

Notice is also given that the Register of Members of the Company will be closed from 19th October to 27th October, 1967, both days inclusive.

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

By Order of the Board,
JARDINE HENDERSON, LIMITED.
A. C. Deaves
Secretary
Managing Agents & Secretaries

4, CLIVE ROW,
CALCUTTA-1.
8th September, 1967.

NOTE: The dividend, if approved will be payable on and after 15th November, 1967 to those members whose names are registered in the books of the Company on 27th October, 1967.

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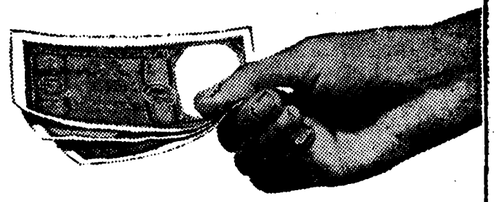

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T. D. KANSARA,
General Manager

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RECORDS AND STATISTICS

Revised Rates of Annuity Deposits

THE PRESIDENT promulgated an ordinance on September 14, 1967, making certain provisions in the taxation laws for mobilising additional savings through annuity deposits on current incomes, curbing entertainment expenditure in businesses and professions, and for expediting payment of tax dues. For this purpose, the ordinance, called the Taxation Laws (Amendment) Ordinance, 1967, amends the Finance (No. 2) Act, 1967, the Income-tax Act, 1961, the Wealth-tax Act, 1957, and the Gift-tax Act, 1958.

The rates at which annuity deposits are to be made under the Income-tax Act by resident non-corporate tax-payers during the financial year 1967-68, in relation to their current incomes liable to tax for the assessment year 1968-69, have been increased by the ordinance, all along the line, by 20 per cent of the rates prescribed by the Finance (No. 2) Act, 1967. Thus, in the case of depositors in the range of total income over Rs 15,000 but not over Rs 20,000, the rate of annuity deposit goes up by one per cent, from five per cent to six per cent of the 'adjusted total income'; in the income range over Rs 20,000 but not over Rs 40,000, by 1.5 per cent, from 7.5 per cent to 9 per cent; in the income range over Rs 40,000 but not over Rs 70,000, by 2 per cent, from 10 per cent to 12 per cent; and in the income range over Rs 70,000, by 2.5 per cent, from 12.5 per cent, to 15 per cent. The 'adjusted total income' is the total income as reduced by capital gains, annuities on past annuity deposits, and other items of extraordinary income.

The rates of annuity deposits as increased by the ordinance are applicable to the deposits to be made during the present financial year in relation to current incomes which will fall due for assessment in 1968-69. These rates take effect retrospectively from April 1, 1967.

Before the ordinance, it was entirely optional for tax-payers in the range of income over Rs 15,000 but not over Rs 25,000, to make or not to make an annuity deposit. If they made an annuity deposit, they were entitled to a deduction of the amount in the computation of their taxable income; but if they did not make any deposit or made a short deposit, they were not liable to pay any additional income-tax for that reason. But, under the ordinance, it will be obligatory for taxpayers in the above-mentioned income range to make annuity deposits to the extent to which the rates of annuity deposits have been increased, namely, one per cent of the adjusted total income in the case of a taxpayer in the range of income over Rs 15,000 but not over Rs 20,000, and 1.5 per cent of the adjusted total income in the case of a taxpayer in the range of income over Rs 20,000 but not over Rs 25,000. If such a taxpayer does not make an annuity deposit during the current financial year in an amount of one per cent or, as the case may be, 1.5 per cent of his adjusted total income, or makes a deposit which falls short of that amount, he will be liable to pay, for the succeeding assessment year 1968-69, additional income-tax calculated with reference to that amount or the shortfall.

Taxpayers whose total income is over Rs 25,000 will be liable, as hitherto, to pay additional income-tax if they do not make an annuity deposit in an amount calculated at the full applicable rate or make a deposit which is short of that amount. The full rate of annuity deposit for the current financial year will be the rate as increased by the ordinance.

There are provisions in the ordinance for marginal relief in calculating the amount of additional income-tax payable for failure to make the deposit or for making a short deposit, where the taxpayer's total income exceeds Rs 15,000, or Rs 20,000, or Rs 25,000, by a small margin.

At present, entertainment expenditure is deductible in computing the taxable income from business or profession, if it is wholly and exclusively incurred for the purpose of the business or profession. However, in the case of companies, the Income-tax Act lays down a limit over the amount of entertainment expenditure which can be allowed as deduction. The limit is: one per cent of the first Rs 10 lakhs of the profits and gains of the business or Rs 5,000, whichever is higher; ½ per cent of the next Rs 40 lakhs of the profits; ¼ per cent of the next Rs 120 lakhs of the profits; and 'nil' in respect of the balance of the profits. Thus, the maximum amount of deduction allowable at present is Rs 60,000, which is reached where the profits of a company amount to or exceed Rs 170 lakhs.

Under the Ordinance, deduction in respect of entertainment expenditure incurred after September 30, 1967 by any taxpayer, whether corporate or non-corporate, will be restricted to one-half of the percentage limit at present applicable to companies. This new limit is: 1/2 per cent of the first Rs 10 lakhs of the profits of the business or profession, or Rs 5,000, whichever is higher; 1/4 per cent of the next Rs 40 lakhs of the profits; 1/8 per cent of the next Rs 120 lakhs of the profits; and 'nil' in respect of the balance. The maximum deduction admissible will, thus, be Rs 30,000, which will be reached where the profits and gains of the business or profession amount to, or exceed, Rs 170 lakhs. Where the profits amount to Rs 10 lakhs or less, or where there are no profits, and the taxpayer has incurred entertainment expenditure, deduction for it will be limited to Rs 5,000.

The ordinance has made transitional provisions for taxpayers whose accounting year falls partly before and partly after September 30, 1967. In such a case, where the taxpayer is a company, the deduction for entertainment expenditure incurred before October 1, 1967 will be limited to a proportion of the amount calculated in accordance with the present limits. This proportion will be the proportion which the number of days from the commencement of the accounting year up to September 30, 1967, bears to the total number of days in the accounting year. The deduction for entertainment expenditure incurred by the company after September 30, 1967, will be limited to that proportion of the amount calculated in accordance with the limits laid down by the ordinance which the number of days in the accounting year from October 1, 1967 to the end of the accounting year bears to the total number of days in the accounting year. Where the taxpayer is not a company, no monetary limit will be applicable in respect of entertainment expenditure incurred up to September 30, 1967, but the deduction in respect of entertainment expenditure incurred after September 30, 1967, will be limited in the same manner as in the case of companies.

The ordinance has increased from 6 per cent to 9 per cent per annum the rate at which simple interest is chargeable from taxpayers under the Income-tax Act on the tax due on the income declared in the return, where the return has been delayed beyond the due date; on tax dues in arrears; and on shortfalls in payment of the advance tax due. Likewise, the ordinance has increased from six per cent to nine per cent per annum the rate at which simple interest is payable by the government to taxpayers on excess payments of advance tax; on delayed refunds; and, in a case where the assets of a person have been seized in the course of a search, on the moneys retained in excess of the tax liability of the person.

The rate at which simple interest is chargeable from, and payable to, taxpayers under the Wealth-tax Act and the Gift-tax Act, has similarly been increased from six per cent to nine per cent per annum.

The increased rate of interest, namely nine per cent, chargeable and payable under the Income-tax Act, the Wealth-tax Act and the Gift-tax Act will be effective in respect of the period falling after September 30, 1967.

EASTERN ECONOMIST

SEPTEMBER 29, 1967

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Canada, 1967 and Beyond

TO ALL Canadians, this year is simply but eloquently "the centennial year". Celebrating the hundredth anniversary of the founding of their confederation, which started off the evolution of their statehood and its sovereignty, the people of Canada most commonly describe their coast-to-coast celebration of this historic year as a grand birth-day party. It is a party to which all the world and his woman have been invited.

The birth-day cake, of course, is the Expo67 at Montreal. This is gorgeous party in the making of which many nations have participated along with the Canadian. By any reckoning, it is currently the greatest show on earth. Art and culture, science and technology and above all the infectious enthusiasm of peoples and their governments, out to put the best foot forward, have united to work this miracle of conception and organization. There had undoubtedly been great world exhibitions before Expo67; there will be many more in the future. But what has been accomplished in Montreal in Canada's centennial year is undoubtedly of the order of a landmark.

The central theme of Expo67 is "Man and his World". This has been spelt out in many ways through the pavilions that make up this fairy world of the deeds and dreams of men down the ages and into the future. Inevitably some of these exercises in interpreting Man to men have been more successful than the others. Particularly evocative among the national pavilions is that of Czechoslovakia which is the most popular single display at Expo67. Through the very skilful employment of visual stimulants the creators of this pavilion have brought out vividly the poetry of their land's history and culture and the vitality of its contemporary life and aspirations for the future.

Another outstanding national pavilion is the United Kingdom's. It has an impressive intellectuality about it and a wry sense of humour which together make an impact which is both subtle and lasting. One comes out of this pavilion with the feeling of having been helped to make the acquaintance with a people whose quality of courage will always see them live to fight another day.

On the Indian pavilion the most relevant comment I could make here would be in terms of the impression it seems to be making on the peoples of other lands. That its popularity rating among visitors is very high is a hard fact. The Indian pavilion had its four millionth visitor on September 5. With the aggregate count of persons who had seen Expo67 till then being short of the 40-million mark by about a couple of millions, it would appear that the remark one kept hearing that the Indian pavilion is one of the ten best on the scene had a certain statistical validity. More specifically, I heard from a variety of foreigners who had visited the Indian pavilion—including in their range such types as university dons and senior business executives—that the exhibits satisfied some of their curiosity to know about India while at the same time rousing more of their interest in the subject. This, I suggest, was high praise indeed! Equally flattering perhaps was the comment I came across in a Canadian magazine article that "India and Israel, both countries very conscious of their past, tell their history with pride and clarity". I should add perhaps that the authors of this article—a husband-and-wife team of journalists—had pulled no punches in their treatment of certain other pavilions; the objectivity and candour they had thus demonstrated add to the significance of their assessment of the Indian pavilion.

This is not to say, however, that all criticism of the Indian pavilion, whether of its architecture or of the arrangement of its exhibits, must necessarily be ignorant or perverse. I learn that the decision to participate in Expo67 was taken by the Government of India only about eight months before

the event whereas the governments of other countries, with far greater resources, had allowed themselves two years or more. Again the Directorate of Exhibitions of the Ministry of Commerce (which is intended for organizing and operating trade fairs abroad) was certainly not the best agency to assume exclusive responsibility for the kind of intellectual, cultural and artistic effort that was called for in this instance. Above all, the enlisting of woman-help from the Indian Co-operative Union or the drawing on the man-power of the Directorate of Advertising and Visual Publicity of the Ministry of Information was clearly no substitute for the deep participation of both scholars and artists in various specialities which alone could have done justice to the occasion.

In the event it is a wonder that the Indian pavilion has come out with honour even if it may not have covered itself with glory. But—and this is important—such risks should not be run lightly any more in the future. A country such as the United States or France may get away with it even if it fails to click occasionally at events like this, but countries such as ours have too much at stake because in this case a national reputation for competence --for doing things well—has yet to be clearly and convincingly established. I have heard it said that we have done much better at Expo67 than we did at the New York World Fair. This is good as far as it goes. But, next time, at Expo70 planned for Tokyo, our performance must show not merely a difference in degree but a difference in quality.

For the Canadians themselves Expo67 will leave behind few regrets when after drawing, as is being expected, over 50 million visitors, it closes in the fourth week of October, exactly six months after its inauguration. The success of this gigantic enterprise has made the reputation of many individual Canadian personalities and boosted the civic pride of the confident and growing city of Montreal. Above all it has prompted the Canadian people to take a close, long look at the history and philosophy of their nationhood in the face of challenges from some of their own people. It must be clearly understood that President de Gaulle was creating no new issue but was only attempting to force an ancient one when he recently dramatised the question of the future constitutional status of the province of Quebec in which the French Canadians form over 80 per cent of the population. That there is a definite "language" issue in Canada is not open to doubt. The "French" Canadians realize that they must necessarily learn English for their life and livelihood on the North American continent and they bitterly resent the fact that the "English" Canadians are under no reciprocal compulsion to learn French.

But the critical debate itself proceeds far beyond the theme of an adequate place for French in the scheme of education in those provinces (which means all of them excluding only Quebec) in which English-speaking Canadians are in a majority. It even spills over the issues of adequate employment opportunities in the federal government and administration or equal economic opportunities in the wider Canadian world for French-speaking Canadians. For, it is also being argued that there are not only two languages, but two cultures as well, i.e., English and French. From this it is but a few steps to the next stage in the controversy that the French-speaking and the English-speaking peoples of Canada should really be regarded as two nations.

Rather interestingly the two-nation theory does not arouse as much excitement among those who are firmly for the continuing integrity of the state of Canada as it might be expected to do. I have heard Canadians in high and responsible positions in public life calmly accepting the two-nation hypothesis and then proceeding to explain that even if the French-speaking and the English-speaking Canadians regard themselves or are to be regarded as two separate nations, it does not follow that they cannot share or ought not to be required to share the citizenship of a single, sovereign state.

Meanwhile there is the greatest vagueness about what the separatist sentiment actually seeks or even how strong it is. That a minority of French-speaking people in the province of Quebec desire to break away has been indicated more or less definitely. It is, however, equally obvious that these secessionists are outnumbered by more than ten to one by the majority of the French-speaking community in the province which demands simply a special status for the region.

What this "special status" is supposed to be its protagonists have not yet been able to describe, let alone define. But this has not prevented the idea from entering actively into the political vocabulary. Among the political parties on the federal scene, for instance, labour has declared itself to be in favour of according a special constitutional status for the province of Quebec, again without stating what exactly is meant by the phrase. The Liberals, on the contrary, seem to have worked out a less vague, but still flexible attitude. It has been authoritatively stated on behalf of this party that it invites other political parties, federal or provincial, to consultations for enabling a consensus on a revision of the constitution for the purpose of accommodating—to quote the words which the leader of the party, the Prime Minister, Mr Lester Pearson, used in another context—"the diversity of our racial, linguistic and cultural origins" within the framework of the unity and sovereignty of the state of Canada.

That this offer of a constructive debate by the ruling party is a genuine one is a reasonable hypothesis in the light of its record in promoting the share of the French-speaking Canadians in the federal administration. Whether the invitation will be accepted, however, is open to doubt. The immediate signs at any rate have not been favourable. From the Union Nationale, which is in power in the government of the province of Quebec has come the retort that the time is long past when the demand for a special status for the province could be fobbed off with pious talk about a constitutional revision. At the other end of the great debate, the reaction of the Progressive Conservative Party, the Liberals' main rival on the federal stage, has been, at least in part, to proclaim that "an aggressive nationalism" will be the only fitting answer to secessionist claims.

Canada, then, may well have to pass through a difficult and often frustrating search for a new political equilibrium before it resumes in the second century of its national existence the truly remarkable, many-sided progress it had accomplished for the greater part of its first hundred years. That this balance will be struck is not in doubt, for Canadians, irrespective of their diverse origins, have reason to be proud of what Canada is and has come to stand for through their efforts as her children and her citizens. We, in India, may usefully watch this Canadian adventure for the controversies which are debated in Quebec and Ottawa today are not dissimilar to those which arouse passions in New Delhi, Madras and various other political centres in our land.

—THE EDITOR

Coal Crisis: Beginning, Not End

WITH THE acceptance by the coal industry of a flat increase of five rupees per tonne in the prices of all coal to be supplied to steel plants, up to five rupees a tonne in the case of Bengal-Bihar coalfields and four rupees a tonne in the case of Madhya Pradesh and Maharashtra collieries for supplies to the railways, as against a weighted average increase of Rs 7.08 per tonne demanded by the industry to meet the cost of the implementation of the Coal Wage Board recommendations (which came into effect on August 15, 1967) and the directives of the Director-General of Mines Safety, a major crisis in the country's economy can be said to have been averted. As reported last week, an agreement has also been reached between the coal industry and Hindustan Steel on another crucial aspect, namely, joint sampling of coal supplied to steel works. As a result of these two understandings, coal supplies to steel plants as well as railways have started again.

While the averting of a major crisis is welcome, the way it has been brought about raises some important issues. The first is: how far were the railways justified in the beginning of last month in resorting to drastic curtailment of train services all over the country? Although only non-essential services were suspended, the step virtually amounted to this essential public sector undertaking striking at a short notice. The railways apparently decided to resort to curtailment of their services with a view to beating down the industry. Several pieces of evidence are a pointer to this. The first is the statement of the Railway Board issued hardly five days prior to the curtailment of non-essential services. This statement had assured the public that coal stocks with the railways early last month were better than they had been at any corresponding period in the previous years; they could last for 21 to 22 days even in areas far away from the main coal belt. Secondly, unlike the recommendations of several other wage boards, the recommendations of the Coal Wage Board, before they were accepted, were deliberated upon at several inter-ministerial meetings, but representatives of the railways were not reported to have voiced their concern over the increase that their undertaking would have to bear in its fuel bill. Even the Railway Minister, reports suggest, did not take any objection to the implementation of the Coal Wage Board's recommendations before their impact had been fully assessed when the matter came up for decision at the highest level. To cap it all, the railways were said to have delayed the payment of the bills for the coal supplies which had been effected before August 15. In the face of all this evidence, drastic curtailment of railway services early last month cannot be interpreted in any other manner than suggested above.

Hindustan Steel can also not escape the blame for applying undue pressure on the coal industry in the matter of coal supplies. The question of increasing coal prices following the implementation of the wage board's recommendations apparently was an issue quite apart from the settling of the long-standing dispute between Hindustan Steel and the coal industry on joint sampling of coal at destination or at points of despatch. The insistence on resolving the latter issue prior to the payment of increased prices of coal to be supplied to steel works was scarcely justified as the system of joint sampling at despatch points had been in vogue for a no small period.

No one can deny the right of any bulk consumer to strike as hard a bargain as it can in the matter of procuring supplies, but utilization of governmental machinery and pressure by the public sector commercial and industrial undertakings obviously needs to be avoided as far as possible.

The second important issue that arises is: how far is it desirable to saddle an industry working under controls with substantial statutory burdens immediately after decontrol without allowing it a reasonable time to readjust itself to the changed circumstances? The coal industry, it is well known, had been subject to vigorous controls for over two decades before they were lifted in June this year. It had hardly a couple of months to iron out some of the distortions that had crept into its working during the era of controls when it was asked to shoulder a substantially increased wage bill with effect from August 15. No doubt, the industry itself had asked for decontrol in February this year, but the government continued to vacillate over this request for nearly four months. Had the industry's plea been acceded to, say in March or early April, it could have had some time to adjust its economy to the changed circumstances; it then would have been in a much stronger position to shoulder the new burden in August.

The third issue raised is whether in future the recommendations of wage boards should be accepted in toto without regard to the impact they have on the economy. The implementation of the Coal Wage Board's recommendations undoubtedly will impinge heavily on all consumers of coal with the result that the inflationary tendencies in the economy will get a fillip. As pointed out earlier in this journal on the basis of the data regarding the profitability of the coal industry as compiled by the Reserve Bank, this industry is not in the happy position of absorbing any part of the increased wage bill. Even the last year's report of the Study Group on Coal Prices for Bengal-Bihar coalfields shows that coal industry's profitability is too low to allow it to absorb even a small increase in the cost of production. With the demand for coal having gone down during the last several months and there being no likelihood of its picking up again in the near future, the pros-

pects of the industry being able to absorb a part of the increase in its wage bill are indeed bleak. The increased cost of production, thus, has got to be passed on to the consumer. Isn't it high time that in future it should be made incumbent on all wage boards that while recommending increase in wages and benefits for workers, for which they are constituted, they should also take into consideration, before finalising their reports, the impact their recommendations will have on the economy?

There is no denying the fact that the coal industry cannot be happy with the increase in prices which has been agreed to. Opinions may differ whether the industry was justified in asking for an increase of 40 paise per tonne for recovering the arrears of increase in wages for the 16 days from August 15 to August 31, 1967, and also 80 paise per tonne on account of the cost of living index going up to 210 this month; the very fact that the industry's estimates of the other elements of increase in the cost of production have not been challenged by the government by producing an alternative set of estimates, goes to establish the veracity of the industry's calculations. The only objection voiced has been that the additional welfare measures recommended by the tripartite committee as well as by the Director-General of Mines Safety should be provided by the colliery owners concerned out of their own profits and not at the expense of the consumer. But the critics appear to have lost sight of the following pertinent observation in the last year's report of the Study Group on Coal Prices for Bengal-Bihar Coalfields:

"At present, supply of footwear is not mandatory in the coal industry for all categories of workers i.e. surface and underground. Hence any evaluation of the impact of such a scheme on prices at this stage is not possible. The Chatterjee Committee appointed by the Labour Ministry in 1963 carefully worked out the probable cost of supplying footwear to the workers in the coal industry. As and when the supply of footwear at the cost of employers becomes mandatory, it should be easy to assess the financial liability in this regard in the light of the observations of the Chatterjee Committee."

This observation, made at a time when coal prices were controlled, implied that the additional financial liability of colliery owners in matters concerning welfare of workers had to be met by an increase in the prices of coal. The decontrol decision should not alter the situation, especially when the industry has not been allowed time to readjust its economy to the changed situation.

It is hoped that the increase in coal prices agreed to by the railways and Hindustan Steel last month will be revised suitably in the light of the experience in the next couple of months. Unless this is done, the implementation of the additional safety measures as well as of the recommendation of the tripartite committees may not be quick and smooth. Such an eventuality is fraught with grave dangers, especially when the law and order situation and the employer-worker relations in the main coal belt of the country leave much to be desired. The short-sightedness of the government and the two public sector bulk consumers of coal may force some mines to close down, leading to scarcity of coal when the demand ultimately picks up. The crisis thus has been resolved only temporarily. The best way of finally resolving the tangle should be to ask an independent authority such as the Tariff Commission to adjudicate. The Tariff Commission should be in a position to report on the issue quickly as it had been seized of the problem not long ago. To ask for such a step at a time when controls have been lifted may appear ironical. But the present situation, indeed, is without precedent. An unconventional remedy, therefore, is called for.

Gheraos in West Bengal

SIR BIREN Mookerjee was not fair when, in his statement to the shareholders of the Indian Iron and Steel Company on September 8, he blamed the press for not correctly reporting about gheraos in West Bengal. He said: "It is even becoming apparent that the gentlemen of the fourth estate are somehow endeavouring to devalue the word gherao in the newspapers so as to create a general impression in the minds of the population that these are mere non-violent demonstrations staged to obtain redress for genuine grievances. The word has in fact acquired an almost facetious meaning in certain circles, perhaps because they have never been on the wrong side of a gherao". It does not seem correct to suggest that the press is deliberately trying to play down the gheraos. The fact is that gheraos have become so common as to lose their news value. The techniques of gheraos have become stale—shouting abusive slogans, "imprisoning" officers for long hours, and often subjecting them to physical torture. It is not surprising that gheraos nowadays seldom hit the headlines.

But there is surely no justification for official indifference and inaction. Most of the so-called gheraos are actually not labour problems at all but deliberate efforts to subvert discipline and sabotage production. Sir Biren Mookerjee has referred to "the strange phenomenon" of workers selecting for their targets precisely those sections where the order books are full as well as the loading and transport sections. He has also spoken about the "total demoralisation and frustration of the company's officials", the possibility of the steel works being "reduced to shambles", and "the vast industrial complex crumbling to dust".

The Government of West Bengal, it seems, is unable and unwilling to act firmly and promptly to restore the rule of law. It is unable to act because during the last six months, some of the ministers themselves have directly and indirectly encouraged lawlessness and indiscipline; and it is unwilling because the creation of chaos seems part of the strategy of certain parties that dominate the ministry.

West Bengal surely cannot be allowed to lapse into lawlessness for all time. Peace in this state is of vital importance not merely for eastern India but for the entire country. The location of strategic industries such as steel, coal, tea and jute within its territory as well as the Calcutta port which serves the eastern region as well, gives the state a unique importance in the country's economy. Public opinion all over the country therefore should be awakened to the true situation in the state so as to bring moral pressure on the government to mend its ways. An impression has been created that lawlessness in West Bengal is largely due to shortage of food. This is not correct. Of course, the food situation is bad enough and the people's distress is real but the kind of lawlessness to which Sir Biren Mookerjee referred is certainly not due to any economic hardship or grievance.

If the Government of West Bengal is keen to continue in office and serve the people, first of all, it should discharge its elementary responsibility of maintaining law and order. The fact that gheraos recently took place even in the sacred precincts of the Calcutta High Court shows the extent to which the administration has become ineffective. Secondly, the government's labour policy should undergo a radical change. It is, of course, right that the government should be sympathetic to the genuine grievances of labour but its present policy, though apparently pro-labour, is actually hurting labour itself. By hampering production, the profits of companies are reduced and this in turn will ultimately affect labour's earnings. Sir Biren Mookerjee has pointed out that the profits of the Indian Iron and Steel Company last year were more than four crores of rupees worse than the previous year; and this year's performance is still worse. He has expressed the fear that if the situation does not improve, it may even lead the company to bankruptcy and inevitable liquidation. Already some engineering firms and the jute industry have been compelled to retrench labour; and there is no doubt that if the present policy is continued it will aggravate the problem of unemployment.

The Government of West Bengal has drafted a number of labour bills for consideration at the next session of the assembly. These include bills to amend the Factories Act, the Industrial Disputes Act, the Workmen's Compensation Act and the Trade Union Act. The amendment to the Factories Act provides for casual leave, payment for overtime work and the framing of rules for the recruitment and service conditions in factories. Under the amendment of the Industrial Disputes Act, universities and research institutions will be deemed as industries, and it is proposed to ban mass lay-off and retrenchment without one month's notice and three months' notice respectively, and closure without three months' notice. The amendment to the Workmen's Compensation Act proposes to make the schedule of accidents comprehensive while the amendment to the Trade Union Act attempts to define industry so as to remove the difficulties regarding the registration of employees' unions. Meanwhile, Mr Subodh Banerji, the Labour Minister, is reported to have decided not to consult the tripartite Labour Advisory Board as in the past. He seems to feel that the board is too large a body for effective discussions of labour matters and that, in any case, prior consultation of the parties concerned is not obligatory on the part of the government. Mr Banerji's attitude has naturally caused concern to employers but the Labour Minister seems hardly worried about the attitude of employers or the increasing hardship caused to workers by the steady rise in prices and the fall in employment. Little does the West Bengal government realise that unless it radically changes its attitude towards the problems of law and labour, there is no prospect of the state recovering rapidly from the recession.

Pride in Performance

THE CHAMPIONS of decontrol seem to have a tough job still, although the general trend is distinctly in favour of decontrol and official view also is reportedly so inclined. Protagonists of control, who would not hesitate to entrust everything to the kindly care of the state and be content to remain as dumb driven cattle, it would appear, have been busy as much within the ranks of industries decontrolled recently as outside, including Parliament. A case in point is the cement industry the decontrol experiment in respect of which was allowed by the government to be continued till December 31, 1967. The allegations and insinuations made against the Cement Allocation and Coordinating Organisation (CACO) during the debate on decontrol in the Rajya Sabha last month and rumours regarding a threatened split in the ranks of the CACO membership this month could both probably be traced to the same source. In view of this and, what is more, the possible disastrous repercussions of one decontrol experiment being discredited and discontinued on that score on the future of controls in this country generally, we feel, the press statement made by Mr G. D. Somani, CACO president, the other day has not come a day too soon.

True, Mr Somani's statement was not directly concerned with the question of decontrol, but what he said has a vital bearing on it. If, for example, he had not been able to clear the CACO of the serious allegations made against it—irregularities in respect of the management of its funds—the whole industry would have fallen into disrepute and the entire decontrol experiment would have received an unceremonious burial. Many would not have known otherwise the pricing arrangement under decontrol and the obligations of the industry under that arrangement. We make no apologies, therefore, to deal with the CACO president's statement at some length in these columns.

The allegation made against CACO in the Rajya Sabha in August last was that it has been involved in irregularities in respect of the management of its funds. One specific allegation was that the CACO distributed to individuals in public life a sum of Rs 31,16,288 which ought to have been used for expansion of the cement industry. Now two points are involved in the allegation in question: one, that the amount was to have been used for the expansion of the cement industry and that this was not done, and two—this is more serious—it was distributed to individuals in public life, meaning thereby that it was an irregular appropriation of the amount. Mr Somani's statement has cogently met both the points and, incidentally, removed a wrong impression which, if such had remained, might have harmed not only the case for continued decontrol of the cement industry but of decontrol generally as devoutly desired and deliberately designed by the denouncers and detractors of decontrol.

Under the scheme of cement decontrol, the industry is required to reserve 50 per cent of cement despatches for the government and this is to be supplied at Rs 6 per tonne lower than the rate at which it is to be supplied to the public. During 1966, the first year of decontrol, the

government could absorb only 42.40 per cent of the total despatches, leaving unindented 7.60 per cent with the industry. This was supplied to the public at the rate applicable to cement supplies permitted to be made to the public, i.e. at Rs 6 per tonne higher than the rate to the government, and the surplus so realised aggregated Rs 49,48,702. After bringing this fact to the notice of the government (at a meeting with the concerned officials of the Industry Ministry on Nov. 15, 1966) the representatives of cement manufacturers decided that this unforeseen surplus realisation should be earmarked for the purpose of expansion. Accordingly every member of the CACO agreed to credit to his expansion reserve account the pro rata share (net, after deducting tax) in the government rate contract DGS&D account, in addition to the amount of Rs 4 per tonne net after tax which every cement manufacturer is under an obligation to set aside for the purpose of expansion out of the price increase granted by the government. That this has been scrupulously observed by all members is beyond doubt. It is necessary to add here that the accounts of all member-companies had been made public even before the allegations were made in the Rajya Sabha so that no one can accuse that the accounts were either manipulated or made up subsequent to the allegations on the floor of the Rajya Sabha. The fact is that the industry is as keen as the government on expanding and will seize every opportunity to be able to do so. The bona fides of the industry on this count are more than established by the fact that, between January, 1966, and June, 1967, it actually incurred on expansion schemes an expenditure of Rs 6.01 crores, as against a total of Rs 5.53 crores accrued in the industry's expansion reserve account on both counts. So the point that funds required to be earmarked for purposes of expansion were not so utilised does not hold water.

Regarding the second point i.e., distribution of Rs 31,16,288 to individuals in public life, Mr Somani categorically admitted that this amount was distributed, but he, at the same time, made out that this was not only no part of the funds meant to be used for the expansion of the cement industry and that, in the use of it, he had full authority. The industry placed with the CACO president a sum of Rs 31,16,288 in 1966 and another sum of Rs 8,50,000 in 1967 for discretionary expenditure for furtherance of CACO's objectives. Inasmuch as an open disclosure of these allocations has been made in the published balance sheets of the member-companies, there is nothing secret or underhand about the distribution of this money to individuals in public life, individuals who could be expected to understand the problems of the industry and to put them forward fearlessly and frankly before the highest counsels in the country. By virtue of the authority vested in him by the members of the CACO, the president thought it fit to distribute the amount "to render assistance to various political parties and individuals and for publicity, propaganda and other expenses." And all these, as also further details of the expenses called for, have been made available to the government. What the industry has done, therefore, is "absolutely open, legitimate, honest and straightforward", to quote Mr Somani.

That there is need to create public opinion in favour of decontrol is now more generally admitted than ever before, thanks to the mess that the authorities have created through controls. As the CACO chief put it, "the policy of rigid controls has done great damage to our national economy. Even the government has realised the futility of this policy and is now implementing a policy of gradual relaxation. Yet considerable opposition continues to the policy of decontrol on purely ideological grounds."

Mr Somani has done well in stressing that the expenditure on the furtherance of CACO's objectives has been neither at the expense of the consumer nor at the cost of the expansion reserve. Nor, for that matter is the total expended such as to shout about. What has been spent, and spent well, is only 0.2 per cent of the total requirements of the expansion programme of the industry during the fourth Plan estimated to cost about Rs 200 crores. That the cement industry is vigorously pursuing its expansion programme is acknowledged by all. The free availability of cement at controlled rates has proved the success of the decontrol experiment. We only hope that those who are today showing so much concern for expansion will not change the tune and cry of overproduction soon to denounce the industry, a not uncommon experience.

The PM has appealed for donations to the PM's National Relief Fund.

2812(J)

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BENSONS/INGB-104

Unemployment—Disease or Remedy ?

PAUL EINZIG

THE ANNUAL conference of the Trades Union Congress (TUC) passed a resolution condemning the socialist government's monetary policy. The general secretary, when winding up, was opposed to the resolution but called on the government to make full employment an absolute and unqualified objective of its policy. In other words, full employment must be given absolute priority over all economic aims, regardless of its effects on sterling.

Neither this government nor any other government which finds itself in a position similar to that of Britain today could afford to obey this injunction. To obey it would mean giving up policies aiming at balancing Britain's international accounts, accumulating and retaining an adequate reserve, and maintaining the stability of sterling. It would mean non-stop inflation at an ever-accelerating pace until it culminates in a collapse of sterling.

Of course the feelings of the TUC over the existence of some 550,000 unemployed is understandable. Having been used to the full and overfull employment that prevailed for over twenty years, this figure appears to be calamitous. That it was a deplorable necessity to pursue policies which have resulted in such an increase does not affect the opinion of the TUC. In accordance with true trade unionist principle, the only thing that matters to them is that labour should have a sufficient scarcity value to be able to dictate to employers and to the government. While the more statesmanlike among them pay lip service to the need to increase productivity, the rank and file, and even the average trade union leader, does not care so long as the balance of power is maintained in their favour.

Facts Overlooked

The trade unionists would cheerfully devalue sterling once or twice a year if full employment could be maintained at that cost. They are not alone in this respect. An economist who ought to know better declared in the headline of an article that there are 550,000 victims of sterling. He overlooks the fact that a large proportion of that number consists of unemployables or temporarily unemployed in transit between two jobs. No monetary policy could possibly reduce unemployment to nil, or to anything like it.

What those who hold such one-sided views refuse to see is that, were it not for the defence of sterling at its present parity, there would be no inducement to do anything to prevent the non-stop depreciation of its domestic purchasing power at an even faster rate than it has been depreciating since the war. Even if we had an unlimited gold reserve out of which to cover the perennial import surplus, an absence of policies resulting in an increase of unemployment would mean sharper rise in the cost of living and in the cost of production. Unpopular deflationary policies would not be adopted by any government merely for the sake of checking domestic inflation; they are adopted solely under the acute menace of depletion of the gold reserve threatening to lead to enforced devaluations.

The root of the trouble is precisely the popular conception that full employment is a birthright. Nobody realises that it is a privilege which must be earned and deserved by abstaining from abusing the bargaining power that full employment confers on the trade unions. It must not be used for blackmailing employers into conceding unearned and undeserved wage increases in excess of increases in productivity.

So long as the present wrong conception prevails unemployment must be looked upon not as a disease but as a remedy. It is a necessary evil because it does tend to mitigate the greed of trade unions, and it makes therefore for a return of a well-balanced economy. It is of course a pity that the same result cannot be achieved without having to apply policies leading to increased unemployment. But the blame for this rests with the unions themselves. If instead of being interested solely in distribution they were to take an interest in production it would be possible to expand production without generating inflation that calls for corrective measures.

It is all very well for the TUC to declare itself opposed to the application of unemployment as a corrective. If only the trade unions heeded the government's exhortations to work harder and to moderate wage demands there would have been no occasion for the application of a corrective. The main reason why the creation of unemployment is in existing circumstances a necessity is that trade unions cannot be persuaded by mere arguments not to misuse the strong bargaining power they possess under full employment. Because of this it has become essential to weaken their bargaining power by means of creating unemployment.

This conclusion was reached reluctantly after long delay and hesitation by a government which represents the working classes and which was elected with the aid of the financial support of trade unions. The reason why even a government which is biased in favour of defending the interests of the working classes reached such a conclusion is because it considers this to be in the interests of the working classes. It is indeed an extremely short-sighted attitude to sacrifice the stability of sterling for the sake of securing unearned wage increases with the aid of the bargaining power conferred upon the unions by full employment.

The leaders of the Labour party have realised this at long last, but their followers are still very far from having realised it. They still demand policies which enable them to obtain unearned wage increases, and to maintain their restrictive practices which ensures the maintenance of their scarcity value. The TUC conference has proved that the British labour movement is still inspired by unenlightened self-interest. There would be nothing wrong with enlightened self-interest because it would mean a realisation that an increase in the size of the cake is more important than an increase in their slice of it. But so long as self-interest remains unenlightened the size of the cake cannot be increased. Nor indeed can the slice allotted to the working classes be increased indefinitely without bringing about an actual reduction in the size of the cake as a result of the discouraging effect on investment.

Eastern Economist 20 Years Ago

OCTOBER 3, 1947

Dr Rajendra Prasad's press conference last Friday was intended to prepare the public for the gloomiest and (let us hope) the final critical phase of the post-war food shortage in India. The picture of the food situation, said the Food Member, was a sombre one and bluntly added "We are in for a very difficult time". If the present rate of procurement in the various areas is maintained and all grain ships from abroad arrive as scheduled, the position in respect of stocks necessary to maintain the existing ration scales in the main deficit areas on November 1 will be that Madras, Bombay, West Bengal and Mysore will have stocks for less than two weeks only, while Travancore and Cochin will have stocks for just two weeks. In U.P., the stock position is slightly more satisfactory at present, but assistance from the Centre will become necessary later in the year.

A Peep Into LIC's Expenses

L. G. BAPAT

THE GOVERNMENT of India has appointed a committee headed by Mr R. R. Morarka, former Chairman of the Public Accounts Committee, to inquire into the high level of expenses of the Life Insurance Corporation (LIC) and to suggest measures for achieving economy.

In 1956, when the life insurance business was nationalised, a reduction in expenses was expected by all. While introducing in the Lok Sabha the bill for nationalisation, the then Finance Minister, Mr C. D. Deshmukh had promised an improvement in efficiency which is another name for reduction in cost.

When LIC was born, 245 different insurance units were brought under one roof. This was expected to make rationalisation and improvement in administrative procedures possible. The elimination of unnecessary competition was anticipated to bring down expenses.

Also, it was hoped that the LIC would command greater confidence of the people, leading to a rapid expansion of business. In fact, this did happen. The LIC's business expanded by 259 per cent from Rs 1,220 crores in 1956 to Rs 4,387 crores in 1966. Advantages of large scale operations became available to the LIC. Expenses could now be spread over a wider base. Why is then LIC's expense ratio as high as 27.5 per cent of its premium income?

Table I shows the various items of the LIC's expenses, in 1957 and 1966. Its perusal reveals one fact very clearly—the LIC did get the benefits of integration and large-scale operations.

Benefits of Consolidation

For example, even though the premium income increased by 104 per cent from Rs 88.12 crores in 1957 to Rs 179.76 crores in 1966, the auditors' remuneration increased by 18 per cent only. The labour involved in auditing 245 different units is bound to be much greater than that involved in the audit of one consolidated big unit. Moreover, the units were situated at different places. It, therefore, required either extensive travel by auditors or appointment of as many firms of auditors as the number of units. Also, the LIC must have been in a better bargaining position vis-a-vis the auditors than the small units.

The legal charges increased by only 41 per cent during the period under review. The expenditure on postage, telegrams and receipt stamps also went up to the same extent. Printing and stationery charges showed a smaller rise of 24 per cent, Owing to integration of so many units it was possible for the LIC to print a reduced number of forms in bulk. When there were 245 different units, each had to print for itself in small quantities each of these forms separately . Similarly, bulk purchases of stationery enabled the LIC to reduce expenditure under this head.

The maximum saving has occurred in the expenditure on bank charges. They declined by as much as 29 per cent. The general charges also showed a reasonable rise of 66 per cent. As compared with the increase in premium income (104 per cent) these items of expenditure have lagged behind, thereby gaining for the LIC, the advantages of integration and large-scale operations.

It is disappointing that the LIC was subjected to the law of increasing costs in the case of some other items of expenditure. The foremost item under this head was a disproportionate increase in the commission paid to insurance agents. It increased by 111 per cent. It is rather difficult to understand why the commission paid to agents should increase at a faster rate than the rate of increase in premium income. The probable explanation lies in the fact that the LIC fixed premium rates which were lower than those of the Oriental rates, by one rupee per thousand sum assured. This meant about four per cent decrease in premium rates. But the Oriental rates were very competitive; they were lower than those charged by most of the other units. Hence the average rate of premia charged by all the units before nationalisation must have been higher than the Oriental rates. Hence the LIC's present rates must be a good deal lower than four per cent when compared to the average rate before nationalisation.

Increase in Commission

As the rates of commission paid to agents were not lowered by the LIC, there appears a slightly larger increase in commission payment than that in the premium income. However, as this item accounts for 31 per cent of the LIC's total expenses on management, even this slight disproportionate increase means a big sum in absolute terms.

With the spread of literacy, people's resistance to insurance is diminishing. As the mortality ratio improves, the LIC would be under pressure to reduce premium rates. Indeed, the pressure is already there even today; it is likely to gather momentum in the future. Hence the LIC should have explored the possibility of reducing the rates of commission fixed a decade ago. This is done in other countries; by this method alone, it will be possible to keep this item of expenditure within manageable limits.

Another big item showing a disproportionate increase of

TABLE I

COMPARATIVE STATEMENT SHOWING CHANGES IN L.I.C.'S EXPENSES: 1957 AND 1966

(Rs crores)

Item of expenditure	1957	1966	Percentage increase in 1966 over 1957
1. Commission to insurance agents	7.34	15.50	111
2. Salaries etc. including allowances other than 1 above	11.09	24.73	123
3. Other benefits to the staff (gratuity, provident fund, welfare etc.)	0.78	1.71	120
4. Travelling expenses	0.29	0.91	114
5. Advertisements	0.09	0.25	178
6. Rents for offices belonging to and occupied by LIC	0.25	0.67	168
7. Rents for other offices occupied by LIC	0.21	0.30	43
8. Depreciation on furniture, office equipment, vehicles etc.	0.20	0.48	140
9. Auditors' remuneration	0.03	0.04	18
10. Medical fees	0.88	1.02	16
11. Law charges	0.05	0.08	41
12. Printing and stationery	0.70	0.87	24
13. Postage, telegrams, receipt stamps	0.59	0.87	41
14. Bank charges	0.17	0.12	—29
15. General charges	0.63	1.04	66

Source: Annual reports of the LIC for 1957 and 1966.

123 per cent is the expenditure on salaries. If we take the figures of monthly gross salary bill, as given in the annual reports of the LIC, the increase appears even more. The total monthly gross salary bill of the LIC was Rs 55.97 lakhs in 1957. It increased to Rs 195.27 lakhs in 1966, registering an increase of 250 per cent. Expenses on other benefits to the staff also show an increase of 120 per cent in the same period. A detailed scrutiny of this item is therefore, imperative. Table II below summarises the position briefly:

TABLE II

L.I.C.'S EMPLOYEES AND THEIR SALARIES

	January 1957			March 1966		
	No	Gross monthly salary (Rs in thousands)	Average salary (Rs)	No.	Gross monthly salary (Rs in thousands)	Average salary (Rs.)
Class I Officers	903	850	941	2,941	2,962	1,007
Others	26,769	4,747	177	48,635	16,565	341

It is seen that the average monthly salary paid to class I officers has not increased much in the last decade. The increase of seven per cent in 10 years is marginal. It must perhaps be necessary in view of the fact that the all-India cost of living index increased by 57 per cent from 105.3 in 1957 to 165.2 in 1966.

However, there appears to be a steep increase in the salary paid to the subordinate staff. The average salary paid to this category was Rs 177 per month in 1957. It increased by 93 per cent to Rs 341 in March 1966. Even when we consider 57 per cent increase in the cost of living index, this category has benefited by 36 per cent. It appears that the organised employees have succeeded in forcing the LIC into giving them much more than the mere neutralisation of the higher costs of living. This has naturally made human labour costlier than the machine. Against this background, it seems that the LIC was justified in its decision to install electronic computers in its Bombay and Calcutta offices for reducing management expenses.

Top Heavy Management

Though class I officers have not benefited individually, as a class they have. The number of class I officers shows a sharp increase by 326 per cent from 903 in January 1957 to 2,941 in March 1966. The ratio of class I officers to other members of the staff rose from 1:30 in January 1957 to 1:17 in March 1966. This means that in January 1957, there was one class I officer for 30 other employees. In March 1966, there was one class I officer for only 17 other employees. This is a sign of top heavy management. It must be said that the employees as a whole have tended to reap a disproportionate advantage from the nationalisation of the life insurance business and have been the major cause of increased level of the LIC's expenses. The Morarka committee will have to examine if LIC was justified in appointing so many class I officers and whether there is enough work for all of them. Further, it must be seen whether these officers are doing any work which can easily be done by their subordinates.

Travelling expenses have also increased by 114 per cent during the decade since nationalisation. It seems that these expenses are on account of travel involved in inspection of offices and auditing of accounts. It must be examined if so much touring was necessary. If so, this disproportionately high travelling expenditure must be treated as another sign of top-heavy management. Decentralisation of powers and formation of smaller divisions may help the LIC to reduce this item of expense to size.

Rents for offices situated in buildings not belonging to the LIC have increased by 43 per cent only. However rents for offices belonging to and occupied by the LIC have increased by 168 per cent. This increase is certainly disturbing. Of course, the rent is received by the LIC itself and hence this item of expenditure will also appear on the income side of the balance sheet. So the LIC is not a loser in any way as a result of increased expenses on rent.

Still this raises another issue. Either the rents are higher than the reasonable rents in which case the LIC is showing artificially higher income for itself. This would mislead the public in general and the policy-holders in particular. The Morarka committee will have to probe deeper into this matter to ascertain the facts.

Sharp Increase

Depreciation on furniture etc. also shows a steep increase of 140 per cent. Two points arise in this respect. Firstly, the LIC has calculated depreciation at five per cent in March 1966 while it was calculated at 9.5 per cent in January 1957. Probably this is done to show the expenses at a lower level. But this is a bad practice in that higher rate of depreciation is a method of increasing the hidden reserves. A steel cupboard might really be worth Rs 500 after a year but by applying a higher rate of depreciation, it is shown worth Rs 450 only in the accounts books. In this way, if the concern comes to grief, its furniture etc. will command a much higher price in the market than its book value. In this example, Rs 50 represents the hidden inner reserves. Commercial concerns, therefore, adopt a higher rate of depreciation and accumulate such reserves. This is considered as a sound commercial practice in foreign countries. The LIC is violating this principle for keeping its expenses artificially low.

If the same rate of depreciation is adopted in both years, it shows an increase of 355 per cent in ten years. This reflects the increase in expenditure on furniture, office equipment, vehicles etc. The total book value of these items was Rs 1.92 crores in January 1957. It multiplied four times to Rs 9.10 crores in March 1966. It needs to be examined if this increase in expenditure on furniture was really called for.

Expenditure on advertisements also shows a steep rise of 178 per cent. This is rather surprising. Previously, 245 units were spending separately on advertisements; after their integration, such separate publicity became unnecessary. It was, therefore, expected that this expenditure would be reduced after nationalisation. Moreover, the LIC's advertisement campaign is also not aggressive in any sense to justify any appreciable increase under this head. It is the quality of service given to the policyholders that is the best advertisement for the LIC. When the quality is deteriorating, mere advertising will do no good to LIC. The Estimates Committee of the Lok Sabha (Chairman: H. C. Dasappa) found it necessary to devote a full chapter in its 134th report for discussing the various complaints against the LIC in the matter of service to the policy-holders; its findings were in no way flattering for the LIC.

Our New Telephone Numbers

	Old Number	New Number
Editor	48489	383425
Editorial Department	43883	381899
Managerial Department	44984	384856

Monsoon Asia—Race Against Human Procreation

R. O. WHYTE

THOSE WHO work for human betterment in Asia are engaged in a frantic race against time as the Asians are reproducing themselves at a reckless rate. Specialists attempting to restore a balance between human and livestock populations and the resources of land are fully aware of their technical objectives. But with good reason, they express fierce impatience with the politicians of all ideologies and their administrators, who are still living in a less dangerous past—fondly believing that they may follow their old habits and practices, now so grossly anachronistic.

Recent decades have seen some change in outlook. With the rise of internationalism, countries at least go through the preliminary motions of working together in the UN, its specialized agencies and other global and regional groups in many fields of common endeavour. But too many think that they can still safely indulge in selfish domestic politics and in the promotion and export of inflexible and already antiquated ideologies, combined with appropriate violence, disruption and chaos, so greatly hindering programmes of development designed to obviate imminent nutritional and consequent social collapse. Not all countries are yet in such a critical situation, but the more advanced countries of Monsoon Asia fear that they will be dragged down again by the larger, more populous countries.

As long as the magnitude of the food crises had not become fully obvious, the specialized agencies of the United Nations and the bilateral aid administrations themselves worked in relative peace and quiet, with little sense of urgency or emergency. Ineffective regional conferences approved innocuous resolutions; "experts" requested by developing countries made specific recommendations that might or might not be acted upon; young people were sent to advanced countries for training, but upon their return went into better paid administrative jobs; complex laboratory equipment was provided, too often to lie rusting in the jungles or to remain under plastic covers as museum pieces of institutes. The idea in those comfortable days was that, without too much haste and effort, the production of food and other commodities in the developing countries would be increased sufficiently by modern techniques, to keep pace with the expected rate of increase of human population.

Import of Food

Gradually, it became apparent that these well-meaning, costly actions would not bear fruit fast enough; whatever increases in domestic production they may have created would now have to be supplemented by massive increases in the import of food, first from accumulated stocks and now from annual surpluses, frequently to countries with limited resources of foreign exchange. The world's conscience was awakened, particularly in the USA, and large amounts of food, admittedly primarily foodgrains to fill the bellies but not to provide balanced nutrition, began to follow the money, expertise, equipment, training and goodwill that were already flowing to the developing countries of Monsoon Asia. In fact, several of these countries regarded it as their right to receive bountiful aid while they indulged in political diversions which prevented maximum efforts to increase their own food production. The World Bank and the American aid organizations have done much to correct this misconception, by stressing that help will be given to those countries which show they can also help themselves towards achieving a more efficient, economically sound agriculture, and by making the subsequent year's aid dependent upon the current year's efforts. Mr B. R. Sen—Chief of the FAO—has stated that we need nothing less than an agricultural revolution in Monsoon Asia if targets are to be met in the coming years and decades, and that this will not be achieved without the political will to bring it about. Alongside this put U Nyun's statement to the Economic and Social Council of United Nations that in 1965 and 1966 the trend of economic progress of the ECAFE appeared to have come to a grinding halt.

But is the FAO itself really giving the leadership and sense of urgency that one would expect from a world organization? Some of the platitudinous recommendations from the Eighth Regional Conference for Asia and the Far East, Korea, September 1966, hardly support this view. Can the Director-General of the FAO tell us what proportion of all his budgets is devoted to Monsoon Asia? And when is the much-publicized Asian Development Bank going to get off the ground? Can it not increase the miserable allocation of 10 per cent of its budget to agriculture and food production? Great Britain's total aid budget is only £200 million per year, compared with a defence budget of £2,000 million; the allocation of this aid—half to Africa, one-third to Asia—bears no relation to population or urgency of need, and Great Britain is progressively withdrawing from its international responsibilities in Monsoon Asia.

Animal Husbandry

The Japanese have estimated that aid per head per annum is $2.5 for Asia, $5.00 for Africa, and $6.00 for Latin America. Dr C. P. McMeekan told the International Grassland Congress in Finland in 1966 that $250 million of World Bank money was for the improvement of animal husbandry and grassland and fodder production in the developing world; but only one project in Asia (in Japan) in a region crying out for adequate home-grown supplies of animal protein. Up to May 1966, 135 "identification missions" had been completed under the FAO/World Bank programme, but of these only 25 were to countries in the Far East region.

Nevertheless, 1967 began with U Thant's New Year message, to the effect that the problem of hunger already cripples the lives of millions, and that it will within a few years reach "unimaginable proportions". All thinking people must ask that, if possible, the word unimaginable should be defined more precisely. There is much talk of astronomical population figures —that the population of Monsoon Asia will double by 2000 AD, which means that by about 1985 it will be roughly equal to the present population of the world. The situation is difficult to grasp unless expressed in more concrete terms.

But it is not easy to obtain an accurate picture from the many conflicting statements and attitudes. Are the coming years and decades going to be as critical as many authorities claim, or are their statements primarily intended to obtain more support and funds for national and international projects from the "haves" on behalf of the "have-nots"? On the other hand, there appear to be equally frequent attempts to lull the well-fed and well-clothed people of developed countries into a feeling of false security. They are told what they want to hear, they find strong statements of the position in unfamiliar countries rather embarrassing and quickly change the subject. Provided their governments are endeavouring to give about one per cent of their national budgets for aid, and worthy charitable causes are well-maintained, their consciences are clear regarding crises which are sufficiently far away mentally and geographically. And in this they are supported by journals such as the 'Economist' (London) which stated (issue of 15-21 July 1967, p. 221) that "Attitudes to population growth tend to be emotional and psychological, much influenced by personal dreams, fears and predilections."

Even more obscure is the real situation in the developing countries themselves that face problems of current or impending hunger and malnutrition. There is too much wishful think-

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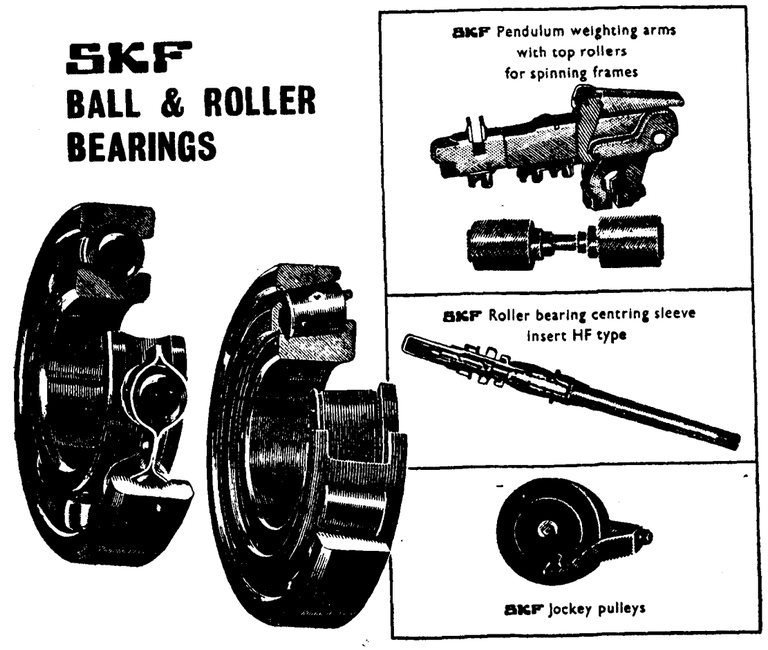

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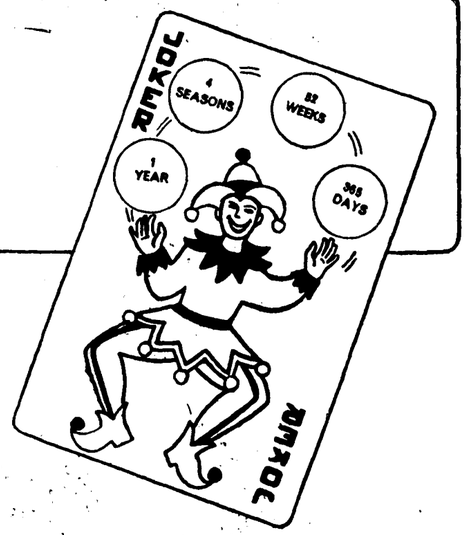

The ancients who invented the playing cards had a message to the player — a message concerning time. The pack signifies one year, consisting of 4 seasons, 52 weeks, and the 365 days represented respectively by the 4 suits, the 52 cards and the values of cards from 1 to 10 and the Jack, Queen and King with 11, 12 and 13 counts totalling 364, the Joker suggesting the 365th day.

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ing by competing sections of government and vested interests in the planning of projects, the definition of targets and the forecasting of future resources that will or may be developed, on the basis of inadequate statistics. Many countries show a considerable susceptibility in the matter of accepting aid and advice, particularly from "foreign experts", forgetting that the developed countries have reached their present condition through a willingness to learn modern techniques and processes from whatever source they may have been available. There is in developing countries a marked absence of self-criticism and a failure to admit human, administrative and statistical inadequacies. The true position with regard to food production and availability is too frequently masked by a wealth of confusing data of doubtful authenticity produced for reasons of internal politics, or of pride and prestige at international gatherings, or to show the supposedly superior merits of a particular ideology or economic system.

It is to Monsoon Asia, "the golden fringe to a beggar's mantle", that U Thant, B. R. Sen and the other world leaders are referring when they talk of the impending crisis. If we include the monsoonal part of Mainland China (and who can omit the 70 per cent who are rice growers and eaters out of a population of 800 million), the southern lowland parts of Japan, the insular and more maritime countries of Taiwan and the Philippines, and the equatorial islands of Indonesia, the region loosely termed Monsoon Asia now has between half and two-thirds of the world's population. Here we also find the greatest poverty, expressed in gross domestic product per head of population per annum. [in US dollars: Mainland China 56(?); India 78; Pakistan 86; Cambodia 111; Indonesia 127; Ceylon 129; the Philippines 134, compared with the USA 2790; New Zealand 1617; Australia 1533; France 1406; the United Kingdom 1361; Japan 589]. But here also life has so far been relatively easy as the climate calls for a minimum outlay on housing and clothing. At the same time it is not conducive to great physical effort for that increased production from the land is planned for the benefit primarily of urban dwellers by the administrators in their air-conditioned offices in the capitals.

Loss of Environmental Equilibrium

We are faced with loss of environmental equilibrium on a colossal scale, as between man and his domestic animals on the one hand and the land on the other—the "land" expressed in terms of its general types, systems and landscapes, its soil and water resources, its natural plant cover, productive and protective, and its potentiality to produce crops on cultivated land in systems of land use and farming that will not cause excessive erosion, flooding or general desiccation of the environment.

Up to a certain stage of land development, it is possible for the political economists and administrators to decide what shall be done in the way of economic development and then to carry it out. After a certain stage, the land becomes over-developed in relation to the human and livestock populations, and the factors of the environment, the ecological factors, then become dominant and decide whether well-made plans or political upheavals may or may not be contemplated with any hope of success.

There are many examples to show that Monsoon Asia has reached this latter stage—the end of Indonesian-Malaysian confrontation, the change of emphasis from industrial to agricultural development in the fourth Plan in India and the belated attempt to apply brakes to the Red Guard movement. One questions whether any of the countries of Asia, situated as they are on an ecological razor's edge, could afford to risk the major military confrontation to which U Thant has recently referred, let alone internal revolution and disruption of food production and distribution. Mainland China is likely to be anxious to join the UN when it can no longer feed its people—a pleasant prospect for the countries already straining their resources to feed present member countries.

But above all it is the will o' the wisp of human population that is the dominant factor, with some countries showing the high rate of growth associated with population explosion (in percentage per annum: Thailand 3.0; Philippines 3.1; Malaysia 3.2; Taiwan 3.5; Cambodia 3.6), while others [Mainland China (?), India (2.1) and Pakistan (2.1) in particular] may not yet have reached this stage. These are national figures as reported to and by the UN and to that extent are highly suspect. As Hongkong's Census Commissioner (K.M.A. Barnett) said, "In many of these countries, despite the World Population Census Programme, there had been no census (in India sample surveys), there was no registration of rural births and deaths, and even if these figures had been available, they were nowhere near enough know-how to deal with them." Obviously the real figures will be higher than those of the UN. As U Nyun said in Sydney in Australia in September, 1967, the population of the ECAFE region is growing at 32 million per year, creating ever increasing problems in respect of food, housing, schooling, clothing and transport. But due to inaccuracies in the 1961 Population Census, some 10 million had not been accounted for in the statistical provisions of the ECAFE—in some cases villages had returned populations of males only.

Subsistence Production

Apart from sheer numbers, there is the predominance of subsistence food production and the lack of sufficient farming incentives, the comparative poverty making for low purchasing lower (how can the 60 per cent of families in India with incomes of less than Rs 100 per month pay a rupee or more a day for a litre of milk), the high percentage of young people (more than 50 per cent of Asians under 20 years of age), and the general trend towards the cities. We are told of Indian cities of the future having populations of fifty million. Is there a limit to the number of people who can be governed effectively as a national or urban unit? At what stage does economic and political deterioration set in and a country become "ungovernable"? Changes are coming so thick and fast that the planners are having to race intellectually to keep up with a constantly changing reality.

BBC commentator Anthony Lawrence said recently on

The Prime Minister hopes the storm over our tea problem will blow over—Report.

Hongkong radio: "The challenge of hunger must gradually come to dominate Asian politics..... It has been left too late. Evidence suggests starvation of millions is inevitable. Hunger is political dynamite..... As the "have" nations' surpluses decrease —as they have already done—so their influence will decrease .....Agents of rebellion can exploit poverty. Containing an abstraction like communism will become meaningless—Vietnam a mere sideshow. Influence will be gained by those able to bring the most persuasive message of hope—so far the communists have had the best techniques."

Now, immediately, while there is perhaps still time, the non-communist countries of Monsoon Asia must get together in a co-ordinated effort with the aid-giving countries and not only with the United States (which must be getting near the limit of its aid-giving potential) and Japan. How long can the European Common Market (EEC), with or without Britain, expect to be able to hide its eyes behind its curtain of complacent self-sufficiency, unaware of the millions of malnourished watchers at the window? The EEC should have a special division concerned with aid to Asia, if only as an insurance against collapse in another region that would seriously affect the EEC's own stability and standards of wealth and living, that many consider to be disproportionately and dangerously high in a global context. Concurrently with these efforts to stem the flood, it is essential that a group of specialists in different disciplines make a thoroughly objective study of such communist statistics as are available or may be assumed from earlier records. This will certainly take away the romantic appeal from a secret system that depends for its success on fostering the false hopes of the underprivileged and uneducated poor.

But can plans for agricultural development be carried out in the same way as for industrial development? Certainly it is possible to utilize funds in five-year or other plans for the provision of physical materials—field machinery, pumps and other equipment for irrigation, materials for the control of pests and diseases, and equipment for the dairy or poultry industries. But how does one use funds to make cultivators work harder and more efficiently, living as they do in relatively favourable conditions of climate on the one hand, and in unfavourable conditions of inertia-sustaining poverty and poor nutrition on the other? If all measures and techniques are applied to a particular crop and one obtains, say, 100 per cent increase in yield, will not 50 per cent of that increase come merely from better standards of cultivation, from the hard work of the cultivator and his family, day in and day out, and 50 per cent from fertilizers, better varieties, irrigation, pest and disease control, and other expensive measures?

Telescoping the Revolutions

Authorities in developed countries repeatedly exhort those in developing countries to apply the known principles and techniques of agricultural improvement. Sir Joseph Hutchinson of Cambridge University, England, told the British Association for the Advancement of Science in 1966 that it is wrong to think that the high productivity of the soils of western Europe and Britain is due to inherent high quality and potentiality. Agriculture there also began with shifting cultivation. The inefficient exploitive types of settled agriculture of the Middle Ages could be matched in land use and crop yields by the exploitive low-standard agriculture of much of modern Asia. The stages of subsequent advance in western Europe were marked, first by land reform, and then by fertility conservation, followed by fertility improvement and mechanization. In developing countries, says Sir Joseph, the same order of improvement has to be followed, although these successive revolutions could—and should—be telescoped. In effect we are asked to achieve by revolution, in 10, 15 or 20 years in Monsoon Asia (which is all the time at our disposal), the standards that were reached in Britain and western Europe by slow evolution over the centuries.

It is doubtful whether the ambitious schemes for family planning can have much effect during the next two decades, with or without ecclesiastical sanction. It will take years for U Thant's 5-point programme of July 1967 to have any marked effect. In India the union Health Minister's proposal (ratified by all but two state chief ministers) for compulsory sterilization of males with 3 or more children receives support even from those who dislike the whole concept of interference with individual freedom such as Mr G. D. Gadgil ('Times of India' July 30, 1967) "..... in a situation so desperate punitive measures and even compulsion seem to me entirely justified". But the opposition, even from enlightened quarters within the country, is formidable: "What right has any government to lay down the size of a family?..... there can be no question of compulsion here" ('Hindu' Weekly Review, July 24). Religious and ethical disapproval from less well-informed sources outside India is therefore scarcely surprising: "..... a monstrous interference with human liberty, depressing evidence of an ugly trend in India's politics" ('Far Eastern Economic Review', August 3, 1967); "a mutilation of human beings" (Roman Catholic Archbishop-Elect of Melbourne, James Knox, July 29, Sydney). But with one qualified doctor per 50,000 of rural population, abortion, even if liberally legalised, could be no solution when 80 per cent of the population lives in the villages. Women cannot be relied upon to take the contraceptive pill regularly, and its cost to India would in any case be prohibitive. Workers in clinics report that only a limited proportion of applicants for the IUCD are in a condition where it may be administered, and of these, many subsequently request withdrawal for various reasons. The union Health Minister's courageous proposal therefore appears to be the only short-term solution: sterilisation must by some means be made acceptable.

Intensified Agriculture

There are no vast reserves of potential cultivated land awaiting reclamation from its natural state, although Burma and Thailand, on which so many countries depend for their rice, think they have sufficient potential for increased rice production to make population control unnecessary—Thailand boasts of a future population of 100 million. The greatest increase in crop area will come from cropping over two or three seasons per annum in place of one, by liberal provision of irrigation facilities. Crop yields may be increased by intensification of agriculture, greater use of artificial fertilizers (but the present fertilizer programme in India is intended to supply fertilizers only to the best land, which is less than 10 per cent of the total 350 million cultivated acres), improved crop varieties and control of pests and diseases in standing crops and stored grain. But from 1961 to 1965, the rate of growth of agricultural production has been around one per cent per annum with the population growing at over 2 per cent; a growth rate of 3-4 per cent per annum compound in Asian agricultural production is the minimum required between now and the end of the century. The position may be summarized as persons per hectare of paddy in 1965, and in 1985 and 2000 AD, assuming continuation of present population growth rates, with paddy areas and yields and standards of nutrition at 1965 levels:

	Persons per hectare of paddy		
	1965	1985	2000
China (Mainland)	25.6	39.6	54.9
China (Taiwan)	16.1	32.0	52.6
Hongkong	422.7	908.4	1612.7
India	13.7	20.9	28.5
Indonesia	13.8	37.5	44.1
Pakistan	10.7	16.2	22.1

If people were hungry in 1965, what will the position be in 1985 and 2000 AD?

The terms hunger, starvation, famine and malnutrition need to be defined in the context of Monsoon Asia. There are three gradations in standards of nutrition, with diets:

A. Adequate in quantity and well-balanced in quality, particularly in terms of the ratio: carbohydrate/protein/protective foods, and in the types of amino acids in proteins.

B. Generally adequate in quantity of carbohydrates, but low in total protein intake, particularly of the important amino acids present in animal protein from land or sea.

C. Inadequate in quantity and grossly inadequate in quality.

If we accept human rights for a minimum ration of essential nutrients as a basic objective, the global resources of these foods must be divided, item by item, by the global and regional populations in relation to their dietary customs and preferences. The amounts of dairy and poultry products available per head of global population, for example, may not even be sufficient to supply an effective amount of animal protein in the individual diet, except where fish is an important item. We are forced to conclude that all men may be equal but that some (or most?) must remain nutritionally less equal than others. To base nutritional policy upon equal and sufficient shares for all of energy foods and proteins of vegetable and animal origin remains an impossible objective on a worldwide basis, in the absence of any dramatic breakthrough, such as the mass production of high-quality, cheap, palatable protein meal from fisheries or the waste from oil refineries. It is difficult to produce animal protein on land in sufficient amounts in tropical latitudes, and it is more costly than foodgrains. There is urgent need for regional and national protein policies evolved with the guidance of the appropriate UN agencies.

Higher Survival Rate

Sufficient protein of correct composition will greatly reduce the widespread incidence of malnutrition. This will lead, among other things, to a higher survival rate of children per thousand births, and so to a population explosion that may well eliminate any progress made through family planning.

A nutritional slide rule could be designed, subdivided into 100 percentage points in each, into the three gradations defined above, A, B and C. Most developed countries fit largely into sector A. Some say that 15 per cent of the population of Great Britain and a certain percentage of the poorer sections of the community in the USA fall into sector B, poverty with considerable malnutrition. Others say that the British public as a whole is consuming five times the amount of food that it requires, and that reduction of individual weight is the main problem. The critical countries of Monsoon Asia range from sector A for the minute favoured percentage of their populations receiving an adequate diet, down through sector B and well into C. Most national and international efforts are rescue operations, designed to prevent even more people from slipping over the lower threshold into sector C, hunger combined with malnutrition. The situation is such that cynical politicians and their technical specialists are performing a mammoth confidence trick, telling the hundreds of millions of ordinary people for whose welfare they are theoretically responsible that their hunger will be averted by a daily handful of rice or wheat grain. They do not publicize what balanced nutrition would really mean in improved health and vigour, and how impossible it is to achieve, particularly when these same countries are exporting cattle feeds or livestock products to gain foreign exchange for purposes other than human feeding.

The time factor must govern all policies. In the forties and fifties of this century, things were not done which should have been done. Now in the sixties, when it may already be too late, action is not being taken, particularly by Asian countries, with sufficient energy and urgency. And this has been the most significant period which will decide what really happens in the three remaining decades of this century.

One becomes overwhelmed by the significance of the term: **too little and too late.** Think how long it takes to plan and to get into operation all the factories that the Asian region requires to produce fertilizers, pesticides, agricultural machinery, transport, irrigation equipment and other inputs of development of land and agriculture; how long it will be before the region can pay for them; how long it takes to produce new crop varieties adapted to varied environments, systems of farming and types of human nutrition and how long it will take to multiply and distribute sufficient seeds. Think how much longer it would take to breed milch bovines and chickens in sufficient numbers, and to establish efficient dairy and poultry industries if they are to have any effect on the average standards of human nutrition. Think above all how long it will be before the rural food-producing communities, which are now the chief sufferers from hunger, bad water supplies and especially malnutrition, will be correctly fed, so that they may have the physical and mental energies to produce more for their own subsistence and the urban and industrial populations.

There are ample statistics available from UN agencies and the US Department of Agriculture for the projections which are essential to avoid serious mistakes now. More data will come from the FAO Indicative World Plan. These exercises will bring those who have to live and work in the critical decades face to face with the realities of the developing situation.

The US Science Advisory Committee has given its own projections into the future, with regard to food production in the general context of economic development and foreign aid. The committee finds that by 1985 the world will need 52 per cent more calories with present growth rates of population, or not less than 43 per cent more even if one takes the most optimistic view of family planning. After the next 20 years, which are assumed to be the most critical, the years following 1985 are expected to be more bearable as family planning begins to show results.

Realistic Planning

May we with any confidence hope that policies and actions can be rapidly evolved on a basis more of aggressive hope than of despair; more realistic planning and execution than wishful thinking in administrations, less academic escapism to the ivory towers of pure science? Can we expect the countries of Monsoon Asia to realize the situation that faces them and to set aside all irrelevant activities—a moratorium on party or ideological policies and expansionism, self-interest and nationalism, corruption, the playing on the religion and superstitions of an uneducated electorate? There are a larger number of children dying in North and South Vietnam because of malnutrition and contaminated water supplies than because of the war.

Surely enough experience and goodwill for a constructive and feasible plan of action can be provided from the region itself, combined with that already available from the UN and its specialized agencies, from bilateral aid authorities, and from Foundations such as Rockefeller and Ford. Financial, technical and food aid must continue, on a top priority basis for Monsoon Asia, in the confidence or hope that the ultimate recovery of stability will be achieved in time to make that aid redundant. Already we see a change from spontaneous aid to the next stage—mandatory aid. If the British Government were given a mandate to set aside a fixed proportion of the national income, this would invigorate those British farmers who are uneasy at the thought that their higher efficiency might defeat them by leading to the production of food no one can use!

What if victory in this greatest of all wars, that few know how to fight, does not come in time? Already we have the Geneva 1967 agreement whereby the rich countries other than the United States agree to supplement massive American aid by the annual provision of 4.5 million tons of foodgrains. However, in a world which can no longer accept mass hunger and particularly malnutrition, the populous underfed nations will around 1985 by majority vote in the UN Assembly introduce global rationing of the basic necessities, all foodgrains and dairy and poultry products, to be operated by an international food directorate on an economic system still to be worked out. These nutritional sanctions applied to all, but especially to the developed nations, will provide for equal standards at the lowest common denominator, and may ensure that everyone will have a very dull if socially honest diet and life.

FROM THE CAPITAL'S CUPBOARD

A Shiploa d of Scandal

THE SHIPPING Corporation of India (a Government of India enterprise), it appears, has gone and bought a pig in a poke and—to change the metaphor—the swine has turned out into a canine. In other words the Shipping Corporation has been sold a pup.

One of the Corporation's cargo vessels, acquired sometime ago, has been idling in the docks at Philadelphia, USA, for the last several months, unable to undertake even its first assignment under the Indian flag. This ship has been bought from a Spanish source for a sum stated to be Rs 55 lakhs. It appears that it already has 18 years of sea-faring to its credit as against its estimated working life of about 27 years. More important still, the manufacturers for its M.A.N. engines have discontinued manufacturing spares or replacements with the result that, when its lack of sea-worthiness was at last discovered in Philadelphia at the time of the loading of cargo, it promptly became clear that its "salvage" was going to be a difficult and expensive operation. The Shipping Corporation's chief engineer, it appears, flew out to Philadelphia recently to take stock of the situation. A Norwegian expert was also called in for consultations. The chairman of the Shipping Corporation is expected in Philadelphia too. Meanwhile it is estimated that over Rs 20 lakhs of foreign exchange may have to be spent on repairs before the ship is enabled to put out to sea. It is important, obviously, that a decision should be taken early possibly about the Corporation cutting its (and the tax-payers') losses. It is not less important, either, to find out why the purchase of this ship was at all made in the first place and who were responsible for a transaction which seems to have been more than merely foolish or irresponsible.

WORKING CLASS COST OF LIVING

The recent controversy on the payment of increased dearness allowance to central government employees brought into sharp focus the persistent uptrend in the cost of living of the working class in our country. In this connection, the following data regarding the increase in the cost of living in India and several other countries, among them two of our next-door neighbours—Ceylon and Pakistan—and two from among the pace-makers of the world economy—the United States and the United Kingdom—make an interesting reading.

ALL-INDIA AVERAGE CONSUMER PRICE INDEX FOR WORKING CLASS ALONG WITH CONSUMER PRICE INDEX FOR CERTAIN OTHER COUNTRIES

(Base : Shifted to 1949=100)

Year	India		Pakistan		Ceylon	UK	USA
	General Index	Food Index	Karachi	East Bengal			
1950	101	101	96	95	105	103	101
1955	96	92	106	90	110	135	112
1960	124	126	128	119	113	152	124
1965	166	172	146	140	123	183	132
1966	184	190	156	145	122	190	136
1967							
April	202	213	166	154	123	195	139
May	206	218	166	154	124	194	139
	(181)	(187)	(154)	(140)	(122)	(190)	(136)
June	211	227	NA	NA	NA	NA	NA
July	213	NA	NA	NA	NA	NA	NA
	(188)	(195)					

The figures in brackets relate to the corresponding month in 1966; NA means "not available."

The data reveal that the increase in the cost of living in this country has been the sharpest since 1955. The workers in the United Kingdom too have suffered a considerable rise in their cost of living but those in the US, Ceylon and Pakistan have been subjected to a much smaller sacrifice. Another interesting feature thrown up by the above data is that whereas the uptrend is nearly petering out in Ceylon, the United States and the United Kingdom (cost of living in these countries today is only marginally higher compared to last year), the increase in the cost of living even in Pakistan is much less compared to ours. The above data should obviously make planners and the government sit back and ponder over the fast deteriorating situation in our country. What is needed is a concerted action to check the drift. The US, the UK, Ceylon and even Pakistan experienced a substantial increase in the cost of living between 1960 and 1965 but they have been able to arrest the uptrend, at least to some extent.

CAUSES OF THE RECESSION

Here are extracts from a study of the problem of recession by the Development Commissioner of the Ministry of Industrial Development:

"The current recession is not on account of over-production but is mainly on account of fall in demand. The fall in demand for goods especially engineering is due to the pruning of and the delay in the finalisation of the fourth five-year Plan and curtailment of the railways' programmes and other projects. Inflation has forced the government to cut back investment expenditure all along the line for the second year running. Since the urban consumer is left with less to spend after paying exorbitant prices for food, industry has been badly hit. It is estimated that out of 400 industries listed in the official statistics, 133 registered a fall in production last year and the situation has worsened since. The hardest hit are industries depending on government orders. For example, the cut in Plan expenditure of the railways has been reported to be 33 per cent or even more. This has had far reaching adverse effects on the industries which have been supplying structures, parts of railway wagons etc."

INDIA, YUGOSLAVIA AND U.A.R.

The Working Group consisting of the representatives of our country, the UAR and Yugoslavia, which met in New Delhi recently, has recommended that the governments of the three countries should take a decision as quickly as possible on a common model or models of automobiles in order to make the co-operation in this field fruitful. The Working Group was constituted in pursuance of the decision of the economic ministers of the three countries, who met in New Delhi in December, 1966, that the possibilities of increased tripartite industrial co-operation should be examined.

Pending a decision on a common integrated car project, the Working Group has suggested that a beginning should be made with trilateral co-operation in the field of ancillaries. Since our country is manufacturing Fiat 1100, Yugoslavia Fiat 750 and 1300 and the UAR Fiat 150, there is considerable scope for a fruitful division of labour. The Working Group has proposed that a joint study by technical experts of the three countries should be undertaken to determine, before the current year is out, what automobile parts and components can be economically manufactured in each of the countries and to work out a production and supply programme to fulfil each other's needs. It also urged that the three countries should draw up a joint programme for the export of the products of the ancillary industries to fourth countries.

END OF THE LANE

The Board of Trade which the former Commerce Minister, Mr Manubhai Shah, built up as a major forum for discussion of export programmes and policies by various interests will soon lose its separate entity. It is to be merged with the Export and Import Advisory Council for which a new name is to be given because of this accretion. The Board will hold its last meeting on October 3 when it will review the export performance and the effects of the agreements reached under the "Kennedy Round" on India's trade.

Meanwhile, the Commerce Ministry has done an exercise with a view to making the import policy more export-oriented. Broadly, the proposal is that actual users who are not in the priority category should be allowed, in addition to their normal import replenishment, some imports if they export their products beyond a certain limit. The 59 priority industries are already allowed to import their full needs of raw materials, components and spare parts, but they may also be given marginal increases in imports if they export over and above the prescribed limit. The financial implications of the scheme are being examined.

DIFFERENCE IN PURCHASE AND SALE PRICES

When the state governments should be striving their utmost to hold the prices of foodgrains in check, curiously enough they do things which make them move upwards. The high incidentals which some of them charge on both imported and internally procured grains account for the wide difference between the purchase price and the price at which they are ultimately sold to the consumer. The Food and Agriculture Ministry in a note to the state governments says that "this margin is indefensibly large and will, in the long run, bring discredit to state trading or the co-operative movement". It has cited an instance where jowar was purchased by the procurement agency in a state at Rs 52 per quintal and was sold in fair price shops at over Rs 72 per quintal. Urging an immediate review of the incidental costs, the Ministry has suggested to the state governments that they should reduce the number of agencies that are operating from the stage of purchasing the grains till their sale to the consumer. The Ministry has also informed them that a similar review in respect of the operations of the Food Corporation of India (FCI) has been undertaken.

The Ministry has also admonished some of the states for jacking up procurement prices beyond the incentive price level. In three states, sharp ad hoc increases in the procurement prices were made during the past three months. The Ministry says that in view of the impact that food prices have on the cost of living and the imperative need to hold the price line, the states must take particular care "to ensure that there is a proper balancing of the interests of the producer and the consumer". Since the procurement prices fixed during the last two years provide for an incentive element, it has advised the states against any upward revision of the procurement prices. In fact, it has urged that the ad hoc price increases that were granted by some states should be withdrawn. The Ministry has impressed on the states that in the event of the single state zones continuing, "some rational relationship between procurement prices of contiguous regions needs to be established."

In its note, the Ministry has defended the operations of the FCI. Agreeing that the FCI has not been able to function in the manner intended, it says that this is primarily because of the drought during the last two years. The Ministry, however, visualises a positive role for the FCI with gradual improvement in the food situation in the coming years. It says: "Some state governments have viewed the Corporation with disfavour, either because of lack of full appreciation of its proper role or on account of its higher costs or because it seeks to replace local agencies either of the state government or in the co-operative sector". It hopes that there will be better appreciation of the functions of the FCI by the states soon, dispelling their "antagonism and suspicion".

INDUSTRIAL FINANCE CORPORATION OF INDIA

5¾ PER CENT BONDS 1979

PAYMENT OF INTEREST & REPAYMENT OF PRINCIPAL GUARANTEED BY THE GOVT. OF INDIA

AMOUNT OF ISSUE: Rs. 8,00,00,000

Issue Price Rs. 98.00 Per Cent

REDEEMABLE AT PAR ON THE 16TH OCTOBER, 1979

The Bonds are approved securities under the Indian Trusts Act, the Insurance Act and the Banking Companies Act and are also eligible for grant of advances to Scheduled Banks by the Reserve Bank of India. They are on the approved list of securities of the State Bank of India.

Subscriptions will be received from the 16th October, 1967 to 21st October, 1967 both days inclusive at the branches of the Reserve Bank of India at Bangalore, Bombay, Calcutta, Madras, Nagpur and New Delhi, in the form of cash/cheque or 4½% IFC Bonds 1967 due for redemption on the 25th November, 1967. The list will be closed without notice as soon as the total cash-cum-conversion subscriptions amount to about Rs. 8 crores, and in any case, not later than the close of business on Saturday, the 21st October, 1967. The Corporation reserves the right to retain subscriptions received up to 10% in excess of the sum of Rs. 8 crores.

The Bonds will have a currency of 12 years and will be repaid at par on the 16th October, 1979. They will bear interest at the rate of 5¾% p.a. from the 16th October, 1967. Interest will be payable half yearly on the 16th April and 16th October and will be subject to tax under the Income-tax Act 1961.

Conversion terms: 4½% IFC Bonds 1967 due for redemption on the 25th November, 1967 will be accepted at par in payment of subscription to the 5¾% Bonds 1979. If the cash value of the 4½% bonds, 1967 tendered for conversion is not an exact multiple of the issue price per cent of 5¾% IFC Bonds 1979, the tenderer will receive in cash at the time of issue of new bonds the amount by which the value of the bonds tendered exceeds the nearest lower multiple of the issue price. Interest on the 4½% bonds, 1967 tendered for conversion will be paid at the stipulated rate of 4½% p.a. up to the 15th October, 1967 at the time of issue of new bonds.

Copies of the prospectus and application forms can be had from the offices of the Reserve Bank of India as also from the Head Office of the Corporation at Burmah-Shell House (Annexe II), Connaught Circus, New Delhi and its Branches at Liberty Building, 8-Marine Lines, Bombay-1, 23-Rajendranath Mukherjee Road, Calcutta-1 and Dev Raj Mansion, 123-Mount Road, Madras-6.

Arrangements will be made for listing of the Bonds at the Bombay, Calcutta and Madras Stock Exchanges.

Brokerage will be paid at the rate of 6 Paise per Rs. 100/- to recognised banks and brokers on allotments made in respect of applications for the Bonds bearing their stamp.

NEW DELHI
Dated: 20th September, 1967.

N. D. NANGIA
CHAIRMAN

WINDOW ON THE WORLD

Investing in India—I

THE EDITOR

PHILADELPHIA:

NOW, AT the start of my sojourn in the United States, I may perhaps put down the impressions gathered during the four weeks spent in western Europe, Britain and Canada of the attitude of foreign capital in those parts of the world towards investing in India. It may be said at once that there is a continuing and considerable interest among entrepreneurs, financiers and governments in exploring profitable opportunities of business in terms of our plans for economic expansion in agriculture and industry.

Much would depend, however, on the courses which domestic economies may take in the investing countries. In West Germany, for instance, it is very much a question of when the expected upturn in economic activity would come about and how fast it would progress when it does. Forecasts to-date have tended to be rather optimistic and the date set for the good news has had to be shifted further more than once. At the time of writing, it appears that the anticipated recovery will at last be an actual process by the time the current year is ready to be rung out.

Meanwhile it must be emphasized that in West Germany itself there is little disposition to exaggerate the downturn in the domestic economy which seems to have made such big news in the rest of the world. The reason partly is that even in the Ruhr, where are concentrated some of West Germany's highest paid workers and where rationalization of production in the coal industry has led to a certain amount of retrenchment of workers, there has been no serious depression of communal purchasing power because of generous unemployment payments and benefits. Unemployed workers still drive down in their cars to receive their cheques. One result is that consumption of food and other consumer goods is being maintained at high levels, although the slump in the sales of semi-durable or durable personal or household equipment, which has been among the outstanding features of the West German recession, has gone deep enough and is still persisting. Worker families, whether in the Ruhr or elsewhere, are not going to think of replacing the television set or even changing the curtains before the outlook for job stability at high and rising wages begins to clear up.

A Tandem Movement

At sophisticated levels of experience, the view most generally held in West Germany is that the current process of readjustment is doing the economy, by and large, a world of good. In this context, it is pointed out that there appears to be something like a tandem movement in the broad pattern of west European economy, with individual countries being called upon in turn to discipline themselves for changing structures of equilibrium. The experience of Italy is recalled here as a reassuring precedent. In West German terms themselves, the view is expressed in industrial circles that the spell of uncertainty about jobs, wages and profits has administered a much-needed jolt to both labour and management and shaken out complacency about productivity levels. It is suggested, for instance, that the coal industry is already profiting by the closing down of marginal operations, a step which, in the opinion of many, whether in the industry or outside, should have been taken without those concerned having waited for a reminder in the form of the recession.

Another area of national economic management where the recession is praised for having induced greater realism is government finances. The prospects of a huge federal deficit which could be as large as DM 64 billion in the period from 1968 to 1971, unless measures were taken to reconcile expenditure more effectively to revenues, has had a sobering impact on all sections of the community so much so that the federal government's proposals for additional taxation have been received with almost a feeling of relief even in the business community which regards the imposts as a reasonable price to pay for assuring stability and non-inflationary progress for the economy. The scheme for additional taxation envisages a surcharge of three per cent on corporate taxes as also on taxable income over DM 16,000 in case of individuals and DM 32,000 for joint income of husband and wife. It also proposes the replacement of the existing sales tax or turn-over tax by a new "added value" tax which is partly a measure of fiscal reform but mainly a revenue-raising move. Although these additional fiscal burdens have been proposed at a time when there is a down-turn in the economy, they will go into effect only in the new year by which time it is believed that recovery will have set in.

Package Deal

The new taxation naturally forms part of a package deal. The government, for its part, will take steps to "save" money to the extent of about DM 30 billion over 1968-1971. The cuts in expenditure will range over the entire government spending including defence. However, lest the combined impact of additional taxation and curtailment of government spending holds up the process of recovery, the federal government is planning to inject over DM 5 billion in 1968 into strategic sectors through projects designed to stimulate, in particular, the capital goods industry with orders for a wide variety of transport and communications equipment.

It is important to note here that these budgetary policies are being framed on a three-year basis, the significance of this being that West Germany is now opting for something like an anti-cyclical middle-term finance planning. Whether it is a prelude to a revision of Dr Erhard's philosophy of a free market economy it is too soon to say, but West Germany is in all likelihood on the threshold of a period of some direct regulation by the government of at least the broad forces and courses of the economy. This development seems to enjoy the support of West Germany's leading bankers. What is more interesting, however, is that it does not seem to alarm unduly the industrialists. On the contrary, many of them argue that had only Dr Erhard been persuaded to think in terms of a "perspective framework" of development for the basic industries, the present recession could have been moderated if not altogether avoided. It is argued in particular that it was a grave lapse in national economic management that no "fuel plan" was prepared for properly co-ordinating the programmes of the coal industry with the competitive supplies of mineral oil and the possibilities of nuclear power. While it does not follow that West German industry has been converted to the French or any other version of indicative planning, it would be safe to say that there is a dawning faith in a higher degree of "management" of the economy on the basis of consultations between government and industry.

Meanwhile the recession has not called a complete halt to expansionist ideas in West German industry. On the contrary, many corporate leaders are reasonably keen on new investment possibilities. Even Krupp, for instance, are putting their ship-building yards to work on new giant cargo vessels which it would be economic for the world's shipping industry to operate on the longer Cape route, although it is commonly assumed that Krupp's financial and managerial resources have been overstretched at least for the time being. It may be assumed, perhaps, that there is no particular pessimism either about activities abroad on the part of West German industry. It is in any case a fact that certain conclusions are being drawn from the large measure of strength and support which exports, including exports of plant and machinery, have given to domestic industrial activity during the current recession. The value of export outlets as a balancing factor seems to be greatly appreciated.

A question of some importance is whether West Germany will continue to pursue developmental aid policies vigorously. The UN target of one per cent of the GNP of the industrialised countries as their contribution of aid to developing countries applies, naturally, to West Germany. There is no reason to fear that the federal government intends avoiding the obligations implied in this target, although it would certainly be too optimistic to expect that the level of development aid will be stepped up until West Germany has resumed its economic expansion or Bonn feels that it has got the measure of its budgetary problems.

Of one thing, however, it is possible to be reasonably certain. As in the past so in the foreseeable future most of West German investments in India will continue to be undertaken by a small number of relatively large enterprises many of which are already well established in India one way or the other. It is regrettable but true that there is no real large movement among the smaller units of West German industry to invest actively in India. This may be due only in part to lack of capital surpluses among the smaller entrepreneurs. What is perhaps of greater importance is the very great resistance in the minds of this section of West German industry to help in the establishment abroad of production facilities for serving markets which it would much rather serve directly. The average West German manufacturer, in other words, is far more keen on selling his products rather than his processes. This explains partly why the office of the Indian Investment Centre in Dusseldorf could only claim to have assisted as few as 15 investment proposals (involving foreign equity participation of the equivalent of Rs 7.9 million) which were finally approved by the Government of India. Quite obviously the future of this establishment will have to be reviewed in the light of the scope that may actually exist for exploring or exploiting the foreign investment possibilities of the relatively small entrepreneurs in West Germany or western Europe generally.

(To be concluded)

I: Taxation and Incentives

THE MARKET FOR HUMAN ABILITIES

LONDON:

'EASTERN ECONOMIST' periodically exhorts our readers to "work harder, produce more, save more". I have often wondered whether each time that 'Eastern Economist' publishes this exhortation the editor sends a marked copy to the Finance Minister with a note saying. "What are you doing to provide incentives to encourage our readers to act on our exhortation?"

This, in fact, is the biggest problem that faces finance ministers in all socialist, communist, and welfare states.

Incentives are inseparably linked to the level of taxation. Unfortunately, the debate is usually conducted in naive terms. Socialists proclaim that whatever the burden of taxes, entrepreneurs and executives give of their best because enterprise and management are their forms of self-expression. Supporters of free enterprise retort that once a certain level of taxation is reached, executives have no incentive to earn more money for the tax gatherer and prefer to take a longer weekend. There is, as I have said here before, an element of truth in both these assertions, but it concerns a tiny aspect of the real and much bigger problem, which is that when we discuss the effect of direct taxes on work, we are really discussing the working of the price mechanism in relation to human abilities. In a free market, the choice of a packet of tea depends on the interaction of the prevailing conditions of supply and demand. These conditions include costs of production, the quality of tea, the number and variety of alternative goods and services available to consumers, the prevailing distribution of incomes and the general state of credit and effective demand. Changes in price indicate whether the consumers want, say, more tea and less railway travel, more sugar and fewer radio sets.

Likewise, in a free market, the different salaries paid to executives indicate the value that current market conditions create for the services of different human beings, of infinitely differing personal abilities, doing countless different kinds of work.

A direct tax on incomes modifies the supply and demand for executives in the same way as a direct tax on radio sets or automobiles modifies the conditions determining their production and sale. Above a certain level, higher purchase taxes on cars will reduce their sales and divert consumers' expenditure to other goods and services.

I take the following examples from the experience of the UK but you have only to alter the figures to fit the facts of India, or any other country, to reach the same conclusions. Consider a British worker today earning (a) £1,000 per annum, (b) £8,000 per annum, (c) £13,000 per annum. At current tax rates, the £1,000 man pays seven per cent income tax, the £8,000 per annum man pays 34 per cent and the £13,000 man 47 per cent.

Since we live in an age of inflation and since income tax is steeply progressive, the man earning £13,000 per annum is likely to pay in five years' time not 47 but 59 per cent. In other words, under existing conditions in most industrialised, and in many developing countries, substantial increases in taxes on the services rendered by human abilities are automatic.

In the UK, £13,000 per annum is the average salary of directors in the top 100 quoted companies and, with the UK rates of inflation, the £13,000 per annum man must increase his salary percentage by about thrice the rate of inflation in order to preserve his income net of tax at today's buying power of £13,000. If the price level rises three per cent, he must get a rise of nine per cent to stay where he is. If he has ambitions for a good education for his children, or otherwise to increase his present expenditure, and to share (why not?) in the UK's average annual two per cent increase in real income, he will have to secure a 15 per cent rise every year, that is always assuming that income-tax rates are not raised still higher by some harassed chancellor scraping the barrel to find more money to raise welfare benefits or to subsidise an obsolescent nationalised industry such as the railways. What this boils down to is that, in the UK, the £13,000 a year man must double his income every eight years to stay put, and every five years to keep up with everyone else.

It follows that, in the UK, the net of tax real remuneration of anyone capable of earning a high salary is falling, and falling sharply compared with the mass of incomes.

Whether men will work less hard physically or mentally in these circumstances is a subjective question about which we can each have our own opinion. But if we put the ques-

II: Egypt's Problems

JOSSLEYN HENNESSY

tion in terms of the effects of changes in price on the supply of goods and services, we may find more objective answers.

If, for instance, motors are so heavily taxed that sales remain static or persistently fall, potential consumers are likely to divert their expenditure to other goods and services and car manufacturers will also divert resources to other enterprises. The effect of direct taxes on workers is the same as on goods: price changes re-allocate expenditure and workers between different employments.

II

THE EDUCATED LABOUR FORCE

We are discussing top executives and entrepreneurs. In the UK, these form part of the educated labour force, with university degrees or higher secondary educational qualifications. The first way in which taxes can influence the distribution of the educated labour force is between companies which offer (a) untaxed advantages and (b) non-tax-deductible disadvantages. To cite extreme contrasts: an executive may prefer a secure job in a financially sound, and perhaps gently expanding, company. On the other hand, there must always be a good number of companies in all countries battling with serious financial difficulties, which offer the executive anxieties, insecurity and risks which may jeopardise the whole of his remaining career. The safe company offers attractive untaxed advantages, the second substantial non-tax-deductible costs to anyone courageous enough to attempt its rehabilitation.

Now, here is an interesting and relevant fact: in the UK, it was until 1966 possible to find executives ready to assume the risks and anxieties of a company in a bad way. It was possible because, until then the US system of stock options was legal in the UK. By this system, an executive receives as a gift a number of shares in the company, which he can sell when he wishes. Ex hypothesi, when he takes over a struggling company, the shares are worth little. He therefore has a tremendous incentive to use his imagination and to work like mad to raise their value. In the USA, if he sells his holding at a high price, he pays a mild capital gains tax, which leaves him net of tax substantially more than he would have received had he been paid the same amount by way of a salary subject to income-tax. It is thus possible in the USA for a salaried executive, who starts without savings, to become wealthy. It is, however, important to remember that if the US code of management discipline offers high rewards to the successful, it can inflict heavy penalties on the unsuccessful. All finance ministers should note that the US system of stock options, which amounts to a lightly taxed and highly discriminatory system of bonuses, is a clear example of how a finance minister can, if he wishes, manipulate taxation in order to provide incentives and to change attitudes to work and to innovation. In the UK, stock options are now subject to penal taxes with the result that companies on the rocks have difficulty in finding anyone willing to undertake a salvage job.

How does direct taxation distribute the educated labour force between the public services (civil service, local government, state education, etc.) and private industry?

Taxation apart, the content (except in applied sciences) of higher education in many countries, including the UK, predisposes most graduates towards the public services. Secondly, constant socialist sneers at the "profit motive", contrasted with the virtues of the "public interest", have contributed to lower the social status of industry and commerce. No one enjoys being held up to contempt at a "profiteer" living in the so-called "stock-broker belt" (an area of Surrey with expensive houses within commuting distance of the City).

These disadvantages would, in a free market, be countered by higher salaries for businessmen. Instead, the success of the public service trade unions in enforcing "comparability of salaries" between the public and private sectors has reduced the ability of private enterprise to compete for the best talent. The price mechanism has largely ceased to function in the allocation of educated labour between the public services and business. Some 40 per cent of all graduates enter the public services, and of arts and social science graduates the majority enter the public services.

The price mechanism has also largely broken down at the top end of the scale. The net of tax salaries paid to the top 80 British civil servants in 1965 averaged only £1,000 less than those paid to directors of the 100 biggest companies. Here we have one explanation for the almost daily complaints from political and trade union leaders about the "poor quality" of British management.

III

THE WORLD MARKET TALENT

There are, of course, able British graduates who have no wish to enter the civil service (central or local) or the educational services, and who seek their personal satisfactions in trade, industry or commerce. Fortunately for them, the English-speaking world—North America, South Africa, Australia, together with a world-wide patchwork of smaller units—is progressively becoming a single international market for professional abilities. That the increasing rapidity of communications contributes powerfully to enlarging this market was strikingly illustrated in a talk that I recently had with a young Australian now working in London (for the time being) with an international American company. When he mentioned that in the service of this company he would be moving between Canada, the USA, and Australia, I suggested that when he married the education of his children might present a problem. "They must have a definite nationality and a settled education in one country", I argued, "their education would suffer from constant changes of school or college." He replied: "I agree. I want them to be Australians and to be educated there, but with jet aircraft where's the difficulty? They can join me within hours in the USA for their holiday just as they could if I were living in Australia all the time."

Business schools are, moreover, standardising the training of businessmen, so that one trained in the UK or in the USA can hold down a job anywhere in the international English-speaking world.

The UK's high direct taxation erodes its competitiveness for talent. With identically comparable jobs in the size of company and position held, American executives get 90 to 140 per cent more than British. Hence the brain drain. This, incidentally, is increasingly at work in India where the "soak-the-rich" brigade is driving many of India's most able young men abroad.

The cost of the brain drain is usually reckoned as the cost of the education of the young emigrant. True, but the loss is far greater than this. Ex hypothesi the ablest and the most enterprising emigrate, and what is lost is the whole contribution of the rest of their working lives as leaders, innovators, reformers, non-conformists, and go-getters, which goes to enrich the GNP of another country. The actual numbers lost to the UK—and to India—may seem negligible, but the loss in quality and leadership is irreparable and the financial loss in wealth foregone is incalculable.

The foregoing argument leaves any socialist unmoved. "If you had your way", he says, "inequalities of wealth would spread and become greater. You would enable the few to become millionaires at the expense of the many who will remain poor." Very well, let us consider one or two millionaires of the past. William Morris (later Lord Nuffield) was the first British industrialist to grasp the possibilities of the assembly line. He brought down the price of cars (previously the luxury of the rich) to within reach of the masses. And his techniques, perfected by his successors, have remained the basis of car production. Alexander Graham Bell, the Edinburgh professor, invented the telephone and hearing aids for the deaf over ninety years ago. Thomas Edison, whose mother, a school mistress, gave him a book on physics when he was nine, set up a laboratory in the cellar of his home. His parents could not afford to buy him apparatus, so he took a job as a newsboy on the Grand Trunk Railway Line and persuaded a friendly conductor to allow him to experiment in the luggage van. Before he died he had patented over 1,000 inventions, including the gramophone (1877), the incandescent bulb (1878) which marked the beginning of the electric light industry in the USA and in the world, and a cinema camera (1883).

All these men made great fortunes but when their personal gains are set against the benefits of telephones, hearing aids, gramophones, electricity, cinemas—and the subsequent improvements and new inventions which derived from theirs'—that we continue to enjoy half a century or more after their deaths, the cost to us of rewarding them handsomely is negligible.

The evil of high direct taxation is that it actively discriminates against innovation, change and growth, and promotes acquiescence in the status quo. Conformity breeds stagnation.

Anybody who agrees with these arguments might do worse than send a marked copy of this 'Eastern Economist' to the Finance Minister in New Delhi. In my time in the old Imperial Secretariat when a letter was received addressed to an official by name and inscribed with the words "By name", it was against the rules for anyone else to open it. Try this. I'd be interested to know what reply you get.

II: United Arab Republic

The recent war with Israel and the stalemate which has followed the cease-fire have had grave repercussions on an already weak economy. An acute shortage of foreign exchange has been aggravated by further loss of revenue following the closure of the Suez Canal and of tourist income. In addition, the cotton crop, another major source of foreign exchange, is said to be threatened by insect damage. To strengthen the economy and to meet the shortage of income, an austerity budget has been introduced and development expenditure for the coming year has been severely curtailed.

The loss of revenue from both the Suez Canal (closed since the beginning of June), and from tourism, is estimated to amount to about £12 million a month. In 1966, revenue from the Canal alone totalled some £80 million, an increase of almost £10 million over 1965. However, although a major development scheme was in progress to deepen the Canal, the development of supertankers, too large for the Canal route, will reduce in the long-term the rate of increase in receipts—if the present closure should last for long, this trend may be speeded up. Over the past few years, income from tourism has been increasing rapidly, from about £15 million in 1962 to some £50 million last year. The government has already taken various measures to stimulate the industry, improving hotel services, constructing holiday villages and importing luxury tourist buses.

Even before the outbreak of war with Israel an acute shortage of foreign exchange had been causing serious problems. At the end of 1966 the UAR began to default on its debt repayments to the International Monetary Fund and a Fund mission visited the country to discuss the possibility of a renewed standby credit. The IMF approved of the way in which the UAR was tackling some of her problems, and it was reported that agreement was near on the introduction of economic reforms, including indirect devaluation by means of surcharges on imports and subsidies on exports of certain manufactured goods. It was also reported that the UAR has been repaying its IMF debt at the rate of $ 3.5 million a month and more recently that the IMF may be reconsidering the granting of a $ 60 million loan.

The loss of income has compelled the government to re-appraise its expenditure, and the recently announced budget for 1967-68 includes higher income-tax, in some cases by up to 50 per cent, increased taxes on many consumer goods (including cigarettes, soap, sugar, car and television licences), and a reduction in allowances for government officials. The budget has been balanced at £1,600 million including a deficit of over £30 million to be financed through the banking system. Revised expenditure is only about £20 million above the level of the last financial year but it includes some £50 million to be set aside for defence. Spending on development will amount to only some £200 million nearly £80 million less than the preceding year, but finance will be made available for major projects including the Aswan Dam and land reclamation. Cut-backs will probably be made in the service industries to allow investment in agriculture and manufacturing to be maintained. Earlier this year the government replaced a Second Development Plan with an 'Accomplishment Plan' which covers the years 1967-70, emphasising completion of projects already in hand and schemes that would bring quick returns.

Aswan Dam

The Aswan Dam, which should be finished by next year if not earlier, will be important to the economy. Hydro-electricity production will be 10,000 million kWh a year and the dam will irrigate over a million acres. Increased agricultural production is urgently required, particularly of foodstuffs, to feed the rapidly increasing population and to reduce imports of food, which are a heavy drain on the exchange reserves. Cotton and textiles account for about 50 per cent of total exports; earnings from cotton exports between July 1966 and June 1967 amounted to some £105 million, more than 10 per cent below the figure for 1965-66. Even so, a large proportion of the cotton crop is exported under barter deals with east Europe. This year, however, there has been concern about leaf worm damage to the crop. In 1961 the pest severely affected the crop, and this year lack of foreign exchange has hampered efforts to contain the threats. Rice, fruit and vegetables are also important exports.

Recent discoveries of several major oilfields may hold the key to economic growth. Last year the UAR was a net importer of oil to the value of some £15 million. Now that production has started at the Morgan oilfield in the Gulf of Suez, Egypt expects to achieve self-sufficiency quickly, and it is possible that it will be exporting oil to the value of about £30 million by 1968. Oil strikes in the Alamein and Qattara regions of the Western Desert also hold great promise. The Alamein field, in particular is near the Mediterranean coast for piping and shipping, and surveys of Qattara show the oil to be nearer the surface than at Alamein. American and Italian interests have been to the fore in these explorations. An Italian company has recently found natural gas in considerable quantities in the Nile Delta which will be of importance for future industrial expansion.

The sharp fall in imports which resulted in an improvement in the trade balance, was the result of severe import restrictions. Imports are now limited to essential food supplies and to spare parts and raw materials for factories contributing to the export drive. Opportunities for exporters to the UAR are likely to be somewhat limited. In May last the gold and foreign exchange reserves amounted to £50 million, a fall of some £10 million since May, 1966. Moreover, during this period some £16 million of gold reserves were sold in order to meet short-term debts.

A number of loans have been received, notably £25 million from Kuwait, to help the UAR through the present difficulties. In the long-term, however, large-scale foreign investment will be necessary to restore economic expansion. The development of the oilfields in the Gulf of Suez and the Western Desert holds great potential for the country's future, but in the short-term, until the Canal is re-opened and the political situation is re-

solved, the loss of income from the Canal dues and tourism is likely to lead to a serious deterioration in the economy.

Licences are required for all imports and there is an extensive list of prohibited goods. All imports must be made through authorised government controlled companies. Delays with payments are being experienced and, in view of the situation generally, a letter of credit of, or confirmed by, a London bank is advised.

Sources and acknowledgements: "Taxation and Incentives" is based on my notes of an as yet unpublished paper read by Professor A.J. Merrett of the London Business School before a recent Economic Seminar. Although we are in substantial agreement, Prof. Merrett is not responsible for the interpretations of, emphases on, and additions to, his facts and views. My report on the United Arab Republic is summarised from the latest bulletin issued by the Economic Intelligence Department of Barclays Bank Ltd. (54 Lombard Street, London, E.C. 3).

New Planning System in Bulgaria

P. VALKANOV

IN ORDER to understand the present state of the Bulgarian economy, it is necessary to know what Bulgaria was twenty-three years ago. Just after liberation in 1944, Bulgaria had no heavy industry, the size of the light industry was negligible and its agriculture was primitive. Within this span of time, Bulgaria has been able to build up its industry and has captured an important place among the industrially advanced countries of the world.

During the last five-year Plan (1960-65) alone the GNP grew at an average rate of 8.6 per cent per annum and national income by 7 per cent annually. The per capita income which stood at 571 leva in 1960 rose to 809 leva in 1965.

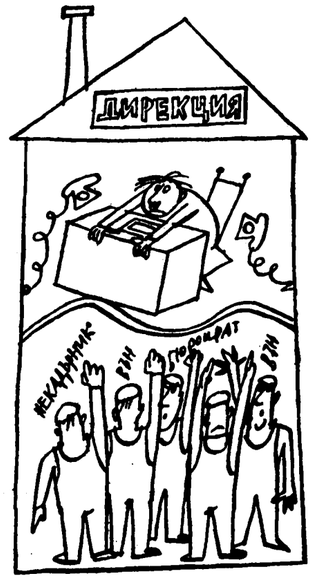
The growth of a country can hardly be confined to a particular sector; economic progress must embrace all sections of the economy. Notwithstanding the initial hardships which related to lack of sufficient funds for investment and absence of proper equipment and technical know-how, Bulgaria adhered to the scheme of building a heavy industry and with the generous aid received from the Soviet Union and other socialist nations, it was able to build an industrial base which is today 24 times as productive as that in 1939. Bulgaria today has its own steel industry and with the commissioning of the Kremikovtsi steel plant, it would be turning out over three million tons of steel by 1970. Its non-ferrous metal industry ranks next to that of the Soviet Union and the USA. It has made tremendous progress in the machine tool industry and its products are today exported to over 60 countries. Bulgarian transformers and other power generating equipment are sought after in the world market while the products of its heavy chemical industry such as fertilizers, sulphuric acid and soda ash are exported in large quantities every year.

Reorganisation of Agriculture

Another important factor which greatly contributed to the fast development of Bulgarian economy is the complete reorganisation of agriculture. What Bulgaria got in 1944 as a legacy of the past was an unproductive land parcelled into over a million tiny plots languishing in the age of the wooden plough. As a result of incentives and persuasion peasants gradually joined the co-operative farms which made it possible to introduce machinery in agriculture on a large-scale. Bulgaria predominantly being a rocky terrain, the total arable land is limited and, therefore, the only way left to increase production was to increase yield per unit of land. Logically inputs in agriculture had to be increased which came in the form of irrigation projects, increased quantities of fertilisers and greater use of machinery as well as introduction of new varieties of seeds. As a result record yields of wheat have been obtained in the country.

In recent years, the introduction of the new system of planning and management has largely contributed to acceleration of the economic development of the country. The gradual assimilation of the new system of planning and management of the economy, which began at the end of the fourth and the beginning of the fifth five-year plans is one of the most important measures taken by the government during the last few years. The new system is a result of the creative and scientific solution of the matured problems of our development, and Bulgaria has taken similar steps in solving a number of other problems such as industrialisation of the country and reorganisation of agriculture through co-operative farms without nationalising the land. The aim of the new system is to ensure quicker and more effective development of the productive forces, to increase social productivity of labour and on this basis multiplication of the social wealth, to meet the consumer needs of the working people and to raise the living standard of the people. All this is expected to be achieved through overhauling the administrative methods of planning and management.

The change-over to the new system was necessitated by the high degree of development of the productive forces which led to extensive quantitative and qualitative changes in the economy. The country changed over from the extensive to the intensive path of development of productive forces. The old system was based on the extensive path of development as a result of which Bulgaria succeeded within a brief historical period to build up a considerable industrial might and to solve many important tasks in the field of industrialisation and reorganisation



Economic reform is to encourage initiative from below: "Out with him!"

Courtesy: Sturshel (Sofia)

of agriculture. Besides, the changes also embraced the subjective factor. Great experience through all these years of development has been accumulating, the level of culture and consciousness of the working people have registered a marked rise and the number of specialists with high and medium qualifications has grown very fast. At the end of 1966 over 420,000 specialists with high technical qualifications were employed in the national economy which was five times higher than in 1950. They comprise about 10 per cent of the total working force engaged in the national economy. Reorganisation of the education system has made it possible for every student to obtain at least a vocational training. To this should be added the fast advance of the technical, natural and economic sciences which undoubtedly have a great share in accelerating the economic development.

The new system does not change the principle of democratic centralism in the economic leadership which always played an important role in our development, it only removes the excessive centralism, which translated into practise meant planning of everything 'from the top' by the higher authorities. Now the obligatory indices are: volume of production of certain basic items in bulk (while having in view mainly the production and distribution of deficient goods and raw materials); quantum of capital investments with categorised list of major projects and time fixation for putting them into operation; quantum of certain basic raw materials and other goods, the amount of exchange earnings from exports and the allotment of foreign exchange for imports. Together with this the direction and major tasks in the field of technical development are also set out. The economic enterprises and organisations to which these indices are related, are bound to include them in their plans.

Democratic Decentralisation

Decentralisation to this extent certainly leads to the extension of democratisation. Now the enterprises have the power to decide for themselves the basic issues, such as planning of the productivity of labour, wage fund, reduction of prices and the variation in the manufactured goods. The method of drawing up the state plans has also undergone change. Instead of 'from top to below' the principle of 'from below upwards' is being practised now. From the economic point of view this has a major significance for mobilising the working people for uncovering idle forces and for drawing up real and effective plans.

Together with additional autonomy the responsibility of the enterprises has also grown as regards the utilisation of economic resources to raise the productivity of labour, to raise the quality of goods turned out and to offer a competitive price. Under the old system contracts had but a formal meaning, and economic sanctions for non-fulfilment of contracts hit the state budget much more than the concerned enterprise. Under the new system contracts will not be made "under obligation" as before when the plan was the basis of contract, but on the basis of the interest of the enterprises, which in turn becomes the economic base of the plan. Under the circumstances the meaning of economic sanctions assumes greater significance because the consequences are to be borne entirely by the given enterprise. The new system accentuates the material incentive and responsibility of the enterprises and workers as the working wages are directly related to the ultimate economic performance of the enterprises. In this way the strict fulfilment of the contracts entered into becomes a responsibility of the whole production collective. These inter-relations naturally induce the enterprise and the workers to accept larger orders, to raise the quality of output, to reduce cost and to adapt quickly the achievements of science and technology.

All this unavoidably gave rise to new organisational forms of economic leadership. New economic trusts have been formed on the basis of branch management. Plants and factories which make up a trust are in most cases grouped into a branch, according to the technological similarity of the production process and their similar raw material base. Plants and factories which form a trust preserve their operational autonomy and function on a self-supporting basis.

The leadership of the enterprises and trusts is vested in the hands of production committees and economic councils which are elected bodies. At least half of the members of the production committees are required to be directly connected with production. The new system of planning and management has provided incentives to the industrial units and consequently to every individual worker. The performance of the industrial units closely follows the demand structure and a marked improvement of quality has already been noticed.

Considering Bulgaria's rate of progress both in the field of industry and agriculture and subsequently in other branches like foreign trade, social welfare, education, etc., the targets of the current 1966-70 five year plan are not ambitious. This will indeed be a period of intensive development of Bulgaria's economy. The national income is planned to increase by 50 per cent, industrial output by 70 per cent, agricultural production by 30 per cent, the volume of foreign trade by about 65 per cent and the real income of the people by 30 per cent.

The path of Bulgaria's economic development over the past two decades has not been one strewn with roses. Many hard battles had to be fought and won, but the guiding principles of socialist economy were never lost sight of. The take-off position in the field of economy has already been reached and, within the coming few years, Bulgaria will take its due place among the advanced industrial nations of the world.

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Trade Winds

HEAVY VEHICLES: PRICE CONTROL REMOVED

FOLLOWING AN improvement in their supply position, the informal price control on commercial vehicles above three-tonne capacity and jeeps has been removed by the Government of India. It has obtained prior assurances from manufacturers that they will not increase the prices of their vehicles for a period of 12 months or until a decision is taken on the report of the Tariff Commission on the automobile industry (expected by the end of the year) except when such increases are necessitated by factors beyond their control and subject to the government's permission. In respect of sale of vehicles to the Defence authorities, however, the manufacturers have agreed to obtain the government's approval to any price increase. Similar price control on light commercial vehicles, trucks and buses below eight tonne capacity was lifted in May this year. Simultaneously, the government has rescinded the four-year-old Commercial Vehicles (Distribution and Sale) Control Order, 1963, regulating statutorily the sale and distribution of commercial vehicles. Manufacturers and their dealers have been advised to continue to sell the vehicles according to priority lists of bookings at present maintained by the dealers. The manufacturers have also assured the government that even after decontrol they would accord the highest priority to the vehicle requirements of the Defence and Civil Departments of the central and state governments. The price and distribution control will, however, continue in respect of three-wheeler scooters as there is still considerable imbalance between dmand and supply of these vehicles. Till now the distribution of these vehicles was governed by the Commercial Vehicles (Distribution and Sale) Control Order, 1963. With the rescission of this control order, their distribution has been brought within the scope of the Scooters (Distribution and Sale) Control Order, 1960 which has been suitably amplified for this purpose.

L.I.C.'s PROGRESS

Viewed against the background of multitudinous difficulties of our economy during the last year the new business of the Life Insurance Corporation of over Rs 770 crores under 14.12 lakh policies as against Rs 798 crores under 15.61 lakh policies in the previous year could be considered satisfactory, said Mr M. R. Bhide, chairman of the corporation, at a press conference held in Bombay on September 15. He further mentioned that 9.91 lakh policies, viz, 70.5 per cent of the total number issued in India, were taken by persons insuring for the first time; 6.32 lakh policies, being 44.9 per cent of the total number issued in India, were issued under non-medical business schemes, assuring a total amount of Rs 176.15 crores; and business amounting to Rs 121.19 crores under 3.06 lakh policies was secured under the salary savings scheme. A little over five lakh policies, being 36 per cent of the total number issued in India, assuring Rs 217.22 crores were issued to people in the rural areas and 84.4 per cent of the total number of new policies issued in rural areas were first insurances. The average sum assured per policy during the year increased to Rs 5,456 as against Rs 5,110 in the previous year. About 69 per cent of the total number of new policies were issued for sums between Rs 1,000 and Rs 5,000. A new business of Rs 12.33 crores at post-devaluation rates of exchange was secured in the year 1966-67 in foreign countries, as against Rs 8.50 crores in the previous year. The total business in force as on March 31, 1967, was Rs 4,736 crores under 121.39 lakh policies as against Rs 4,394 crores under 115.89 lakh policies on March 31, 1966, marking an increase of 7.78 per cent. During the year the premium income went up to Rs 196.98 crores from Rs 179.76 crores in the previous year. The total net income for the year was Rs 272.39 crores. The Life Fund amounted to Rs 1,123.90 crores registering a rise of Rs 146.34 crores. The total assets amounted to Rs 1,247.54 crores as against Rs 1,099.99 crores as on March 31, 1966. The lapse ratio came to 7.4 per cent during the year as against 7.2 per cent during the previous year. The overall expense ratio for the year was 27.72 per cent while the renewal expense ratio was 15.91 per cent against 14.69 per cent in the previous year. The claims, including bonus additions, for the year amounted to Rs 63.39 crores. The percentage of outstanding claims as on March 31, 1967, to the claims intimated during the year was 30.5 per cent. The total investments of the corporation in India as on March 31, 1967, amounted to Rs 1,080.39 crores of which investments pertaining to life business were Rs 1,077.93 crores. The investments pertaining to life business in India alone amounted to Rs 1,051.62 crores; of this 73.4 per cent was invested in the public sector, 6.9 per cent in the co-operative sector; 0.7 per cent in the joint sector and 19 per cent in the private sector. During the year the Corporation sanctioned 1,144 loans amounting to Rs 337.58 lakhs to policyholders for construction or purchase of houses under the "Own Your Home" scheme. It also advanced Rs 12 crores as loans to state governments for financing various types of housing schemes and land acquisition and development schemes and an amount of Rs 9 crores was advanced as loans to co-operative housing finance societies and other authorities for financing housing co-operatives in various states. Under the scheme for loans to co-operative housing societies of the employees of the corporation, 55 societies have taken advantage of this scheme so far and a total amount of Rs 323.41 lakhs has been sanctioned as loans. The gross rate of interest realised on the mean life fund was 5.76 per cent as against 5.51 per cent during the previous year, while the net rate of interest realised was 5.29 per cent as against 4.76 per cent during the previous year. During the year 1966-67, the corporation wrote a gross direct premium of Rs 6.99 crores as against Rs 2.57 crores in the previous year. Of this, Rs 2.04 crores was written under Fire Department, Rs 3.01 crores under Marine Department and Rs 1.94 crores under Miscellaneous Department. The total net premium collection amounted to Rs 3.14 crores. The net claims during the period amounted to Rs 19.54 lakhs in the Fire Department, Rs 52.83 lakhs in the Marine Department and Rs 45.23 lakhs in the Miscellaneous Department. A sum of Rs 95.49 lakhs has been added to the reserves. The percentage of commission and expenses of management to the net premiums amounted to 7.84 per cent during the year as against 27.4 per cent in the previous year. The net underwriting profits under general insurance business amounting to Rs 41.72 lakhs has been transferred to the Profit and Loss Appropriation Account; of this a sum of Rs 36.55 lakhs has been transferred to the general reserve.

INDIAN INVESTMENT CENTRE

Giving a resume of the activities during 1966-67 of the Indian Investment Centre in Bombay recently, its Chairman, Mr G. L. Mehta, said that 31 IIC-assisted venture proposals, involving a total capital outlay of Rs 145.3 million, including foreign equity investment of Rs 45.28 million had secured the approval of the government. During the year, the IIC received 956 enquiries from Indian and foreign entrepreneurs, brought out eight new publications, including a German edition of its popular brochure "Introducing India to Overseas Investors" and the circulation of its monthly newsletter increased to 5,500, including 3,900 foreign readers. The IIC's overseas offices at New York and Duesseldorf also continued to be active in the field of publicity. As the IIC has completed six years of its existence, Mr Mehta took the opportunity to review its working during these years. It has so far assisted a total of 150 joint ventures, involving a capital outlay of Rs 894.41 million including foreign equity investment of Rs 176.43 million. The number of foreign collaborations assisted by the IIC is about 9.5 per cent of the total number approved by the government in the corresponding period. The foreign equity investment involved in the ventures assisted by the IIC is about 11.5 per cent of the total fresh inflow of foreign equity investment into the country. Mr Mehta made a special reference to the valuable contribution made by the advisory committees set up by the IIC in the USA and West Germany consisting of prominent leaders of industry and business. A notable development during the year was the emergence of IIC as a model and a training ground for other developing countries and the states in India. Officials from Iran and Afghanistan had visited the IIC to study its organisation and functions. The advice of the IIC at New York was also sought by Ceylon.

INDIAN OIL CORPORATION

With an annual turnover of about Rs 300 crores, the Indian Oil Corporation has become the largest oil marketing organisation in our country. According to a recent review, its sales have increased more than eight-fold during the last five years, from six lakh kilolitres in 1962-63 to 49 lakh kilolitres in 1966-67. Besides selling over a hundred grades of lubricants and greases and gas for cooking and industrial uses, the IOC sells all bulk petroleum products like kerosene, fuel oil, diesel oil, petrol and aviation fuel. For the sale of jet fuel, it handles the most sophisticated equipment and measures up to the strict standards of quality control. In regard to the highly competitive sale of petrol for cars and highspeed diesel oil for trucks, the IOC has set up a vast organisation of dealers through as many as 1,300 filling and service stations. Its sales of kerosene are larger than that of all other companies in India put together. The corporation has succeeded in exporting furnace oil, high speed diesel and naphtha to countries such as Thailand, Japan and Ceylon, and has earned Rs 4 crores worth of foreign exchange. By encouraging local fabrication of gas cylinders and special type of storage tanks with floating roofs, it has saved considerable foreign exchange. By 1971, it is expected that IOC's sales will be more than 13 million tonnes and it will meet almost 60 per cent of the estimated demand of about 23 million tonnes of petroleum products. IOC also expects to set up blending and drum making plants in Madras and Haldia. In fact, IOC's sales of half a million metric tonnes of lubricating oils in 1971 will give it the largest business in this field for any company in any one country of the world. IOC also plans to improve its present training, research and laboratory facilities to keep pace with the rapid progress made in petroleum technology.

I.C.I.C.I. GETS WORLD BANK LOAN

A $25 million loan has been extended to the Industrial Credit and Investment Corporation of India by the World Bank. The seventh of its kind, the loan brings the total amount of World Bank lending to the Corporation to $163.5 million. The loan will be guaranteed by the Government of India. Amortization will be in semi-annual instalments beginning in January 1970 and ending not later than July 1, 1985. In 12 years of operation, ICICI approved financial assistance totalling the equivalent of $224 million for 546 products. Its loans and investments have been distributed mainly among newer industrial sectors of the economy, such as ferrous metal products, chemicals and electrical equipment. Among projects it has assisted are those which combined will provide capacity for the production of about 7.5 million tons of cement, 175,000 tons of nitrogenous fertilisers, 220,000 tons of superphosphate and 225,000 tons of steel tubes. At the end of December, 1966, ICICI's resources amounted to the equivalent of about $199 million. These resources included Rs 75 million ($10 million) of paid-in share capital of which 70 per cent was held by Indian shareholders and the balance by British, American, German, French and Japanese private interests, Rs 375 million ($50 million) of loans from the Government of India, and surplus and reserves of about Rs 34 million ($4.5 million). In addition to the World Bank's loans, ICICI has obtained foreign exchange resources through loans of $4.5 million from the United States Agency for International Development and DM 60 million ($15 million) from the Kreditanstalt fur Wiederaufbau of Germany.

JUTE FORWARD TRADING

The East India Jute and Hessian Exchange of Calcutta, the only association which deals in forward trading in jute goods, has been asked to suspend entering into forward contracts in jute goods other than (i) transferable specific delivery contracts and (ii) non-transferable specific delivery contracts for a further period of one week beginning from September 22.

RAW MATERIAL IMPORTS BY SMALL SECTOR

In response to the enquiries received in regard to the procedure for the issue of licences to actual users in the small-scale sector for the import of raw materials, components and spares, the Ministry of Commerce has stated in a press note issued on September 20 that under the current policy, the units which have utilised their previous import licences to the extent of 90 per cent by opening of letter of credit or 60 per cent by actual importation, are eligible to apply for further licences. The units in priority industries can apply for licences to cover their six months' requirements as often as they can utilise their previous licences but other units can apply only once during the current year to cover their annual requirements. Units in what are known as the IDA priority industries, will be given their entire licence in IDA credit. For other priority industries the maximum limit up to which free foreign exchange licence may be issued will be half the amount of import facility to be afforded or Rs 50,000, whichever is lower. In the case of the remaining units, this limit will be one-third or Rs 25,000, whichever is lower. If the proportion works out to less than Rs 10,000 the free foreign exchange licence may be issued up to this limit. The balance entitlements of the actual users will be divided equally amongst West German credit, US aid and rupee payment area, subject to the minimum values up to which import licences can be issued against such resources. In regard to the licences issued under the above mentioned non-free sources, conversion of a licence from the rupee payment area to the US aid or vice versa will be freely allowed. It will facilitate the task of the licensing authorities if, while applying for

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licences hereafter the units indicate their preference in respect of these two sources, and also whether they would like their entitlement under the West German credit to be given in either of these sources.

DRUGS PRICES ORDER AMENDED

An amendment has been effected to the Drugs Prices (Display & Control) Order, 1966 to expedite disposal of applications for approval of drug prices. Of the two changes incorporated in the amendment, one relates to the prescription of the form in which particulars regarding the cost of production of the drug should be furnished to the government for approval of the wholesale and retail prices or drugs. The other is a relaxation of the existing provisions of the order in respect of marketing of new drugs. New drugs, as defined in the amendment order, can now be marketed after supplying relevant particulars in the prescribed form to the union government, which will have powers to revise the price within a period of four months from the date of receipt of these particulars.

SOAP PRICES REDUCED

The prices of toilet and washing soaps have been reduced with effect from September 15, 1967. The reduction is 60 paise per kilogram in the case of toilet soaps and 35 paise per kilogram in the case of washing soaps.

IMPORT OF PRINTING MACHINERY

Actual users will now be allowed to import rotaries and custom built specific purpose printing machinery from rupee payment area countries. In the trade agreements concluded by the Government of India with German Democratic Republic, the USSR, Czechoslovakia and Hungary for the year 1967, provision has been made for the import of various types of printing machinery against rupee payment. Applications for import licences may be made in the usual form and manner to the Chief Controller of Imports and Exports, New Delhi. Actual users requiring other types of printing machines of rupee area origin may contact the State Trading Corporation of India.

WAGE BOARD FOR ROAD TRANSPORT

The Central Wage Board for Road Transport Industry has been set up in the union Ministry of Labour, Employment and Rehabilitation to determine the categories of employees (manual, clerical, supervisory, etc.) who should be brought within the scope of the proposed wage structure, to work out a wage structure based on the principle of their wages as set forth in the report of the Committee on Fair Wages and to evolve a gratuity scheme for the industry. The coverage of the Wage Board is restricted to establishments employing five or more workers. The board has sent copies of its questionnaire to all the concerned parties whose addresses have been made available to it. Since, it is likely that the wage board may not be able to send its questionnaire to the maximum number of units for want of addresses, it desires that any employers or employees' union covered by the scope of the board and any other person or organisation interested in the above can obtain the questionnaire from the Member-Secretary, Central Wage Board for Road Transport Industry, Kundan Mansion, 2A/3, Asaf Ali Road, II Floor, New Delhi-1.

INDO-IRAQI JOINT VENTURE

A Bombay firm is to participate in the establishment of a joint venture for the manufacture of concentrates for soft drinks at Baghdad. Its share in the proposed venture will be in the form of supplying technical know-how, machinery, machine tools and raw materials. This is the first joint venture being set up by an Indian firm in Iraq.

SELF-SUFFICIENCY IN PETROLEUM PRODUCTS

With the commissioning of additional capacity at Barauni and Koyali refineries and with the coming on stream of the Cochin refinery, a stage of self-sufficiency has now been reached for all bulk petroleum products, except kerosene and lubricants. Only last year, products such as high-speed oil and furnace oil had to be imported in bulk to supplement indigenous production. Jet fuel is among the sophisticated products in respect of which self-sufficiency has been achieved. For the first time, highspeed oil and furnace oil are also being exported to such countries as Ceylon and Thailand. Exports of petroleum products during 1967-68 are expected to go up to a million tonnes, earning about Rs 12 crores worth of foreign exchange.

LEAD, ZINC MINING INDUSTRY

The Government of India, in a notification, has declared the lead and zinc mining industry as a public utility service for a further period of six months from September 25, 1967.

INDO-U.A.R. CO-OPERATION

Mr Fakhruddin Ali Ahmed, union Minister for Industrial Development, who recently visited the United Arab Republic enroute to Belgrade, discussed with his counterpart specific projects for industrial and economic collaboration with India as well as concrete measures for expanding trade relations between the two countries. Specific projects in which collaboration was proposed include: expansion of the Al Nasr Spinning and Weaving Mill with the help of Indian equipment; supply of technical and other assistance from India for production of diesel engines in the UAR. and assistance to small-scale industries, particularly those using leather and timber products.

CONTROL ON OUTPUT OF VANASPATI OFF

With the removal of restrictions on their production from September 5 in anticipation of a bumper groundnut crop, vanaspati factories can now work to capacity. In February last year, their production was pegged by the government at 80 per cent of the output in 1965 because of the shortage of groundnut.

BULGARIAN EXHIBITION

A Bulgarian national exhibition will be held in New Delhi at the Exhibition Grounds on Mathura Road during the first half of November. Products of the Bulgarian machine building industry will occupy bulk of the exhibition's total area of 5,000 sq. metres. Latest models of Bulgarian agricultural machines, lathes, transport and mechanical handling equipment, textile and woodworking machinery will be on display. Other interesting items on display will include electric motors of various types and ratings, current rectifiers, insulators, electro-medical apparatus, electronic devices, telephone sets and exchanges, etc. An extensive range of chemicals, dyes and plastics, fine rugs and carpets, pokework, fine pottery and ceramics will also be on display.

LAMINATES TO CZECHOSLOVAKIA

India will soon be exporting a large shipment of top-quality decorative laminates to Czechoslovakia. An order for 200,000 square feet of decorative laminates has been received by Formica India Limited. The consignment will consist of sheets in eight colours and patterns--including the popular tweeds, marbles and linens. This is estimated as one of the largest export orders for decorative laminates ever obtained by an Indian company. Further orders are expected from the same source in 1968. The order was finalised with the help of Formica International Limited. The export consignment will be manufactured at Formica's factory at Chinchwad, Poona, and will be delivered during September and October, 1967.

POSTAL SAVINGS ACCOUNTS

Depositors of the savings bank accounts in head post offices or selection grade sub-offices will now be able to keep their photographs with the offices concerned for purposes of identification at the time of withdrawal. This is being done to facilitate withdrawals when signatures of the depositors do not tally with their specimen signature on postal records.

Company Affairs

UNIT TRUST

MR R. S. Bhatt, Chairman, Unit Trust of India, reviewed recently the progress of the trust on the completion of three years of its operations on June 30, 1967. He revealed that the gross income of the trust during the year ended June 30, 1967, registered a substantial increase to Rs 251.70 lakhs as against Rs 182.53 lakhs in the previous year. Total expenses of the trust including those on administration amounted to Rs 30.57 lakhs as against Rs 22.42 lakhs in the previous year. The increased expenditure, he explained, was mainly due to the rise in the amount of commission payable to agents appointed by the trust during the year to canvass business. During the year the total amounts subscribed to in units was Rs 924.05 lakhs as against Rs 215.44 lakhs during the previous year. This conspicuous increase was accounted mostly by the individual subscribers who invested Rs 915.92 lakhs, the balance being contributed by the corporate bodies. The total number of applications was 41,570 out of which the number from individuals was 41,516. Mr Bhatt pointed out that the board of trustees decided to distribute a sum of 70 paise per unit (7 per cent) which absorbed Rs 189.32 lakhs leaving a balance of Rs 12.55 lakhs from the appropriation account. The board further decided to distribute 3½ per cent to initial capital contributors which will absorb Rs 18.75 lakhs leaving a balance of Rs 1.19 lakhs. He revealed that a profit of Rs 1.15 lakhs was realised during the year on account of sale and redemption of securities.

Mr Bhatt pointed out that the total investment of the trust as on June 30, 1967 amounted to Rs 33.86 crores. The distribution of the invested money in different categories was ordinary shares (41.25 per cent), debentures (41.18 per cent), preference shares (11.77 per cent), bonds of public corporations (2.17 per cent), advance deposits in respect of purchase of debentures and preference shares (1.55 per cent), treasury bills (1.35 per cent), and application money (0.73 per cent). He revealed that the emphasis of the investment policy continued to be on securities of companies which pay interest and dividend regularly. About 99 per cent of the investible funds were invested in such securities, while the balance of about one per cent was invested in stocks of companies with growth potentialities. The trust, he added, continued to underwrite new issues floated by old and established companies and during the year it participated in the underwriting of 30 issues aggregating Rs 3.94 crores. He added that the trust's investment portfolio recorded a depreciation of around 2.3 per cent over the year and the overall depreciation in the market value of its investment over their book value as on June 30, 1967 was nearly 5.4 per cent. Of this a sizable part was accounted for by a decline in the value of fixed interest bearing securities which are redeemable. As a result of depreciation the net value of the assets of the trust as on June 30, 1967 amounted to Rs 30.47 crores.

CENTURY SPINNING

The directors of Century Spinning and Manufacturing Co. Ltd, have proposed to maintain the interim dividend at Rs 14 per share on the increased capital following the bonus issue made last year. Dividends will absorb Rs 44 lakhs.

HADA TOOLS

Hada Tools Ltd, a new company entered the capital market on September 19, 1967 with a public offer of Rs 5 lakhs in equity shares and Rs 6 lakhs in preference shares. The subscription list will close on September 30, or earlier, but not before September 23, 1967. The company has an authorised capital of Rs 30 lakhs divided into 200,000 equity shares of Rs 10 each and 10,000 preference shares of Rs 100 each. The issued capital of Rs 16 lakhs consists of Rs 10 lakhs in equities and Rs 6 lakhs in preference (9.5 per cent cumulative redeemable) shares. The directors, their friends and associates have subscribed to the extent of Rs 5 lakhs in equities. Of this, Rs 1.63 lakhs have already been paid-up. The present issue to the public is for Rs 11 lakhs—Rs 5 lakhs in equities and Rs 6 lakhs in 9.5 per cent redeemable preference shares at par. Of the present issue of Rs 11 lakhs, shares amounting to Rs 10 lakhs have been underwritten.

The preference shares will be redeemed at the expiry of 15 years, but not earlier than 12 years from the date of issue, on giving not less than 3 months' previous notice to the holders. The company was incorporated in July, 1966 in West Bengal, with the immediate object of manufacturing milling cutters and reamers. The company's factory will be located in village Kolara, Howrah district, about 12 miles from Calcutta.

ANDHRA FOUNDRY

Andhra Foundry and Machine Co. Ltd, proposes to issue to the public 750 (8 per cent) convertible debentures of Rs 1,000 each (Rs 7.50 lakhs), the entire amount being payable on application. The entire public issue has been underwritten by the Andhra Pradesh State Financial Corporation (Rs 5 lakhs) and by ICICI (Rs 2.50 lakhs). The present issue is for Rs 10.0 lakhs, out of which the managing agents, Messrs Harish Chandra Prasad and Associates have subscribed to debentures of Rs 2.50 lakhs. The debenture holders will have an option to convert the same at par into equity shares of the company after three years but before the expiry of five years from the date of allotment on giving three months' notice. The remaining debentures will be redeemed at par at the end of eight years from the date of allotment. The proceeds of the proposed issue will be utilised to finance additional outstanding financial commitments and working capital requirements. The company has an authorised capital of one crore rupees (Rs 30 lakhs in 9.3 per cent cumulative redeemable preference shares and Rs 70 lakhs in equity shares). The issued capital is Rs 75 lakhs (Rs 15 lakhs in preference and Rs 60 lakhs in equity) and the paid-up capital is Rs 72.28 lakhs (Rs 15 lakhs in preference and Rs 57.28 lakhs in equity). The company has completed its spun pipe project recently and commissioned it in May 1967. Project cost has gone up owing to delay in receipt of equipment and devaluation.

MYSORE SPINNING

The Mysore Spinning and Manufacturing Co. Ltd, has reported a loss of Rs 36.71 lakhs, subject to depreciation, for 1966. After adjusting Rs 3.04 lakhs being provisions relating to previous years no longer required the net loss comes to Rs 33.67 lakhs. This together with a loss of Rs 17.08 lakhs brought in from the previous year, Rs 0.47 lakh being provision for gratuity and Rs 0.25 lakh being bonus for the previous three years, the total loss comes to Rs 51.48 lakhs. Sales of yarn, cloth and waste have totalled Rs 76.16 lakhs compared with Rs 191.52 lakhs in the previous year. During the year the company passed through one of the most distressing periods in its history and it was compelled to suspend operations from April 4, 1966, and restarted working partially from February this year.

GILLANDERS ARBUTHNOT

Gillanders Arbuthnot and Co. Ltd, reported an increase in sales turnover from Rs 2.25 crores to Rs 2.41 crores for the year ended March 31, 1967. The gross profit, however, remains virtually the same at Rs 41.55 lakhs against Rs 41.39 lakhs for 1965-66, while the net profit, after providing for depreciation and taxation, worked out to Rs 11.04 lakhs. Commissions and allowances received were substantially higher at Rs 48.38 lakhs due to improved earnings from the tea and copper interests and this was offset in part by a reduction in income from engineering interests. Income from investments revealed a decline to Rs 9.91 lakhs from Rs 11.85 lakhs, reflecting reduced dividends from the tea companies. In respect of allocations, depreciation was raised to Rs 1.89 lakhs from Rs 1.76 lakhs, taxation to Rs 16.42 lakhs from Rs 12.48 lakhs and development rebate reserve

to Rs 18,878 from Rs 5,748, while Rs 88,383 was provided for capital reserve. General reserve was lowered to Rs 1.02 lakhs from Rs 4.86 lakhs. The directors proposed to raise the dividend from 9.36 per cent to 12.5 per cent.

AMALGAMATED COAL

A decline in raisings from 1,100,432 tonnes to 1,067,621 tonnes as well as in despatches from 1,076,760 tonnes to 1,020,637 tonnes was reflected in the working results of the Amalgamated Coalfields Ltd, for the year ended March 31, 1967. The net profit, after depreciation, taxation and certain adjustments, amounted to Rs 1.28 lakhs against Rs 6.60 lakhs in the preceding year. The directors stated that the full impact of downgrading of some of the company's collieries was felt during the year. Moreover, the mining operations of a number of collieries deteriorated, resulting in loss of production and higher cost of raising. All allocations were reduced. Depreciation from Rs 8.08 lakhs to Rs 6.89 lakhs and taxation from Rs 4.84 lakhs to Rs 13,500. No provision was made for general reserve. Appropriations for the year were helped by a transfer of Rs 1.15 lakhs from general reserve. The directors proposed to reduce the dividend to 2.5 per cent on a capital increased by the issue of bonus shares in the ratio of one-for-one as against 12.5 per cent paid previously.

MCLEOD AND COMPANY

Lower earnings from the tea, jute and engineering companies were reflected in the working results of McLeod and Co. Ltd, for the year ended December 31, 1966. Dividend income as well as revenue from miscellaneous trading was higher; but there was a reduction in the earnings of the agency and shipping departments. Income from the insurance and railway departments revealed little change from that of last year. Sales were shown higher at Rs 169.78 lakhs against Rs 144.33 lakhs. The profit after providing for depreciation, worked out to Rs 10.89 lakhs against Rs 11.71 lakhs for 1965. Depreciation was lowered to Rs 1.04 lakhs from Rs 1.12 lakhs. After transferring Rs 1.00 lakh from general reserve, taxation provision was raised to Rs 4.98 lakhs from Rs 3.96 lakhs. The directors proposed to raise the ordinary dividend from 10 per cent to 11.5 per cent.

HINDUSTAN WIRE

The Hindustan Wire Products Ltd revealed satisfactory working results for the year ended March 31, 1967. While sales went up to Rs 171.85 lakhs from Rs 127.28 lakhs, the net profit, after depreciation and taxation, amounted to Rs 8.66 lakhs against Rs 7.46 lakhs in 1965-66. Except depreciation which was reduced to Rs 2.63 lakhs from Rs 2.69 lakhs, all other allocations were raised; taxation from Rs 12.55 lakhs to Rs 13.70 lakhs, general reserve from Rs 3.50 lakhs to Rs 3.75 lakhs and development rebate reserve from Rs 39,125 to Rs 66,505. The directors proposed a dividend of Rs 2.50 per equity share on a capital increased by the issue of bonus shares in the ratio of one-for-two as against Rs 3 a share paid previously on the old capital.

INDIAN CABLE

The Indian Cable Co. Ltd recorded encouraging performance during the year ended March 31, 1967, although the earlier half of the year was marked with an acute scarcity of imported metals and the second half of the year witnessed an overall fall in demand in the cable industry. Individual units attempted to increase their own share of the shrinking business by undercutting prices. As a result, prices dropped all round and, in fact, many units were reported to be selling at below cost. With the collapse in prices, it became essential not only to seek the most stringent measures of economy and efficiency, but also to increase the physical throughput at the works to the largest possible extent to ensure that operations could become economically viable. The sales of Indian Cable Co. increased to Rs 14.33 crores from Rs 13.58 crores, while the net profit after tax, amounted to Rs 97.27 lakhs against Rs 79.47 lakhs for 1965-66. Depreciation was raised to Rs 40.37 lakhs from Rs 36.04 lakhs, taxation to Rs 116.50 lakhs from Rs 81.50 lakhs; debenture sinking fund to Rs 4.28 lakhs from Rs 4.10 lakhs and general reserve to Rs 90.14 lakhs from Rs 68.70 lakhs. No provision was made for retiring gratuity reserve. The directors proposed a dividend of 15 per cent on the capital increased by the issue of bonus shares as against 25 per cent paid previously on the old capital. The dividend was payable from general reserve.

ROHTAS INDUSTRIES

The directors of Rohtas Industries Ltd, decided to skip the dividend on the ordinary shares for the year ended March 31, 1967, against six per cent paid in the preceding two years. The preliminary statement revealed a loss, after providing for depreciation but before development rebate reserve, of Rs 72.97 lakhs against a net profit of Rs 49.44 lakhs for 1965-66. Depreciation was lowered to Rs 75.46 lakhs from Rs 78.29 lakhs, while no provisions were made for taxation and development rebate reserve. Cement expansion reserve was, however, raised to Rs 10.67 lakhs from Rs 2.44 lakhs. Appropriations for the year were helped by a transfer of Rs 16.65 lakhs from general reserve No. 1 and Rs 67.00 lakhs from general reserve No. 2. In the preceding year, Rs 13.24 lakhs was transferred from general reserve No. 1. The directors proposed the dividend on the preference shares which, when declared, would be paid out of general reserve No. 1.

CAPITAL AND BONUS ISSUES

Consent has been accorded to eight companies to raise capital amounting to more than Rs 8.94 crores. Five of them are to issue bonus shares exceeding Rs 96 lakhs. The amount of bonus shares ranges between Rs 87 lakhs and Rs 1 lakh. The consents are valid for 12 months.

Mafatlal Fine Spinning & Manufacturing Co, Ltd, Bombay, has been accorded consent to capitalise Rs 87 lakhs out of its share premium account and general reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for every equity share held.

Shree Baidyanath Ayurved Bhawan Private Ltd, Calcutta, has been granted consent to capitalise Rs 5 lakhs from its general reserve and issue fully-paid bonus shares in the ratio of one for every five shares held.

Indabrator Ltd, Bombay, has been given consent to capitalise Rs 1,56,280 out of its general reserve and special reserve and issue fully-paid equity shares of Rs 10 each as bonus shares in the ratio of one for six shares held. The company is also permitted to issue 36,444 equity shares of Rs 10 each for cash at par .

Cochin Co., Private Ltd, Ernakulam, has been given consent to capitalise Rs 1,50,000 out of its free reserve and issue fully-paid equity shares of Rs 100 each as bonus shares in the ratio of one for every three equity shares held.

Lead Slips Products Private Ltd, Ahmedabad, has been accorded consent to capitalise Rs 1 lakh out of its general reserve and issue fully-paid equity shares of Rs 1000 each as bonus shares in the ratio of one for five shares held.

Great Asiatic Lines Ltd, New Delhi, is permitted to issue capital of Rs 120 lakhs in equity shares of Rs 10 each, to be issued privately for cash at par, for financing the purchase of two ships.

The Uttar Pradesh Small Industries Corporation Ltd, Kanpur, a Government of U.P., undertaking, has been permitted to issue privately a further capital of Rs 5 lakhs, for cash at par. The proceeds will be utilised for assisting, financing, protecting and promoting the interests of small industries in the state.

J. K. Synthetics Ltd, Kanpur, is given permission to issue capital of Rs 670 lakhs in mortgage debentures carrying interest at not exceeding 8 per cent per annum, to be issued as security to the company's creditors in respect of the loans already advanced/to be advanced to the company, for manufacture of Nylon-6/Perlon yarn.

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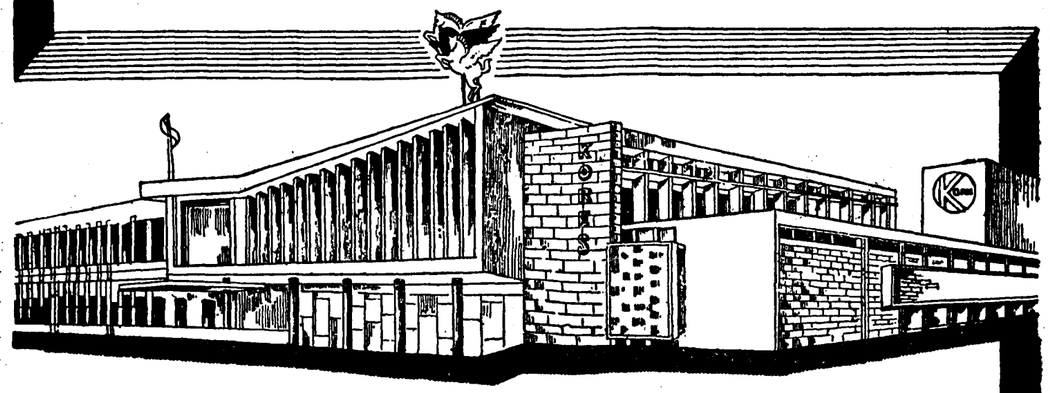

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BOOKS BRIEFLY

Towards a Dynamic Economy

Management of Plans: Edited by Surinder P. S. Pruthi; Published by the Ahmedabad Management Association; May 1967; Inland price Rs. 10.00; Foreign price $3.50.

Reviewed by R. P. AIYER

When the third five-year Plan began to limp after its hopeful launching, there were enough external factors and "natural" causes to justify shortfalls in various sectors of the economy. But when the fourth Plan proposals failed to "take-off" beyond the draft stage, murmurs against the concept of planned economy itself began to be heard. Many more, however, while conceding the need for planned development, began to view with concern our lapses at the level of the implementation of schemes for economic development.

"Management" by itself may not produce results if the basic prerequisites are absent in any scheme. But good management is an essential ingredient if even the best of schemes are to flower. After three five-year plans—notwithstanding poor performance in many critical spheres—it may be too late in the day to question the very basic concept of planning. However, discussion on how good, or bad, has been the management of our plans could well be conducted without the critics being attributed motives.

And so when the Ahmedabad Management Association conceived of a series of lectures by eminent public men on the Management of Plans, one anticipated a rich fare. This has tended to be a mixed one.

Dr Vikram Sarabhai, Chairman of the Atomic Energy Commission, has been critical of the "all this and heaven too" approach in our plans, and has called for "a rolling plan which takes account of projections five years in advance but revises them every year". He is against wishful thinking, 'guesstimates' and hunches, which should yield place to "detailed working and scientific study of basic data of inputs and outputs", but could not resist the temptation of complaining about "extraordinary delay in the implementation of the Narmada Project and fixing prices of natural gas in Gujarat"—regional problems.

Economic Principles

Mr S. T. Raja, the Chairman of the Gujarat Electricity Board, called for government withstanding pressures and determine location of industry "on strictly economic principles, consistent with the broad policy of overall development of the country including its backward regions". He has cautioned against over-staffing in public sector projects, underlined the importance of initial capital in projects being as low as possible, has emphasised the need for well conceived plans and projects with greater emphasis on economies than ideology, and has advocated complete autonomy for industrial units which should be judged on the basis of performance and results.

Mr J. R. D. Tata thought that "the country is suffering today more from the consequences of wrong and over-ambitious planning....." Many public sector projects, according to him, could not be regarded as being implemented "in terms of operating performances". He has called for manifold remedial measures. To mention a few—

(a) Detailed annual review of evaluation of the plan conducted by a high-power standing committee with representation for private sector which would report its findings to the National Development Council.

(b) The annual plan should include a safety margin to cover uncertainties of defence expenditure and economic variables.

(c) Efforts of implementing machinery to be concentrated mainly on a few selected key targets, leaving remaining areas largely to the forces of demand and supply (Yugoslavian approach).

(d) Concentration of efforts which will bring quick returns.

(e) Revival of capital market with a new approach to profits and taxation.

(f) End of repeated annual exercises in fiscal experimentation.

Mr Bagaram Tulpule, Secretary, Mill Mazdoor Sabha, Bombay, has called for meaningful steps in the field of wages "aimed at securing some consensus at the national level about limited, time-bound, quantitative objectives reached, followed by purposeful efforts at the industry level to translate these into reality"—whatever they may mean. He is against compulsory adjudication and has rightly stated that "this has inhibited the growth of strong and responsible trade unions as also of real collective bargaining".

Discussing the failure of agriculture, Prof Dantwala put forward the view that the remedy "is at the level of the people, their education and their psychology, or to mention that oft repeated phrase, intellectual and emotional integration". Striking a philosophical note and noting the wide hiatus between idea and outcome, he has drawn the consolation that "the real world is much more complex than even the most practical man can comprehend".

ncentive System

Mr John P. Lewis, Minister Director, Agency for International Development Mission in India, in focussing attention on implementation, rather than formulation, of plans has spoken of incentive system as being "a far more satisfactory form of general economic management than is a command system" and that the market mechanism "is an enormously helpful device for organising and actuating incentives". Many had also learned that "the capacities of governments to command in the realm of economic affairs—and to enforce compliance with their commands—are sorely limited".

Mr N. A. Palkhivala has cited (a) monetary stability, (b) fiscal policy, (c) export policy, (d) climate for free enterprise, (e) balance between agricultural and industrial development and (f) the attitude, receptive or otherwise, towards foreign capital, as six facets influencing government policy, but that in terms of these criteria "India serves as a warning, and not an example, to the rest of mankind".

Mr H. V. R. Iengar, a distinguished ex-civilian, while endorsing that "the concept of a plan for the economic activities of the country, to enable the most effective use to be made of limited resources, is sound and necessary" has felt that "the failure has been in implementation".

With Indian planning largely patterned on "socialist theories"—but within the framework of political democracy—what has been the correctives sought to be administered by "socialist" economics in the face of declining efficiency? The Soviet planners are faced with the problem of how to move from the system of direct command from the centre to more indirect form of guidance without affecting the primacy of planning goals. The Liberman theory of profit maximisation can only make sense if the calculation of profit is based on genuine opportunity cost prices, i.e., prices which would rule in a free and competitive market. This would necessitate activising the price system; in other words, strengthening the discipline in the use of scarce resources and ensuring—especially in the case of our country—that capital is not substituted for labour faster than their relative costs.

Self-financing—which postulates reasonable profitability of units—is one way of attaining the viability of economy. This would call for rigid regulation of centrally controlled investments. This again would mean the recognition of market primacy, calling for decentralisation and liberalisation. Plan-

ning, especially of the democratic variety, certainly need not be incongrous with the concept of economic life being influenced by the market, with central direction to foster dynamic development.

In bringing together the diverse lectures, Dr Pruthi of the Indian Institute of Management, Ahmedabad, has in an able introduction, dilated on objectives, stability and shortfalls in our planning. The publication also contains data on plan outlay and achievements.

The Indian planning theory is now no more a sacred cow. Its physiognomy has been analysed and dissected often times. Realisation of things having gone sore is evident. It is the remedial measures that need to be evolved so that the country could again surge forward. Or is it that, as Prof. Dantwala has alluded in his lecture, we are inclined to take refuge in the aphorism that our society is good "at abstract thinking" rather than at "doing things"?

INTERNAL DEBT

The Internal Debt of the Government of India: By Chandra Dalaya; Vora & Co., Bombay; Pp. 144; Rs. 12.

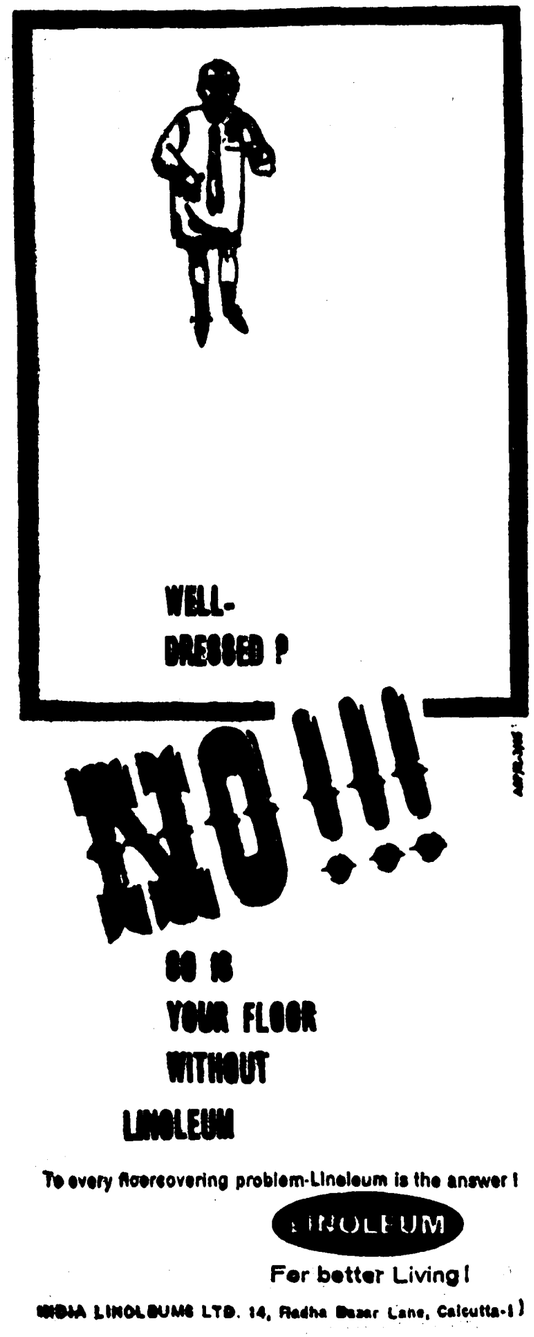
Reviewed by C. L. DHAWAN

Public borrowings by government are no panacea in themselves for all ills of a developing economy. This is the central theme of Prof. Chandra Dalaya's book under review. In his very timely treatise on the subject, the author has brought out clearly that most of the internal debt of our government is institutionalised and is thus marketable. A major drawback of this is that it seeks to stifle the very purpose which it aims at achieving. Such a rise in public debt, argues Prof. Dalaya, if accompanied by an increase in money supply and credit expansion, adds fuel to the fire of inflation. This, exactly, is what has been going on in this country for a long time now.

Prof. Dalaya, however, has expressed satisfaction at the policies pursued under successive Plans as a result of which the share of non-marketable debt, especially small savings, in the total public borrowings of the government has witnessed a rising trend. But, here, the recent erosion of the savings potential of the people as a result of the sharp rise in prices has certainly worked as a damper.

To the extent public borrowings have helped in financing our economic development they are welcome. But they have surely helped very little in the overall economic policy of achieving a faster rate of economic growth, maintaining stability in prices and an efficient expansion of the money market. Equally important is the fact that, as Prof. Dalaya has rightly stated, the rise in public debt has probably not brought about an equivalent rise in the savings of the community. The book alludes to the fact that increased public borrowings by the government have been, in a way, responsible for the current sluggishness in the capital market, although the phenomenon is generally, and not very wrongly, explained away as being the consequence of the government's policies, among others, of taxation and controls. Whatever the truth, there is need, indeed, for revival of the capital market, and this can be done by devising methods to foster savings which may find their way to investment in the private sector. One only wishes that the author had dwelt upon this aspect of the problem at greater length.

The author, like a true academician, has systematically set the stage for his analysis by going into the definitional and historical part of the problem in the first three chapters. The volume is, however, already outdated in quite a few vital details with regard to data and other information. Obviously, it is so because of the 'long gestation period' that is inherent in such projects from research to actual publication of the book, especially in our country. It is true that the treatment of the subject could have been more elaborate, but, surely, the author ought to have been circumspect in avoiding repetitions which occur at not a few places.



COMPANY MEETINGS

THE FERTILISERS AND CHEMICALS, TRAVANCORE LIMITED

(Incorporated in Kerala State—Liability of Members Limited)

Regd. Office : Eloor, Udyogamandal

Speech delivered by the Chairman, Sri Parakat Achutha Menon, ICS (Retd), at the Twentythird Annual General Meeting held on 26th September, 1967.

SRI PARAKAT ACHUTHA MENON

Gentlemen,

I am glad to welcome you to the Twentythird Annual General Meeting of the Company and to present to you the accounts of the company and the report of the Directors for the year ended 31st March 1967.

2. As in the past several years, the year under review also started with a shortage of power. The position, however, eased with the commissioning of the first generator of the Sabarigiri Project, as a result of which the Kerala State Electricity Board were able to resume regular supplies from June 1966. Electric supply however continued to be plagued by power failures and voltage drops. During the year there were 129 such interruptions resulting in a substantial loss in production. Power shortage and interruptions alone caused the company a production loss of approximately Rs. 27.5 million during the year.

3. The Kerala State Government, to whom several representations were made by the company in the past, realised the seriousness of the situation and appointed a one-man commission to study the distribution system and the reasons for the interruptions and fluctuations. The Commission's report is awaited. It is hoped that with the implementation of the Commission's recommendations, this troublesome feature in the electric supply system will be reduced substantially, if not eliminated. The final result will, no doubt, depend upon the standard of efficiency maintained by the Electricity Board in their transmission and distribution system.

4. Another major factor that contributed to a reduction in our production was the shortage of sulphur, a most essential raw material. A world shortage of sulphur had developed towards the end of 1965 and a decision of the Commerce Ministry to channel the imports of sulphur through the State Trading Corporation resulted in a set-back in the supplies of this vital raw material to the industry. It was only after the import policy was revised in December 1966 that manufacturers like your company could make firm arrangements for sulphur. Due to the time lag involved in the procurement and shipment of sulphur, regular supplies to meet the full requirements of your company became available only from August this year. Naturally most of the plants could produce only much below capacity till then.

5. While the manufacturer is now free to make his own arrangements for sulphur, he has no such freedom to secure his requirements of rock phosphate as imports are made through the State Trading Corporation at present. This arrangement appears to create delays and bottle-necks. As in the case of sulphur there would be every advantage in allowing the manufacturers to make their own arrangements for the import of rock phosphate, in line with the assurance the Government have given to new entrepreneurs.

6. Although the third stage expansion plants were commissioned during the year under review, teething troubles, as well as the difficulties arising from the shortage of raw materials and power interruptions, prevented the company from getting the full advantage of the new plants during the year. Yet you will be glad to find that your company was able to make a net profit of Rs. 4.3 million after setting aside over Rs. 10 million for depreciation. This profit, however, does not enable the company to declare a dividend as the losses incurred during the previous years have to be written off. Yet it has proved that, given the necessary power and raw materials, your company can make handsome profits.

7. I am glad to inform you that your company has been able to make firm arrangements for the supply of sulphur for the next 12 months. As an insurance against a possible shortage of sulphur in the future, the company is also making modifications to the ammonium sulphate plant so that it could utilise both byproduct and imported gypsum to maintain its near-full production capacity. With the present capacity of the Kerala State Electricity Board to maintain full supply of power required by the company for some years to come, the company does not anticipate any major set-backs in production in the future. The outlook therefore is bright. The company has, no doubt, to repay the long-term loans it has taken and meet a very much higher rate of depreciation than in the past. This, together with the increasing competition in the field on account of new units coming into the field, as well as the availability of large quantities of imported fertiliser at lower prices would tend to keep the company's profits down in the future.

Fourth Stage Expansion Programme

8. The Fourth Stage Expansion Programme involving an investment of Rs. 50 million, which I mentioned to you last year, is well on its way. We expect the plants to be commissioned by 1969, when the capacity of the Udyogamandal Division would have gone to 90,000 tonnes of nitrogen and 45,700 tonnes of P_2O_5.

Cochin Fertiliser Project

9. I am glad to inform you that the Rs. 400 million Cochin Fertiliser Project at Ambalamedu in Ernakulam District is progressing satisfactorily. Construction has been keeping up to schedule and I believe the Company will be able to maintain the target date of completion, which has been fixed as October 1969. This project, as you might remember, will be producing 330,000 tonnes of urea a year and will be employing the most modern technology for ammonia production, viz., the ICI Steam

Reformer process for synthesis gas production and a single stream 600 tonnes a day centrifugal compressor for the ammonia plant.

10. It will not be in the interest of the country to produce nitrogenous fertilisers alone. Nitrogenous fertilisers must be marketed along with proportionate quantities of phosphatic fertilisers. Otherwise our soils are likely to get damaged. Your company has therefore submitted to the Government of India a project report for establishing the production of phosphatic fertilisers as a Second Phase of the Cochin Fertiliser Project. This scheme envisages an investment of Rs. 223.5 million and is aimed at the production of 184,000 tonnes of P2O5 in the form of triple superphosphate and complex fertilisers.

FACT Engineering & Design Organisation (FEDO)

11. As I indicated to you last year, the FACT Engineering & Design Organisation (FEDO), which has been set up to undertake the complete design and engineering of fertiliser and allied plants has been engaged in the work relating to the Cochin Fertiliser Project and the synthesis gas plant of the Durgapur Fertiliser Project. During the year this organisation has been considerably strengthened and has been in the market for taking up similar jobs elsewhere in India. I am glad to say that the response from other investors for the utilisation of the experience and know-how possessed by this organisation has been encouraging. FEDO has also negotiated process licences for manufacture of phosphoric acid by the well-known Prayon process and sulphuric acid from different raw materials like pyrites, gypsum, etc. based on the know-how to be supplied by Chemiebau Dr. A. Zieren GmbH of West Germany. Government approval to these agreements is awaited. With these arrangements, FEDO is now in a position to undertake the complete design and engineering of both nitrogenous and phosphatic fertiliser plants in this country. Our country needs many more fertiliser plants to meet our increasing needs. It will be in the interest of the country to make maximum use of indigenous facilities available. I do hope that the capacities of FEDO will be fully utilised by the promoters of new fertiliser projects in India.

Research

12. The Research & Development Department which has been doing good work in the past has continued to make its valuable contributions during the year under review. The Department has been able to set up a Sodium Flouride plant utilising waste material. It has also been able to set up a Hydrated Calcium Silicate Plant, again based on waste material.

The Research & Development Department works in close coordination with FEDO, so that the company's design and engineering faculty is fully supported by research.

Marketing

13. With the withdrawal on 1st April 1967 of the subsidy granted by the Government of India to offset the increase in prices of imported fertilisers on account of devaluation, internal prices of fertilisers have gone up. This tendency has been aggravated further by the exorbitant price charged to India for sulphur by the American exporters. High prices have dampened the enthusiasm of farmers to a certain extent. The Government of India have also been importing substantial quantities of fertiliser and making them available at lower prices compared to the prices at which indigenous manufacturers could afford to sell. The marketing of fertilisers is therefore taking a difficult turn. It would have been in the fitness of things if the subsidy had been continued as the rise in prices consequent on the removal of the subsidy is 25% or more. This is rather a steep rise for the farmer.

14. Due to a feeling in the minds of some people that any quantity of fertilisers would sell in this country irrespective of the price, promotional efforts seem to have slackened during the last two years. I would like to take this opportunity to stress that this apparent hunger for fertilisers was only due to a marginal deficit that existed some time ago. With the increased arrivals of imported fertilisers as well as the new units going into production, a situation will soon arise when the purchase of fertiliser will not keep pace with the availability. Anticipating this, the Expert Committee on Fertilisers appointed by the Government of India had recommended the establishment of a Fertiliser Promotion Corporation for undertaking intensive promotional work. So far there is no indication that such a Corporation is being set up by Government. I would like to impress upon Government the need for setting up this Corporation without any further delay.

15. In accordance with the recommendations made by the Expert Committee, the Government of India have decided to allow freedom to manufacturers to market their products and to fix prices. Nitrogenous producers are being permitted to do this according to a phased programme. By 1968 October, all producers will be free to fix their own prices and market their entire production. The Government, however, have made a provision that they would have the right to buy 30% of the production of any factory at a negotiated price. This is a very commendable decision of the Government of India as it recognises and encourages the free-play of the forces of competition among the producers. As a consequence, prices of fertilisers are bound to be competitive and the producers would be compelled to provide better consumer services. In the implementation of the Government of India's policy, however, some State Governments do not seem to have accepted the spirit behind it. The producers' right to fix the prices has yet to be accepted by these State Governments. Consequently marketing of fertilisers falling within the free quota allowed for distribution by the producers is inhibited in such States. In the larger interest of the country and in the interest of healthy competition among the producers, it is necessary that the spirit of the Government of India's policy is fully appreciated by the State Governments and the decisions based on that implemented without reservation. I believe that it is also time for the Government of India to repeal the provisions in respect of inter-State movement of fertilisers and price control in the Fertiliser Control Order.

Industrial Relations

16. I am glad to inform you that the Labour-Management relations in the company are quite satisfactory and cordial. Negotiations are in progress for the conclusion of an agreement for establishing a production incentive system. Negotiations are also proceeding in regard to the fixation of staff strength on the basis of the work study and job evaluation that was conducted some time ago. There is a general tendency on the part of trade unions to keep on asking for increases in wages and dearness allowance. While one can appreciate their anxiety to get better incomes, one cannot overlook the fact that fertiliser is a very sensitive commodity and that any attempt to raise prices to meet such demands beyond a certain limit will be resented by the farmers. Trade unions therefore have to recognise this inherent draw-back of this industry when they demand more emoluments.

17. I take this opportunity to convey the Company's gratitude to the Government of India and the Government of Kerala for the kindness and cooperation they continue to extend to us. Let me also stress that the reasonably good results during the year have been achieved only because of the unstinted loyalty and hard work displayed by our executives and workers. On your behalf I would like to convey to them our appreciation.

I now move that the Directors' Report and the annual accounts for the year 1966-67 be and are hereby approved.

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

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INDUSTRIAL FINANCE CORPORATION OF INDIA

Statement made by Shri N. D. Nangia, Chairman, Industrial Finance Corporation of India, at the 19th Annual General Meeting of the Corporation held on the 28th September, 1967.

Friends,

I welcome you to this Annual General Meeting of the shareholders of the Corporation.

2. Printed copies of the 19th Annual Report of the Board of Directors and the Accounts of the Corporation for the year ended June 30, 1967, are in your hands, and I shall, with your permission, take them as read.

3. The year under review has been one of considerable stress and strain in the country's economy. The continued failure of monsoons over wide areas in the country resulting in severe drought in certain States, affected adversely the output of industrial raw materials and consequently also the production of industries based on agriculture. At the same time, there was a reduced demand for several industrial products consequent, among other things, on restraint in Government spending, partly to contain inflationary pressures in the economy. The year also witnessed the initial impact of devaluation of the rupee in June, 1966, bringing, in its wake, several problems having far-reaching effect on the fortunes of industrial concerns—whether in the stage of formation, construction or production. Consequently, several sectors of our industrial economy received a major set-back.

4. It is against this background that the Corporation's performance during the year under report is to be reviewed. The total financial assistance sanctioned to 56 industrial units by the Corporation in 1966-67 amounted to Rs. 22.55 crores as against Rs. 43.52 crores for 96 industrial units in the previous year. In view of the limited resources with the Corporation, in relation to its outstanding commitments, the Corporation was obliged increasingly to restrict the grant of fresh financial assistance to projects enjoying relatively high national priority, and to insist on the promoters exercising greater financial discipline by increasing their own contribution towards the cost of the projects and/or deferring or phasing their non-essential schemes so as to reduce their demand for finance on the Corporation. The financial assistance of Rs. 22.55 crores sanctioned during the year was made up of rupee loans of Rs. 11.74 crores, foreign currency loans of Rs. 3.95 crores, underwritings of Rs. 2.20 crores, direct subscription to shares of Rs. 0.09 crores and guarantees for deferred payments of Rs. 4.57 crores. Owing to the continued depressed conditions in the capital market, the underwriting operations of the Corporation resulted in its having to take up a considerable proportion of shares underwritten by it. The devolution of shares on the Corporation, in pursuance of its underwriting operations, was 94% this year as against 88% in the previous year.

5. As for the assistance actually rendered by the Corporation, the figure for the year under review was Rs. 37.81 crores as against Rs. 30.37 crores in 1965-66. The figure of Rs. 37.81 crores includes guarantees issued which do not involve any cash outgo. Cash assistance disbursed rose from Rs. 28.20 crores in 1965-66 to Rs 32.17 crores in 1966-67; the cash disbursement of Rs. 32.17 crores was made up of rupee loans of Rs. 22.64 crores, foreign currency loans of Rs. 6.63 crores and investments in equity and preference shares and debentures in pursuance of the Corporation's underwriting commitments, of Rs. 2.90 crores. Cash disbursements during the year amounting to Rs. 32.17 crores were the highest for any single year since the inception of the Corporation.

6. Gross income for the year was Rs. 9.62 crores as against Rs. 7.53 crores for 1965-66. Interest on borrowings accounted for Rs. 5.70 crores and other expenses for Rs. 0.47 crores as against Rs. 4.28 crores and Rs. 0.27 crores in the previous year. Gross profit thus rose from Rs. 2.98 crores to Rs. 3.45 crores. After making provision for taxation amounting to Rs. 1.80 crores, the net profit for the year came to Rs. 1.65 crores. Out of this, a total of Rs. 1.40 crores has been transferred to reserves, including a sum of Rs. 25.00 lakhs transferred to Reserve for Doubtful Debts. The reserves of the Corporation including the General Reserve Fund of Rs. 5.03 crores now amount to Rs. 7.98 crores as against the paid-up capital of Rs 8.35 crores. Dividend will claim Rs. 24.63 lakhs as last year. The rate of dividend on the first issue of shares of Rs. 5.00 crores of the Corporation remains unchanged at 2½%. The question of raising the rate which requires an amendment of law is still under discussion with the IDBI and the Central Government.

7. Gross financial assistance sanctioned by the Corporation in the 19 years up to the end of June, 1967, totalled Rs. 381.81 crores. After adjustment of cancellations and withdrawals, the corresponding net figure was Rs. 292.49 crores, comprising loans in rupees and foreign currencies of Rs. 174.98 crores and Rs. 41.42 crores respectively, underwritings of, and direct subscriptions to, share capital and debentures of Rs. 23.95 crores, and guarantees of Rs. 52.14 crores. Net assistance of Rs. 191.09 crores was for new projects and Rs. 101.40 crores for expansion, modernisation and diversification of existing concerns. Assistance actually rendered up to the end of the year under review amounted to Rs. 239.34 crores of which cash disbursements totalled Rs. 191.18 crores. Total assistance outstanding as on June 30, 1967, aggregated Rs. 173.69 crores comprising rupee loans of Rs. 103.53 crores, foreign currency loans of Rs. 21.02 crores, shares and debentures of a total of Rs. 16.69 crores, guarantees for deferred payments of Rs. 9.52 crores and guarantees of foreign loans of Rs. 22.93 crores.

8. One more (fifth) loan of DM 10 million has been agreed to be given to the Corporation by the KFW under an Inter-Governmental Agreement signed on the 28th February, 1967, between the Government of India and the Federal Republic of Germany. This brings the total credits made available to the Corporation by KFW to DM 85 million. As on the 30th June, 1967, against the three loans totalling $40 million from the AID of USA, the Corporation had committed itself to an aggregate of $ 31.11 million; out of the four lines of credit aggregating DM 75 million from the KFW in respect of which loan agreements had been executed upto the 30th June, 1967, the Corporation had sanctioned sub-loans aggregating DM 69.49 million. Effective sub-loans sanctioned against the credit of 50 million Francs from BFCE, Paris, since reduced to 25 million Francs, aggregated 36.22 million Francs out of which one sub-loan of 22.12 million Francs is likely to be cancelled. The Corporation is grateful to the foreign lending agencies for making available these credits and enabling it to assist the industrial concerns in this country.

9. The industry-wise pattern of financial assistance sanctioned by the Corporation has been undergoing a change during the past few years. While sugar and textiles accounted for a substantial share of the IFC's assistance till recently, fertilisers, and other agro-industries like pesticides, agricultural implements and chemicals and engineering items of various kinds are now coming to the fore. The Corporation has by now covered, in its scope of assistance, a large variety of industries like basic industrial chemicals, fertilisers, petrochemicals, ferrous and non-ferrous metals, electrical equip-

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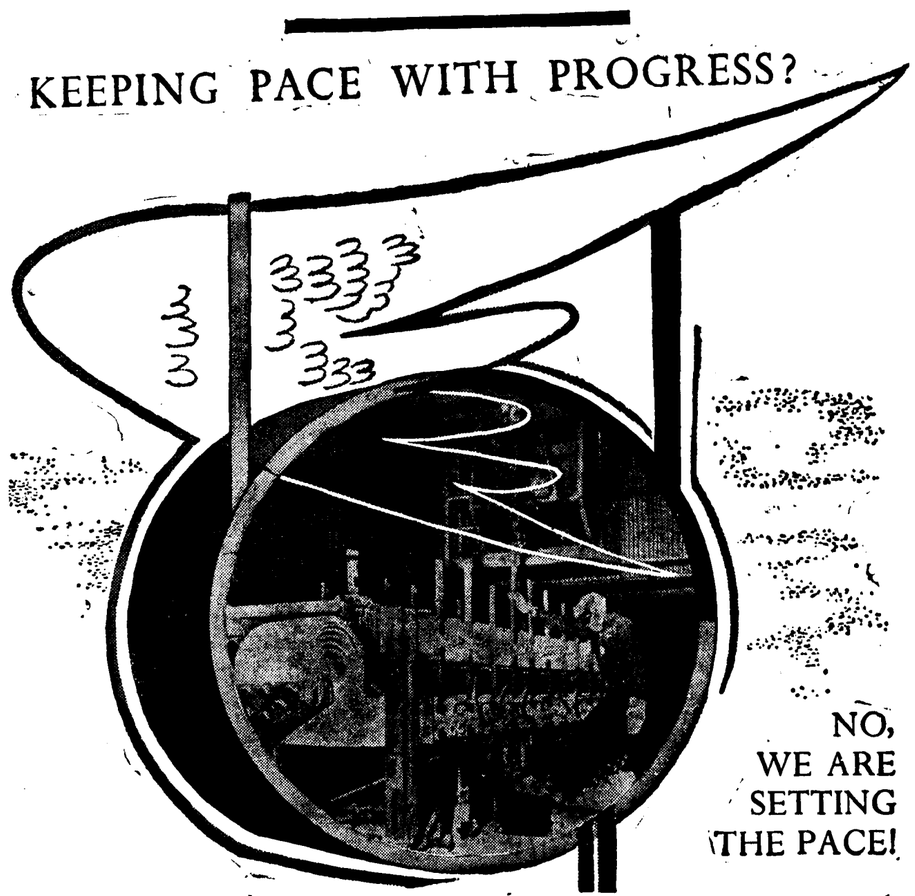

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ments, machine tools, motor vehicles and accessories, bicycles, agricultural implements, rubber products, artificial fibres, ceramics and refractories, mining, cement, paper and pulp, glass and hotels, besides sugar and textiles. Equally significant is the fact that the projects financed by the IFC are distributed throughout the length and breadth of the country. The IFC has been able to achieve a measure of diversification in the grant of its assistance on regional basis, and continues to pay special attention to applications coming from the relatively less developed parts of the country. During the year under review, a sizable share of IFC's assistance has gone to industrial units in Uttar Pradesh; Bihar, Orissa and Rajasthan have also claimed a good share.

10. In regard to IFC's assistance to less developed parts of the country, it has to be noted, however, that it is outside the scope of the activities of the Corporation, to promote directly, or set up on its own, specific industrial projects in any state or region. While the Corporation keeps in view that industrialisation of less developed states or areas is to be given special consideration, the extent to which the Corporation is actually in a position to assist projects in such states or areas ultimately depends on the initiative of the entrepreneurs and their coming up with acceptable schemes.

11. Since its inception, IFC's assistance to the co-operative sector has been quite significant. The financial assistance sanctioned by the Corporation to 58 co-operatives, comprising 53 sugar manufacturing units, 4 cotton spinning mills and 1 vegetable oil extracting unit, has amounted to Rs. 43.86 crores which represents about 15% of the total net assistance sanctioned by the Corporation. Owing to the shortage of resources and since certain policy issues had arisen as to the rate of interest at which finance should be provided to industrial co-operatives and to the agency which should make loans to them in future, there was some slowing down of the financing of the co-operatives by the Corporation during the recent months. These issues have, however, since been cleared. The Central Government have recently decided that financial assistance to sugar and textile co-operatives will continue to be channelled through the IFC. They have also earmarked certain funds in the current year's budget for assistance to these co-operatives. It will, therefore, now be possible for the Corporation actively to resume the processing of applications from sugar and textile co-operatives, subject, of course, to the limitations imposed on the Corporation by the availability of funds.

12. The devaluation of the rupee has resulted in higher capital cost of new projects as also in increasing the operating costs of existing projects because of the increase in the cost of imports of capital goods, raw materials and stores. Not only has the profitability of the existing concerns been affected, but several of the projects still to take shape, had also to be abandoned since the promoters were unable to provide their share of the increase in the project costs or otherwise complete the arrangements satisfactory to the Corporation for financing the schemes. A study made by the Corporation for assessing the impact of devaluation on the cost of 116 projects assisted by it which had not gone into production shows that their project costs have increased from Rs. 386.37 crores to Rs. 460.95 crores, i.e., by Rs. 74.58 crores. The increased cash requirements up to the stage of completion of the projects have been estimated at Rs. 37.73 crores, and the balance of Rs. 36.85 crores, which will have to be met out of future profits after the projects have gone into production, represents mostly the increase in the rupee equivalent of foreign currency loans and deferred payments in respect of imported plant and machinery.

13. The industrial concerns financed by the IFC could not naturally escape the effect of the difficult economic conditions that prevailed during the year. From the number of defaults and requests the Corporation received during the year for rescheduling of Corporation's dues, it appears that of the industries assisted by the Corporation, chemicals, cement, rubber, artificial fibres, bicycles and aluminium generally fared well. On the other hand, industries like textiles, sugar, paper, sheet glass, refractories, hardboards, steel tubes, steel castings, and steel forgings had a difficult time. During the year under review, the defaults in the payment of interest increased from Rs. 61.42 lakhs to Rs. 116.82 lakhs and in the re-payment of instalments of principal from Rs. 38.83 lakhs to Rs. 80.02 lakhs. The number of defaulting concerns also went up from 19 to 36, out of a total of 242 concerns from whom loans were outstanding.

The dividend paying capacity of our assisted concerns was also similarly affected. Of the 242 concerns from whom repayments of loans were due, 217 were in production at the end of the year, as against 187 concerns in the previous year, and 25 were in the construction stage. Of the 217 concerns in production, 133 incurred losses in the year under review or could make only marginal profits, as compared to 93 concerns in the previous year. The number of concerns who were able to declare equity dividend during the year was 84 as compared to 94 last year; of these, 37 maintained the previous year's dividend, 31 declared a higher rate and 16 a lower rate; 43 of our assisted concerns declared dividend at the rate of 10% or at higher rates.

14. A facet of the current economic situation is that in the present stagnant conditions of the capital market, it not only involves in our having to take up a major portion of the shares and debentures currently underwritten by us, but also accentuates the problem of disposal of shares and debentures which devolved on us as a result of past commitments, thus seriously straining our ways and means position. We are at present holding shares and debentures to the extent of about Rs. 17 crores, and although efforts are being made, on an increasing scale, to dispose of some of our holdings, even at some loss, so that funds could be released for re-employment, we are successful in our efforts only to a marginal extent.

15. The emergence of recessionary trends in the economy affecting a number of industries which has resulted in increased defaults on the part of our assisted concerns in meeting their commitments towards the Corporation is a matter of great concern to us, as ultimately on the health of the industry depends the progress of the Corporation. Our concern in this matter is, however, shared by all concerned. There is at present keen awareness in the official as well as non-official circles of the difficulties which industry is facing today, and various remedial measures have been under consideration, some of which have been announced already to ease the situation. I can only hope that the efforts being made to assist the process of revival aided by good monsoons, will bear fruit, and industries which have been facing depressed conditions will, before long, be able to look up again. The recession offers a challenge to industry, and a stage has come when industry must take the initiative in its own hands. There has been in the past an undue emphasis on official measures, on credit liberalisation and tax relief, and not enough on industry itself taking adequate steps to improve its intrinsic strength by reducing costs, exploring new fields and raising its competitive position in the home and foreign markets even though this may mean, for some time, a somewhat lower return on capital employed. A more incisive reappraisal of the cost-price-profit structure is now called for if industry has to survive, and excessive dependence on a sheltered sellers' market must be given up.

16. The present commitments of the Corporation in respect of rupee loans and underwritings already sanctioned aggregate Rs. 29.60 crores and Rs. 2.50 crores respectively. In addition, the Corporation is having pending applications for rupee loans aggregating Rs. 81.00 crores and underwritings of Rs. 21.52 crores inclusive of 14 cases of joint financing for rupee

loans to the extent of Rs. 55.05 crores and underwritings of Rs. 18.85 crores. Because of the limited availability of resources with the Corporation in relation to its commitments, the policy initiated earlier to sanction fresh applications on a highly selective basis may have to be continued for the time being. There is, however, some reason to believe that in view of the changing economic scene, there is considerable rethinking among the industrialists, and at least some of the applications now pending with the Corporation may not be pursued, and the flow of fresh applications may also decline. If this phenomenon gathers momentum, the Corporation may have to re-examine the position and the policy of rationing of funds so as to meet the needs of priority industries may have to be reviewed.

17. In the matter of strengthening our resources, apart from repayment of loans and retained earnings, the Corporation has mainly to depend on borrowings from the Central Government supplemented by such funds as can be raised from the market by issue of bonds. An issue of bonds of the Corporation amounting to Rs. 4.57 crores is due for redemption this year on the 25th November. The Corporation, therefore, intends to make a cash-cum-conversion issue next month to the extent of Rs. 8 crores. The issue will be at 5½% with maturity period of 12 years and an issue price of Rs. 98. After repayment of the maturing bonds, this will leave with the Corporation about Rs. 3.5 crores to meet its other requirements. I trust that shareholders and all others interested in the industrial development of the country will lend their full support to the proposed issue.

18. During the year, one of our officers was deputed to attend a course on industrial finance held by the Japan Industrial Development Bank in Tokyo. The Secretary of the Corporation was also deputed to attend an international seminar on the "functions and role of development banks" held in Berlin by the German Foundation for Developing Countries.

19. Shri A. Baksi relinquished the Chairmanship of the Corporation on the 23rd January, 1967, on his appointment as Deputy Governor of the Reserve Bank. Shri S.S. Shiralkar, Additional Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs, was appointed by the Central Government in his place till the present Chairman took over charge from him on the 20th March, 1967. I take this opportunity to express, on behalf of the Board, our appreciation of the valuable services rendered by Shri Baksi and Shri Shiralkar.

20. During the year under review, Shri S.R. Vasavada, a director nominated by the Industrial Development Bank of India, resigned with effect from the 15th December, 1966. On behalf of the Board, I thank Shri Vasavada for the keen interest he took in the affairs of the Corporation.

21. The thanks of the Board are also due to the members of the Advisory Committees who have unstintingly given the executives of the Corporation the benefit of their expertise in formulating views on many applications for assistance which came before them; to the nominee-directors of the Corporation on the Boards of assisted concerns for looking after the Corporation's interests; and to the officers and other staff of the Corporation who have given to the Corporation yet another year of devoted service.

22. I wish to express my sincere thanks to my colleagues on the Board for their wise counsel on matters of policy and administration of the Corporation.

23. Friends, I thank you for your presence at this Annual General Meeting and trust that your best wishes will be with the Corporation in facing the tasks that lie ahead.

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CHAIRMAN'S STATEMENT

UNIT TRUST OF INDIA

Statement by Shri R. S. Bhatt, Chairman, Unit Trust of India, for the year ended June 30, 1967.

The Unit Trust of India has completed on June 30, 1967, its third year of operations and its accounts for the year ended June 30, 1967 have been audited and published. The Board of Trustees have desired me, as in the previous year, to present a brief review of the Trust's operations, for your information. Accordingly, I have great pleasure in setting out the salient features of its working during the year.

2. As you may be aware, the Trust has declared an income distribution to the unit holders, who were on the Register of the Trust, as on June 30, 1967, at the rate of 70 paise per unit, i.e., 7 per cent—the same as that for the previous year. This is free of income-tax up to Rs. 1,000, to individual unit holders, irrespective of their other income. The income distribution to the initial capital contributors is 3½ per cent.

3. The gross income of the Trust during the year ended June 30, 1967 registered a further rise to Rs. 251.70 lakhs from Rs. 182.53 lakhs in the preceding year. Total expenses of the Trust including expenses on administration, provision for sundry liabilities etc. amounted to Rs. 30.57 lakhs as against Rs. 22.42 lakhs in the previous year. The increase in expenditure is mainly accounted for by the rise in the amount of commission payable to agents appointed by the Trust during the year to canvass business. Another factor which has also contributed to the increase is the enhanced dearness allowance to the members of the staff. In terms of Section 24 of the Unit Trust of India Act (as amended), the share of gross income allocated to unit capital came to Rs. 212.43 lakhs and that of initial capital to Rs. 39.27 lakhs, in line with the ratio of unit capital to initial capital as of June 30, 1967. Under Section 25 (2) of the Act, a maximum of only 5 per cent of the income allocated to the unit capital can be charged to the unit capital towards expenses of the Trust, the rest of the expenses being required to be charged to the income allocated to the initial capital. Accordingly, the share of expenses charged to the unit capital worked out to Rs. 10.62 lakhs and to the initial capital Rs. 19.95 lakhs. The income available for distribution with respect to unit capital after deduction of expenses, in this manner, amounted to Rs. 201.81 lakhs. This, together with the balance of Rs. 5,841 in the Unit Capital Appropriation Account—in all Rs. 201.86 lakhs—is available for distribution to the unit holders, whose names were on the Register of the Trust as on June 30, 1967. Of this, the Board of Trustees have decided to distribute, as mentioned earlier, a sum of 70 paise per unit, i.e., 7 per cent which will absorb Rs. 189.32 lakhs, leaving a balance of Rs. 12.55 lakhs. The Board have further decided to distribute 3½ per cent to the initial capital contributors which will absorb Rs. 18.75 lakhs, leaving a balance of Rs. 1.19 lakhs. A profit of Rs. 1,14,716 has been realised during the year on account of sale/redemption of securities. Out of the income not distributed to the unit holders of Rs. 12.55 lakhs and initial capital contributors of Rs. 1.19 lakhs, it is proposed to transfer to reserve Rs. 96,817 and Rs. 17,899 in proportion to their respective capital holdings from their Appropriation Accounts making a total of Rs. 1,14,716 representing the profit earned on sale/redemption of securities leaving Rs. 11.58 lakhs and Rs. 1.01 lakhs in the respective Appropriation Accounts to be carried forward.

4. During the year, the total amount subscribed to in units was Rs. 924.05 lakhs. Compared with the previous year, when subscriptions to units amounted to only Rs. 215.44 lakhs the sale of units during the year thus registered a conspicuous recovery. Individuals continued to account for the bulk of the amount subscribed, the amount invested by them being Rs. 915.92 lakhs, the balance being contributed by corporate bodies. The total number of applications received by the Trust during the year was 41,570, of which the number of applications from individuals was 41,516. The improvement in the sales of units in the face of the continued difficult conditions which characterised the economy during the year reflects growing investor confidence in the Unit Trust.

5. Sales of units to the non-residents during the year including those made against rupee funds in the National Defence Remittance Scheme Special Accounts, amounted to Rs. 21.45 lakhs under 268 applications. Allowing for repurchases, units sold to, and outstanding with, non-residents as of June 30, 1967, amounted to Rs. 34.75 lakhs.

6. Repurchase of units by the Trust during the year amounted to Rs. 199.17 lakhs under 6,563 applications, as compared with Rs. 108.76 lakhs under 6,997 applications in the preceding year. Of the units repurchased during the year, Rs. 1 crore was accounted for by a single institutional investor. Repurchase during the year worked out to 6.9 per cent of the aggregate funds subscribed by unit holders.

7. With a view to protecting the interests of unit holders, the bulk of whom are from small and medium income groups, the policy by which adjustments are made in the sale and repurchase prices of units, referred to in my Statement last year, was continued during the year under review. To meet the net loss arising from the variations in the prices made during the year, in accordance with this policy, the Reserve Bank has agreed to pay to the Trust, out of the income distribution due to it, a sum of Rs. 2.50 lakhs being a part of the loss. The balance amount of the loss, i.e., Rs. 5,50,032 has been written off from the Unit Premium Reserve.

8. During the year under review, a branch office of the Trust was opened at New Delhi with effect from June 19, 1967. (The Trust has already its branch offices in Calcutta and Madras). With effect from July 1, 1967, sale and repurchase of units have been decentralised by the Trust through its three zonal offices, namely, Calcutta, New Delhi and Madras. The territorial jurisdiction of the offices, which corresponds broadly to the currency circles of the Reserve Bank of India, is as follows:

Zonal Office

1) Bombay : Maharashtra, Gujarat, Madhya Pradesh and Goa.
2) Calcutta : West Bengal, Bihar, Assam, Orissa, Andaman and Nicobar Islands, Manipur, Tripura and Nagaland.
3) New Delhi : Delhi, Uttar Pradesh, Punjab, Haryana, Rajasthan, Jammu and Kashmir and Himachal Pradesh.
4) Madras : Madras, Andhra Pradesh, Mysore, Kerala and Pondicherry.

It is hoped that, with this decentralisation, the Trust will be able to provide better service to the existing unit holders, as well as to prospective investors in units.

9. Total investments of the Trust as on June 30, 1967 amounted to Rs. 33.86 crores. The distribution of the investments among the different categories of securities and the

percentage thereof to the total investments, as of this date, are given below :

	Rs. crores	per cent
Ordinary shares	14.0	41.25
Preference shares	4.0	11.77
Debentures	13.9	41.18
Bonds of public corporations ...	0.7	2.17
Advance deposits in respect of purchase of debentures and preference shares	0.5	1.55
Application money	0.2	0.73
Treasury bills	0.5	1.35
Total	33.9	100.00

10. The composition of the Trust's portfolio of investments did not show any significant change during the year The emphasis of the Trust's investment policy continued to be on securities of companies which pay interest/dividend regularly. About 99 per cent of the investible funds has been invested in securities of companies paying interest/dividend regularly while the balance of about 1 per cent has been invested in stocks of companies which have growth potentialities. The bulk of the funds has been invested mostly in manufacturing and financial concerns and public utilities which contribute to the development and growth of the economy.

11. The Trust continued to underwrite, in a limited way, new issues floated by old and established companies by way of firm commitments to invest up to the amounts underwritten. During the year, the Trust participated in the underwriting of 30 issues aggregating Rs. 3.94 crores. The amounts underwritten in respect of the equity shares, preference shares and debentures were Rs. 36.00 lakhs, Rs. 75.50 lakhs and Rs. 282.50 lakhs, respectively.

12. A number of industries experienced difficulties in their working during the year. The cotton textile manufacturing, jute manufacturing, sugar, tea and vanaspati industries suffered from shortages of raw materials as a result of low levels of agricultural production. A section of capital goods industries, particularly those producing railway wagons, pig iron castings and heavy structurals were working much below their installed capacity owing to lack of adequate demand. A few chemicals manufacturing units located in South India could not get adequate power which adversely affected their output. The demand for coal was generally lower than in the Plan estimates. Motor trucks too were faced with a slackening of demand with the result that the profitability of some automobile manufacturing units was adversely affected. Generally aluminium, petroleum, shipping, and some sections of chemical industries, however, fared well during the year. Activity in the stock and capital markets continued to be at a low ebb although for a short period during the middle of the year the markets showed signs of revival. The level of prices towards the end of the year was, however, lower than that at the corresponding period of the last accounting year as may be seen from the table below.

Reserve Bank of India Index Numbers of Security Prices
(All-India Base : 1961-62=100)

	Monthly average			% increase/decrease over the year	
	June 1965	June 1966	June 1967	1965-66	1966-67
Ordinary shares	80.3	80.6	78.1	0.4	—3.1
Preference shares	97.3	91.0	88.1	—6.5	—3.2
Debentures	94.4	91.9	91.5	—2.6	—0.4

13. The Trust's investment portfolio recorded a depreciation of about 2.3% over the year. The overall depreciation in the market value of the Trust's investments over their book value, as of June 30, 1967, worked out to about 5.4%. Of this, a sizeable part was accounted for by a decline in the values of fixed interest bearing securities which are redeemable. As a result of the depreciation, the net value of the assets of the Trust as on June 30, 1967 amounted to Rs. 30,47,06,350.

14. During the year 72 companies whose securities are in the Trust's portfolio announced bonus issues. The ratio of bonus shares to existing shares ranged from 1 for 10 shares to as high as 1 for 1. These issues, it is hoped, will add to the earnings of the Trust with benefits to both the initial capital contributors and the unit holders of the Trust.

15. Steps are being taken by the Trust to promote sale of units, specially outside metropolitan areas. Apart from strengthening the general publicity efforts, the net-work of individual agents was considerably expanded during the year under review. As of June 30, 1967, the Trust has appointed 670 persons as 'approved' agents for canvassing sale of units among the investing public. Besides, registered brokers on the recognised stock exchanges in the country numbering 142 have also joined the Trust's list of 'approved' brokers. Units continued to be on sale in the branches of the leading banks which have contributed to the initial capital of the Trust and in nearly 14,000 post offices throughout the country. We are grateful to the banks, the Posts & Telegraphs Board, the National Savings Commissioner's Organisation and the Savings Mobilisation Board for their continued assistance and co-operation in this regard. It may be mentioned here that the Savings Mobilisation Board was given a grant of Rs. 15 lakhs by the Government for Unit Trust's publicity, as against Rs. 22 lakhs in the previous year.

16. It may be recalled that the Trust had initiated in 1966 a Reinvestment Plan, which provides an automatic facility to unit holders whereby they can reinvest the income distribution in a convenient manner in units, and thus, build up capital. New applications received from unit holders for participation in the Reinvestment Plan 1966 with respect to the income distribution of the Trust for the year ended June 30, 1967, amounted to 3,058, the number of units participating in the Reinvestment Plan being 9,18,820. With respect to the income distribution in the previous year, when the Plan was first made applicable, the number of unit holders in the Plan was 4,063, the number of units participating in the Plan being 10,42,220. The total amount reinvested in units in that year amounted to Rs. 9.46 lakhs. The Plan is a continuing one and it is hoped that unit holders will increasingly avail themselves of this facility.

17. In my Statement last year, I had referred to the appointment, by the Reserve Bank of India, of the Working Group on Savings-cum-Insurance Plan, comprising representatives of the Reserve Bank of India, the Unit Trust of India, the Life Insurance Corporation of India and the Posts and Telegraphs Board for the formulation of a suitable Plan for adoption by the Unit Trust of India. The Working Group has since submitted its Report and it is hoped that with the co-operation and assistance of the Life Insurance Corporation a suitable Plan will be introduced before long. Institution of a Children's Gift Plan and Savings Plan is also under consideration of the Trust.

18. The Trust is grateful to the Reserve Bank of India for the various facilities and the personnel the Bank continued to make available to it. It also wishes to place on record its deep appreciation of the co-operation and assistance it has continued to receive from the State Bank of India and its subsidiaries and other commercial banks and the Life Insurance Corporation of India.

Get Your Facts Straight-4

A MISLEADING IMPRESSION

Banks are blamed on the ground that they help bigger borrowers only. Their critics have created a misleading impression that they neglect needs and interests of small borrowers.

BANKS ARE LARGE BUT THEY CATER TO SMALL PEOPLE

No man is too small for banks. Data from 13 largest banks show that number of their small borrowers is overwhelming. 89 per cent of their total borrowers are so small, each of them has a limit of less than Rs. 50,000. A further 3 per cent of borrowers have limits between Rs. 50,000—1,00,000 each. Another 5 per cent of them, between Rs. 1,00,000—5,00,000 each. Rest, only 3 per cent of the borrowers, have limits above Rs. 5,00,000 each. Number of accounts with limits above Rs. one crore is just 170.

LIMITED ABSORBING CAPACITY

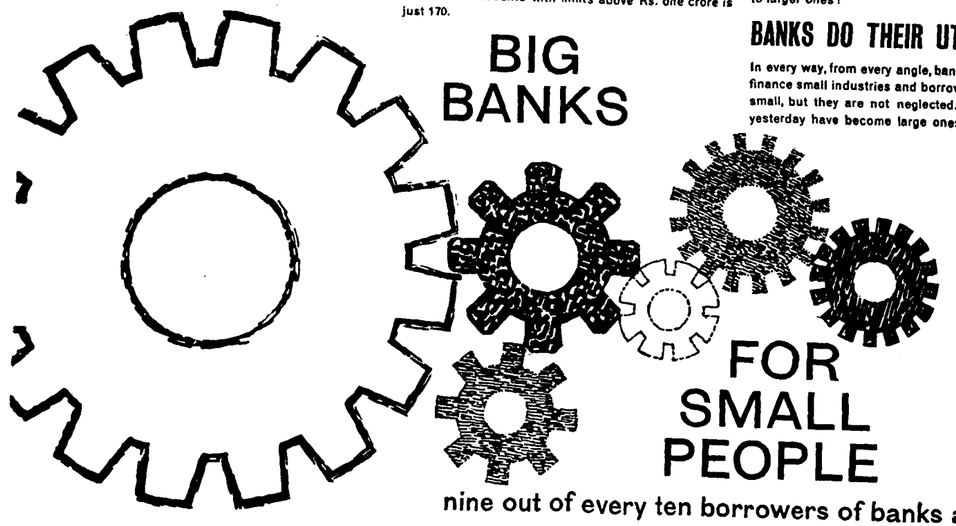
Capacity of small industries to absorb finance is limited. Credit given to them so far is not disproportionate to their contribution to national income. In 1964-65 they contributed Rs. 1,300 crores to a national income of Rs. 20,000 crores—just 6-1/2 per cent. Their ability to absorb further credit is always limited by their ability to obtain raw materials, find markets and develop skills.

THEY WOULD NOT BE SMALL IF THEY OBTAINED LARGE AMOUNTS

In its very nature, amount of loans obtained by small borrowers cannot total to a big figure. If it did, borrowers would no longer remain small. Again, small industries depend on larger ones for marketing their products. Would they thrive if assistance is denied or curtailed to larger ones?

BANKS DO THEIR UTMOST

In every way, from every angle, banks do their utmost to finance small industries and borrowers. Their needs are small, but they are not neglected. Small industries of yesterday have become large ones today with the help of banks. And process continues. Moreover, the attitude of banks is more liberal and procedures are simpler. This is a qualitative change, which cannot be measured in figures.



nine out of every ten borrowers of banks are small.

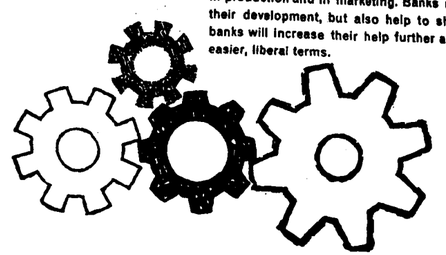
ASSISTANCE TO SMALL INDUSTRIES IS LARGE

8 biggest private banks had sanctioned limits of Rs. 110 crores to small-scale industries at the end of March 1967. A further Rs. 10 crores were sanctioned by another 16 smaller banks. This compares favourably with Rs. 93 crores sanctioned by 8 State Banks. Both in case of State Banks and private banks, outstanding assistance was 6 per cent of their respective total advances.

MOREOVER BANKS WILL DO STILL MORE

Despite various limitations, banks are eager to help small-scale industries still more. They are now increasing finance provided to them. In addition, they are also providing technical help and consultation services. They help in removing bottlenecks in procuring raw materials in production and in marketing. Banks not only finance their development, but also help to shape them. And banks will increase their help further and provide it on easier, liberal terms.

Banks serve the Nation and they do it well



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RECORDS AND STATISTICS

Foreign Collaborations

THE GOVERNMENT of India constituted a committee in February, 1966, to recommend to the government some guide lines regarding the utilisation of indigenous know-how and the types of cases in which foreign collaboration may be allowed. The members of the committee were Dr A. Ramaswami Mudaliar (Chairman), Dr S. Hussain Zaheer (Director General, CSIR), and Mr P. C. Kapoor (Director General, Technical Development). Mr K. J. George (Director, Ministry of Industry) was member-secretary.

The terms of reference were:

(a) to examine the extent to which, at the present stage of our economic development, import of technical know-how from abroad can be dispensed with;

(b) to examine the general conditions subject to which indigenous know-how can be deemed to be capable of commercial exploitation; and

(c) to suggest general guide lines regarding the type of cases in which foreign collaboration may be allowed.

The report of the committee and the action taken by the government follow:

Before proceeding to an examination of the issues involved, it is desirable to define the essential ingredients constituting "know-how". In essence, "know-how" consists of

(a) process know-how or product design;

(b) design and engineering of the plant;

(c) erection and commissioning of the plant.

It may often be the case that in respect of a particular product, one or more constituents of the "know-how" may be indigenously available. While considering problems relating to know-how, it is necessary that we should have a clear concept as to whether only a particular ingredient of the know-how or whether all the main aspects are being considered. The observations below are essentially meant to apply to the process know-how or product design only.

Exchange of Know-How

With reference to the first of the three terms of references, while it is desirable and necessary that indigenous know-how should be developed and utilised to the fullest extent practicable, no country, leave alone a developing country like India, can afford to close its doors to technological developments in the rest of the world. In fact, one of the most remarkable developments in the more industrialised countries has been the increase of international exchange of know-how. Consequently, research and development—and production itself—has, to some extent, become more and more specialised in each country. Britain, which has sometimes been referred to as the home of the machine tool industry, currently imports more than Rs 40 crores of machine tools in an average year and she exports comparable quantities to other highly industrialised countries such as France and the USA. This unrestricted exchange and competition, both at home and abroad, keeps the machine tool manufacturers in each country keenly conscious of the need for constant research and development. Each manufacturer is compelled, as a condition of survival, to introduce still better designs and production techniques and so to improve quality, delivery and customer service, while keeping prices to the minimum.

There is today a big gap between India and the more developed countries in the field of technical know-how—a gap which has to be narrowed over a period of time by (a) adequate development of indigenous know-how and (b) import, in suitable cases, of foreign know-how and the building up of further know-how based on the imported know-how. Our investment in research and development today is comparatively very small. We are not as yet generating or investing even a small fraction of the resources required to keep pace with the research and development which is taking place in the more industrialised countries. In the context of our present technological gap, industries may be categorised into two broad groups (a) industries already well-established in India and (b) the newer and more sophisticated industries. In the case of the former category, while a view may be taken that we should be independent of foreign know-how, it is at the same time necessary that these industries should not blind themselves to the research that is being conducted abroad. There may be occasions when important developments may render it necessary to import technology even in these fields. In the case of the newer and more sophisticated industries, the major effort so far has been concentrated in establishing manufacturing capacity. For these newer and more sophisticated industries, a fairly liberal import of know-how initially, combined with a research effort on the re-inforcement of existing technology and its adaptation to Indian conditions, would, in the committee's view, be the appropriate course to follow.

Positive Approach

The committee would, therefore, like to emphasise the need for a positive approach to the problem of import of foreign process know-how. India's technical base is as yet slender. On the other hand, our industrial base is large and fairly diversified. If we adopt a restrictive approach to foreign technology without at the same time ensuring that indigenous technology is able adequately to serve the industrial development of the country, economic growth would be hampered. In fact, it has been often urged that a liberal import of foreign know-how is an essential part of a programme to promote indigenous know-how, and that the aim should not be self-sufficiency in technical know-how but an international exchange of indigenous and foreign know-how.

The committee's conclusion, therefore, on this aspect is that import of know-how, particularly of process know-how or product design, should continue to be allowed on a discriminating basis, so that Indian industry is able to keep in touch with the world technological mainstream. After importing foreign technology wherever this is necessary, it should be the endeavour of Indian research and development to build and develop it to suit Indian conditions, Indian environments and Indian raw material availability. This in fact is what Japan has done with great advantage to her economy.

The following have often been cited as some of the main disadvantages flowing from a liberal import of foreign know-how :—

(a) There is a tendency to purchase foreign know-how indiscriminately.

(b) Foreign collaboration agreements often entail purchase of machinery and equipment from abroad, at high prices.

(c) Foreign collaboration makes us dependent on imports of raw materials and components. Specifications for these are often so laid down that they restrict purchases from alternative and cheaper sources.

(d) While enabling us to accelerate the tempo of industrialisation, foreign collaboration has killed indigenous initiative.

It may be that there may well have been individual cases

in the past in respect of which some of these allegations may be valid, but with greater experience on the part of Indian entrepreneurs, there is less risk of such instances repeating themselves. Apart from this, taking a broader view, there will probably be no two opinions on the issue that industrial development in India during the past decade or two has been greatly accelerated by the importation of foreign know-how. Every case of foreign collaboration requires government's prior approval and this is normally given after a detailed scrutiny. Where the entrepreneur is himself new and the project involves large investment, there may be a case for closer governmental scrutiny. In any case, there is no ground at all for taking the extremist view that import of foreign know-how should be dispensed with.

The different ways of importing foreign technical know-how may be categorised as follows:—

(i) Through outright purchase of design, know-how, etc.

(ii) By engaging foreign technicians as direct employees.

(iii) Through royalty or licensing agreements.

(iv) Through foreign capital participation. In many cases, a combination of these is also involved.

Relative merits

The relative merits of these different methods of importing know-how have often been the subject of discussion.

Arrangement (i) is appropriate where the product or process is long-established and is unlikely to be overtaken in the near future by technological obsolescence. From government's point of view, this arrangement has the advantage that the foreign exchange outlay in obtaining the know-how is predetermined. Provided the product or process selected under this arrangement is chosen with care, this could be a satisfactory arrangement and can also serve as an incentive to self-sufficiency in the development of indigenous substitutes or processes.

Arrangement (ii) is somewhat limited in scope.

Arrangement (iii) has the advantage of the feature of "pay as you earn", since payment for know-how is only made after the product has been successfully produced. It has also often been stated that a royalty arrangement provides an incentive to the licenser to ensure that the licensee goes into full production as quickly as possible, so that earnings by way of royalty are enhanced.

Arrangement (iv), it is generally recognised, has many features to commend it, the first being that know-how payment only commences when the Indian venture becomes profitable and makes payment of dividends. Further, the overseas collaborator is directly interested in the progress of the Indian venture and can be expected to take an active interest to ensure that progress according to planned programme takes place. It has also been held that transmission of know-how is more complete in the case of joint ventures involving financial participation than in the other types of collaboration. On the whole, in all industries where substantial import of capital goods is involved and where government's policy allows foreign capital participation, joint ventures involving equity participation would appear to be most beneficial from the country's point of view.

A primary question which of late has been increasingly arising in dealing with the proposals for import of foreign know-how is whether there is an alternative indigenous technology available to the entrepreneur. Some of the basic questions which have to be taken into account in assessing the suitability of indigenous know-how are :

(i) Has the indigenous know-how been commercially processed or is at least capable of commercial exploitation within a reasonably short period?

(ii) Is the know-how economical from the point of view of the investor and from the national point of view?

(iii) Is it likely to be made available to the new entrepreneur or is the know-how available only to another existing manufacturer, who is reluctant to part with the know-how to a competitor?

Under the existing procedures, both the Directorate General of Technical Development and the Council of Scientific and Industrial Research are associated with the consideration of applications for approval of foreign collaborations. The CSIR normally brings to the notice of the authorities concerned the existence of indigenous know-how which has either been developed in one of the national laboratories or is available elsewhere with existing manufacturers. It has been alleged before the committee by various chambers of commerce and industry that in many cases, CSIR has not been taking a broad view regarding the availability of indigenous know-how, and that even in the cases where the indigenous know-how is restricted to the laboratory stage or its commercial possibilities have not been fully proved, foreign collaborations have not been recommended, with the result that entrepreneurs have had to give up their schemes, resulting in continued import of the product; instances were also cited where entrepreneurs, after attempts to utilise the indigenous know-how, had to give up the projects as not being commercially feasible.

It is of course necessary that indigenous technology, which is capable of commercial exploitation, should be fully utilised. Both at the licensing stage and the foreign agreements approval stage, a scheme based on indigenous know-how should normally be given preference to one based on imported know-how. But while insisting on the utilisation of indigenous know-how to the exclusion of imported know-how, it is important that adequate consideration should be given to the issues raised. The committee would recommend that in all cases where CSIR is of the view that owing to the availability of indigenous know-how, no foreign collaboration should be allowed, it should be convention that there should be a prior discussion between the concerned officers of the DGTD and of the CSIR, before a recommendation is made to the Foreign Agreements Committee, instead of as at present, both the agencies expressing their views independently. If, at the normal operating levels, there is a difference of opinion between the two organisations, a discussion should be arranged at the level of DGTD and the DG, CSIR, if necessary, so that an agreed recommendation is made to the Foreign Agreements Committee. Care should, however, be taken to ensure that such discussions do not lead to avoidable delays in the finalisation of the cases. In case of difference of opinion between the CSIR and the DGTD, the case should promptly be brought up before the Foreign Agreements Committee.

Existing Procedures

In the context of the issues raised in the foregoing paragraphs, the committee would like to refer to certain aspects of the existing procedures for the scrutiny of applications for approval of foreign collaborations. Applications are scrutinised with a view to seeing whether any indigenous know-how is available and whether the terms proposed are reasonable. No consideration is ordinarily given to the aspect whether the particular technology sought to be imported is the most suitable to our requirements, having regard to the scale of production, raw material availability etc. There is at present no export agency with adequate knowledge whose views are before government while taking decisions. To fill this lacuna, the committee would make the following recommendation :

Pursuant to the 'First Get Together' on Research and Industry organised by the Council of Scientific and Industrial Research in December, 1965, it was agreed that Technical Research Committee consisting exclusively of scientists and technologists should be constituted by the Ministry of Industrial Development and Company Affairs for each Development Council, in consultation with the CSIR. In the case of industries which are not covered by any Development Council, CSIR, in consultation with the Ministry of Industrial Development and Company Affairs, was to take steps to constitute similar Technical Research Committees. It will be one of the functions of these committees to demarcate areas where indigenous know-how capable of commercial exploitation has been developed and where import of know-how is necessary.

These technical committees will also indicate, in general, the type of design and engineering services which could normally be undertaken in India. To avoid repetitive import of know-how, these committees could also identify industries in which, rather than allow individual parties to import know-how it would be more appropriate to allow the know-how to be imported by a consultancy organisation, which could, after importing the know-how, make it available to indigenous entrepreneurs. These committees should have available to them information not only relating to indigenous know-how available in the country, but also available information about the types of know-how developed elsewhere in the world, in the main fields with which they are concerned. Each national laboratory could be made responsible for compiling this information in its own field and making it available to the appropriate technical committee. With the help of this information, the technical committees could also undertake studies, wherever appropriate, of the comparative merits of different types of know-how in the light of Indian conditions and raw material availability.

Copies of studies prepared by these technical committees will be received in the Secretariat of the Foreign Agreeements Committee in the Ministry of Industrial Development and Company Affairs and made available to DGTD or other technical authorities concerned and to the administrative ministries concerned. While applications for foreign collabration are examined either by the Foreign Agreements Committee or by the individual ministries in the exercise of delegated powers, adequate consideration should be given to the views expressed by the technical research committees in their reports. It is, however, not intended that consideration of cases should be held up for ascertaining the view of the technical research committees. In cases where the technical research committees have already expressed a view, due consideration should be given to this while taking a decision.

Trial on Commercial Scale

It was urged before the committee by representatives of industry that CSIR know-how is usually based on laboratory studies and in some cases on pilot plant work but is mostly lacking in design and engineering data. A major investment in industrial research is constituted by pilot plant design and development activities combined with process and product development data and market studies which are essential for the successful commercial operation of an industrial plant. It was urged before the committee that one of the reasons why CSIR know-how has not been readily acceptable to Indian entrepreneurs has been the fact that this know-how has not been tried on a commercial scale and is not accompanied by any economic guarantees. Since a large number of Indian entrepreneurs do not yet have the financial capacity to take risk and since the CSIR know-how is usually not offered through any project engineering firms who may be able to give a turnkey job, there is obvious reluctance on the part of entrepreneurs to invest in new and untried processes. In respect of some of the know-how licensed by CSIR, Indian entrepreneurs have had to carry out developmental project engineering and feasibility studies which have involved considerable expenditure of time and money and in certain cases have led to commercial losses. It was urged before the committee by one association of the industry that to get over these difficulties what is essentially required is an independent corporation such as the National Research Development Corporation which should ensure design and engineering services and provide the risk capital for the entrepreneur taking up commercial development of know-how based on Indian research. The corporation should be prepared to compensate the entrepreneur for any losses sustained on uneconomic and untried processes.

The representative of the CSIR, on the committee while agreeing that part of the criticism from industry was not without foundation and was justified, affirmed that several steps had been taken by the CSIR in overcoming these difficulties. In this connection attention was drawn to the setting up of the Central Design and Engineering Organisation at the CSIR headquarters which, while on the one hand, advises the laboratories on the technical and commercial feasibility of the researches carried out on pilot plant level, at the same time undertakes project design and engineering jobs on CSIR process know-how. It was also prepared to undertake turnkey jobs for industry with the usual commercial guarantees. It was emphasised that the cases where CSIR researches had failed to materialise at a commercial level were not as many as were made out and the situation had greatly improved with better contacts with industry. Since representatives of industries were associated with the scientific advisory committees and executive councils of the laboratories, the incidence of non-commercial researches being offered for exploitation was greatly minimised. For pilot plants involving an investment of above Rs 5 lakhs, the data was scrutinised jointly by the representatives of the CSIR, industry and DGTD. Every effort was made to invite the industry to participate and share in research and development at various stages. However, the representative of the CSIR readily agreed that much more needs to be done to generate confidence in the industry for successful utilisation of indigenous know-how. It was felt that the National Research Development Corporation had a vital role to play in generating confidence in industry and providing risk and development capital besides its present activity of licensing of the know-how developed in CSIR and other Government laboratories.

Role of NRDC

While considering the utilisation of indigenous know-how, the committee discussed the present working and role of the National Research Development Corporation and the reasons why it had not so far been able to fulfil to any significant extent its role of promoting the development of industrial research to the commercial stage. It was appreciated that with the resources placed at its disposal perhaps the National Research Development Corporation could not have done much more. The committee felt that in order to enable it to play the role for which it was set up and which is clearly laid down in its articles of association, it was necessary that the National Research Development Corporation should inter alia take the following steps :

(i) The National Research Development Corporation should have a machinery, either of its own or in collaboration with consulting engineering or design engineering firms, for proper screening of the processes, patents and inventions referred to it. It should advertise only those processes which are a priori technically and commercially sound. The non-technical notes issued by the National Research Development Corporation should be more realistic in regard to the capital and recurring investment on the researches.

(ii) The National Research Development Corporation should develop expertise and draw parameters on a scientific basis for the settling of terms for commercial exploitation of researches. These should be based on a technological and economic evaluation of the know-how offered, taking into consideration imports, exports, production, licensed capacity, turnover and the profitability of the invention offered for commercial exploitation.

(iii) The National Research Development Corporation should place greater emphasis on developmental activity and should sponsor industrial and commercial development of process know-how either with (i) its own resources, or (ii) with the participation of industry, or (iii) with the joint participation of research organisations, industry and the National Research Development Corporation. While inviting the industry and the CSIR to share and participate in the developmental activity, it should be prepared to meet the risk. However, before any in-

vestment is considered, the National Research Development Corporation should get the project examined and assessed for its technical and economic feasibility by a consulting engineering organisation, either of its own or by an outside project engineering firm.

(iv) The National Research Development Corporation should approach the government for adequate financial provision for an enhanced investment in risk capital to enable it to meet the expenditure for the 'first' prototype or commercial plants. This would be the best way to generate confidence in industry to utilise indigenous know-how and is widely adopted even by the United Kingdom and other advanced countries. For this purpose, the share capital of the National Research Development Corporation should be substantially raised and the powers of the National Research Development Corporation to write off the losses stepped up.

Liberal Approach

As indicated earlier, it would be certainly worthwhile to import foreign process know-how or product design where this is not indigenously available. Protracted discussions about the actual quantum of payments for this part of the know-how may not be worthwhile. The committee would recommend that a fairly liberal approach should be brought to bear in sanctioning payments relating to process know-how or product design only. Delays in the implementation of a scheme on account of minor differences in the amounts asked for may in the long run only result in greater national loss from the delay in the implementation of schemes.

It was urged before the committee that the existing procedures for consideration of foreign collaboration cases often take an unduly long time. This is not a matter falling within the terms of reference of this committee and accordingly no detailed study regarding this has been undertaken by the committee. It appears that, according to the existing procedures, a major part of the applications fall within the category where powers have been delegated to ministries to accord approval for the collaboration cases. There is no effective central machinery for keeping a watch on the speedy disposal of all applications received in the individual ministries. From many points of view, it appears to the committee that there would be some advantage in arranging for a central unit in the Ministry of Industrial Development and Company Affairs which should be responsible for bringing to the notice of the Foreign Agreements Committee cases which have remained undisposed for a period of 3 months from the date of receipt of the application. By a press note, applicants might be advised to send applications for foreign collaboration in duplicate—one copy direct to the administrative ministry concerned and the other to the Central Cell in the ministry of Industrial Development and Company Affairs. Cases which remain undisposed for a period of more than 3 months should, it is suggested, be automatically brought up before the Foreign Agreements Committee for consideration and decision by them, even if they fall within the purview of the delegated powers of the ministries.

In the earlier collaborations, normally the duration has been fixed for 10 years and as a rule one further extension of, say 5 years or so, appears to have been given in most cases. Of late, the policy appears to have been to limit the initial period of collaboration, normally to a period of 5 years. The committee would like to emphasise that any rigid approach in this matter would not be appropriate. In the case of industries where rapid technological changes take place and the investments involved in research and development are very substantial, there may be a case for the original agreement itself being allowed for a period of 10 years. What the committee would like to stress is that no rigid rule should be followed in this matter, that a period ranging from five to 10 years from the commencement of production should be the normal duration of technical collaboration agreements and that the duration of the original agreements and subsequent extensions, if any, should be considered on the merits of each case.

One point to which the committee has given considerable thought is the problem of the need for repeated import of the same technology. The issue essentially is whether in cases where a number of collaborations, say 5 or 6, have already been approved in a particular field of industry, what steps could appropriately be taken to restrict further import of the know-how. The committee has had detailed discussions with various chambers of commerce on this issue. It is neither practicable nor desirable to resort to any sort of compulsion on existing manufacturers to part with their know-how to their competitors. It was also pointed out to the committee that in many cases, and particularly so in the case of joint ventures, the foreign collaborator may be reluctant to part with his know-how to a competing firm seeking to establish production in India. In the case of an existing unit, the know-how which could be passed on by it to a new entrepreneur will normally be only the process know-how of the product design. The design and engineering services cannot ordinarily be given by the industrial unit. Instead of asking the existing unit to part with its know-how to a possible competitor, the more appropriate course would be to consider the likelihood of an existing unit giving the process know-how or product design to a consultancy firm, on the basis of negotiated agreement. This could be either on the basis of an outright purchase of know-how or on the basis of sharing of the income accruing as a result of future licensing of the know-how. In cases where an existing unit is prepared to give its know-how to a new unit, this should of course be welcomed.

To encourage the transmission of know-how, it is also recommended that some fiscal incentives in the shape of tax relief on the royalties earned by Indian companies which pass on their know-how to others should be provided.

Advantages of Industrial Research

At present in India, investment in research and development is primarily by government. While this investment from public resources on scientific and technological research needs to be further augmented to step up the pace of industrial development, there is need for the industry to take more positive measures to set up research and development facilities of their own. The efforts by the industry hitherto in this direction have been inadequate. However, with the increasing tempo of industrial development, the shortage of foreign exchange and the need to make the country self-reliant and more, so, to enable the country to be in the forefront of advance in at least some fields of industry, it is essential that research and development activity within the industry is stepped up. Industrial research undertaken by the industry has the advantage of growing out of the direct needs of the industry and of immediate applicability for fruitful economic returns. While the responsibility for organising industrial research should primarily rest with industry itself, there is every need for the government to provide incentives and create the right economic climate and environments to promote investment by industrial units in research and development. The committee is aware that at present expenditure on research is exempt from income-tax. The committee, however, feels that the government should go much further and would commend the suggestion made by the industry that they should be given corporate tax relief to the extent of double the expenditure on research and development. The committee would also recommend a liberal treatment in regard to provision for foreign exchange for import of essential instruments and equipment for research laboratories.

Industrial organisations and trade associations of industry can play a very useful role in establishing research organisations in their respective sectors of industry and promoting better communications between universities, State sponsored research establishments and industrial firms. In the industrially advanced countries, well-established trade associations set up research wings of their own which conduct the service of collecting the research problems of their constituent units and of sponsoring them in the universities or research establishments.

Alternatively, the associations set up research laboratories of their own, managed under the advice of competent scientists from industry, universities and research establishments. The co-operative research associations of industry have also played a useful role in utilising the limited resources of technical manpower, equipment instruments and library facilities for a community of industrial units, who would otherwise not be able to set up research facilities of their own. At times, they have also functioned as channels for communication of superior know-how to their members and also encouraged sponsored research on behalf of individual units. Co-operative research by industry in India is at present mostly confined to agro-based industries and much more needs to be done to draw in the larger and more advanced sectors of industry into setting up research institutes for individual industries or groups of industries.

The committee recommends a liberal policy in encouraging and promoting research associations, who should be allotted a larger share of public resources by the government through the CSIR.

While approving foreign collaboration terms it is important that it should be ensured that as far as practicable indigenous design and consultancy services are utilised to the fullest practicable extent. Though Indian industry has developed substantially during the past decade or two, design and consultancy organisations have not kept pace. Substantial gaps do still exist in the consultancy services available in the country. It is of importance that these gaps should be identified and adequately filled. The committee is aware that the Planning Commission has set up another committee to go into these aspects. Without, therefore, going into a detailed analysis of our requirements in this field, this committee would merely recommend that speedy steps should be taken for the establishment of adequate consultancy services in the country, so that the need for importing services in this field is minimised.

The twin aspects of research and development and of design and engineering underscore an important deficiency in our industrial development plans. We have till now placed emphasis on the physical appurtenances of the productive apparatus such as factory buildings, civil works, plant and machinery, operating personnel, raw materials, components, etc. But we have not paid adequate attention to the "back room" personnel —in the laboratories and in the drawing and design offices. The stage has now been reached when greater attention has to be paid to these aspects.

Japanese Example

Japan is an example of a country which has very liberally imported technical know-how and also rapidly developed her own research and development. Having, for instance, originally imported petrochemical know-how from abroad, within the course of a few years, she is now herself in a position to impart fresh know-how to the former very citadels of petrochemical know-how. The committee also understands that Japan normally avoids repetitive import of know-how. The remarkable achievements of Japan in the liberal import of foreign know-how and the very rapid development of indigenous know-how is, in the committee's view, well worth a detailed study. The committee has not been able to obtain adequate information regarding this here and accordingly recommends that government should arrange for a detailed study of the policies followed by Japan in this field.

It is hardly necessary for this committee to refer to the important role that the public sector can play in the process of fostering the development of indigenous know-how and design and engineering services. Mr G. L. Mehta, Chairman, Indian Investment Centre, while giving evidence before the committee mentioned that the ICICI, with which he had been associated, had supported a number of ventures involving the exploitation of new processes based on indigenous technology as well as the use of indigenous raw materials. He stated that their experience in this matter had not been uniformly favourable but that some risks had to be taken if we are to encourage indigenous technology. In the matter of the establishment of design and engineering services also, the public sector could well serve as a model.

In respect of industries which are substantially export-oriented, the committee would like to stress that a liberal approach in regard to foreign collaboration would be worthwhile. The question of international standards is of paramount importance in connection with our need to expand our export markets. A joint venture arrangement is often able to ensure that the Indian manufacturer has access to the foreign collaborators' established overseas network of distributors and agents.

Government Accepts Recommendations

The 18-point recommendations of the Committee on Foreign Collaboration have been generally accepted by the Government of India subject to observations made on some of them.

A resolution embodying the main recommendations together with the comments of government have been published in the Gazette of India.

In making these observations, the government has reiterated the importance of encouraging the utilisation of indigenous know-how and giving, within the limits practicable, some incentives and special facilities to those who are desirous of using indigenous know-how, particularly in regard to facilities of importing essential equipment and raw materials.

Following is a summary of the main recommendations and government's comments on some of them :

(i) A positive approach is needed to the problem of import of know-how, particularly of process know-how or product design. A distinction may be made for this purpose between the well-established industries and the newer and more sophisticated industries.

(ii) Generally speaking, in industries where substantial import of capital goods is involved and where government's policy allows foreign capital participation, joint ventures involving foreign equity participation are more beneficial, as compared to other forms of collaboration.

Government's Comment :

It is necessary to emphasise the view, to which the committee has also given expression, that in the case of processes which are long-established and are unlikely to be overtaken in the near future by technological obsolescence, outright purchase of design, know-how etc. would be more advantageous than capital participation.

(iii) Some of the basic questions which, should be taken into account in assessing the suitability of indigenous know-how are :

(a) Has the indigenous know-how been commercially processed or is at least capable of commercial exploitation within a reasonably short period?

(b) Is the know-how economical from the point of view of the investor and from the national point of view?

(c) Is it likely to be made available to the new entrepreneur or is the know-how available only to another existing manufacturer, who is reluctant to part with the know-how to a competitor?

(iv) There is need for prior discussion between the Directorate General of Technical Development and the Council of Scientific and Industrial Research regarding need for foreign collaboration and terms thereof. Unresolved differences of opinion should be promptly brought up before the Foreign Agreements Committee.

(v) The Technical Research Committees to be set up pursuant to the recommendations of the 'First get Together' on Research and Industry held in December, 1965 should play an important role. In particular, these committees will undertake studies, wherever appropriate, of the comparative merits of different types of

know-how in the light of Indian conditions and raw material availability.

(vi) Taking into consideration the limitations of indigenous know-how, there is need for an independent corporation, such as the National Research Development Corporation, which should ensure the availability of design and engineering services and provide the risk capital for the entrepreneurs taking up commercial development of indigenous know-how. The National Research Development Corporation should play a vital role in generating confidence in industry and in providing risk and development capital besides its present activity of licensing of the know-how developed in the Council of Scientific and Industrial Research and other Government laboratories.

(vii) The Council of Scientific and Industrial Research should take action to generate confidence in industry regarding indigenous know-how The committee has recommended various steps which should be taken in order to enable the National Research Development Corporation to play the role for which it was set up.

(viii) There is need for a Central Co-ordinating Unit in the Ministry of Industrial Development and Company Affairs to watch the progress of the disposal of applications for foreign collaboration. Cases remaining undisposed of for 3 months should be promptly brought up for consideration by the Foreign Agreements Committee, even if they fall within the purview of the delegated powers of ministries.

(ix) No rigid rule should be followed in the matter of the duration of technical collaboration agreements; normally, the duration of the original agreements should be between 5 to 10 years from commencement of production.

Government's Comment :

While accepting this recommendation, government considers that in the matter of extension of existing agreements, a stricter approach than has hitherto been followed should be adopted.

(x) On the question of avoidance of repetitive import of technology, it is neither practicable nor desirable to resort to any sort of compulsion on existing manufacturers to part with their know-how. It would be more appropriate to consider the likelihood of an existing units giving the process know-how or product design to a consultancy firm on the basis of a negotiated agreement. Fiscal incentives should be given to existing units which pass on their know-how to others.

Government's Comment :

In respect of processes where the know-how payments are very high and particularly in the chemical industries the number of collaborations could be even more restricted than the five or six envisaged by the committee. In respect of private consultancy organisations which are allowed to import the know-how for being passed on to others, suitable conditions will have to be imposed to ensure that other parties are able to receive the know-how on reasonable terms.

(xi) There is need for greater stress on research and development. Fiscal incentives should be provided for encouraging research and development. The industry should be given corporate tax relief to the extent of double the expenditure on research and development as well as a liberal treatment in regard to provision for foreign exchange for import of essential instruments and equipment for research laboratories.

Government's Comment :

The suggestion that government should give corporate tax relief to the extent of double the expenditure on research and development is not acceptable in principle and may also lead to abuse. Government agrees to the suggestion about liberal treatment in regard to provisions for foreign exchange for import of essential instruments and equipment for research laboratories.

(xii) There is need for further development of design and consultancy services to fill existing gaps.

(xiii) Government should arrange for a detailed study of the policies followed by Japan in the matter of combining liberal import of know-how with the rapid development of indigenous research and know-how.

(xiv) The Public Sector can play a useful role in the process of fostering the development of indigenous technical know-how and design and engineering services.

(xv) A liberal approach would be worthwhile in regard to foreign collaborations in the case of substantially export-oriented industries.

Government's Comment :

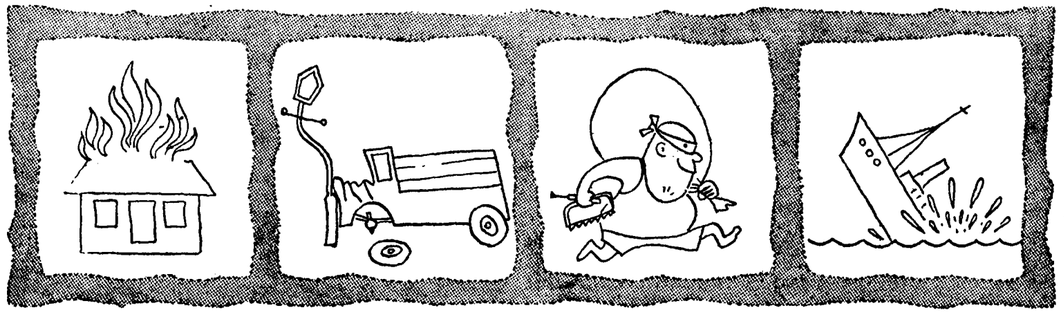
It is desirable that the expression "substantially export-oriented" should be defined. In the case of industries which are well-established in the country and where foreign collaboration is normally not allowed, the export should be of the order of about 75 per cent. In other cases, the quantum of exports to qualify for this special treatment may be left to be decided on the merits of each case.

List of Essential Commodities

THE FOLLOWING is the list of essential commodities covered under clause (a) of section 2 and sub-clause (xi) of clause (a) of section 2 of the Essential Commodities Act, 1955, as amended on September 16. (See "Trade Winds" in E.E. dt. Sept. 22):

Cattle fodder, including oilcakes and other concentrates; coal, including coke and other derivatives; component parts and accessories of automobiles; cotton and woollen textiles; foodstuffs, including edible oilseeds and oils; iron and steel, including manufactured products of iron and steel; paper, including newsprint, paperboard and straw board; petroleum and petroleum products; raw cotton, whether ginned or unginned, and cotton seed; raw jute; jute textiles; drugs; fertilisers, whether inorganic, organic or mixed; non-ferrous metals; organic heavy chemicals; inorganic heavy chemicals; cinema films (raw); press mud; cinema carbons; cement; manufactures and semi-manufactures of non-ferrous metals; soap; textile machinery, which includes blow room machinery, carding engines, draw frames, speed frames, ring frames, winding machines, doubling machines, reeling machines, bundling machines, baling machines, power looms, side frames of powerlooms, spare parts of powerlooms and ring frames, wool combing machinery, woollen (rag washing machine, rag tearing machine, rag cutting machine and garnetting machine); warp knitting machines including Raschael knitting machines worked by power; embroidery machines, other than sewing type of embriodery machines, worked by power and used for decorating the textile fabrics with any type of thread by the help of needles; lace making machines worked by power and used for production of fabrics of open mesh or net formed by crossing and intertwisting threads; and machines worked by power and used for printing of cloth by means of engraved rollers or screens; textiles made from silk; textiles made wholly or in part from man-made cellulosic and non-cellulosic spun fibres; textiles made wholly or in part from man-made cellulosic and non-cellulosic filament yarns; matches; cycle tyres and tubes (including cycle rickshaw tyres and tubes); ferro-silicon; silico-manganese; ferro-chrome; ferro-molybdenum; ferro-tungsten; ferro-manganese; ferro-vanadium; ferro-phosphorus; ferro-titanium; ferrous scrap containing more than (i) 0.50 per cent nickel, or (ii) 0.20 per cent molybdenum, or (iii) 1.00 per cent tungsten, or (iv) 0.20 per cent vanadium, or (v) 1.00 per cent cobalt; general lighting service lamps; flourescent tubes; soda ash; dry cells for torches; hurricane lanterns; household appliances such as electric irons, heaters and the like; synthetic rubber; rayon cord; carbon black; polyvinyl chloride (PVC) resins and compounds polyethylene and polyethylene moulding powder; polystyrine and polystyrine moulding powder; and tractors.

WHY GENERAL INSURANCE SHOULD NOT BE NATIONALISED



AN EASTERN ECONOMIST SUPPLEMENT

Look Before You Leap

THE GENERAL insurance companies in this country awaited September 6 with bated breath as it was reported that the Government of India was likely to announce on that day its decision regarding nationalisation of this industry. It seems that there was no unanimity in the cabinet in this regard and that the final verdict had to be postponed till the return of the Deputy Prime Minister and Minister for Finance, Mr Morarji Desai, from his foreign tour. It was the Congress Working Committee which in May this year had recommended to the government that steps should be initiated for the nationalisation of general insurance along with social control over banks, taking over of foreign trade, cancelling of all rights and privileges of the erstwhile princes and imposition of limitations on urban incomes and property. While the Congress party thus gave a clear mandate on all the above issues, the government is still in two minds about the wisdom of the advice doled out to it.

'Eastern Economist' presents in this Supplement the outstanding reasons why general insurance should not share the fate of life insurance in this country. Except for providing satisfaction to the dogmatists in the ruling party, it will do no one any good. It will be like doing something—however unwillingly—to demonstrate that the party in power was still undecided on the basic issues and that its professions of encouraging a mixed economy were without any substance. All our business delegations which have been abroad recently, extolled the mixed economy in this country wherein both the public and the private sectors are allowed to operate in a competitive atmosphere. The nationalisation of general insurance will give a severe blow to this concept and many other industries will start dreading the greedy eyes of the government; no industry will feel safe and the view will gain currency here as well as abroad that the economic policy of this country is devoid of all rationalisation.

The nationalisation of general insurance is not likely to fill the depleted coffers of the Government of India. At best, it will provide an additional couple of crores of rupees every year. There are no accumulated funds which will fall in its lap for the trouble that it will take in nationalising this industry. On the other hand, the government will be inviting a number of problems. Not only the quality of services will deteriorate, as has been made clear by the taking over of civil aviation and life insurance, but it is a genuine fear that nationalisation of general insurance may adversely affect the tempo of the economy. Besides delays in the settlement of claims, the cost of general insurance after nationalisation may go up. This has been unmistakably demonstrated in the case of life insurance. Recently, the government appointed a committee to look into the affairs of the LIC and investigate why it was not possible for it to reduce the premium rates even though the mortality rate in the country had significantly improved. Moreover, general insurance business has international character which should not be destroyed. Its nationalisation will have without doubt serious repercussions on our foreign trade.

Some of the objectives which the government wishes to achieve through nationalisation can be attained through a better control of the industry. Non-nationalisation will facilitate in attracting foreign capital and technical know-how. It will create a climate of confidence and will strengthen the position of our insurers who are at present operating in other countries. It is not too late as yet. We earnestly hope that wiser counsels will prevail with the Government of India and that it will not nationalise general insurance only to satisfy some of the extremists in the party. It was not without reason that general insurance was not nationalised when the life insurance companies were taken over in 1956. During the past 11 years no major change has occurred either in the character of general insurance business or in its working to warrant such a drastic step.

No Golden Eggs

TWO IMPORTANT reasons, among several others, put forth in favour of nationalisation of general insurance are that such a step would make available substantial additional funds for the public sector's developmental effort and that it would help in obviating concentration of economic power at least to some extent. But before we proceed to make an attempt at assessing the additional funds that might be thrown up for use by the public sector as a result of the take-over of general insurance by the government and also go into the question whether the present state of our general insurance is assisting concentration of economic power, it must be stressed that the general insurers do not hold any funds from the public in trust as the life insurers or banks do. The policy-holders in the case of general insurance take out insurance covers, mostly on a year to year basis, against various hazards. The liability of a general insurer thus is only for short periods and once this period is over, the premium paid by the policy-holders—necessarily small—does not remain with the general insurer as trust money; it becomes his income which can be disposed of by him in any manner he likes—for meeting the business expenditure, payment of return on capital invested, building up reserves, etc. The concept of mass welfare, therefore, is totally unrelated to the general insurance business; it cannot be considered as a factor in deciding whether general insurance should be nationalised or not. Nationalisation of general insurance, if resorted to, would thus mean taking over by the government any line of business activity on considerations other than safeguarding trust moneys.

Misconceived Notion

Now, how far will the nationalisation of general insurance augment the resources available for the developmental effort of the public sector? There is apparently many a misconceived notion about it. The progress that general insurance has made in our country since Independence, indeed, has been rapid. As against the total net premium collection of about Rs 11.78 crores by both the Indian and foreign general insurers from the business done by them in this country in 1950 (see Table I), the net collection had gone up to Rs 53.01 crores in 1965. The total assets of the general insurers operating in the country in 1965 amounted to nearly Rs 132.81 crores—a fairly impressive figure. This expansion in general insurance obviously could not escape the avaricious glances of the socialist dogmatists who see everything evil in the private sector and everything sublime in the public sector.

Table II gives the break-up of the investments of the general insurance companies in our country as on December 31, 1965. It reveals that funds to the tune of Rs 11.74 crores—nearly 8.84 per cent of the total investments—had been invested by these insurers in the securities of the central, state and foreign governments, including the municipal, port and improvement trust securities. The investment in debentures and equity and preference capital of the private sector joint stock companies was considerably larger around Rs 47.58 crores —35.81 per cent of the total. The investment in landed property and in loans against property or stocks and shares was of the order of Rs 7.02 crores—5.28 per cent of the aggregate. The rest of the assets were accounted for by deposits with the Reserve Bank (under statutory obligation) and other commercial banks, cash, stamps, agents' balances, outstanding premia, amounts due from other insurers, interest accrued but outstanding, etc.

Possibility Ruled Out

The above pattern of investment suggests that the only major scope for diverting the resources from general insurance (after nationalisation, of course) for the public sector's developmental effort immediately can be withdrawal of investments from the private sector and reinvestment of the released funds in the public sector undertakings. But is this possible? If the experience of the Life Insurance Corporation (LIC) is any guide, such a possibility can be ruled out straight away, especially when the capital market is in an extremely bad shape. Any large-scale liquidation of the holdings of the general insurers in the equity or preference shares of joint stock companies at the present juncture or even in the foreseeable future will depress the stock market even further to the detriment of the economy at large. The task of reviving the capital market will, thus, be made more arduous. And any false notion that nationalisation of general insurance will yield "golden eggs" for the treasury needs to be dispelled.

The pattern of investment by the general insurers, however, can be materially changed through channelling the future investments in government securities in a larger measure than has been the case hitherto. The total net premium collected by the Indian general insurers from their global operations in 1965 amounted to Rs 59.82 crores—Rs 41.06 crores from business done within the country and Rs 18.75 crores from business done abroad. The net premium collection of the non-Indian insurers operating in the country in that year was no more than Rs 11.95 crores. The total collection both of the Indian and non-Indian insurers, thus, came to Rs 71.76 crores. Currently, it may be about Rs 80 crores or slightly more. Not more than about 60 per cent of the net premium collection can obviously be invested for any length of time in a year; the rest of the receipts have to be kept in cash for meeting management expenses, accrual of claims, etc. Investments for periods longer than one year can only be made out of the annual accruals to the reserve funds of the companies. In 1965, the Indian general insurers (excluding the LIC) could transfer not more than Rs 3.32 crores to the reserves. The net accruals to reserves of the non-Indian insurers could not be more than a crore of rupees. So, the total long-term investments that can be made by the general insurers cannot be more than five crores of rupees.

For mobilizing such small reserves, or even larger proportions out of the net premia of the general insurers, for increasing the investment in the public sector is it necessary to nationalise the general insurance business? Obviously not. The purpose can well be served through directing the general insurers to invest a larger proportion of their earnings in government securities or by amending the Insurance Act with a view to making it obligatory on them to do so. But before resorting to this step also, the fact that general insurance is a very hazardous business needs to be appreciated. Curtailing unduly their investments in high-yielding avenues can do an irreparable harm and jeopardise the economy of general insurers. The argument that nationalisation of general insurance will throw up large additional funds for utilisation by government for the benefit of the community thus no longer holds.

TABLE I
NUMBER OF COMPANIES AND TOTAL PREMIUM IN INDIA

Year	Indian			Non-Indian			Total in .000s of rupees
	No. of Companies	Net premium collections in 000's of rupees	Premium as Percentage of total collections in India	Number of companies	Net premium collections in 000's of rupees	Premium as percentage of total collections in India	
1945	87	3,63,49	47.2	98	4,06,96	52.8	7,70,45
1950	103	5,71,40	48.5	100	6,06,88	51.5	11,78,28
1955	100	7,48,92	52.8	102	6,70,41	47.2	14,19,33
1960	82	18,51,41	69.8	73	7,99,19	30.2	26,50,60
1965	73	41,06,47	77.5	65	11,94,56	22.5	53,01,03

TABLE II
INVESTMENTS OF GENERAL INSURANCE COMPANIES IN 1965

(In crores of rupees)

Particulars	Indian insurers		Non-Indian insurers	
	Amount	Percentage of total assets	Amount	Percentage of total assets
Central Government Securities	5.59	5.0	1.90	9.4
State Government Securities	2.23	2.0	0.07	0.3
Foreign Government Securities	1.40	1.2	...	...
Municipal, Port and Improvement Trust Securities	0.22	0.2	0.33	1.6
Debentures of Indian Companies	7.83	6.9	1.12	5.6
Preference Shares of Indian Companies	7.02	6.2	0.59	2.9
Ordinary Shares of Indian Companies	28.14	25.0	2.88	14.3
Land and House Property	3.08	2.7	0.89	4.4
Deposits, Cash and Stamps	19.70	17.5	6.99	34.7
Loans on mortgage of property	2.01	1.8	0.44	2.2
Loans on stocks and shares	0.59	0.5	0.01	0.1
Other Loans	0.16	0.1	0.40	2.0
Agents' balances, outstanding premiums and amounts due from other insurers	24.18	21.5	1.87	9.3
Accrued and outstanding interest	0.53	0.5	0.09	0.5
Miscellaneous	9.99	8.9	2.56	12.7
Total	112.67	100.0	20.14	100.0

General insurance can also not be deemed as being such a profitable business which can yield attractive return on investment. A study of the balance sheets of the general insurers for the past few years reveals that except for a few companies, the return to shareholders has not been very attractive. Out of a total of 76 companies whose balance sheets are analysed in the Insurance Year Book, 1966, hardly a dozen paid equity dividend at the rate of 20 per cent or more. The dividend paid by the majority of the companies was 10 per cent or less. Several companies did not pay any dividend at all. Of the total net profit of the Indian insurers in 1965—Rs 4.93 crores—the total dividend disbursements amounted to a bare Rs 38 lakhs. The severe competition in the business of general insurance, reflected in the overall reduction of about 12 per cent in the fire insurance premium rates with effect from January 1, 1960, and a further overall reduction of about 15 per cent in such premia with effect from July 1, 1962, apparently cannot inflate the profits of general insurers.

The notion that general insurance helps concentration of economic power is equally misconceived. Although the number of companies doing general insurance business in the country has come down from 203 in 1950 to 138 in 1965, the number is still large enough to restrict any growth of monopolistic tendencies. The general insurance companies also cannot be accused of indulging in cartelisation or anything like that. Even the number of groups working in the field in 1965 was as high as 65 among Indian insurers and 42 among the non-Indian insurers. The reduction in the number of companies, of course, was substantial in the 1950's; the number of Indian companies went down from 103 in 1950 to 82 in 1960 and that of non-Indian companies declined from 100 to 73. In 1965, there were operating in this country 73 Indian insurers and 65 non-Indian insurers. The decline in the total number of general insurers cannot be considered an unhealthy trend. The main reason for the decline in the number of Indian companies has been the merger or amalgamation of small and uneconomic companies into viable ventures. The number of non-Indian companies has gone down primarily due to more and more business passing on to Indian concerns. It is interesting to note that whereas the business of Indian general insurers within the country increased from Rs 5.71 crores to Rs 18.51 crores during the 10 years to 1960, that of non-Indian insurers went up from Rs 6.07 crores to only Rs 7.99 crores. The increase in the business within the country of Indian insurers during the five years to

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- have the opportunity to improve your prospects by changing employers
- have job satisfaction through sharing responsibility.

Never with nationalization can you, as the present-day shareholder

- retain the right to mould the industry
- enjoy the benefit of consistently lucrative investments
- have the opportunity to reap the profits of an industry you have helped to build.

Never with nationalization can you, as a citizen of free democratic India, gain any advantage but will

- lose your democratic rights with concentration of economic power in the government
- lose your right to deal with only those whom you prefer for their good service
- lose by having to pay the losses that may be made by a bureaucratic handling of this intricate industry
- lose the feeling of security that your trade or industry will remain untouched for long.

Let us strive to

KEEP GENERAL INSURANCE COMPETITIVE — FOR THE GENERAL GOOD

INTERPUB/GII/5-67

1965 has been at a much faster rate, despite the reduction in the fire premium. The net premium collection of the Indian insurers from their business in this country went up from Rs 18.51 crores in 1960 to as much as Rs 41.06 crores in 1965. During this period, the net premium collection of the non-Indian insurers from their business in this country went up from Rs 7.99 crores to only Rs 11.95 crores. The Indian insurers in 1965 handled 77.5 per cent of the entire general insurance business written in the country; the non-Indian insurers' share was barely 22.5 per cent. The Indian insurers, thus, are rapidly coming into their own, of course, through competition. Can such conditions lead to concentration of economic power? Certainly not. A look at the composition of the shareholding of the general insurance companies also points to the fact that general insurance cannot be used as an instrument for concentrating economic power. There were nearly 50,000 persons holding shares in the 73 Indian general insurance companies in 1965. The share capital of the general insurance companies, thus, was widely spread.

Gaining Ground

That the general insurance business is gaining good ground in the country is evident from Table III, besides the upward trend witnessed in the net premium collections since 1950. This table reveals that after adjusting to the extent possible the variations in the premium income caused purely by a change in commodity values, the rate of growth in the index number of general insurance has been ahead of the general index number of industrial production since 1961; earlier, the general insurance index was trailing behind the industrial production index. This welcome trend that started in 1961 obviously needs to be maintained, if not accelerated. Will nationalisation help in this regard? Doubtful. At present 20 per cent of the general insurance business transacted in the country is by the public sector Life Insurance Corporation. The LIC is indeed offering a good competition to the private insurers, but once the state monopoly is established, it may result in lack of flexibility and imagination. That monolithic state monopolies do not change with time is evident from the fact that although the life insurance business in this country was nationalised over 10 years ago, the state monopoly has failed to bring in new covers of risk to any appreciable extent in spite of the fact that several new types of life policies have been introduced by insurance companies abroad. General insurance is a highly personalised business. Impersonal dealings can wreck it. The state-owned monopoly is hardly suited for this line of activity.

TABLE III

GROWTH OF GENERAL INSURANCE AND INDUSTRIAL PRODUCTION IN INDIA: 1956 TO 1965

(Base: 1956=100)

Year	Index Number of General Insurance business in India	General index number of Industrial Production*
1956	100.0	100.0
1957	100.8	104.2
1958	105.3	107.7
1959	113.5	116.9
1960	128.8	130.1
1961	144.1	141.0
1962	160.4	153.3
1963	175.0	165.8
1964	181.4†	177.4
1965	190.3†	186.9

* Source—Indian Labour Statistics, Labour Bureau.

† The gross premium written direct in India, by the Life Insurance Corporation of India has been taken into account.

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M. Ct. Muthiah,
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T. S. MUTHUSWAMI,
General Manager

The Mirage of Malpractices

ALL SORTS of wild accusations are being hurled against general insurance. For instance, it is being alleged that the industry indulges in various malpractices, including rebating through inflated commissions, manipulated entries in management expenses, and fraudulent settlement of claims. As a result of these nefarious activities of the general insurers, the allegation concludes, a sum of over six crores of rupees is pumped every year into the stream of unaccounted money in our country and the exchequer loses half as much by way of tax evasion. It would be foolish to say that these charges are entirely baseless; but we would like to assert that they are grossly exaggerated.

Pointing an accusing finger at the conduct of the general insurance companies is indirectly conceding the inadequacy and ineffectiveness of the Insurance Act 1938—not least the Companies Act 1956—under which they are governed. Law, nevertheless, is invariably circumvented and loopholes in it never remain undiscovered and seldom go unexploited. The law concerning the general insurance business in our country is no exception. However, there is no reason to doubt that the unscrupulous elements in the industry are few in number and the magnitude of unsocial practices indulged in by them is fairly small. By and large, the industry not only treats the law with utmost respect but also operates strictly within the self-imposed code of conduct.

Highly Regulated

It can be even said that the general insurance industry, relatively speaking, is highly regulated and controlled. The provisions of the Insurance Act itself are rather sweeping. The certificate of registration, which every insurance company must obtain and get renewed yearly, is liable to cancellation in the event of the company concerned contravening the provisions of the Act, and the Controller of Insurance has the power to call for any information relating to a company's business; he can move the High Court for winding up any company found wanting in compliance of the Act or indulging in activities prejudicial to the interests of policyholders. Similarly, the Government of India can invoke the Act for ordering an investigation into the affairs of any insurance company and can appoint up to two directors on the board of any insurance company or place it under the charge of an administrator. It can also direct companies to alter the terms of contract of any person whose remuneration by way of commission or otherwise is considered disproportionately large.

The Act prohibits the grant of any rebate or excessive commission to anyone procuring business for insurance companies. It stipulates the maximum commission admissible to agents or to officers authorised to solicit business. There should, therefore, be little chance for insurance companies to pay higher commission than is admissible. Also, there cannot be any possibility of tax evasion through the system of nominee insurance agents since the agent, who must be licensed by the Controller of Insurance, is nominated by the insured and the insurer has no say in this nomination. Furthermore, the insurers are required to submit to (a) the Controller of Insurance returns of insurance agents who earn commissions of Rs 5,000 and above per annum; and (b) the income-tax authorities' statements of commissions paid to all insurance agents whose earnings during the specified year exceed Rs 400.

As a matter of fact, the nature of the general insurance business itself allows for tight manoeuvrability to insurers. It will be seen that of the total amount of commission paid annually, limited companies and registered firms, which cannot evidently evade taxes, claim 30 per cent. Another 40 per cent is received by small businesses, shops, traders' warehouses, transit and marine cargo policies, etc., where premium and commissions are small. Rebating in these cases can be indulged in but the scope for organised effort to evade tax and to accumulate unaccounted money is very limited. There can, however, be a possibility of the agent working in collusion with the higher bracket taxpayer who controls insurances in respect of large-sized business, such as industrial risks or company risks. Here the insurer is obviously not a party, and the government, which has immense powers vested in it by the Act, can surely take corrective action.

A further analysis of the general insurance business reveals that of the total direct premium income of insurers, "Fire" and "Motor and Miscellaneous" account for about 40 per cent each, "Marine" contributes about 18 per cent and the rest comes from "Pool, Aviation and Marine Hull." Commission on "Motor and Miscellaneous" is relatively small per account and cannot possibly lend itself substantially to benami practice of building

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RUBY GENERAL INSURANCE COMPANY LIMITED

YEAR	NETT PREMIUM INCOME	NETT CLAIMS PAID	CAPITAL & FUND	ASSETS
1966	Rs. 2,75,88,000	Rs. 1,44,57,000	Rs. 2,50,00,000	Rs. 5,18,00,000

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unaccounted money; the scope for rebating at the level of insurance agents cannot, however, be ruled out. On the other hand, though fire and marine insurances permit of substantial commissions, as they involve large premia, there can be hardly any possibility of rebating or tax evasion inasmuch as the business originates largely from limited companies and registered firms.

So far as the question of payment of exaggerated and bogus claims is concerned, it can be possible only in the case of fire insurance, where profit margin is substantial. Contrarily, in marine and motor insurances, the insurer has not unoften to incur losses; in any case, the profit margin is very small, each of the two types of general insurance accounting for, on an average, as much as 50 per cent of the gross direct claims. Even in the case of fire insurance, the area of misuse is fairly small, a large proportion of the claims being paid to companies and firms and can be regarded as genuine, by and large. Similarly, fraudulent refunds by false cancellation of policies are restricted only to petty pilfering, as in the event of refund being made to a company or a firm, no question of tax evasion can arise.

It is alleged that insurance companies meet their rebating liabilities out of the funds created through bogus appointments, travelling allowances, etc. It may be submitted that such practices involve frauds and manipulations and the law is adequate to take care of them. Meanwhile, the Insurance Act, under its Section 40C, limits management expenses of the companies as enunciated in 1951. It is creditable on the part of the insurers that, despite tremendous increase in administrative and other expenses over the last 15 years, they have scarcely violated the provisions of the law. According to the "Indian Year Book 1966", out of the 107 insurers in the country, as many as 86 complied with Section 40C, whereas no warning under Section 64M(2) was administered to the remaining 21, comprising mostly small insurers.

If the provisions of the Insurance Act are adequate—which undoubtedly they are—it should not be more than a mere allegation that there is considerable scope for malpractices to benefit those who control the fortunes of insurance companies. The room for manoeuvrability is further restricted as directors of insurance companies cannot interest themselves directly or indirectly in any operations or transactions to benefit themselves. Also, remunerations of top officers are fixed by the Company Law Administration. What should, however, permit of such undesirable activities is the laxity of the government in competently wielding the powers vested in it by the Insurance Act.

But even if the law is lax, there is the Insurance Association of India, a statutory body of which all insurers are members and which regulates their activities through its broad-based powers. The code of conduct evolved by it, which is supplementary to the Insurance Act and is a voluntarily binding discipline on the insurers, provides for: cash collection of premia; increase in departmental reserves to an adequate level to build sufficient security margin; strict regulation and control in the appointment of inspectors, branch managers, etc.; a special administrative machinery to carry out check-ups of working of certain areas of operation of insurers on the basis of random sampling; and streamlining the working of general insurance. A broad conclusion thus emerges that malpractices in general insurance are nothing more than a mirage and the protagonists of nationalisation are unnecessarily wasting their energies over it.

General Insurance and Foreign Exchange

GENERAL INSURANCE in this country involves some transactions at present which have a bearing on the outflow and inflow of foreign exchange through the combined operations of Indian insurers abroad and those of non-Indian insurers in this country. The reinsurance contracts entered into by India and non-Indian insurers with foreign companies also involves some gain or loss of foreign exchange. These transactions form an inseparable part of the general insurance business and are conducive to its healthy growth. As has been explained in details in the following paragraphs, the importance of these operations goes much beyond the possible small outflow of foreign exchange. For instance, the enterprising efforts of the Indian insurers have established commercial contacts in as many as 40 countries, principally the developing ones. Similarly the operations of foreign insurers in this country lend considerable confidence to the foreign investors. The reinsurance operations tend to provide safeguards against huge catastrophic risks. Nationalisation of general insurance cannot possibly provide any short cuts to these transactions involving foreign exchange.

Table I alongside shows that Indian insurers have been earning a gross premium income of around Rs 10 crores every year. These operations have involved an average loss of around one crore of rupees every year. This was so because the last six years—1960 to 1965—witnessed a bad cycle of insurance operations abroad, particularly in the European and American markets. Taking this factor in view, the adverse operations of Indian insurers should not be expected to persist. Indian insurers are confident of making an annual average profit of more than seven per cent of the premium income in their overseas operations. Profit is not the only motive of Indian insurers operating abroad. General insurance is a source of strength to the export opportunities of this country. Moreover, the insurers are of the view that the figures of gross direct premium income, and profit and loss recorded in the Insurance Year Books, do not represent the correct position. According to them, a number of adjustments such as local reinsurance within the foreign country, reinsurance recoveries from special non-reciprocal covers for hazardous risks, average interest earning in respect of foreign funds, recovery of bad debts, taxes etc. were not taken into account in determining the profit or loss of foreign operations. In other words, the actual outflow of foreign exchange was less than that estimated by the government.

The operations of non-Indian insurers in this country also involve foreign exchange transactions. The non-Indian insurers are mainly responsible for servicing the needs of foreign investors who show specific preference for their own insurers with whom they have dealings for their global insurance. The presence of non-Indian insurers in this country, therefore, provides an environment of confidence and security which is vital for foreign private capital which has continued to flow into this country during the last few years and stands around Rs 700 crores now. The non-Indian insurers constitute, in number, nearly 50 per cent of all the insurers in this country but their net premium income in this country in 1965 was around Rs 11.95 crores, which was nearly 22 per cent of the total net premium

TABLE I

GROSS DIRECT BUSINESS WRITTEN OUTSIDE INDIA BY INDIAN INSURERS

(Rs. lakhs)

Year	Premium Income	Profit (+) or Loss (—)
1960	8,64	—74
1961	9,68	—1,03
1962	10,19	—1,18
1963	9,93	—1,50
1964	9,86	—1,20
1965	10,40	—1,09
Total	58,70	—6,74

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income. The total net profit of non-Indian insurers was estimated, on an average, around two crores of rupees out of which a large part is retained by way of taxes and less than a crore of rupees is transacted abroad. These insurers have their head offices incorporated in the UK, New Zealand, the USA, Switzerland, France, Hongkong, Sweden, Australia, Canada, Kenya and Italy (Table II). The non-Indian insurers have formed them-

TABLE II

(In thousands of rupees)

Country of Incorporation	Number	Total net premium income in India during the year 1965
United Kingdom	47*	8,35,06
New Zealand	3	1,08,97
United States of America	7	96,02
Switzerland	5	45,70
France	3	38,52
Australia	2	21,88
Sweden	1	23,74
Hongkong	2	19,60
Canada	1	4,60
Kenya	1	32
Italy	1	15
Total	73**	11,94,56

* Includes 1 insurer holding standing contract with Lloyds.

** Includes 10 insurers whose registration stood cancelled on December 31, 1966.

selves into groups and there are 40 groups operating in the country. The break-up of these groups, according to their premium income in 1965 and the assets they hold in India is as under:

	No. of Companies.	Gross direct premium in India in 1965 Rs. lakhs	Total assets at at 31-12-1964 Rs. lakhs
Reinsurance companies	5	—	44
Groups with premium less than Rs 10 lakhs	8	25	40
Between Rs 10 and 20 lakhs	4	65	46
Between Rs 20 and 50 lakhs	11	393	295
Between Rs 50 and 100 lakhs	8	603	504
Exceeding Rs 100 lakhs	4	671	704
	40	1,757	1,633

The reinsurance operations of Indian and non-Indian insurers with insurers abroad also involve transactions in terms of foreign exchange. Indian insurers, in their attempt to share a part of the risk, reinsure a section of their business with foreign insurers. This practice is considered sound because the magnitude of risk is much larger than the capacity of the domestic market to bear it. Insurance business is exposed to the risks of catastrophies such as earthquake, riot and war. Reinsurance with overseas companies makes the effects of such losses manageable. For instance, an insurer who accepts a risk of Rs 10 crores cannot retain the whole risk on his own account. In such a case even a leading insurer will not retain more than Rs 50 lakhs on his own account and a medium-sized insurer will not retain more than about Rs 5 lakhs. The balance is reinsured through negotiations as quickly as possible. It is the general practice of every organised national insurance market to retain as much risk as possible on the units operating in the country, national retention being reasonable and within the capacity of the national market. The balance is reinsured in the international market on terms of reciprocity, meaning thereby that the countries reinsuring give in return good quality business of their country by way of reinsurance.

There is another angle involved in the reinsurance of business involving such properties as aeroplanes, ships and specialised imported machinery. In the event of a loss, foreign exchange resources are required for the replacement of these items. This foreign exchange would be available only if a substantial portion of such properties is reinsured abroad so that recovery from foreign insurers in the event of a loss would be available in foreign exchange. This would not be so if the whole general insurance business is absorbed in the country.

Reinsurance Corporation

All the Indian insurers co-operated to form in 1956 the India Reinsurance Corporation Ltd and agreed to cede a share of their business to this new company. In 1961 the Government of India by an amendment to the Insurance Act, provided for statutory cessions to the two approved reinsurers—the India Reinsurance Corporation Ltd and the Indian Guarantee and General Insurance Co. Ltd, a subsidiary of the Life Insurance Corporation. In 1966 companies in India joined together to form market pools for fire and marine hull business so as to increase the domestic retention. It might be observed that in spite of the efforts of Indian insurers to retain business to the maximum extent, reinsurance on account of aviation and marine hulls was imperative because of the magnitude of the risks involved. Already 80 per cent of the gross direct business was retained in the country. Regarding the balance, efforts were being made to retain as much more as possible, consistent with prudence and a proper spread of risks. It had to be appreciated that reinsurance premium was the price to be paid for reinsurance cover which in the event of a calamity would be available in foreign currency.

As has been indicated above, well established insurers always demand reciprocity (i.e., demand similar profitable reinsurance business from the other companies) against their reinsurance placings. Indian companies, therefore, not only give reinsurance business to overseas companies but also accept in reciprocity a volume of reinsurance business from these countries. During the years 1960 to 1964 the insurers abroad were experiencing an unavoidable bad record due to adverse cycle. For that reason the drain on reinsurance ceded abroad was not offset by reinsurance taken up abroad, as would normally be expected.

It has been estimated that reinsurance abroad has been responsible for losses during the years 1960 to 1964 and this loss was as much as Rs 2.64 crores in 1964. In 1965, however, there was a substantial profit of Rs 4.71 crores in the overall business. It has been estimated that this profit rose to seven crores of rupees in 1966. So far as fire business is concerned reinsurers abroad have caused a drain of foreign exchange of the level of Rs 1.29 crores in 1964 and during the previous four years it has been fluctuating around that figure. This was because fire insurance business in this country has recorded satis-

factory profits and reinsurance abroad of this business has yielded good profit to the reinsurers and created an exchange drain. During 1965, however, there was a net gain on account of reinsurance transactions. This change was substantially due to marine cargo losses arising out of conflict with Pakistan in respect of business ceded abroad. The gain on account of reinsurance transactions abroad during the year 1965 has been estimated at Rs 471 lakhs as follows:

(Rs lakhs)

	Fire	Marine	Misc.	Total
1. Profit in respect of gross direct business in India of all insurers	433	—422	394	405
2 Profit in respect of total net business of Indian Insurers	368	— 15	302	655
3. Profit in respect of net business in India of Non-Indian insurers	91	— 18	39	112
4. Profit in respect of gross direct business outside India of Indian Insurers	12	—100	—12	—109
5. Gain on account of re-insurances abroad (2+3)—(1+4)	14	489	—32	471

Note: Unexpired risk reserves have been taken at 40 per cent of premium income for fire and miscellaneous and 50 per cent of the premium income for marine insurance business.

There was an actual gain of Rs 14 lakhs in 1965 on fire business and Rs 4.89 crores on marine business. The bulk of the exchange gain in marine business was due to war losses as stated above. During the earlier years the drain on foreign exchange in the marine department—hull business and cargo business—has not been very high as revealed in the table below and the gain in 1965 has more than justified this continued drain in small volume. In the miscellaneous department, which included business in respect of aviation, there was likelihood of considerable gain of the order of Rs 7 crores because large aviation losses will be made up by reinsurers abroad. Aviation also involves enormous liabilities in terms of foreign exchange and it is absolutely necessary that a large portion of the business was reinsured abroad.

(Rs in lakhs)

	Fire	Marine	Misc.	Total
1960 ...	—126	—32	—90	—184
1961 ...	— 99	—43	—185	—327
1962 ...	—178	— 4	—24	—206
1963 ...	—125	—22	—28	—175
1964 ...	—129	—48	—87	—264
1965 ...	+ 14	+489	—32	+471

(+ figures mean exchange gain, — figures mean exchange drain).

There is clear evidence, thus, to show that general insurance is not causing a strain on our foreign exchange resources and that we will not be able to eliminate them if the industry is nationalised.

With the best compliments of:

The Vanguard Fire & General Insurance Co. Ltd.,

11|12, Second Line Beach, Madras-1.

GENERAL INSURANCE BUSINESS IN INDIA

(Rs. crores)

Year	Fire			Marine			Miscellaneous			Total		
	Indian Insurers	Non-Indian Insurers	Total	Indian Insurers	Non-Indian Insurers	Total	Indian Insurers	Non-Indian Insurers	Total	Indian Insurers	Non-Indian Insurers	Total
Gross Premium written direct in India												
1961	10.75	5.63	16.38	6.50	2.93	9.43	14.55	3.49	18.04	31.79	12.05	43.85
1962	11.70	5.79	17.49	7.16	3.18	10.34	16.18	3.83	20.01	35.04	12.80	47.84
1963	12.46	6.36	18.82	8.03	3.53	11.56	17.77	4.43	22.20	38.26	14.32	52.58
1964	14.67	7.06	21.73	9.53	3.81	13.34	20.96	5.02	25.97	45.16	15.89	61.05
1965	17.42	7.83	25.25	10.99	4.37	15.36	23.51	5.38	28.89	51.92	17.58	69.50
Net Premium in India												
1961	7.49	3.51	11.00	3.89	2.05	5.94	12.12	2.88	15.00	23.50	8.44	31.94
1962	8.51	3.74	12.25	4.52	2.15	6.67	13.51	3.16	16.67	26.54	9.06	35.60
1963	9.26	4.10	13.36	5.38	2.43	7.81	15.36	3.58	18.94	30.01	10.11	40.11
1964	10.41	4.24	14.65	6.01	2.64	8.66	18.46	3.94	22.40	34.89	10.83	45.72
1965	13.07	4.71	17.78	7.28	2.95	10.23	20.71	4.29	25.00	41.06	11.95	53.01

GENERAL INSURANCE BUSINESS OF INDIAN INSURERS

(Rs. crores)

Year	Fire			Marine			Miscellaneous			Total		
	In India	Outside India	Total	In India	Outside India	Total	In India	Outside India	Total	In India	Outside India	Total
Gross Premium written direct												
1961	10.75	2.53	13.28	6.50	2.15	8.65	14.55	5.00	19.55	31.79	9.68	41.48
1962	11.70	2.52	14.23	7.16	2.12	9.28	16.18	5.55	21.73	35.04	10.19	45.23
1963	12.46	2.08	14.54	8.03	1.89	9.92	17.77	6.10	23.88	38.26	10.07	48.34
1964	14.67	1.78	16.45	9.53	1.74	11.28	20.96	6.34	27.29	45.16	9.86	55.02
1965	17.42	1.66	19.08	10.99	1.64	12.63	23.51	7.10	30.60	51.92	10.40	62.31
Net Premium Income												
1961	7.49	7.72	15.21	3.89	2.64	6.54	12.12	5.61	17.73	23.50	15.97	39.47
1962	8.51	8.14	16.65	4.52	3.11	7.63	13.51	6.23	19.73	26.54	17.47	44.01
1963	9.26	7.65	16.92	5.38	2.78	8.16	15.36	6.36	21.72	30.01	16.79	46.80
1964	10.41	8.48	18.89	6.01	2.93	8.95	18.46	6.73	25.19	34.89	18.14	53.02
1965	13.07	8.77	21.84	7.28	2.91	10.19	20.71	7.07	27.78	41.06	18.75	59.82

LIABILITIES AND ASSETS OF INDIAN INSURERS

(Rs. crores)

	1961	1962	1963	1964	1965
LIABILITIES					
Capital Paid-up	11.32	11.68	12.05	11.75	11.62
Reserves	9.28	9.89	10.10	11.42	12.61
Investment Reserve	0.98	1.22	1.30	1.53	3.89
Profit & Loss Account	2.32	2.31	2.49	2.83	2.31
Insurance Funds	20.73	23.19	25.01	27.64	30.74
Outstanding Claims & Liabilities	28.73	34.17	39.61	46.75	51.84
Total	73.36	82.46	90.56	101.92	113.01
ASSETS					
Central, State, Municipal, etc. Securities	9.72	11.03	10.02	9.95	9.44
Debentures	3.17	4.75	5.63	6.41	7.83
Preference Shares	3.74	4.59	5.22	6.07	7.02
Ordinary Shares	16.08	20.27	22.43	25.86	28.14
Mortgage & Loans & House Property	2.27	3.26	3.96	4.69	5.84
Cash	16.31	16.26	16.24	18.48	19.70
Other Assets	22.07	22.30	27.06	30.46	35.04
Total	73.36	82.46	90.56	101.92	113.01

ASSETS OF NON-INDIAN INSURERS

(Rs. crores)

	1961	1962	1963	1964	1965
ASSETS					
Central, State, Municipal, etc. Securities	2.48	2.48	2.41	2.37	2.30
Debentures	0.54	0.77	0.83	0.88	1.12
Preference Shares	0.25	0.35	0.49	0.54	0.59
Ordinary Shares	1.70	1.90	1.93	2.40	2.88
House Property, Mortgage & Loans	0.54	0.57	0.97	1.37	1.74
Cash	4.61	5.22	5.81	6.52	6.99
Others	2.29	2.34	3.12	3.72	4.52
Grand Total	12.41	13.63	15.56	17.80	20.14

INCOME, EXPENSES AND ALLOCATION OF PROFITS OF INDIAN INSURERS*

(Rs. crores)

	1961	1962	1963	1964	1965
General Insurance business					
Premium less reinsurances:	39.47	44.01	46.80	52.02	57.64
In India	23.50	26.54	30.01	33.89	38.90
Outside India	15.97	17.47	16.79	18.13	18.74
Net interest, dividends and rents	0.67	0.84	0.98	1.22	1.47
Other income	0.04	0.10	0.07	0.11	0.03
Total income	40.18	44.95	47.85	53.35	59.14
Claims less reinsurances	19.34	22.49	25.17	26.62	29.73
Net commission	5.53	6.36	6.73	7.19	7.88
Expenses of management	9.10	10.08	10.28	11.15	13.03
Miscellaneous outgo	0.79	0.19	0.33	0.22	0.25
Total outgo	34.76	39.12	42.51	45.18	50.89
Excess of income over outgo	5.42	5.83	5.34	8.17	8.25
Actual increase in reserves	3.57	2.74	2.21	3.19	3.32
Net profit transferred to profit and loss account	1.85	3.09	3.13	4.98	4.93
Income other than insurance					
Interest, dividends and rents	1.21	1.33	1.40	1.65	2.04
Miscellaneous income	0.44	0.59	0.25	0.32	0.23
Amount brought forward	—0.04	—0.17	—0.18	—0.22	—1.08
Total amount available for appropriations	3.46	4.84	4.60	6.73	6.12
Appropriations					
Expenses of management	0.12	0.21	0.13	0.08	0.12
Taxation	1.42	2.17	2.17	3.21	1.61
Transfers to funds or accounts	0.59	1.63	1.48	2.37	3.34
Dividend paid to shareholders	0.30	0.36	0.51	0.47	0.38
Miscellaneous outgo	0.20	0.22	0.22	0.45	0.61
Balance carried over	0.83	0.25	0.09	0.15	0.06

* Excluding Life Insurance Corporation of India.

DRAIN ON ACCOUNT OF REINSURANCE TRANSACTIONS ABROAD OF INDIAN AND NON-INDIAN COMPANIES

(Rs. crores)

	1962				1963			
	Fire	Marine	Miscella-neous	Total	Fire	Marine	Miscella-neous	Total
1. Profit in respect of Gross Direct Business in India of all insurers	5.60	0.48	2.72	8.80	4.55	1.01	3.30	8.86
2. Profit in respect of Gross Direct Business outside India of Indian Insurers	—0.05	—0.18	—0.95	—1.18	0.13	—0.20	—1.43	—1.50
3. Profit in respect of net business of Indian Insurers	2.70	0.02	1.18	3.90	2.53	0.39	1.25	4.17
4. Profit in respect of net business in India of non-Indian Insurers	1.07	0.24	0.35	1.66	0.90	0.20	0.34	1.44
5. Drain on account of reinsurance abroad (1+2—3—4)	1.78	0.04	0.24	2.06	1.25	0.22	0.28	1.75
	1964				**1965**			
	Fire	Marine	Miscella-neous	Total	Fire	Marine	Miscella-neous	Total
1. Profit in respect of Gross Direct Business in India of all insurers	4.71	1.36	5.00	11.07	4.33	—4.22	3.94	4.05
2. Profit in respect of Gross Direct Business outside India of Indian Insurers	0.06	—0.27	—0.99	—1.20	0.12	—1.00	—0.21	—1.09
3. Profit in respect of net business of Indian Insurers	2.67	0.51	2.69	5.87	3.68	—0.15	3.02	6.55
4. Profit in respect of net business in India of non-Indian Insurers	0.81	0.10	0.45	1.36	0.91	—0.18	0.39	1.12
5. Drain on account of reinsurance abroad (1+2—3—4)	1.29	0.48	0.87	2.64	—0.14	—4.89	+0.32	—4.71

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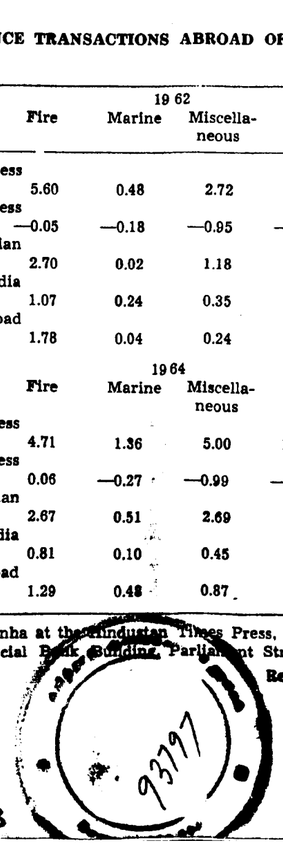

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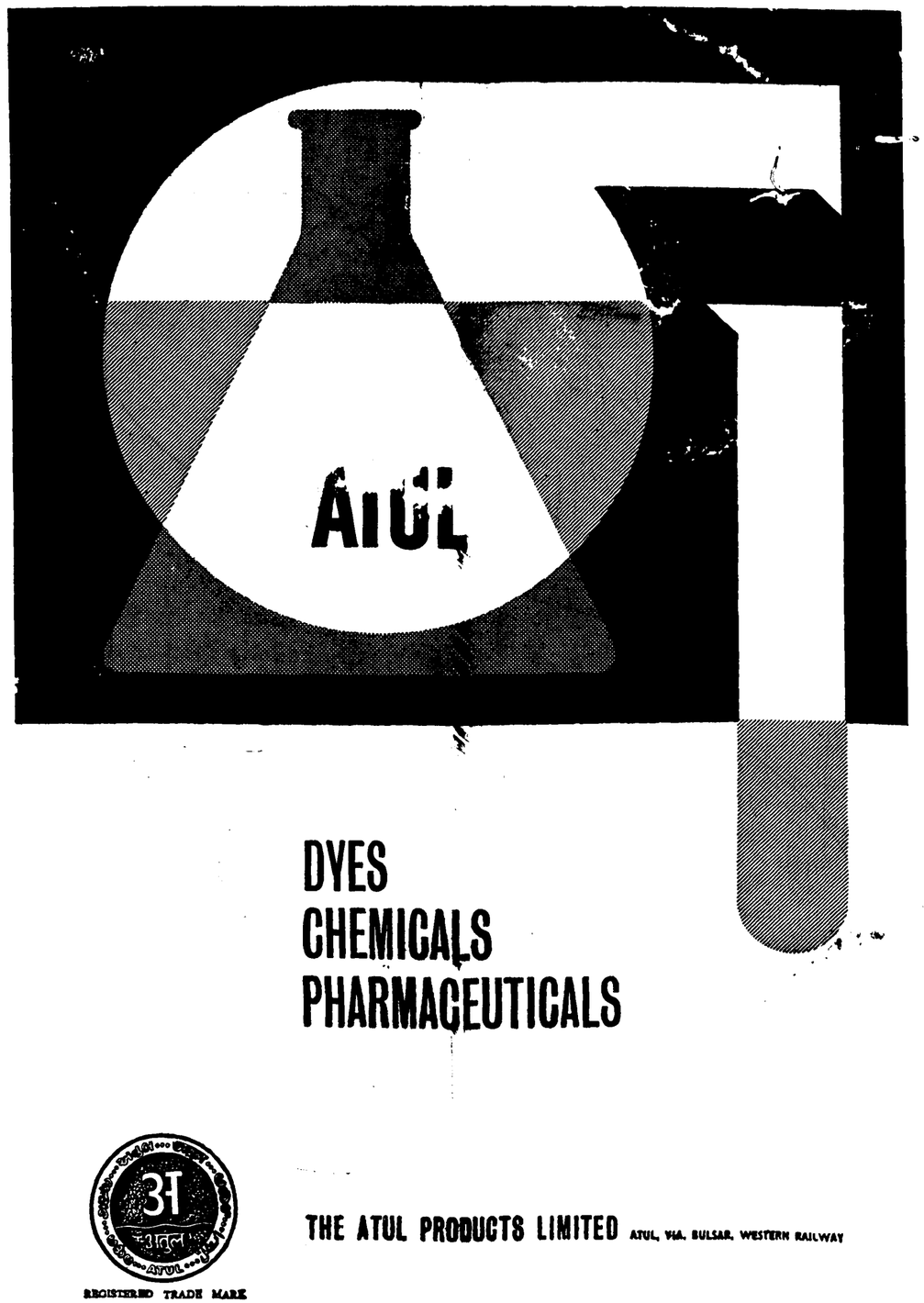

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